TANZANITEONE

Passionate about Tanzanite Committed to Tanzania

ANNUAL REPORT 2006

Contents

" . . . jewelry dealers and designers consider the best of these blue stones to be among the world's finest gems." Jill Newman, Robb Report 1 May 2007

Passionate about **tanzanite**

- The premier miner of the rare gemstone, tanzanite
- A world leader in coloured gemstone mining, processing and distribution
- A focus on knowledge, skills, science and technology
- Applying the highest levels of safety
- Partnering with well established industry stakeholders to expand market size and consumer demand

Committed to **Tanzania**

- First and largest fully taxpaying mining company in Tanzania
- Workforce – 96% Tanzanian
- Technical, geological and other forms of support provided to smaller scale stakeholders
- Supporting sustainable growth and development of local communities
- Exemplary environmental management enticing indigenous flora and fauna back into the mining area
- Partnering with The Tanzanite Foundation™

Financial highlights

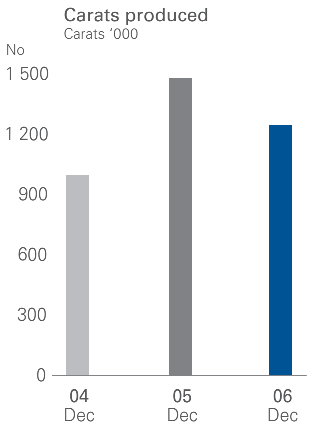
Financial*

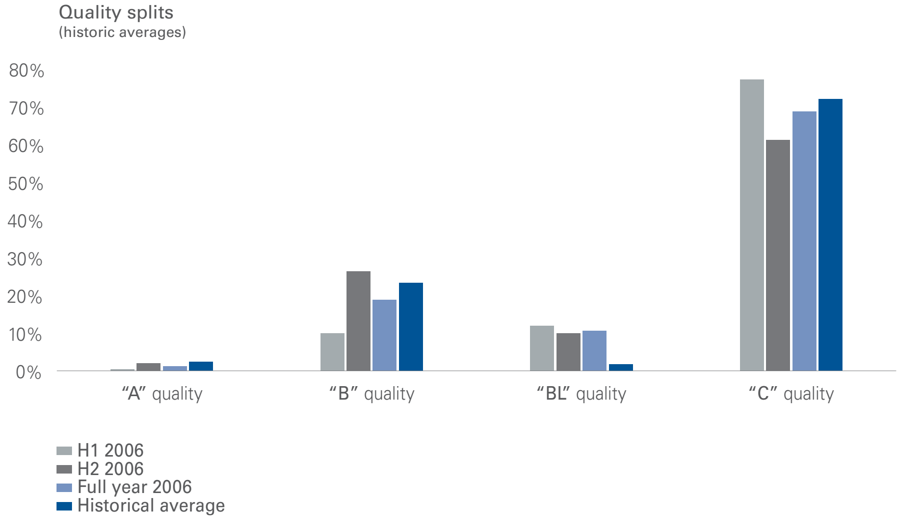
	Year to Dec 2006 $ million	Year to Dec 2005 $ million	Movement %
Revenue	**36.0**	41.1	(12)
Gross profit	**15.9**	24.9	(36)
Gross margin (%)	**44****	61	(28)
Net profit after tax	**1.8*****	9.8	(82)
Fully diluted earnings per share (cents)	**2.35**	13.0	(82)
Final dividend (cents)	**8**	6	33
Cash and cash equivalents	**7.0**	8.3	(16)
Cash generated from operations	**7.5**	6.2	21

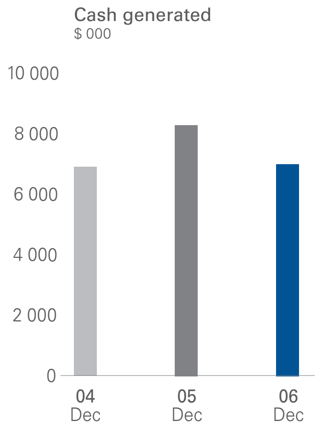
* Please note that throughout the document, $ refers to US$.

** The write-down of cut and polished inventory held by The Tanzanite Company SA and UK of $2.8 million had a significant impact on the reported gross profit. Without this write-down, a gross profit of 52% would have been achieved.

*** A net profit before taxation of $7.2 million was achieved before the balance sheet write-downs of $2.8 million on TTC inventory and $1.8 million on the values of the intangible assets, more specifically the Tanzanite Blue brands.



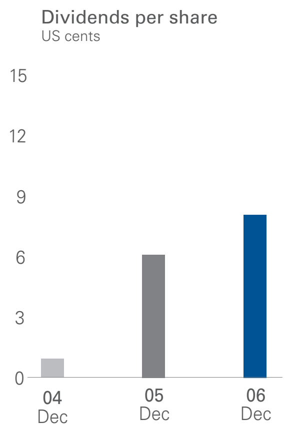




Operational

	Dec 2005	Dec 2005	Movement %
Carats produced (million)	**1.2**	1.4	(14)
Grade achieved (carats/tonne)	**77**	55	40
$/carat achieved on mine	**12**	11	9

- Comprehensive closed circuit television and integrated access/egress electronic surveillance systems installed.
- Drilling results indicate mineralisation at greater depths.
- Early stoping trials produce solid results.



Strategic

- The sale of the Group's polished tanzanite division, The Tanzanite Company ("TTC"), successfully concluded.
- The decision to focus on the Group's core business, mining, showing positive results with opportunities for growth through diversification.
- Improvements in production, coupled with growing global demand, support the appointment of additional distribution partners.

Chief **Executive Officer's** review

Ian Harebottle

In preparing to write this CEO's review, my mind was drawn back to the occasions I have decided to go on a run that may be rather longer than usual. Knowing upfront that one is planning to push a little harder creates an air of conflicting emotions; expectation and anxiety. During the run, one experiences highs in which you feel you could go on at this pace forever, and naturally stretches when you will simply have to dig in a little deeper. Once over, although physically tired, you experience the overall feeling of satisfaction and achievement that stems from a job well done. I believe I speak on behalf of the entire executive and senior management team of TanzaniteOne, when I say that 2006 was just such a year.

A cursory review of the key performance indicators may well cause some to question how I can refer to the results as 'a job well done'. Revenue was 12% lower at \$36.0 million, gross profit decreased by 36.3% to \$15.9 million, and after a total of \$4.6 million in balance sheet write-downs on the value of certain inventory and intangible assets, net profit after tax was down a mighty 82% to \$1.8 million.

I believe that over the past few months we have communicated the reasons behind these movements to the market in an open and transparent manner and as such they should not come as a surprise. However, what may be a little unexpected is the fact that we were able to generate $7.5 million in cash, and with a total of $7.0 million in cash and cash equivalents at year-end, we are well placed to fund our short and medium-term growth plans out of ongoing operations. The directors have thus declared a final dividend of six cents per share, bringing the total dividend payable for the year ended 31 December 2006 to eight US cents; an increase of 33%.

These latter numbers provide some indication of the overall health of the Group, yet fail to reflect many of the other important areas in which significant growth was achieved. These include our personnel, skills base, focus and structure; all of which are key to the future success of TanzaniteOne. I trust that the content of this report will support a better understanding of these achievements and the opportunities for future growth.

Leadership and people

Change is never easy and is made even more challenging when it is motivated by a change in leadership impacting on direction, values, culture, structure and management style. Negotiating such times of change while concentrating on delivering long-term positive results requires a single and clear focus. In the case of TanzaniteOne this singleness of focus and purpose was centred around the theme – "building a great company supported by great people and driven by the core values of integrity, accountability and creativity".

On its own, a theme is not enough. Managing change requires the support of people who are competent and willing to embrace the changes at hand and accept the associated responsibility. TanzaniteOne is in the fortunate position of having a number of such people working in, and with, the Group. It is in turn a company which is committed to supporting the continuous growth, development and learning of its people.

Following on from an in-depth 360º review of the Group, the management structure was redefined in early 2006. Emphasis was placed on improved delineation of roles and responsibility in all positions including executive, heads of department, line managers and supervisors. The objective being to maximise responsibility and accountability at all levels, with the added benefit of encouraging creativity and reducing response times. New executive and operational structures have been formed, driven almost entirely out of Arusha, Tanzania. The operations committee manages and takes full responsibility for on-mine performance, while the executive committee (which includes representatives from geology, mining/operations, trading, finance, compliance and markets) meets on a regular basis to ensure that the Group's strategic focus remains aligned to, or ahead of, changing market conditions.

Some staffing changes were made, including a reshuffle to create various new positions, most notably those of New Projects, Safety Health Environment and Quality (SHEQ) and Human Resources; key additions were brought in to strengthen our finance department in Tanzania; and additional appointments including Public Relations, Legal and Compliance have further enhanced the efficiency of the company. The changes that have been implemented are delivering solid results and support our expectation of future growth.

Values, culture and communication

While elements such as values, culture and the style in which an organisation communicates internally and externally are generally viewed as soft issues, we believe they are fundamental to the growth and development of a company and the way it is viewed by stakeholders. TanzaniteOne is committed to open, direct and transparent communication at all times. Our commitment is to formulate a simple yet sustainable strategy and then to communicate our set objectives and, importantly our achievements against these objectives, in a straightforward manner. We trust that the content and style of this report reflects this commitment and welcome constructive input from external stakeholders.

A clear focus

Tanzanite is a magnificent gemstone. The management of its resource and market demands that proper care is taken to maximise its full potential – now and in the future.

TanzaniteOne was formed as a vertically integrated company, from exploration, through mining, beneficiation, distribution and marketing. This strategy played an integral role in helping to build the gem's popularity to its current level. Our 360° review, however, indicated that the time was right to build on the current momentum through partnering and a more collaborative approach.

TanzaniteOne would increase its focus on the core activities of exploration and mining while continuing to support market growth through collaboration with the downstream channel and the efforts of a now more fully independent Tanzanite Foundation™.

Firstly, significant downstream partners exist who are willing and able to work synergistically towards the common goal of increasing tanzanite's share of the gemstone and luxury goods markets. The sale of the Group's wholesale jewellery and finished goods division, The Tanzanite Company ("TTC"), was successfully concluded in December 2006. The corresponding balance sheet review, while resulting in some write-downs, has left the Group in a firm position for future growth and profitability and has been well received within the industry.

Secondly, in order to support the continued growth in demand, a stable and ever-increasing supply of quality material is imperative. With TanzaniteOne's neighbouring miners finding it difficult to mine at the requisite greater depths, increased responsibility has been placed on the Group to ensure an ongoing improvement in the understanding of the ore body, a steady ramp-up in the scale of its operations and the appropriate transfer of skills and knowledge both internally and externally.

The way forward was clear. TanzaniteOne would increase its focus on the core activities of exploration and mining while continuing to support market growth through collaboration with the downstream channel and the efforts of a now more fully independent Tanzanite Foundation™.

The result:

- extensive resources were committed to exploration and the enhancement of our geological understanding and competence;
- the outcome of the deep hole drilling project provided solid evidence that the tanzanite bearing mineralised zone extended to a depth somewhat greater than initially predicted;
- this potential increase in mineralisation justified the commitment of additional resources to expand the available mining skills and capabilities; and
- the advances in mining capabilities provided the necessary confidence to initiate preliminary stoping trials (revolutionary in coloured gemstone mining).

Going forward, an overall reduction in grade (carats per tonne) is anticipated, which will be countered by an increase in processed tonnes, improved cost-per-carat economies and increased overall production volumes. The anticipated increase in the scale of mining should see a smoothing out of the short-term quality fluctuations experienced to date.

TanzaniteOne is increasingly being recognised as one of the world's leading coloured gemstone mining companies; presenting opportunities for diversified future growth. However, given the projected future potential of the tanzanite operations themselves, there is no unnecessary eagerness to rush into new projects simply for the sake of diversification. Each possibility will be given due consideration in its own right and the outcomes will be communicated with the market as and when appropriate.

TanzaniteOne can now be considered as not only a competent tanzanite mining company, but more significantly, as one of the world's leading coloured gemstone mining companies, thereby presenting some possible opportunities for diversified future growth.

Performance

TanzaniteOne reported consolidated earnings for the year ended 31 December 2006 of $1.8 million equal to 2.35 cents per share (2005: $9.8 million; 13 cents per share).

Net profit after tax is down to $1.8 million predominantly due to the once off non-cash write-downs of the $2.8 million (before tax) in cut, polished and jewellery inventory following the decision to divest of the wholesale jewellery business and an additional $1.8 million (before tax) write-down for the reported book value of the intangible assets, notably the Tanzanite Blue brands. The decision to write-down their value was linked to the decision to increase the Group's focus on mining.

Revenues from ordinary activities for the period were down 12% to $36.0 million from $41.1 million in FY2005. This decrease stems primarily from a combination of factors in the first half of the year, including lower production volumes as a result of extensive national power outages and a lower percentage of 'A' quality tanzanite recovered. Revenue of $20.4 million in the second half of the year was 25% higher compared to the first half, resulting in total revenue of $36.0 million for the year. The higher average export price of 9% achieved for rough tanzanite in the second half reflects the overall improvement in the quality of the material produced.

Production for the year was 1,230,600 million carats of tanzanite from 15 500 tonnes. During the first half of the year the mine recovered 570,405 carats of tanzanite from 7,605 tonnes processed. Production increased sharply by 15% during the second half recovering 660,100 carats from 8,291 tonnes. An improvement in mining capabilities continues to push grades attained higher, which at 77 carats per tonne represents a 40% improvement over the 2005 year.

Gross margin achieved for the year was 44% inclusive of a $2.8 million inventory write-down. Excluding inventory write-downs, the gross profit margin was 52%.

Historic records indicate that 'A' quality material represents an average of 1.5% of total production. In the first six months of 2006, 'A' quality material represented only 0.4% of the produced material, a 73% decrease. In the second half of the year the percentage of 'A' quality material increased to 1.96%, for an average of 1.2% over the full year. While the full year figure remains somewhat off the historic average, it validates management's belief that these factors tend to average out in the longer term and that any excessive short-term fluctuations in grade and quality mix should be discounted accordingly.

On mine costs per carat for the full year were $2.54/carat (2005: $1.25/carat). Increased unit costs can mainly be attributed to a 32% reduction in tonnes processed, higher diesel costs for power generation (as a result of extensive national power cuts in Tanzania throughout the year) and additional development work in preparation for stoping. As the mine increases its current production levels and improves its mining methods, economies of scale are expected to reduce the unit cost per carat in the medium to longer term.

Administration costs for the year of $10.6 million include a $1.8 million impairment of intangible assets. Administrative costs are expected to reduce following the relocation of the Johannesburg office to Tanzania and the associated closing of the retail polished stone and jewellery business. The write-down of intangible assets of $1.8 million, non-recurring salaries of $0.7 million and the saving of $2.6 million in administrative costs due to the closure of the retail business will reduce administrative costs in 2007.

Inventory levels have decreased to $9.9 million at year-end from $14.3 million in FY2005 mainly on account of the decision to close the wholesale jewellery business.

Capital expenditure for the year of $2.7 million comprised an upgrade of electrical infrastructure at the mine, the purchase of a mobile x-ray machine to enhance security, construction of additional on site staff accommodation and the acquisition of new vehicles.

The effective tax rate increased from 24% to 29%. This was largely due to the non-recognition of the deferred tax asset of $0.5 million on the net loss of $1.8 million realised in The Tanzanite Company (UK) Limited ("TTC UK").

Sustainability and The Tanzanite Foundation™

The achievements of The Tanzanite Foundation™, the non-profit industry-supported organisation dedicated to stimulating the global growth and development of the tanzanite market, are most encouraging. Throughout 2006 a continued increase in the momentum with which all sectors of the jewellery industry, spanning distributors, manufacturers, retailers, media and consumers, embraced tanzanite was most pleasing if not astounding. This momentum has continued to build well into the first half of 2007.

Throughout 2006, The Tanzanite Foundation™ successfully partnered with several global jewellery brands and designers, who created new and contemporary designs using tanzanite. These include Anthony Nak, Mouawad, Theo Fennell, Stephen Webster, Le Vian and others, all of whom enthusiastically embraced the 'Be Born To Tanzanite' concept (promoting tanzanite as the gift given on the event of the birth of a child) in their product design and promotional activities.

The organisation recently announced a pioneering partnership with the International Gemological Institute (IGI). IGI is the first American laboratory to offer tanzanite grading and certification in accordance with the Tanzanite Quality Scale™ and under licence from The Tanzanite Foundation™.

Founded in 2003, The Tanzanite Foundation™ is committed to investing in upliftment projects developed in harmony with indigenous communities in Tanzania. An ever-increasing number of industry stakeholders have committed a percentage of their tanzanite related revenue generated to The Tanzanite Foundation™ which is used to support both new and ongoing community projects at tanzanite's source.

Outlook

Achievements in terms of improved geological understanding and mining competences support projections of increased production volumes and a smoothing out of the production profile in the longer term.

Indications of measured growth in market awareness and demand suggest the opportunity to increase prices.

The appointment of two new distribution partners (Sightholders), further supports our expectation of continued industry growth, with additional partners from new markets under consideration.

> Our achievements in terms of improving our geological understanding and mining competence, coupled with extensive proactive partnering and measured global growth in demand, provide a high level of confidence in terms of the future prospects of the tanzanite industry and TanzaniteOne.

Solid sales figures are anticipated for the first half of 2007, backed by strong demand and the availability of reasonable quantities of mined production. However, the quality mix and hence the margins, are anticipated to be skewed to the lower end of the spectrum. This should not be seen as a point of concern as higher qualities of material are anticipated to become available later in the year, in line with continued market growth and development, and in time for December sales demand.

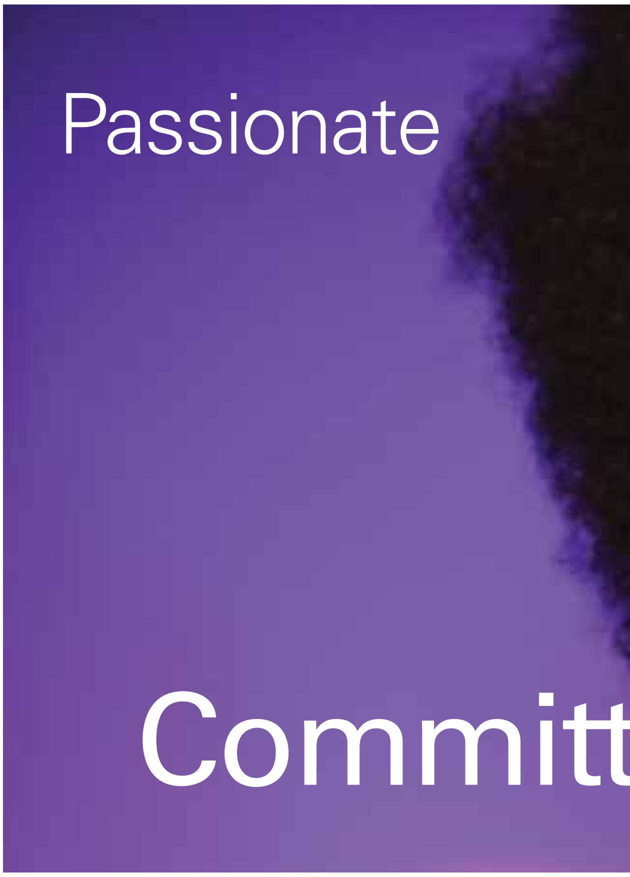
The possibility of a dual listing on to the Dar-es-Salaam Stock Exchange will continue to be prioritised, and all new opportunities for exponential growth will be carefully evaluated.

TanzaniteOne is financially secure and generating cash, we will look to use this position to accelerate sustainable growth.

A word of thanks

In closing, I would like to say a resounding 'thank you' to our shareholders, the members of our Board, our employees and the many others (you know who you are, but are too many to list here) who contribute so much of their time, intellect and energy in the best interests of our Group. Your efforts, commitment and kindness are noted and much appreciated.

Ian Harebottle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Mining

Zane Swanepoel

The first half of the year under review delivered disappointing results, however the second half saw this trend reversed. Budgeted tonnage was lower than anticipated because of power shortages, stricter security measures impacting on turnaround time at any given operating face and development work for the stoping panels.

Tonnage in the second quarter of the year increased, following the introduction of three dedicated production crews. By mid-year the quality of production started to trend higher. The second half of the year saw a significant improvement both in the quality and quantity of material processed.

These results confirm the Group's stated view that production qualities and grades tend to average out over the year, irrespective of the shorter term ups or downs in production that may be experienced from time to time, further motivating the need for a ramp-up in production volumes. These fluctuations will become less visible as processed tonnes are increased, and will tend to even out as the scale of operations increases.

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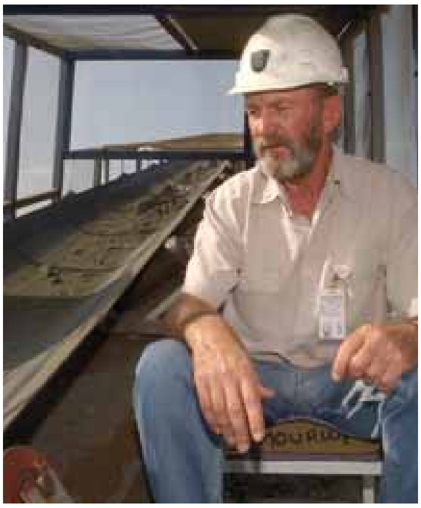


Production quality 2006 H1 vs H2

Quality	Ist half		2nd half		Full year	
	Carats	%	Carats	%	Carats	%
'A' quality	2,400	0.42	13,000	1.97	15,400	1.25
'B' quality	57,500	10.08	175,400	26.57	232,900	18.93
'BL' quality	68,000	11.92	63,900	9.68	131,900	10.72
'C' quality	442,600	77.58	407,800	61.78	850,400	69.10
TOTAL	570,500		660, 100		1 230,600	

All five working shafts, being Bravo, CT, Main, Askari and Delta are fully operational and producing. Bravo and CT shafts were linked underground resulting in increased safety and improved ventilation, effectively improving productivity.

2006 saw significant improvements in efficiencies on account of more structured mining systems being implemented. Effort was focused on training employees at the 2-Shaft training centre.

Upgrades to all the existing shafts continued. These include a 150 metre extension of Main shaft to 450 metres on dip. Extending this shaft down-dip is part of the Group's long-term growth plan to intersect fold stacks at greater depths. The current Main shaft surface installation is able to support mining to approximately 800 metres on dip. A sub-shaft is planned at this level to allow mining to a total down-dip extent of 1 100 metres.

Both CT and Askari shaft winders are currently being upgraded to enable these operations to be mined to 800 metres on dip, with sub-shafts planned for mining below 800 metres on dip.

The mine plan is for CT, Main and Askari shafts to serve as the primary haulage shafts at extended depths, and for Bravo and Delta shafts to serve as access ways for mining personnel and as alternate airways.

Capital programme

Areas of major capital expenditure in 2006 included improvements to security with the installation of a closed circuit television system, the building of additional staff accommodation and the acquisition of new vehicles.

Expansion projects planned for 2007 will focus on improving our rock handling capabilities to support future tonnage increases. The Investor shaft surface and underground facilities will be completed while two additional X-scan units, trial underground mechanised machinery and sorthouse upgrade equipment will be acquired.

Various plant and equipment will be replaced and construction of the clinic and mine rescue centre will be initiated.

Training and safety

A gemmologist has been contracted to train all sort house employees and to ensure that they obtain national accreditation. Training of the mine workers is progressing well, with all new employees hired in 2006 having successfully completed their required technical and safety induction training courses. Existing employees continue receiving formal mine, technical and first aid training. It is expected that 70% of the total underground workforce will have completed their training by the end of 2007.

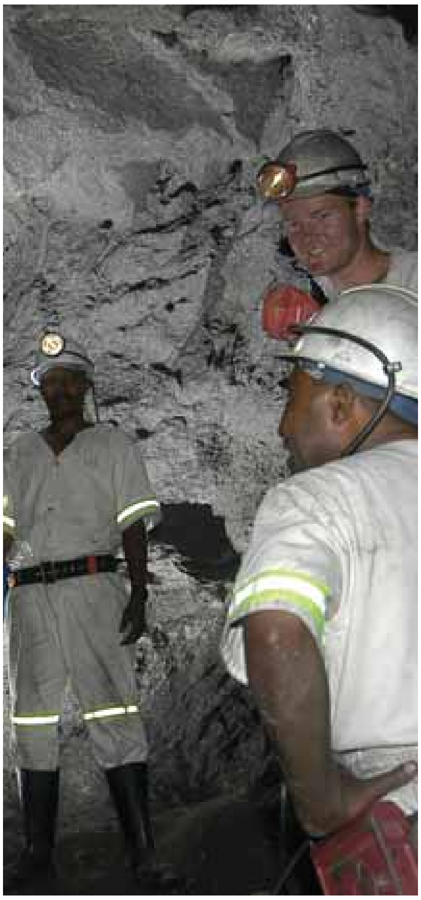
A year-on-year comparison shows a 32% drop in Lost Workday Cases. The implementation of a formal accident/incident investigation programme coupled with safety and tailgate meetings have enhanced our focus on safe working practices. The introduction of a fully equipped ambulance has improved the care given to patients whilst being transported to nearby hospitals. No fatalities were recorded during the year.

2007 sees the appointment of Mr Wessel Marais as Health, Safety and Environmental Protection manager following completion of intensive training. Emphasis is also being placed on the establishment of a mine rescue centre, with a team of 10 employees due to be trained by professional consultants.

Power generation

During the first half of 2006, Tanzania and the surrounding East African countries were gripped by severe drought. Extensive power shedding throughout Tanzania impeded production in the first half, necessitating measures to increase our self-generation capabilities.

Capital expenditure of approximately $275,000 was allocated towards the upgrading of electrical infrastructure



and the purchase of two large diesel generators. While the cost of self-generated power is higher than that supplied on the national grid, the installation of these generators provides the mine with the assurance of uninterrupted power for production.

Though the Group will continue to use the national grid as the primary source of power, we are now able to generate up to 2.2 megawatts of power on site. Current demand is around 0.8 megawatts, providing sufficient capacity to meet our medium term growth targets.

Security

Throughout the year, TanzaniteOne has improved its access/egress systems supported by CCTV and other electronic surveillance equipment. Once this system is fully deployed, we will be able to monitor and review movement of all staff by way of swipe cards and through visual images at all times. Two additional x-ray units have been ordered in support of our current mobile unit, which has proved to be effective. The two permanent x-ray units are to be installed at the plant/sorthouse and CT shaft.

The completion of the staff accommodation allows for all employees to be housed on site.

Going forward

The plan now is to test alternative methods of hauling material from the face to the shaft. Mechanised machinery in the form of a scooptram and face scrapers will be tested with a view to:

- establish the amount of material that can be moved utilising each method,
- lowering the effective cost per tonne hauled,
- reducing our high level of labour dependency,
- reducing product shrinkage,
- improving on our economies of scale, and
- facilitating future mining at greater depths.

This project will be managed and run by a newly created project team, which will work independently of the production teams.

Bernard Olivier

Geology and exploration

During 2006, TanzaniteOne made significant strides towards delineating the tanzanite deposit. This was accomplished by increasing our level of geological knowledge and confidence through deep hole drilling, geophysics, geochemical analyses and structural and geological mapping.

The Group's key focus remains that of growth within its existing mining licence area (eight square kilometres). During the year under review, the known down-dip extension of the tanzanite bearing zone on the mining licence was extended threefold through the deep hole drilling (DHD) project.

Deep hole drilling

The DHD programme consisted of two phases, with the first phase intersecting the Lower Horizon, which hosts the economic mineralisation in the JW zone, at a down-dip extent of approximately 800 metres. The second phase of drilling reconfirmed the existence of the ore-zone at greater depths and significantly increased the known down-dip extent of the ore zone intersecting the zone at a down-dip extent of over 1,400 metres.

The overall drilling programme shows that the Lower Horizon, which hosts the economic mineralisation extends three times further down-dip than previously established.

Geochemistry

The overall drilling programme shows that the Lower Horizon, which hosts the economic mineralisation, extends three times further down-dip than previously established and brought the combined metres drilled during the DHD programme to 2,501 metres. All four drill holes of the DHD programme intersected the ore-zone, which encouragingly appears to thicken at depth, and were shown to be geochemically similar to the tanzanite bearing zone currently mined.

Geomagnetics

The Group's knowledge of the deposit at deeper levels has been further enhanced through the implementation of a geophysical exploration programme. Natural Source Audio Magnetotelluric (NSAMT) was employed to calculate the resistivity of the underlying rocks through variance in the electric and magnetic fields and their interaction with the ground. This enabled the modelling of the mineralised zone at depth, which in turn supports the development of a long-term mine plan.

Resources

Further exploration expenditure has been approved for continued evaluation of key target sites, and will include surface drilling of exploration areas and the training of an in-house shallow-hole core drilling team.

The outcome of the DHD programme, supported by the geophysics, has prompted the initiation of a review of the resource statement. The results of the review are expected to be finalised by the fourth quarter of 2007.

Stoping trials

To date, little work has been done to determine if mineralised areas that possibly contain tanzanite have been left in limb boudins between the already mined-out fold stacks. Recognising the finite nature of the tanzanite resource, a project to explore the possibility of economically extracting this potential resource was initiated. A selective stoping operation was planned and tested in Bravo shaft between 14 and 17 level; the area in which the 16,839 carat Mawenzi was found.

Early results of the trial stoping indicate that while the grade may drop, there is a commensurate drop in the cost-per-tonne mined given that the bulk of the development requirements are already in place.

Initial trial stoping results

Item	Unit	Results obtained
Tonnes mined	Ton	920
Average tonnes per blast	Ton/blast	19
Total carats produced	Carats	18,250
Recovery	Ct/ton	19.84
Total cost	$	22,000
Mine revenue	$	78,500
Profit (revenue – cost)	$	56,500
Cost per carat produced	$/carat	1.21
	Produced (Carats)	% recovered
'A' quality	0	0
'B' quality	550	3.01
'BL' quality	5,800	31.78
'C' quality	11,900	65.21
Total	18,250	100

The results obtained from the test can be seen in the table above.

The mine will be evaluating the results from stoping in other key areas to determine whether increased mechanisation will deliver improved efficiencies and if these can then be implemented on a larger scale across the mine. The aim is to find a scaleable mining method that will allow for the profitable mining of lower grade material at higher volumes, with the historic fluctuations in grade and quality mix being evened out as the plant feed is increased.

The tanzanite industry

Retail tanzanite sales were buoyant throughout the year, particularly in December 2006, with strong demand reported at all trade shows held thus far in 2007, including Tucson, Shanghai and Basel. The encouraging results from the retail sector boosted demand for rough tanzanite and was further supported by a general greater awareness of tanzanite in the global marketplace evidenced by the increased space given to tanzanite in the consumer press.

This increase in general awareness spanned the entire distribution spectrum from trade members who have reported introducing and/or reintroducing tanzanite to their product lines in a significant way, consumers who are interested in learning more about tanzanite and members of the press who are motivated to investigate and explore various aspects of the tanzanite story.

The challenge of increasing the percentage of tanzanite available in the high-end of the luxury goods market has been identified. This issue is being addressed through the collective efforts of TanzaniteOne Marketing which is working to bring appropriate distribution partners on board and The Tanzanite Foundation™ which is working with key jewellery retailers and designers to create and promote exclusive tanzanite jewellery collections.

While no accurate records exist, indications are that the total volume of rough tanzanite produced has fallen from its peak at around $100 million in the late 1990s to approximately $70 million in 2006. TanzaniteOne continues to produce an ever increasing percentage of the world's known tanzanite supply. Growth in market share can be attributed to various factors, including an improved geological understanding supported by enhanced management and reporting systems, improved mining efficiencies and the implementation of improved sorting systems. In addition, production from neighbouring mines has diminished as a result of their operational constraints at greater depths.

The Group's corporate objective is to significantly increase the annual production of rough tanzanite over the next five years. Initiatives that have been put in place to achieve this goal include improved security, the introduction of revised mining methods by creating surge capacity and the introduction of selective stoping and trackless mining. Additional steps include the small miners assistance programme (SMAP) which is aimed at supporting the development and output of the company's neighbouring small scale miners, who are viewed as key participants in the growth of the tanzanite industry.

Adrian Banks

TANZANITEONE TRADING LIMITED

Trading

The material purchased by TanzaniteOne Trading in 2006 has all been sold and the quality was well received by our DPs.

TanzaniteOne Trading, the Group's buying office based in Arusha, purchases rough tanzanite from smaller miners, brokers and dealers and operates under the guidelines of the Tucson Tanzanite Protocols and the Patriot Act.

Purchased tanzanite is then transferred to TanzaniteOne Marketing where, together with mined production, it is packaged in accordance with the specific business model and needs of the Group's Distribution Partners before being sold. TanzaniteOne Trading also purchases small quantities of select, polished tanzanite that is either retailed locally within Tanzania or exported on order to specific customers seeking fine quality gems.

The first half of 2006 saw limited volumes and lower qualities of rough material available in the Arusha market.

After the initial droughts the Merelani region received heavy rainfalls in April which prevented mining by many smaller scale miners in blocks B and D. The available gems through to late February was of poor colour and clarity. Notwithstanding a slight improvement in the availability of rough material towards the end of the first half, larger size, fine quality material remained in short supply.

The second half saw better quantities of rough tanzanite brought to market in Arusha. Purchases from July to September were 74% higher than the purchases for the whole of the first half of the year. The majority of rough tanzanite purchased was in the 2.5 – 10 carat size range and of 'B' quality.

In October, following a strategic decision to increase the level of buying, TanzaniteOne Trading was able to use the final quarter of 2006 to achieve internal targets. TanzaniteOne Trading had already established a strong supply chain for rough tanzanite below 5 carats, and coupled with the fact that fair qualities of this material was already being held in stock, the decision was made to concentrate on medium-to-top quality rough tanzanite of 5 carats and above. Well-known Maasai brokers, who deal in better quality and larger sizes of rough tanzanite, were made the focal point of the new approach.

To improve its competitiveness, TanzaniteOne Trading increased the price at which it purchased rough tanzanite above 10 carats by between 7% and 15% and suppliers were educated as to what qualities and at what price points such rough would be purchased.

2006 was a good year for trading. This subsidiary has moved away from primarily trading in smaller goods of below 4 carats to building solid relationships with prominent brokers supplying larger sized and premium product. The material purchased by TanzaniteOne Trading in 2006 has all been sold and the quality, especially towards the end of the year, was well received by our Distribution Partners.

Historically, the first few months of each year have been shown to offer little available rough tanzanite in the open Arusha market and it appears as if 2007 will be no different. The first few months of this year show that there are only modest quantities of new material.

Ongoing efforts are being made to contact new suppliers and to procure better quality goods by increasing the prices offered for 'A' quality rough tanzanite by an additional 10%. The focus for the first quarter of 2007 is to purchase rough material of medium to top colour that is well shaped and displays good internal clarity of 5 carats and above.

Tanzanite One Limited holds a 75% stake in Tanzanite One Trading Limited.

The Group is considering increasing the number of distribution partners and geographic distribution to coincide with a projected increase in output and to support the building of new markets.

Candice Nunn

TANZANITEONE MARKETING LIMITED

Marketing

TanzaniteOne Marketing is the Group's marketing and sales arm for rough tanzanite. The subsidiary consolidates mined and traded rough tanzanite stocks and adds value by way of applying a specialised grading system to parcels of rough tanzanite specifically prepared to suit the individual needs of its customers. In March 2005, the division adopted its 'Preferred Supply Strategy'. This strategy has proved successful throughout 2006 with prices at year-end being approximately 10% higher overall than in 2005.

The Preferred Supplier strategy, a world first in the coloured gemstone industry, whereby selected tanzanite-focused and vertically integrated companies are appointed Distribution Partners (Sightholders) has been well received and is proving to be most successful. The adoption of the sightholder system has benefited the entire industry, which now seems more focused and cohesive. Sightholders attend viewings of rough tanzanite parcels known as 'sights', and are committed to the growing tanzanite industry and ensuring its long-term sustainability. The Preferred Supply Strategy supports supply continuity which in turn increases retail confidence and builds demand.

Sales in the first half of 2006 were impacted by low volumes and a lack of quality stones. The material procured was predominantly of medium to light colour.

Two sights were held in the first half of 2006 with the second sight being relatively small due to a lack of available high quality tanzanite. In line with improved production and buying, two further sights were held in the second half of the year. These sales reflected the improved quality of tanzanite with the third sale generating a record $9.5 million in revenue.

The aim for TanzaniteOne Marketing going forward is to increase the number of sights held each year, to increase the number of appointed sightholders and to be seen as the tanzanite industry's market leader and preferred supplier. This will be achieved through promotions within the industry and by increasing the level of publicity around the sights. We also intend to strengthen our relations with all stakeholders, supported by The Tanzanite Foundation™, and will look to increase the overall global awareness of these companies which will in turn drive both demand and sales.

Our sightholders' operations continue to do well, specifically in terms of vertical integration, marketing and their global distribution footprint. Sightholders are encouraged to increase their level of advertising and marketing spend, to establish their own brands, and to expand into new markets such as the Far East, Middle East, Europe and Russia. All of this is gaining momentum with permanent offices having been opened by some of the sightholders in the United Kingdom, Germany and Dubai.

The Group is considering increasing the number of sightholders and their geographic distribution to coincide with a projected increase in output and demand, and to support the building of these new markets. New sightholders from Germany, Israel and other markets are now being targeted. TanzaniteOne announced in April 2007 the appointment of two additional sightholders. Founded in 1926, Paul Wild oHG is one of the most successful gemstone houses in the world. Their yearly sales far exceed one million gemstones ranging from unique one-off high quality gemstones to standard gems for quantity orders. Working with the leading jewellery brands around the world, Paul Wild is creating new jewellery trends and is a significant stakeholder in the world of gemstones and jewellery with branches in Germany, Thailand, Brazil and Africa.

AG Color Inc has a four generation legacy of being distributors of fine quality gemstones. Their offices are situated in New York. The company specialises in precision cut calibrated and free size tanzanite, carrying an inventory which includes pairs, suites and custom cut shapes and sizes for the discerning jeweller. They have carved a niche for themselves globally and specifically in the US, Hong Kong and Europe. AG Color has won both the first and second place for the American Gem Trade Association (AGTA) Spectrum Awards in pairs and suites for the past two consecutive years.

Developing a solid understanding of the dynamics, demands and weaknesses of the rough tanzanite market remains a key priority for TanzaniteOne Marketing. We are evaluating the way we offer certain qualities of goods to better suit market needs.

A new focus includes a shift towards a better understanding of the downstream cut and polished channel and its changing needs. New relations have been formed in this regard and will receive the required focus in the coming year.

Social responsibility and **sustainability**

Such projects are developed in conjunction with the local people living in close proximity to tanzanite's source and in collaboration with The Tanzanite Foundation™.

TanzaniteOne is committed to investing in sustainable community upliftment projects. Such projects are developed in conjunction with the local people living in close proximity to tanzanite's source and in collaboration with The Tanzanite Foundation™. A project team is in the process of being established to ensure that all social projects are undertaken in the best interests of and with the full support of the local communities. The team will be staffed by elected representatives from TanzaniteOne, the appropriate regional authorities and the nearby villages of Nasinyai and Merelani.

Projects completed to date include the Nasinyai Primary School which educates 420 children, the ongoing expansion of a secondary school for boys and girls aged between 12 and 18, and the construction of a medi-clinic and a much valued community centre that is used for social gatherings and church congregations.

Northern Tanzania is an area historically affected by drought and the early part of 2006 was particularly dry. The fresh water supplied by TanzaniteOne to some 2,000 villagers and 4,500 herd of cattle on a daily basis provided some relief and has led the Group to prioritise the implementation of some additional water projects during 2007.

TanzaniteOne committed extensive resources to rebuild the main access road that connects the people of Merelani and Nasinyai with the nearby towns of Arusha and Moshi. The project to rebuild the main access road, which was damaged by the ensuing torrential rains, was completed in late 2006.

The **Tanzanite** Foundation™

Founded in 2003, The Tanzanite Foundation™ is a non-profit industry-supported organisation dedicated to stimulating the growth and development of the tanzanite market, while creating value for ethically operating and socially conscious industry stakeholders. It also invests in upliftment projects developed in harmony with indigenous communities in Tanzania.

Throughout 2006, The Tanzanite Foundation™ successfully partnered with several global jewellery brands and designers, who have created new and contemporary designs using tanzanite. These include Anthony Nak, Mouawad, Theo Fennell, Stephen Webster, Le Vian and others, who enthusiastically embraced the 'Be Born To Tanzanite' concept (promoting tanzanite as the gift given on the event of the birth of a child) in their product design and promotional activities.

Manufacturers, luxury brand companies, fashion accessories designers and independent jewellery designers from more than 20 countries submitted show-stopping designs for the inaugural 'Tanzanite Celebration of Life' Jewellery Design Awards event held in New York City. Twenty-one designers were singled out based on the beauty and originality of the designs, as well as the interpretation of the theme, "Be Born to Tanzanite™". The awards were created to introduce tanzanite and the 'Be Born to Tanzanite™' campaign to retailers around the world, and to encourage more jewellery brands and designers to work with tanzanite.

To improve knowledge levels of tanzanite, The Tanzanite Foundation™ has developed training programs and point of sale material to further educate both retailers and consumers of tanzanite's unique history and rarity, as well as of its grading and certification programme. These initiatives have had a noticeable knock-on effect of tanzanite sales.

The organisation recently announced a pioneering partnership with the

International Gemmological Institute (IGI). IGI is the first American laboratory to offer tanzanite grading in accordance with The Tanzanite Quality Scale™, under licence from The Tanzanite Foundation™. The Tanzanite Laboratory opened in Arusha, Tanzania and is also grading tanzanite under licence from The Tanzanite Foundation™. As reputable and independent laboratories adopt the organisation's Tanzanite Quality Scale™, so too are the trade and consumers becoming more confident in the grading and pricing of tanzanite.

An ever-increasing number of industry stakeholders have agreed to commit a percentage of the revenue they have generated from tanzanite sales to the Tanzanite Foundation™, which in turn supports both new and ongoing community projects at tanzanite's source as well as the promotion of tanzanite internationally.

Chief Financial Officer's review

Tanzanite One Limited's ("TanzaniteOne" or the "Group") financial review should be read in conjunction with the consolidated financial statements and notes thereto.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The reporting currency is US Dollars.

For the year ended 31 December 2006, the Group achieved a profit attributable to common shareholders of $1.8 million or 2.47 US cents a share. A gross profit margin of 44% was achieved on total revenue of $36.0 million. After operating expenses of $13.5 million and net financing income of $0.2 million, a net profit before tax of $2.5 million was reported.

Net profit after tax of $1.8 million is stated after the $2.8 million (before tax) write-down in cut, polished and jewellery inventory following the decision to divest of the wholesale jewellery business and an additional $1.8 million (before tax) write-down for the reported book value of the intangible assets, notably the Tanzanite Blue brands. While ownership of these brands is still with TanzaniteOne, the decision to write-down their value was linked to the decision to increase the Group's focus on mining rough tanzanite.

REVENUE

Revenue from ordinary activities for the year under review was $36.0 million, 12% down from $41.1 million in 2005. This decline was primarily due to lower production volumes during the first half of the year following extensive national power outages and also a lower percentage of 'A' quality tanzanite recovered. Revenue of $20.4 million in the second half of the year was 25% higher compared to the first half, culminating in total revenue of $36.0 million for the year. The higher average export price of 9% achieved for rough tanzanite in the second half reflects the overall improvement in the quality of the material produced.

Production for the year was 1,230,600 million carats of tanzanite from 15,896 tonnes at an average of 77 carats per tonne. During the first half of the year the mine recovered 570,500 carats of tanzanite from 7,605 tonnes processed. Production increased by 15% during the second half recovering 660,100 carats from 8,291 tonnes. An improvement in mining capabilities continues to push grades attained higher, which at 77 carats per tonne (2005: 55 carats per tonne) represents a 40% improvement over the 2005 year.

COST OF SALES

Cost of sales, which consists of mining costs in Tanzania, purchases of rough tanzanite in our Arusha trading operation and purchases of manufactured jewellery, amounted to $20.1 million. Gross margin achieved for the year was 44% inclusive of a $2.8 million inventory write-down. Excluding inventory write-downs, the gross profit margin was 52% reflecting the higher proportion of 'A' quality material produced during the second half.

On mine costs per carat for the twelve months were $2.54 per carat (2005: $1 per carat). Increased unit costs were largely attributable to a 32% reduction in tonnes processed, higher diesel costs for power generation stemming from the extensive national power cuts in Tanzania throughout the period and additional development work in preparation for stoping. As the mine increases its current production levels and refines its mining methods, economies of scale are expected to lower the unit cost per carat.

OPERATING EXPENSES

Operating expenses of $13.5 million include royalties paid to the Government of Tanzania on export of rough tanzanite sales ($1.2 million), other commissions ($0.8 million), salaries and wages ($3.0 million), depreciation ($1.7 million) and advertising and promotional expenses ($0.8 million). Foreign exchange losses and gains reflect the revaluation of net monetary assets and are dependent on movements in various exchange rates to which the Group is exposed. No significant change, other than the potential of further foreign exchange gains or losses, is expected in total operating expenses as cost-cutting initiatives and economies of scale come into play.

TAXATION

The effective tax rate of the Group for the year under review was 29% (2005: 24%). This was largely due to the non-recognition of the deferred tax asset of $0.5 million on the net loss of $1.8 million realised in The Tanzanite Company (UK) Limited ("TTC UK"). The increase is also due to the utilisation of all assessed losses in the Group's subsidiary companies.

INVENTORY

Total inventory levels have decreased to $10.5 million (2005: $14.5 million) due to the decision to close the wholesale jewellery business and concentrate on tanzanite mining.

CASH BALANCES AND BORROWINGS

Cash and cash equivalents were $7.0 million (2005: $8.3 million). Interest-bearing borrowings increased to $1.2 million from $0.8 million at 31 December 2006. The interest-bearing borrowings are mainly in respect of certain plant and machinery acquired in Tanzania.

CAPITAL EXPENDITURE

Capital expenditure for the year of $2.7 million comprised an upgrade of electrical infrastructure at the mine, the purchase of a mobile x-ray machine to enhance security on site, two power generators capable of delivering up to two megawatts of power, construction of additional on-site staff accommodation and the acquisition of new vehicles.

TRANSLATION OF FOREIGN SUBSIDIARIES

The exchange rates used to translate foreign subsidiaries were as follows:

	ZAR:USD	**GBP:USD**
Exchange rate at year-end	7.01	1.96
Average exchange rate for the year	6.77	1.84

Mark Summers
Chief Financial Officer
Tanzanite One Limited

24 May 2007

Statement of directors' responsibility

International Financial Reporting Standards ("IFRS") require the directors to prepare consolidated financial statements for each year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these consolidated financial statements, the directors have:
– selected suitable accounting policies and then applied them consistently;
– made judgements and estimates that are reasonable and prudent;
– complied with applicable accounting standards; and
– prepared the financial statements on a going-concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any point in time, the financial position of the Group and to enable them to ensure that the financial statements comply with IFRS. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' declaration

Directors' declaration
In accordance with a resolution of the board of directors of TanzaniteOne, I state that in the opinion of the directors:

a) the financial statements and notes of the consolidated entity:
    i) give a true and fair view of the financial position as at 31 December 2006 and the performance for the year ended on that date of the consolidated entity; and
    ii) comply with IFRS; and
b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the board

Ian Harebottle
Chief Executive Officer
Tanzanite One Limited

24 May 2007

Report of the independent auditors
for the year ended 31 December 2006

TO THE MEMBERS OF TANZANITE ONE LIMITED

We have audited the consolidated annual financial statements of Tanzanite One Limited, which comprise the balance sheet at 31 December 2006, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 34 to 79.

Directors' responsibility for the financial statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these financial statements present fairly, in all material respects, the consolidated financial position of Tanzanite One Limited at 31 December 2006, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Inc.

KPMG Inc

SA Barnfather
Chartered Accountant (SA)
Registered Auditor
Director

24 May 2007

KPMG Crescent
85 Empire Road
Parktown
Johannesburg
South Africa

Directors' report

The directors present this report, together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

TanzaniteOne is a Bermudian registered holding company of a group of companies involved in the mining and marketing of the rare gemstone tanzanite. Through its subsidiary, TanzaniteOne Mining Limited, the Group holds the mining licence over a property containing a significant portion of the world's only known tanzanite resource, as well as extensive prospecting licences over potential tanzanite producing properties adjoining its mining licence area. The Group also conducts outside buying, manages tanzanite grading and certification and markets both rough and polished tanzanite.

Results

The consolidated income statement for the year ended 31 December 2006 and the consolidated balance sheet at that date are set out on pages 46 and 47 of this report respectively. The Group recorded a profit of $1.8 million (2005: $9.8 million) for the financial year. Taking into account this profit, shareholders' equity at 31 December 2006 is $47.2 million (2005: $50.2 million). The directors have, after year-end, declared a final dividend of 6 US cents per share which was paid as date passed. This brings the total dividend in respect of the year ended 31 December 2006 to 8 US cents (2005: 6 US cents) per share. A detailed review of operations and activities appears in the Chief Executive's message, the Operational review and the Chief Financial Officer's reports that form part of the annual report.

Going concern

The consolidated financial statements are prepared under the assumption that the Group is a going concern on the basis that the directors are satisfied that sufficient financial resources will be available to meet the Group's current and foreseeable working capital requirements and debt repayments.

The mechanism has no dilutionary effect on the Company as no further shares are required to be issued by the Company in terms of the mechanism.

A class share capital

At the time of TanzaniteOne acquiring the tanzanite assets from Afgem Limited ("Afgem"), a mechanism was put into place to accommodate any of Afgem's South African shareholders' desire to maintain their investment in the tanzanite assets. The mechanism involved the creation of TanzaniteOne SA Limited ("TanzaniteOne SA"), a South African domiciled wholly-owned subsidiary of TanzaniteOne.

TanzaniteOne SA has in issue A class shares, the value of which is directly linked to the value of the TanzaniteOne shares traded on the AIM Market of London Stock Exchange Plc ("AIM") and therefore denominated in British Pound Sterling. The mechanism allows for an equivalent amount of TanzaniteOne common shares held by Rembrandt Nominees as to the number of A class shares in issue. Consequently, all South African shareholders of Afgem that elected to remain invested received TanzaniteOne SA A class shares, the rights of which are set out in the share capital note of the consolidated financial statements.

So as to facilitate an exit for those TanzaniteOne SA A class shareholders, TanzaniteOne made an offer to acquire all or a portion of their A class shares, which offer shall be binding on TanzaniteOne for a period of 20 years from April 2004.

Upon valid acceptance of the offer by a TanzaniteOne SA A class shareholder, a share sale agreement comes into force between the disposing A class shareholder and TanzaniteOne. The disposing shareholder has a choice of making a cash acceptance or a share acceptance in respect of their A class shares. If the acceptance is a:

a) Share acceptance, the disposing A class shareholder shall have the election to implement the purchase of their shares by exchanging one TanzaniteOne share (held by Rembrandt Nominees in London) for each A class share disposed of;
b) Cash acceptance, TanzaniteOne shall procure the sale of the number of TanzaniteOne shares, out of Rembrandt

Nominees Limited, equal to the number of A class shares that the disposing A class shareholder wishes to sell. As such, the number of shares held by Rembrandt Nominees Limited will at all times equal the number of TanzaniteOne SA A class shares in issue. Sale costs incurred in the implementation of the TanzaniteOne offer shall be for the account of the disposing A class shareholder.

Significant shareholdings

As at 31 December 2006, the following interests in the common shares of TanzaniteOne represented more than 3% of the issued share capital:

Shareholder	Number of shares	% holding
MJ Nunn	14 617 727	20.11
MAP Adams	8 712 230	11.99
Hansa Overseas Holding SA	6 792 747	9.35
Williams De Broe	6 529 606	8.98
Fidelity Investments	5 675 701	7.80

Directors

Michael Adams (58), Non-executive Chairman

Mr Adams graduated from Cambridge University in 1969. He has 35 years' experience in the financial services sector including 32 years in senior management. During this time, he has been directly involved in a broad spectrum of industries since his private investment group, the MAA Group, began to focus on direct investment activities in 1982. The MAA Group has interests in mining, heavy industry and information technology. He has been the chairman, vice chairman, president or director of a wide range of public and private companies.

Ami Mpungwe (56), Non-executive Deputy Chairman

Mr Mpungwe has been chairman of the Group's Tanzanian subsidiary since March 2000 and has been integral to its establishment and development. He has an honours degree in International Relations and Political Science, a diploma in International Law and has spent 25 years in the diplomatic service, including six years as Tanzanian ambassador to South Africa. He holds directorships in National Bank of Commerce, Tanzania Breweries, Kilombero Sugar Co Limited, Air Tanzania, Maersk Tanzania Limited, MultiChoice Tanzania Limited, and Niko Insurance Co (Tanzania) Limited.

Ian Harebottle (44), President and Chief Executive Officer

Mr Harebottle joined the business as operations director of its tanzanite business in September 2001, after consulting to the business on strategic and operational issues prior to that. He has vast experience in consulting to the mining industry. Mr Harebottle graduated from the Witwatersrand Technical College in 1985 and received his Graduate Diploma in Management from Henley Management College in 1992. On 1 May 2006 Mr Harebottle was appointed chief executive officer following the resignation of Mr Nunn.

Mark Summers (37), Chief Financial Officer

Mr Summers is a Chartered Accountant and a Chartered Management Accountant. After completing his articles at Coopers and Lybrand, he joined Anglo American's Corporate and International Finance Department. From 1999 to 2002, he was an associate director in the Mining Corporate Finance division at HSBC, where his corporate clients included Afgem, De Beers, Kroondal Platinum and the Industrial Development Corporation of South Africa. In April 2002, Mr Summers joined the business as chief financial officer.

Edward Nealon (56), Non-executive director

Mr Nealon is a geologist with 30 years' experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practised in most of the world's major mining centres. Mr Nealon was responsible for Aquarius' introduction into the platinum industry and served on its board for a number of years. He holds a master's degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

Directors' report (continued)
for the year ended 31 December 2006

Nicholas Sibley (68), Non-executive director

Mr Sibley is a Chartered Accountant. He was formerly chairman of Wheelock Capital from 1994 to 1997 and executive chairman of Barclays de Zoete Wedd (Asia Pacific) Limited from 1989 to 1993. He is a former managing director of Jardine Fleming Holdings and director of Robert Fleming Holdings and Barclays de Zoete Wedd Holdings. He is presently chairman of Aquarius Platinum Limited and a director of Corney and Barrow Group and Asia Pacific Fund Inc.

Gustav Oivind Stenbolt (50), Non-executive director

Mr Stenbolt, who has been on the board of the Company in the capacity of alternate director to Mr Georg von Opel, replaced Mr Von Opel as non-executive director of the Company effective 7 December 2005. Mr Stenbolt is an executive member of the board of Jelmoli Holdings, Zurich and president of the board Committee of Jelmoli Holdings. He is chairman of the board of MC Trustco, Geneva, which among other functions, is the management group of Hansa Aktiengesellschaft, Basel and Pelham Investments, Geneva. Mr Stenbolt studied economics and graduated from Fribourg University.

Ben de Bruyn (41) (alternate director to GO Stenbolt – appointed on 4 September 2006)

Mr de Bruyn joined Valartis Asset Management during 2006 and has more than 10 years of experience advising in merger and acquisitions, capital raisings, privatisations and group restructurings. Prior to joining Valartis AM, Mr de Bruyn led the Corporate Finance division of Brait SA, a listed and leading South African private equity and investment advisory group. He holds business and legal degrees from the University of Stellenbosch, South Africa as well as a postgraduate diploma in taxation from the Rand Afrikaans University, South Africa. He was admitted as an attorney of the High Court of South Africa during 1993.

Mike Nunn resigned on 1 May 2006.

Philip LeibundGut resigned on 4 September 2006.

Meetings of directors

The number of meetings of the board of directors of the Company held during the year ended 31 December 2006 and the number of meetings attended by each director are tabled below:

	Number of meetings held whilst in office				Number of meetings attended			
Director	**Board**	**Remuneration and succession planning**	**Audit and risk management**	**Nomination**	**Board**	**Remuneration and succession planning**	**Audit and risk management**	**Nomination**
Michael Adams	5	1	3	1	5	1	3	1
Ami Mpungwe	5	1	–	1	4	1	–	1
Ian Harebottle	5	–	–	1	5	–	–	1
Mark Summers	5	–	–	1	5	–	–	1
Edward Nealon	5	1	–	1	5	1	–	1
Nicholas Sibley	5	–	3	1	5	–	3	1
Gustav Stenbolt	5	–	3	1	3	–	3	1
Ben de Bruyn(1)	1	–	–	–	1	–	–	–
Philip LeibundGut(2)	3	1	–	–	1	–	–	–
Mike Nunn(3)	2	–	–	–	1	–	–	–

(1) Mr de Bruyn was appointed alternate director to Mr Stenbolt on 4 September 2006.
(2) Mr LeibundGut resigned as alternate director to Mr Stenbolt on 4 September 2006.
(3) Mr Nunn resigned as a director on 1 May 2006.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interest of the directors and their related entities in the shares and options of TanzaniteOne were:

	Tanzanite One Limited common shares	TanzaniteOne SA Limited A class shares	TanzaniteOne SA Limited options over A class shares
Michael Adams	8 712 230	–	–
Ami Mpungwe	2 945 002	4 546	90 925(1)
Ian Harebottle	–	367 912	472 128(2)
Mark Summers	–	259 409	266 666(3)
Edward Nealon	–	–	–
Nicholas Sibley	1 732 778	–	–
Gustav Stenbolt	111 996	–	–
Ben de Bruyn	–	–	–

Option strike prices are denominated in South African cents. Strike prices listed below are calculated at an exchange rate of ZAR13,74 to the British Pound Sterling as at 31 December 2006.

(1) Includes options exercisable at £0.44 per share from 30 November 2005.

(2) Includes 266 666 options exercisable at £0.24 per share up to 30 November 2007, 45 462 options exercisable at £0.27 per share up to 30 November 2006 and 160 000 options exercisable at £0.55 per share up to 30 November 2007.

(3) Includes 166 666 options exercisable at £0.24 per share up to 30 November 2007 and 100 000 options exercisable at £0.55 per share up to 30 November 2007.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

The board is responsible for determining and reviewing compensation arrangements for the directors and executive management. The board assesses the appropriateness of the nature and amount of emoluments of such officers on an annual basis by reference to industry and market conditions. In determining the nature and amount of officers' emoluments, the board takes into consideration the Group's financial and operational performance.

Details of the nature and amount of each element of the emolument of each director of the Group during the financial year are shown in the table below. Refer also note 18 – Employee entitlements for participation by the directors in the Company's option plan.

Director	Base salary $	Share options $	Consulting fees $	Other $	Total $
Michael Adams	44 000	–	–	100 000	144 000
Ami Mpungwe	31 500	–	–	–	31 500
Ian Harebottle	158 452	198 929(1)	–	–	357 381
Mark Summers	29 442	198 929(1)	129 192(2)	–	357 563
Edward Nealon	26 500	–	–	–	26 500
Nicholas Sibley	27 500	–	–	–	27 500
Gustav Stenbolt	24 000	–	–	–	24 000
Ben de Bruyn	–	–	–	–	–

(1) Profit on share options exercised.

(2) A consultancy services agreement, dated 30 July 2004, was entered into between Amari Management Services (Pty) Limited ("Amari") and TanzaniteOne SA Limited, wherein Amari agreed to provide the services of Mark Summers as Chief Financial Officer to TanzaniteOne SA Limited, the services being terminable on six months' written notice and which are provided at an estimated annual fee of ZAR900 000.

(3) A payment of $100 000 was made to MAA Securities Limited a company in which Michael Adams has an interest. The payment was for advisory and consultancy services for the financial year.

Directors' report (continued)

for the year ended 31 December 2006

DIRECTORS' AND OFFICERS' INSURANCE

During the year the Company paid an insurance premium in respect of a contract insuring against liability of current directors and officers. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as disclosure is prohibited under the terms of the contract.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Companies within the Group are required, on cessation of mining operations, to rehabilitate the relevant mining area on which mining operations have been conducted. Ian Harebottle, chief executive officer, is the officer responsible for compliance on these matters for all mining properties within the Group. Environmental activities are continuously monitored to ensure that established criteria from each operations environmental management programme, approved by relevant authorities, have been met. There have been no known significant breaches of any environmental conditions.

CORPORATE GOVERNANCE

The following statement sets out the governance practices of TanzaniteOne.

The board of directors of TanzaniteOne is responsible for the corporate governance of the Group. The board guides and monitors the business affairs of TanzaniteOne on behalf of shareholders by whom they are elected and to whom they are accountable.

Board of directors

The board is responsible for the overall management of the Group. It is governed by a charter, a summary of which can be found on the Group's website at www.tanzaniteone.com. Amongst other matters, the charter sets out the framework for the management of the Group and responsibilities of the board, its direction, strategies and financial objectives and the monitoring of the implementation of those policies, strategies and financial objectives.

In order to retain full and effective control over the Company and monitor the executive management team, the board meets regularly and at least on a quarterly basis. Details of directors' attendance at these meetings are set out on page 36. In consultation with the Chief Executive Officer and the Company Secretary, the Chairman sets the agenda for these meetings. All directors may add items to the agenda. Key executives of the Group contribute to board papers and are from time to time invited to attend board meetings.

Each director has the right to seek independent professional advice on matters relating to their position as a director or committee member of the Group at the Company's expense, subject to prior approval of the Chairman, which shall not be unreasonably withheld.

The names of the directors in office at the time of this report and their relevant qualifications and experience are set out on pages 35 to 36. Their status as non-executive, executive or independent directors and tenure on the board is set out in the table below.

Name of director in office at the date of this report	Date appointed to office	Executive/ Non-executive	Independent
Michael Adams	1 August 2004	Non-executive	No
Ami Mpungwe	1 August 2004	Non-executive	Yes
Ian Harebottle	1 August 2004	Executive	No
Mark Summers	1 August 2004	Executive	No
Edward Nealon	1 August 2004	Non-executive	Yes
Nicholas Sibley	1 August 2004	Non-executive	Yes
Gustav Stenbolt	1 August 2004	Non-executive	No
Ben de Bruyn (Alternate director to Gustav Stenbolt)	4 September 2006	Non-executive	No

The by-laws of the Company determine that the board consists of not less than two and no more than nine directors. At the date of this report, the board is comprised of seven directors, five of whom are non-executive directors.

The division of responsibilities between the Chairman and the Chief Executive Officer is reviewed regularly and is defined below:

– The Chairman, Mr Michael Adams, is responsible for leadership of the board ensuring they receive accurate, timely and clear information in order to facilitate effectiveness of its role.
– Mr Ian Harebottle, Chief Executive Officer, leads executive management. He has been delegated responsibility by the board for the day-to-day operation and administration of the Company's tanzanite assets via its subsidiary company TanzaniteOne SA. The Chief Executive Officer is assisted in managing the business of the Group by the Chief Financial Officer.

Independence of non-executive directors

Independence of directors in essence means those directors are independent of management and free of any business or other relationship that could, or could reasonably be perceived to materially interfere with the exercise of unfettered and independent judgement.

The board has accepted the guidelines outlined below in determining the independence of non-executive directors. In accordance with these guidelines, Messrs Mpungwe, Nealon and Sibley, are deemed independent.

The board has accepted the following definition of an independent director:

An independent director is someone who is not a member of management, is a non-executive director and who:

a) is not a substantial shareholder (5%) of the Company or an officer of, or otherwise associated directly with a substantial shareholder of the Company;
b) within the last three years has not been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
c) within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
d) is not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
e) has no material contractual relationship with the Company or another group member other than as a director of the Company;
f) has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company; and
g) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company.

Company secretary

The company secretary, Mr Willi Boehm, is responsible for supporting the effectiveness of the board by monitoring that board policy and procedures are complied with, coordinating the flow of information within the Company and the completion and dispatch of items for the board and briefing materials. The company secretary is accountable to the board on all governance matters. All directors have access to the services of the company secretary. The appointment and removal of the company secretary is a matter for the board as a whole.

Succession planning

The board brings the range of skills, knowledge, international experience and expertise necessary to govern the Group, but it is aware of the need to ensure processes are in place to assist with succession planning, not only for the board, but within senior management. The board periodically assesses its balance of skills and those within the Group in order to maintain an appropriate balance within the Group.

Induction training and continuing professional development

In order to assist new directors and key executives in fulfilling their duties and responsibilities within the Company, an induction programme is provided by the Chief Executive Officer, which includes meetings with the executive team and visits to the operating sites of the Company in Tanzania and South Africa. The programme enables the new appointees to gain an understanding of the Group's financial, strategic, operational and risk management position. Full access to all documentation pertaining to the Company is provided. It ensures new directors and key executives are aware of their rights, duties and responsibilities.

Performance review

The board of TanzaniteOne conducts a performance review of itself on an ongoing basis throughout the year. The small size of the Group and hands-on management style requires an increased level of interaction between directors and executives throughout the year. Board members meet amongst themselves and with management both formally and informally. The board considers that the current approach it has adopted with regard to the review of its performance and of its key executives provides the best guidance and value to the Group.

Directors' retirement and re-election

TanzaniteOne's by-laws determine that at each annual general meeting, at least one-third of the board are retired by rotation, therefore holding their positions for no longer than three years. This period of time provides sufficient continuity. Non-executive directors are appointed for a three-year term and may be invited to seek reappointment. A director appointed during the year is subject for election at the forthcoming annual general meeting. Pursuant to the by-laws of the Company, the Chief Executive Officer is not subject to retirement by rotation.

Securities trading policy

The board has adopted a policy covering dealings in securities by directors and relevant employees. The policy is designed to reinforce to shareholders, customers and the international community that TanzaniteOne directors and relevant employees are expected to comply with the law and best practice recommendations with regard to dealing in securities of the Company.

A director and relevant employees must comply with the model code on directors' dealings in securities, as set out in the annexure to Chapter 9 of the Listing Rules of the UK Listing Authority, a copy of which can be found on the TanzaniteOne website at www.tanzaniteone.com. In addition to restrictions on dealing in closed periods, a director and relevant employees must not deal in any securities of the Company on considerations of a short-term nature and must take reasonable steps to prevent any dealings by, or on behalf of, any person connected with him in any securities of the Company on considerations of a short-term nature. All dealings by directors in the securities of the Company are announced to the market.

Committees of the board

The board has established three standing committees to assist in the execution of its responsibilities: the Audit and Risk Management Committee, the Remuneration and Succession Planning Committee, and the Nomination Committee. Other committees are formed from time to time to deal with specific matters.

In line with best practice, each of the committees operates under a charter approved by the board detailing their role, structure, responsibilities and membership requirements. Each of these charters is reviewed annually by the board and the respective committee.

Summaries of the Remuneration and Succession Planning, Nomination Committee charters and a complete Audit and Risk Management Committee charter can be found on the TanzaniteOne website at www.tanzaniteone.com.

Audit and Risk Management Committee

The Audit and Risk Management Committee has been established to assist the board of TanzaniteOne in fulfilling its corporate governance and oversight responsibilities in relation to the Group's financial reports and financial reporting process, internal control structure, risk management systems (financial and non-financial) and the external audit process. The committee is governed by a charter approved by the board.

The committee consists of:

- three members;
- only non-executive directors;
- an independent chairperson, who shall be nominated by the board from time to time, but who shall not be the chairperson of the board.

The members of the committee at the date of this report are as follows:

- Mr Nicholas Sibley (Chairman)
- Mr Michael Adams
- Mr Gustav Stenbolt

Qualifications of Audit and Risk Management Committee members:

Mr Sibley is a chartered accountant, a director of Corney & Barrow Group Limited, two investment companies and is chairman of Aquarius Platinum Limited. He was formerly chairman of Wheelock Capital from 1994 to 1997, as well as executive chairman of Barclays de Zoete Wedd (Asia Pacific) Limited, from 1989 to 1993. Mr Sibley is a former managing director of Jardine Fleming Holdings Limited.

Mr Adams has been directly involved in a broad spectrum of industries since his private investment group, the MAA Group, began to focus on direct investment activities in 1982. The MAA Group has interests in mining, heavy industry and information technology. He has been the chairman, vice chairman, president or director of a wide-range of public and private companies.

Mr Stenbolt is an executive member of the board of Jelmoli Holdings, Zurich and president of the Board Committee of Jelmoli Holdings. He is chairman of the board of MC Trustco, Geneva, which among other functions, is the management group of Hansa Aktiengesellschaft, Basel and Pelham Investments, Geneva.

The board deems all members of the committee to have the relevant experience and understanding of accounting, financial issues and the mining industry to enable them to effectively oversee audit procedures.

The committee reviews the performance of the external auditors on an annual basis and meets with them at least twice a year to:

- review the results and findings of the audit at year-end and review at half year-end and recommend their acceptance or otherwise to the board; and
- review the results and findings of the audit, the appropriateness of provisions and estimates included in the financial results, the adequacy of accounting and financial controls, and to obtain feedback on the implementation of recommendations made.

The committee receives regular reports from the external auditor on the critical policies and practices of the Group, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

The committee assesses the Group's structure, business and controls annually. It ensures the board is made aware of internal control practices, risk management and compliance matters which may significantly impact upon the Group in a timely manner. The committee meets when deemed necessary and at least twice a year. The company secretary acts as secretary of the committee and distributes minutes to all board members. Details of attendance at committee meetings are set out in the directors' report.

Remuneration and Succession Planning Committee

The members of the Remuneration and Succession Planning Committee at the date of this report are:

- Mr Michael Adams (Chairman)
- Mr Ami Mpungwe
- Mr Edward Nealon

The committee is governed by a charter approved by the board, a summary of which is available on the Company's website www.tanzaniteone.com. The board deems all members of the committee have the relevant experience and understanding to enable them to effectively oversee their responsibilities. The members of the committee are non-executive directors, the majority of whom are independent directors.

The committee reviews compensation arrangements for the directors and the executive team. The committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality executive team. The nature and amount of directors' and officers' emoluments are linked to the Group's financial and operational performance.

In carrying out its responsibilities, the committee is authorised by the board to secure the attendance of any person with relevant experience and expertise at committee meetings, if it considers their attendance to be appropriate and to engage, at the Company's expense, outside legal or other professional advice or assistance on any matters within its charter or terms of reference.

The committee reviews succession planning for key executive positions (other than executive directors) to maintain an appropriate balance of skills, experience and expertise in the management of the Group. The committee does not allow for retirement benefits of non-executive directors and non-executive directors are remunerated by way of an annual fee in the form of cash and do not receive options or bonus payments.

For details of remuneration of directors and executives please refer to the directors' report.

The committee meets as necessary; but must meet at least once a year. The company secretary acts as secretary of the meetings and distributes minutes to all board members. Details of attendance at committee meetings is set out in the directors' report.

Nomination Committee

In order to fulfil the Company's responsibility to shareholders to ensure that the composition, structure and operation of the board are of the highest standard, the full board of TanzaniteOne acts as the Nomination Committee. The board believes the input of all directors is essential due to their respective expertise and knowledge of the gemstone industry and exposure to the markets in which the Group operates.

The board is guided by a charter, a summary of which is available on www.tanzaniteone.com. The board may at times take into consideration the advice of external consultants to assist with this process.

Meetings take place as often as necessary, but the committee must meet at least once a year. The Company Secretary acts as secretary of the meetings and distributes minutes to all board members.

Appointments are referred to shareholders at the next available opportunity for election in general meeting.

Continuous disclosure

The company has in place a continuous disclosure policy, a summary of which is available on the website www.tanzaniteone.com. The policy takes into account the AIM rules on timely and balanced disclosure. This outlines the Company's commitment to disclosure, ensuring that timely and accurate information is provided to all shareholders and stakeholders. The Company Secretary is the nominated communication officer and is responsible for liaising with the board to ensure that the Company complies with its continuous disclosure requirements.

The board regularly reviews the Company's compliance with its continuous disclosure obligations.

Communications with shareholders

Shareholder communication is given high priority by the Group. In addition to statutory requirements, such as the annual report and financial statements for the half and full year, TanzaniteOne maintains a website which contains announcements which have been released to the market. Shareholders are able to contact the Company via the website at www.tanzaniteone.com. Through the website, shareholders are also given the opportunity to provide an email address through which they are able to receive these documents.

Meetings

TanzaniteOne notice of meeting materials are distributed to shareholders with an accompanying explanatory memorandum. These documents present the business of the meeting clearly and concisely and are presented in a manner that will not mislead shareholders or the market as a whole. The notice is dispatched to shareholders in a timely manner providing at least 21 days' notice pursuant to the by-laws of the Company. Each notice includes the business of the meeting, details of the location, time and date of the meeting and proxy voting instructions are included.

Upon release of the notice of meeting and explanatory memorandum to the market, a full text of the notice of meeting and explanatory memorandum is placed on the website of the Company at www.tanzaniteone.com for shareholders and other market participants who may consider investing in the Company.

RISK FACTORS AND MANAGEMENT

The Group has identified the following risks to the ongoing success of the business and has taken various steps to mitigate these, the details of which are as follows:

Special Mining Licence ("SML")

An SML was granted to TanzaniteOne Mining in March 2000 and was valid for a period of 12 years and four months. This licence will only be extended for a further 25 years provided that TanzaniteOne Mining complies with the Tanzanian Mining Act.

Whilst there is no guarantee that the licence will be renewed, management is confident that the Group is in compliance with these requirements.

Estimates of reserves, resources and production costs

Although reserve and resource figures have been prepared, reviewed and verified by various independent mining experts, these values, given the unique operating environment, remain best estimates only. The Group continues to make efforts to further refine its interpretation and understanding of the ore body. In this regard fluid inclusion and other technical analysis and scientific studies are currently under way. Through these initiatives, risks associated with the mining licence area's geology are reduced.

Risks of development, construction, mining operations and uninsured risks

The Group's ability to meet production, timing and cost estimates for its properties cannot be assured. Furthermore, the business of tanzanite mining is subject to a variety of risks such as cave-ins and other hazards. While steps, such as production and mining planning are in place to limit these risks, the chance occurrence of such incidents does exist and should be noted.

Currency risk

The Group reports its financial results and maintains its accounts in United States Dollars, the currency in which the Group primarily operates. The Group's operations in Tanzania, the United Kingdom and South Africa make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Group's financial position and results. The Group does not have any currency hedges in place and is exposed to all foreign currency movements.

Tanzanite price volatility

The profitability of the Group's operations is significantly affected by changes in realisable tanzanite prices. The price of tanzanite can fluctuate widely and is affected by numerous factors beyond the Group's control, including jewellery demand, inflation and expectations with respect to the rate of inflation, the strength of the United States Dollar and of other currencies, interest rates, global or regional political or financial events, and production and cost levels.

Through the introduction of the preferred supply strategy, supply irregularity and concomitant price instability are being addressed and should be alleviated. Global marketing campaigns, initiated during 2005, are affording the Group better market penetration potential.

Economic, political, judicial, administrative, taxation or other regulatory factors

The Group's most important assets are located in Tanzania and while Tanzania has a track record of stability and is a signatory to the Multilateral Investment Guarantee Agency, mineral exploration and mining activities may be affected to varying degrees by political stability and government regulations relating to the mining industry.

Local disturbances

The Group's mining operations in Tanzania have been and continue to be subject to various surface and underground disturbances in the nature of illegal trespass and mining within the Group's mining licence area. The Group has taken measures to protect the mine and the mining licence area from these risks, including the employment of trained security personnel and the installation of perimeter fencing.

Competition

The Group competes with numerous other companies and individuals, in the search for and acquisition of exploration and development rights on attractive mineral properties and also in relation to the purchase, marketing and sale of gemstones. There is no assurance that the Group will continue to be able to compete successfully with its competitors in acquiring exploration and development rights on such properties and also in relation to the purchase, marketing and sale of gemstones.

The Group's continued efforts to act as an exemplary corporate citizen in Tanzania should go some way to mitigating this risk.

Dependence on key personnel

The success of the Group is, and will continue to be, to a significant extent, dependent on retaining the services of the directors and senior management and the loss of one or more could have a materially adverse affect on the Group.

A Group-wide share incentive scheme has been implemented for all staff. This has proven to be effective through all levels of management. The Group's human resources department has identified succession planning as a key imperative for the forthcoming year and will look for ways to reduce this potential exposure.

Additional financing

The Group's operations may require additional financing to meet future expenditures and there is no assurance that the Group will be successful in obtaining the required financing.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has been no significant event that has occurred since the end of the financial period.

Signed in accordance with a resolution of the board of directors.

Ian Harebottle
Director
Tanzanite One Limited

24 May 2007

Consolidated income statement

for the year ended 31 December 2006

	Note	**2006 $ 000**	2005 $ 000
Revenue	4	**35 958**	41 090
Cost of sales		**(20 102)**	(16 206)
Gross profit		**15 856**	24 884
Distribution expenses		**(179)**	(270)
Administrative expenses		**(1 057)**	(671)
Other operating expenses		**(12 256)**	(11 058)
Operating profit	5	**2 364**	12 885
Interest income	6	**766**	373
Finance cost	6	**(608)**	(334)
Profit before tax		**2 522**	12 924
Income tax expense	7	**(737)**	(3 077)
Profit for the year		**1 785**	9 847
Attributable to:			
Shareholders		**1 783**	9 774
Minority interest	20	**2**	73
Profit for the year		**1 785**	9 847
Basic earnings per share (US cents/share)	21.1	**2.47**	13.89
Diluted earnings per share (US cents/share)	21.2	**2.35**	13.00

Consolidated balance sheet

at 31 December 2006

	Note	2006 $ 000	2005 $ 000
ASSETS			
Property, plant and equipment	8	**20 824**	19 910
Intangible assets	9	**–**	1 824
Inventories	12	**613**	205
Long-term loan receivable	10	**–**	2
Deferred tax assets	11	**2 515**	1 226
Total non-current assets		**23 952**	23 167
Inventories	12	**9 872**	14 266
Income tax receivable	13	**2 125**	278
Trade and other receivables	14	**11 497**	10 861
Cash and cash equivalents	15	**7 005**	8 298
Total current assets		**30 499**	33 703
Total assets		**54 451**	56 870
EQUITY			
Issued share capital	16	**22**	22
Share premium	17	**37 671**	36 883
Share options outstanding	18	**739**	504
Foreign currency translation reserve	19	**(27)**	648
Retained earnings		**8 829**	12 218
Total equity attributable to equity holders of the parent		**47 234**	50 275
Minority interest	20	**156**	187
Total equity		**47 390**	50 462
LIABILITIES			
Interest-bearing borrowings	22	**935**	670
Provision for environmental rehabilitation	23	**82**	82
Deferred tax liabilities	11	**2 818**	3 157
Total non-current liabilities		**3 835**	3 909
Interest-bearing borrowings	22	**241**	107
Income tax payable	13	**1 996**	179
Trade and other payables	24	**989**	2 213
Total current liabilities		**3 226**	2 499
Total liabilities		**7 061**	6 408
Total equity and liabilities		**54 451**	56 870

Consolidated statement of changes in equity

for the year ended 31 December 2006

	Note	Common share capital $ 000	A class share capital $ 000	Total issued share capital $ 000
Balance at 1 January 2005 as previously reported		21	1	22
Prior year adjustment in correction of error	2			
Balance at 1 January 2005 restated		21	1	22
Issue of share capital				
– Common share capital	16.1	*	–	*
– A class share capital	16.2	–	*	*
Profit for the year		–	–	–
Share-based payments	17,18	–	–	–
Foreign currency translation differences		–	–	–
Dividends declared and paid		–	–	–
Balance at 31 December 2005		21	1	22
Balance at 1 January 2006		**21**	**1**	**22**
Issue of share capital				
– Common share capital	16.1	*****	**–**	*****
– A class share capital	16.2, 17	**–**	*****	*****
Profit for the year		**–**	**–**	**–**
Share-based payments	18	**–**	**–**	**–**
Foreign currency translation differences		**–**	**–**	**–**
Dividends declared and paid		**–**	**–**	**–**
Balance at 31 December 2006		**21**	**1**	**22**

* *Less than $1 000.*

Share premium $ 000	Share options outstanding $ 000	Foreign currency translation reserve $ 000	Retained earnings $ 000	Total equity attributable to shareholders $ 000	Minority interest $ 000	Total equity $ 000
35 675	139	1 871	2 915	40 622	198	40 820
			971	971	5	976
35 675	139	1 871	3 886	41 593	203	41 796
911	–	–	–	911	–	911
287	–	–	–	287	–	287
–	–	–	9 774	9 774	73	9 847
10	365	–	–	375	–	375
–	–	(1 223)	–	(1 223)	–	(1 223)
–	–	–	(1 442)	(1 442)	(89)	(1 531)
36 883	504	648	12 218	50 275	187	50 462
36 883	**504**	**648**	**12 218**	**50 275**	**187**	**50 462**
–	**–**	**–**	**–**	**–**	**–**	**–**
788	**–**	**–**	**–**	**788**	**–**	**788**
–	**–**	**–**	**1 783**	**1 783**	**2**	**1 785**
–	**235**	**–**	**–**	**235**	**–**	**235**
–	**–**	**(675)**	**–**	**(675)**	**–**	**(675)**
–	**–**	**–**	**(5 172)**	**(5 172)**	**(33)**	**(5 205)**
37 671	**739**	**(27)**	**8 829**	**47 234**	**156**	**47 390**

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006 $ 000	2005 $ 000
Cash flows from operating activities			
Cash generated from operations	25.1	**7 548**	6 172
Interest income received		**766**	373
Finance cost paid		**(608)**	(334)
Taxation paid	25.2	**(2 395)**	(1 904)
Dividends paid		**(5 205)**	(1 531)
Net cash from operating activities		**106**	2 776
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2 669)**	(2 671)
Proceeds on disposal of property, plant and equipment		**129**	1 809
Net cash to investing activities		**(2 540)**	(862)
Cash flows from/(to) financing activities			
Proceeds from issue of shares	25.3	**788**	1 208
(Repayment)/receipt of long-term loans receivable		**(2)**	162
Increase/(decrease) in interest-bearing borrowings		**399**	(1 831)
Net cash from/(to) financing activities		**1 185**	(461)
Net (decrease)/increase in cash and cash equivalents		**(1 249)**	1 453
Translation difference in opening cash balance		**(44)**	(64)
Cash and cash equivalents at beginning of year		**8 298**	6 909
Cash and cash equivalents at end of year	15	**7 005**	8 298

Notes to the consolidated financial statements
for the year ended 31 December 2006

1. ACCOUNTING POLICIES

Tanzanite One Limited (the "Company") is a company domiciled in Bermuda. The consolidated financial statements for the year ended 31 December 2006 comprise those of the Company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the directors on 24 May 2007.

1.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

1.1.1 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7 *Financial statements: Disclosure and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and position, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.
- International Financial Reporting Interpretations Committee ("IFRIC") 8 *Scope of IFRS 2 Share-based payment* addresses the accounting for share-based payment transactions in which some or all of goods and services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.
- IFRS 8 *Operating Segments*. This IFRS requires an entity to adopt the 'management approach' when reporting on the financial performance of its operating segments. Generally, the segment reporting would be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in the previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of International Accounting Standard ("IAS") 36 and IAS 39 respectively (ie, 1 January 2004). The adoption of IFRIC 10 will not result in any significant effect on the Group with respect to transactions from 1 January 2004 to 31 December 2006.

Notes to the consolidated financial statements
(continued)

for the year ended 31 December 2006

1.2 Basis of preparation

The consolidated financial statements are presented in United States Dollar ("$") which is the Group's functional currency, rounded to the nearest thousand, and are prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Available-for-sale financial assets are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and Group entities.

1.3 Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

1.3.2 Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

1.4 Foreign currency

1.4.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.4.2 Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to US Dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to US Dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised directly in equity. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

1.4 Foreign currency (continued)

1.4.3 Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are recognised in equity in a foreign currency translation reserve, to the extent that the hedge is effective. They are transferred into the income statement upon disposal.

1.5 Derivative financial instruments

The Group currently does not use derivative financial instruments to hedge its exposure to foreign exchange, commodity prices and interest rate risks arising from operations, financing and investment activities. Furthermore, the Group does not hold or issue derivative financial instruments for trading purposes.

1.6 Property, plant and equipment

1.6.1 Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

1.6.2 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in accounting policy 1.18.1.

1.6.3 Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

1.6.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis, except as otherwise stated, over the estimated useful lives of each part of an item of property, plant and equipment.
The useful lives are as follows:

• computer and other equipment	3 years
• cutting and gemmological equipment	4 years
• development costs	18 years
• earthmoving equipment	4 years
• furniture, fittings and improvements to leased premises	6 years
• infrastructure and surface buildings	12 years
• plant, machinery and mining equipment	4 years
• motor vehicles	5 years
• office equipment	6 years
• mining licence	18 years
• pre-production expenditure	life of mine

1.6 Property, plant and equipment (continued)

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Development costs

Subsequent to the determination of technical feasibility and commercial viability of a mineral reserve all mine development costs relating to the development of a mine are capitalised until full commercial production commences. Directly attributable overheads incurred by the Company have also been capitalised to mine development costs. When commercial production commences, these costs will be depreciated over the estimated life of the mine on the units of production method or over the period of the mining licence, which ever is shorter.

Mining licence

Depreciation is provided on the straight-line method over the period for which the licence has been granted.

Assets under construction

No depreciation is provided for assets under construction until the assets have been completed and are available for use by the Group.

1.7 Intangible assets

1.7.1 Brands

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any impairment losses.

1.7.2 Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the intangible assets. Intangible assets are amortised from the date they are available for use.

The estimated useful life was as follows:

- brands 18 years

1.7.3 Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only if it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed in the income statement when incurred.

1.8 Inventories

1.8.1 Current inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is determined as follows:

- rough gemstone costs comprise all mining and production costs incurred in relation to such inventory;
- cut and polished gemstone and jewellery costs comprise all costs of purchase, conversion and other costs incurred in bringing the inventory to its present location and condition; and
- consumables are carried at weighted purchase prices.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories. In the case of manufactured inventories, costs include an appropriate share of overheads based on normal operating capacity.

1.8 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1.8.2 Non-current inventories

Non-current inventories comprise rough gemstone specimen inventory and show jewellery. Non-current inventories are carried at the lower of cost and net realisable value. The cost of non-current inventory is based on the weighted average principle and includes expenditure incurred in acquiring the inventories.

1.9 Trade and other receivables

Trade and other receivables are measured at their amortised cost using the effective interest rate method less impairment losses.

1.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.11 Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. The impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying value of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the assets in the unit on a pro rata basis.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk circumstances. All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

1.11.1 Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition of receivables.

Notes to the consolidated financial statements
(continued)

for the year ended 31 December 2006

1.11 Impairment (continued)

1.11.2 Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Long-term loans receivable

Long-term loans receivable are recognised initially at their fair value. Subsequent to initial recognition, long-term loans are stated at amortised cost using the effective interest rate method less any impairment losses with any difference between cost and redemption value being recognised in the income statement over the period of the loans on an effective interest basis.

1.13 Interest-bearing borrowings

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled. Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1.14 Employee benefits

1.14.1 Share-based payment transactions

The Group share option plan allows Group employees and consultants to acquire shares in the Company. The fair value of options granted is recognised as an employee cost in the income statement with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

1.14.2 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.15 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and where appropriate the risks specific to the liability.

1.15.1 Environmental rehabilitation

The Group has recorded a provision for environmental rehabilitation liabilities based on management's estimates of these costs. Such estimates are subject to adjustments based on changes in laws and regulations and as additional more reliable information become available. Estimated future costs will be recognised in the income statement when incurred.

1.16 Trade and other payables

Trade and other payables are stated at amortised cost using the effective interest rate method.

1.17 Revenue

1.17.1 Sale of tanzanite

Revenue from the sale of tanzanite is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and also continuing management involvement with the goods.

1.17.2 Marketing fund income

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs.

1.18 Expenses

1.18.1 Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.18.2 Finance costs

Finance costs comprises interest payable on borrowings calculated using the effective interest rate method and unwinding of the discount on provision.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2006

1.19 Income tax expense

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rate enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

1.20 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those in other segments.

1.21 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

2. PRIOR YEAR ADJUSTMENTS

An error was detected with respect to the estimation of income tax values of property, plant and equipment for the period ended 31 December 2004. The adjustment relating to the revised deferred taxation calculations has been effected retrospectively as required by IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.* Minority interest was also restated.

The effect of the adjustment referred to above, is as follows:

	2004
	$ 000
Retained earnings:	
Balance at 31 December 2004 as previously reported	2 915
Reduction in deferred taxation liability on correction of income tax values of property, plant and equipment	988
Income tax liability adjustment	(12)
Minority interest adjustment	(5)
Balance at 31 December 2004 restated	3 886

3. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structures. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:

- *Rough tanzanite:* The extraction and sale of rough tanzanite.
- *Cut and polished tanzanite and jewellery:* The purchase and resale of cut and polished tanzanite and jewellery.

Geographical segments

- The rough tanzanite, cut and polished tanzanite and jewellery segments are managed on a worldwide basis, but operate in four principal geographical areas: Tanzania, United Kingdom, Mauritius and South Africa.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the Group's production facilities generating the revenue. Segment assets are based on the geographical location of the assets.

Notes to the consolidated financial statements
(continued)

for the year ended 31 December 2006

		Rough tanzanite $ 000	Cut and polished tanzanite and jewellery $ 000	Total $ 000
3.	**SEGMENT REPORTING (continued)**			
	Business segments			
	31 December 2006			
	Total revenue	**52 625**	**9 343**	**61 968**
	Intra-segment revenue elimination	**(23 846)**	**(2 164)**	**(26 010)**
	Revenue from external customers	**28 779**	**7 179**	**35 958**
	Segment result	**11 657**	**(7 469)**	**4 188**
	Impairment of intangible asset			**(1 824)**
	Net financing income			**158**
	Income tax expense			**(737)**
	Minority interest			**(2)**
	Net profit for the year attributable to shareholders			**1 783**
	Segment assets	**47 258**	**7 193**	**54 451**
	Segment liabilities	**6 407**	**654**	**7 061**
	Capital expenditure	**2 619**	**50**	**2 669**
	Impairment losses	**–**	**(1 824)**	**(1 824)**
	Cash flow from operating activities	**8 662**	**(8 556)**	**106**
	Cash flow from investing activities	**(2 670)**	**130**	**(2 540)**
	Cash flow from financing activities	**414**	**771**	**1 185**
	31 December 2005			
	Total revenue	62 324	10 783	73 107
	Intra-segment revenue elimination	(28 784)	(3 233)	(32 017)
	Revenue from external customers	33 540	7 550	41 090
	Segment result	12 878	7	12 885
	Net financing income			39
	Income tax expense			(3 077)
	Minority interest			(73)
	Net profit for the year attributable to shareholders			9 774
	Segment assets	48 530	8 340	56 870
	Segment liabilities	5 207	1 201	6 408
	Capital expenditure	2 490	11	2 501
	Unallocated capital expenditure	–	–	170
	Impairment losses reversed	–	–	23
	Impairment losses	–	–	(1)
	Cash flow from operating activities	6 748	(3 972)	2 776
	Cash flow from investing activities	(2 479)	1 617	(862)
	Cash flow from financing activities	628	(1 089)	(461)

	Tanzania $ 000	United Kingdom $ 000	Mauritius $ 000	South Africa $ 000	Total $ 000
3. SEGMENT REPORTING (continued)					
Geographical segments					
31 December 2006					
Total revenue	**24 973**	**2 436**	**27 652**	**6 907**	**61 968**
Intra-group revenue elimination					**(26 010)**
Revenue from external customers					**35 958**
Segment assets	**34 864**	**(1 768)**	**12 393**	**8 962**	**54 451**
Unallocated assets					**–**
					54 451
Segment liabilities	**6 351**	**32**	**56**	**512**	**6 951**
Unallocated liabilities					**110**
					7 061
Capital expenditure	**2 619**	**7**	**–**	**43**	**2 669**
Impairment losses					**(1 824)**
Cash flow from operating activities	**6 220**	**123**	**2 442**	**(8 679)**	**106**
Cash flow from investing activities	**(2 671)**	**(7)**	**–**	**138**	**(2 540)**
Cash flow from financing activities	**414**	**–**	**–**	**771**	**1 185**
31 December 2005					
Total revenue	28 582	1 841	33 064	9 620	73 107
Intra-group revenue elimination					(32 017)
Revenue from external customers					41 090
Segment assets	24 678	3 942	16 580	9 596	54 796
Unallocated assets					2 074
					56 870
Segment liabilities	4 802	51	75	1 433	7 337
Unallocated liabilities					47
					7 384
Capital expenditure	2 489	5	_	135	2 629
Unallocated capital expenditure					42
Impairment losses				(1)	(1)
Impairment losses reversed				23	23
Cash flow from operating activities	9 788	(3 326)	(3 040)	(646)	2 776
Cash flow from investing activities	(2 479)	(4)	–	1 621	(862)
Cash flow from financing activities	628	–	–	(1 089)	(461)

Notes to the consolidated financial statements
(continued)

for the year ended 31 December 2006

		2006 $ 000	2005 $ 000
4.	**REVENUE**		
	Sale of tanzanite	**35 593**	40 257
	Marketing fund income	**365**	833
		35 958	41 090
5.	**OPERATING PROFIT**		
	Operating profit includes:		
	Auditors' remuneration		
	– audit fees	**195**	111
	– other services	**–**	32
	Royalties	**1 238**	1 435
	Depreciation of property, plant and equipment	**1 692**	1 281
	Inventory write-down	**2 800**	–
	Amortisation of intangible assets	**–**	176
	Impairment loss on property, plant and equipment	**–**	1
	Impairment loss on intangible assets	**1 824**	–
	Reversal of impairment loss on property, plant and equipment	**–**	(23)
	Profit on disposal of property, plant and equipment	**(89)**	(9)
	Net foreign exchange difference	**(64)**	627
	Directors' emoluments and consulting fees	**762**	1 303
	Operating leases instalments	**286**	245
	Donations to Tanzanian political parties	**–**	325
	Salaries and wages	**2 997**	4 417
	Share-based payments	**235**	365
6.	**NET FINANCING INCOME**		
	Interest income	**766**	373
	Finance cost	**(608)**	(334)
		158	39
7.	**INCOME TAX EXPENSE**		
	Recognised in the income statement		
	Current tax expense		
	Current year	**2 182**	2 147
	Prior year overprovision	**–**	(24)
	Secondary tax on companies	**183**	60
		2 365	2 183
	Deferred tax expense		
	Origination and reversal of temporary differences	**(1 628)**	894
		(1 628)	894
	Total income tax expense in the income statement	**737**	3 077

		2006 %	2005 %
7.	**INCOME TAX EXPENSE (continued)**		
	Reconciliation of effective tax rate		
	Tax rate applicable to the Group's primary operating location	**30.0**	30.0
	Profit before tax ($ 000)	**2 522**	12 924
	Current year's charge as % of profit before tax	**29.2**	23.8
	Non-deductible expenses	**(12.7)**	9.6
	Effect of tax rates in foreign jurisdictions	**33.5**	5.4
	Deferred tax assets not recognised	**(44.3)**	(2.4)
	Effect of tax losses utilised	**–**	23.0
	Overprovision in prior year	**–**	0.4
	Effect of secondary tax on companies	**(7.3)**	(0.5)
	Other allowances	**31.6**	(29.3)
	Group's primary operating tax rate	**30.0**	30.0

		Cost $ 000	Accumulated depreciation and impairment losses $ 000	Foreign exchange movement $ 000	Carrying amount $ 000
8.	**PROPERTY, PLANT AND EQUIPMENT**				
	31 December 2006				
	Owned				
	Computer and other equipment	188	(65)	(1)	122
	Cutting and gemmological equipment	151	(77)	(4)	70
	Development costs	8 473	(553)	–	7 920
	Earthmoving equipment	223	(56)	–	167
	Furniture, fittings and improvements to leased premises	184	(75)	(2)	107
	Infrastructure and surface buildings	2 315	(495)	–	1 820
	Plant, machinery and mining equipment	4 566	(758)	(1)	3 807
	Motor vehicles	326	(97)	1	230
	Office equipment	92	(35)	–	57
	Mining licence	3 985	(1 007)	2	2 980
	Pre-production expenditure	3 444	(251)	–	3 193
	Assets under construction	338	–	(5)	333
	Total owned	**24 285**	**(3 469)**	**(10)**	**20 806**
	Leased				
	Computer and other equipment	31	(21)	(2)	8
	Motor vehicles	19	(8)	(1)	10
	Office equipment	10	(10)	–	–
	Total leased	**60**	**(39)**	**(3)**	**18**
	Total property, plant and equipment	**24 345**	**(3 508)**	**(13)**	**20 824**

		Cost $ 000	Accumulated depreciation and impairment losses $ 000	Foreign exchange movement $ 000	Carrying amount $ 000
8.	**PROPERTY, PLANT AND EQUIPMENT (continued)**				
	31 December 2005				
	Computer and other equipment	127	(54)	–	73
	Cutting and gemmological equipment	174	(77)	3	100
	Development costs	7 197	(340)	–	6 857
	Earthmoving equipment	161	(14)	–	147
	Furniture, fittings and improvements to leased premises	135	(46)	2	91
	Infrastructure and surface buildings	1 751	(289)	–	1 462
	Plant, machinery and mining equipment	4 550	(525)	1	4 026
	Motor vehicles	117	(49)	–	68
	Office equipment	102	(28)	1	75
	Mining licence	3 985	(421)	2	3 566
	Pre-production expenditure	3 444	(166)	–	3 278
	Assets under construction	126	–	–	126
	Total owned	21 869	(2 009)	9	19 869
	Leased				
	Computer and other equipment	33	(11)	–	22
	Motor vehicles	19	(5)	1	15
	Office equipment	10	(6)	–	4
	Total leased	62	(22)	1	41
	Total property, plant and equipment	21 931	(2 031)	10	19 910

	2006 $ 000	2005 $ 000
Balance at beginning of the year	**19 910**	21 107
Acquisitions subsequent to acquisition of subsidiaries	**2 669**	2 671
Disposals	**(40)**	(1 800)
Depreciation charge for the year	**(1 692)**	(1 281)
Effect of movements in foreign exchange	**(23)**	(809)
Impairment loss	**–**	(1)
Reversal of impairment loss	**–**	23
Balance at end of the year	**20 824**	19 910

Leased equipment

The Group leases equipment under a number of finance lease arrangements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2006, the carrying amount of leased equipment was $18 749 (2005: $41 188). The leased equipment secures the lease obligations (refer note 22).

Security

Except for the leased equipment and equipment acquired through NBC bank loan (refer note 22.2), there are no restrictions on title and no property, plant and equipment has been pledged as security for liabilities.

		Cost $ 000	Amortisation $ 000	Carrying value $ 000
9.	**INTANGIBLE ASSETS**			
	31 December 2006			
	Brands	–	–	–
	31 December 2005			
	Brands	2 000	(176)	1 824

		2006 $ 000	Restated 2005 $ 000
	Brands and software		
	Balance at beginning of the year	**1 824**	2 000
	Impairment loss included in other operating expenses	**(1 824)**	–
	Amortisation for the year	–	(176)
	Balance at end of the year	–	1 824
	The intangible asset, the "Tanzanite Blue" brand, was impaired following the decision to increase the Group's focus on selling rough.		
10.	**LONG-TERM LOAN RECEIVABLE**		
	Loan to Afgem Limited	–	2
	Balance at end of year	–	2
	The loan is unsecured, interest free and had no fixed terms of repayment.		
11.	**DEFERRED TAX ASSETS AND LIABILITIES**		
	Recognised deferred tax assets and liabilities		
	Deferred tax assets comprise of the following temporary differences:		
	Provisions	–	26
	Inventories	**374**	212
	Prepayments	**(3)**	(8)
	Property, plant and equipment	**590**	222
	Foreign exchange differences	**313**	245
	Assessed losses	**1 241**	529
	Deferred tax assets	**2 515**	1 226
	Deferred tax liabilities comprise of the following temporary differences:		
	Property, plant and equipment	**(2 845)**	(3 166)
	Provisions	–	9
	Foreign exchange differences	**27**	–
	Deferred tax liabilities	**(2 818)**	(3 157)
	Net deferred tax liability	**(303)**	(1 931)
	Unrecognised deferred tax assets		
	Deferred tax assets have not been recognised in respect of the following items:		
	Tax losses	**1 120**	2 220

Deferred tax assets have not been recognised in respect of the tax losses in The Tanzanite Company (UK) Limited as it is not probable that future taxable profit will be available against which the company can utilise the benefits therefrom. These losses do not expire.

		Restated balance at 1 January 2006 $ 000	Recognised in income statement $ 000	Balance at 31 December 2006 $ 000
11.	**DEFERRED TAX ASSETS AND LIABILITIES (continued)**			
	Movement in temporary differences			
	Inventories	**212**	**162**	**374**
	Provisions	**35**	**(26)**	**9**
	Foreign exchange differences	**245**	**87**	**332**
	Assessed losses	**529**	**712**	**1 241**
	Property, plant and equipment	**(2 944)**	**689**	**(2 255)**
	Prepayments	**(8)**	**4**	**(4)**
		(1 931)	**1 628**	**(303)**

		2006 $ 000	2005 $ 000
12.	**INVENTORIES**		
	Non-current		
	Rough gemstone specimens	**8**	135
	Show jewellery	**605**	70
		613	205
	Current		
	Rough gemstones	**7 514**	6 194
	Cut and polished gemstones	**40**	2 844
	Jewellery	**1 460**	4 531
	Consumables	**858**	697
		9 872	14 266
		10 485	14 471
	Inventories consist of inventories held in the following currencies:		
	United States Dollars	**7 268**	6 095
	South African Rand	**890**	5 133
	Tanzanian Shillings	**1 466**	1 177
	British Pounds Sterling	**861**	2 066
		10 485	14 471
	Translated into United States Dollars at foreign exchange rates applicable at balance sheet date.		
	Inventories stated at net realisable values	**1 387**	–

Due to the decision to close the wholesale jewellery business and concentrate on pure rough tanzanite mining, the Group tested the related product line for impairment and also wrote down the inventories to their net realisable values, which resulted in a total provision of $1 639 920. All inventories are translated into United States Dollars at exchange rates which approximate rates on transaction date. No inventories have been pledged as security for liabilities.

		2006 $ 000	Restated 2005 $ 000
13.	**INCOME TAX RECEIVABLE AND PAYABLE**		
	Income tax receivable	**2 125**	278
	Income tax payable	**(1 996)**	(179)
		129	99
	The net current income tax receivable represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments.		
14.	**TRADE AND OTHER RECEIVABLES**		
	Trade and other receivables from customers	**11 497**	10 861
	Trade and other receivables consists of balances receivable in the following currencies:		
	United States Dollars	**7 459**	6 693
	South African Rands	**2 366**	2 095
	Tanzanian Shillings	**1 029**	884
	Great British Pounds	**643**	1 189
		11 497	10 861
	Translated into United States Dollars at foreign exchange rates applicable at balance sheet date.		
15.	**CASH AND CASH EQUIVALENTS**		
	Bank balances	**2 537**	2 801
	Call deposits	**4 468**	5 497
	Cash and cash equivalents	**7 005**	8 298
	Cash and cash equivalents consists of balances receivable in the following currencies:		
	United States Dollars	**5 644**	5 322
	South African Rands	**913**	2 327
	Tanzanian Shillings	**254**	43
	Great British Pounds	**194**	606
		7 005	8 298
	Translated into United States Dollars at foreign exchange rates applicable at balance sheet date.		
16.	**CAPITAL AND RESERVES**		
16.1	**Common share capital**		
	Authorised		
	166 666 667 common shares of $0.0003 each	**50 000**	50 000
	Issued		
	72 673 952 (2005: 71 588 397) ordinary shares of $0.0003 each	**21**	21
	Reconciliation of number of common shares in issue		
		Number of shares	Number of shares
	Shares in issue at beginning of the year	**71 588 397**	70 149 113
	Shares issued in terms of warrants exercised	**–**	699 880
	Shares issued for professional fees	**–**	196 597
	Shares issued pursuant to share option plan	**1 085 555**	542 807
	Shares in issue at end of the year	**72 673 952**	71 588 397

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		2006 **$ 000**	2005 $ 000
16.	**CAPITAL AND RESERVES (CONTINUED)**		
16.2	**A class share capital**		
	Authorised		
	66 666 667 A class shares of ZAR0.0003 each	**3**	3
	Issued		
	21 207 859 (2005: 20 122 304) A class shares of ZAR0.0003 each issued by the Company's wholly-owned subsidiary, TanzaniteOne SA Limited	**1**	1
		1	1

A class shares have been converted at the historical rate at 1 June 2004 of ZAR6,52 to the US dollar.

Reconciliation of A class share capital	**Number of shares**	Number of shares
Shares in issue at beginning of the year	**20 122 304**	26 010 934
Shares issued pursuant to share option plan	**1 085 555**	542 807
Share buy back	**(1 215 821)**	(6 431 437)
Shares in issue at end of the year	**19 992 038**	20 122 304

An equivalent amount of common shares are held by Rembrandt Nominees via Wilbro Nominees.

Rights attaching to A class shares

The following rights, privileges and conditions attach to the TanzaniteOne SA A class shares:

Each TanzaniteOne SA A class share will be issued on the basis that:

1. if the TanzaniteOne common shares are consolidated or subdivided, the same will apply, *mutatis mutandis,* to the TanzaniteOne SA A class shares;
2. if any rights issue is implemented by TanzaniteOne, TanzaniteOne SA will automatically have a rights issue in respect of the TanzaniteOne SA A class shares on identical terms to the rights issue implemented by TanzaniteOne, which will include but not be limited to the price per rights issue share and ratio of rights shares to exiting shares; and
3. if the common shareholders of TanzaniteOne receive shares in substitution for all their TanzaniteOne common shares then the number of TanzaniteOne SA A class shares will be automatically adjusted such that each TanzaniteOne SA A class shareholder will own the number of TanzaniteOne SA class A shares as equals their existing number of TanzaniteOne SA A class shares, multiplied by the number of substitution shares issued for each TanzaniteOne common shares.

The holders of the TanzaniteOne SA A class shares will only be entitled to a dividend if TanzaniteOne declares dividends in respect of any year, and then the TanzaniteOne SA A class shares will be entitled to a preference dividend out of the profits of TanzaniteOne SA available for distribution per TanzaniteOne SA A class share equal to "D" calculated in accordance with the following formula: D = A x F

where

A = the dividend declared and payable by TanzaniteOne in respect of each TanzaniteOne common share; and

F= the spot foreign exchange rate quoted by Standard Bank of South Africa Limited on the date upon which the relevant TanzaniteOne dividend is payable to TanzaniteOne common shareholders.

TanzaniteOne SA in general meeting or the directors of TanzaniteOne SA shall be entitled to declare preference dividends in respect of the TanzaniteOne SA A class shares on the basis that the preference dividend payable shall be payable, within four months after the date upon which the relevant dividend is declared to the shareholders of TanzaniteOne, to the holders of the TanzaniteOne SA A class shares registered as such on the declaration date of the relevant TanzaniteOne dividend.

16. CAPITAL AND RESERVES (continued)

Rights attaching to A class shares (continued)

With respect to voting rights in TanzaniteOne SA, each TanzaniteOne SA ordinary share shall have 1 000 000 votes and each TanzaniteOne SA A class share shall have one vote. The holders of TanzaniteOne SA A class shares will be entitled to receive notice of and to attend and vote at any general meeting of TanzaniteOne SA.

Payment in respect of preference dividends and any other payments will be made in the currency of South African rands at the risk of the relevant holder of TanzaniteOne SA A class shares either by cheque sent by prepaid registered post to the address of each holder of TanzaniteOne SA A class shares as recorded in the register of TanzaniteOne SA's shareholders or by electronic transfer to such bank account nominated in writing by any holder of TanzaniteOne SA A class shares for such purpose.

All or any of the rights attaching to the issued TanzaniteOne SA A class shares may not be modified, altered, varied, added to or abrogated, without the prior written consent of the:

1. holders of at least three-quarters of the issued TanzaniteOne SA A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the TanzaniteOne SA A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three quarters of the total votes to which the holders of the TanzaniteOne SA A class shares present in person or by proxy are entitled to vote; and
2. holders of three quarters of the ordinary shares.

No shares in the capital of TanzaniteOne SA, ranking in priority to or *pari passu* with the TanzaniteOne SA A class shares of any class but excluding the issue of ordinary shares, shall be created or issued, without the prior written consent of the holders of at least three-quarters of the issued TanzaniteOne SA A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the TanzaniteOne SA A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three quarters of the total votes to which the holders of the TanzaniteOne SA A class shares present in person or by proxy are entitled to vote.

TanzaniteOne SA cannot be put into voluntary liquidation by its shareholders, without the prior written consent of the holders of at least three-quarters of the issued TanzaniteOne SA A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the TanzaniteOne SA A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three quarters of the total votes to which the holders of the TanzaniteOne SA A class shares present in person or by proxy are entitled to vote.

Should TanzaniteOne acquire any TanzaniteOne SA A class share, TanzaniteOne SA will automatically redeem out of moneys which may be lawfully applied for that purpose those TanzaniteOne SA A class share on the basis that the price payable for each TanzaniteOne SA A class share on redemption of same will be at a redemption price of 0.01 (point zero one) cent per TanzaniteOne SA A class share. Notwithstanding the provisions of this clause 9, all of the TanzaniteOne SA A class shares that are in issue at 21 April 2024 shall be automatically redeemed on the basis that the price payable for the redemption of each A share on redemption of same will be at a redemption price of 0.01 (point zero one) cents per TanzaniteOne SA A class share.

16. CAPITAL AND RESERVES (continued)

Rights attaching to A class shares (continued)

At every meeting of the holders of the TanzaniteOne SA A class shares the provisions of the articles of TanzaniteOne SA relating to general meetings of holders of ordinary shares shall apply *mutatis mutandis* except that a quorum at any such general meeting of the holders of the A shares shall be a person or persons holding or representing by proxy at least 25% (twenty-five per centum) of the issued TanzaniteOne SA A class shares, provided that if at any adjournment of such meeting a quorum is not present, then the provisions of the relevant articles of TanzaniteOne SA relating to adjourned meetings shall, *mutatis mutandis*, apply.

Upon the date of redemption of any TanzaniteOne SA A class shares, there shall be paid on any TanzaniteOne SA A class shares redeemed, all preference dividends (including any which are in arrears) accrued in respect of the same, up to the date fixed for redemption thereof, and the preference dividends thereon shall cease to accrue from that date unless, upon surrender of the share certificate in respect of the TanzaniteOne SA A class shares, payment of the redemption moneys is not affected by TanzaniteOne SA. The holders of the TanzaniteOne SA A class shares shall deliver the certificate/s representing those TanzaniteOne SA A class shares which are to be redeemed to TanzaniteOne SA at its registered office. Upon such delivery of the share certificate/s TanzaniteOne SA shall pay to the holders of the TanzaniteOne SA A class shares the amount due in respect of the redemption and shall then be entitled to cancel the relevant TanzaniteOne SA A class shares.

TanzaniteOne SA shall not be liable to a shareholder of TanzaniteOne SA A class shares for interest on any unclaimed redemption moneys and arrears of dividends.

Any dividends payable in respect of TanzaniteOne SA A class shares (including any which are in arrears) that remain unclaimed for 3 (three) years may become the property of TanzaniteOne SA.

The holders of the TanzaniteOne SA A class shares shall not be entitled to dispose of any TanzaniteOne SA A class shares to any party other than TanzaniteOne and the share certificates issued in respect of the TanzaniteOne SA A class shares shall be endorsed to this effect. Notwithstanding the provisions of this clause, a holder of the TanzaniteOne SA A class shares shall be entitled to transfer the relevant TanzaniteOne SA A class shares to a family entity or a family member provided that they pay any and all costs relating to the transfer.

No additional shares in the capital of TanzaniteOne SA of the same or similar nature as the TanzaniteOne SA A class shares shall be issued save as provided for above.

		2006	2005
		$ 000	$ 000
17.	**SHARE PREMIUM**		
	Balance at beginning of the year	**36 883**	35 675
	Arising on issue of A class shares pursuant to share option plan	**788**	287
	Arising on issue of shares pursuant to share option plan	**–**	10
	Arising on issue of shares in terms of the placing agreement	**–**	911
	Balance at end of the year	**37 671**	36 883
18.	**SHARE OPTIONS OUTSTANDING**		
	Balance at beginning of the year	**504**	139
	Arising on issue of shares pursuant to share option plan	**235**	365
	Balance at end of the year	**739**	504

18. **SHARE OPTIONS OUTSTANDING (continued)**

Share-based payments

The Group established a share option plan that entitles senior employees and consultants the opportunity to purchase shares in the Group. In accordance with the plan, options are exercisable over a period of three years and vest as follows:

- 1 year – 20% of total share options granted;
- 2 years – 30% of total share options granted; and
- 3 years – 50% of total share options granted.

The terms and conditions of the share option plan are as follows:

Grant date	Number of share options	Vesting conditions	Contractual life
3 August 2004	3 391 726	Three years of service	10 years
23 December 2004	1 396 500	Three years of service	10 years
16 December 2005	585 000	Three years of service	10 years
Total share options	5 373 226		

The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price (pence/share)	**2006** Number of options	2005 Weighted average exercise price (pence/share)	2005 Number of options
Outstanding at the beginning of the year	59	4 458 985	44	4 559 611
Granted during the year	–	–	69	585 000
Forfeited during the year	(83)	(165 199)	(27)	(142 819)
Exercised during the year	(73)	(1 085 555)	(31)	(542 807)
Outstanding at the end of the year	99	3 208 231	59	4 458 985
Exercisable at the end of the year	82	1 051 166	44	1 354 239

The options outstanding at 31 December 2006 have an exercise price in the range of ZAR3,27 to ZAR16,14 (2005: ZAR3,27 to ZAR7,59) and a weighted average contractual life of 5.56 years (2005: 5.56 years). The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

Fair value of share options and assumptions	**2006 Senior employees**	2005 Senior employees
Fair value at grant date	**£0.05 – £0.23**	£0.05 – £0.23
Share price	**£0.42 – £0.72**	£0.42 – £0.72
Exercise price	**£0.26 – £0.68**	£0.26 – £0.68
Expected volatility	**35%**	35%
Expected dividends	**0%**	0%
Risk-free interest rate (based on South African government bonds)	**7.5%**	7.5%
Option life	**0.9 years – 2.9 years**	0.9 years – 2.9 years

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Options are stated in Pound Sterling as the Company is listed on the AIM market of the London Stock Exchange.

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		2006 $ 000	Restated 2005 $ 000
19.	**FOREIGN CURRENCY TRANSLATION RESERVE**		
	Balance at beginning of the year	**648**	1 871
	Translation of foreign operations	**(675)**	(1 223)
	Balance at end of the year	**(27)**	648

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Group.

		2006 $ 000	Restated 2005 $ 000
20.	**MINORITY INTEREST**		
	25% interest in the equity of Tanzanite One Trading Limited	**156**	187
	25% interest in the profit for the year of Tanzanite One Trading Limited	**2**	73

21. EARNINGS PER SHARE

21.1 Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit attributable to common shareholders of $1 783 000 (2005: $9 774 000) and a weighted average number of common shares outstanding during the year ended 31 December 2006 of 72 301 380 (2005: 70 373 129) calculated as follows:

	$ 000	$ 000
Profit attributable to common shareholders	**1 783**	9 774

Weighted average number of common shares	**Number of shares**	Number of shares
Effect of common shares on 1 January 2005	**71 588 397**	70 149 113
Effect of common shares issued per share option plan on 30 November	**–**	8 423
Effect of common shares issued on 24 June 2005	**–**	116 966
Effect of common shares issued on 3 November 2005	**–**	66 030
Effect of common shares issued on 14 December 2005	**–**	32 597
Effect of common shares issued on 30 April 2006	**709 889**	–
Effect of common shares issued on 30 October 2006	**1 438**	–
Effect of common shares issued on 30 November 2006	**1 656**	–
Weighted average number of common shares	**72 301 380**	70 373 129
Basic earnings per common share (US cents/share)	**2.47**	13.89

21. EARNINGS PER SHARE (continued)

21.2 Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2006 was based on the profit attributable to common shareholders of $1 783 000 (2005: $9 774 000) and a weighted average number of common shares outstanding during the year ended 31 December 2006 of 72 301 380 (2005: 70 373 129), a weighted average number of share options outstanding during the year ended 31 December 2006 of 3 580 803 (2005: 4 467 711) and a weighted average number of share warrants outstanding during the year ended 31 December 2006 of nil (2005: 317 343) calculated as follows:

	2006	2005
Weighted average number of common shares	**Number of shares**	Number of shares
Effect of common shares on 1 January	**71 588 397**	70 149 113
Effect of common shares issued per share option plan on 30 November	**–**	8 423
Effect of common shares issued on 24 June 2005	**–**	116 966
Effect of common shares issued on 3 November 2005	**–**	66 030
Effect of common shares issued on 14 December 2005	**–**	32 597
Effect of common shares issued on 30 April 2006	**709 889**	–
Effect of common shares issued on 30 October 2006	**1 438**	–
Effect of common shares issued on 30 November 2006	**1 656**	–
Weighted average number of common shares	**72 301 380**	70 373 129
Weighted average number of share options	**Number of options**	Number of options
Effect of options issued on 1 January	**4 458 985**	4 559 611
Effect of options exercised	**(878 182)**	(91 900)
Weighted average number of share options	**3 580 803**	4 467 711
Weighted average number of share warrants	**Number of warrants**	Number of warrants
Effect of warrants issued on 1 January	**–**	333 642
Effect of warrants exercised	**–**	(16 299)
Weighted average number of share warrants	**–**	317 343
Total weighted average number of common shares, share options and share warrants for purposes of diluted earnings per share calculation	**75 882 183**	75 158 183
Diluted earnings per common share (US cents/share)	**2.35**	13.00

	2006	2005
	$ 000	$ 000
21.3 Dividends per share		
On 16 March 2007, the following dividends were declared by the directors. The dividends have not been provided for. 6 US cents (2005: 5 US cents) per common share	**4 360**	3 579
Total dividends paid during the year (US cents/share)	**7**	2
21.4 Net asset value per common share		
Net assets ($'000)	**47 390**	50 462
Net asset value per common share (US cents/share)	**65.21**	69.13

		2006 $ 000	2005 $ 000
22.	**INTEREST-BEARING BORROWINGS**		
22.1	**Stannic instalment sale agreement**	**35**	49
	Less: Current portion transferred to current liabilities	**(10)**	(11)
	Balance payable between one and five years	**25**	38
	The Stannic instalment sale agreement is secured over certain property, plant and equipment assets with a carrying amount of $18 688 (2005: $41 188), bearing interest at varying rates and is repayable over a period of five years to 2010.		
22.2	**NBC Bank loan agreement**	**1 141**	728
	Less: Current portion transferred to current liabilities	**(231)**	(96)
	Balance payable between one and five years	**910**	632
	The NBC Bank loan agreement is secured over plant and equipment with a carrying value of $951 519 (2005: $785 283), bearing interest at 6% per annum for the first year and thereafter the rate shall be based on the 1 year Libor rate plus 2.5% with a floor of 6% and is currently repayable in annual instalments of $14 065 commencing 1 April 2006.		
	Total interest-bearing borrowings – non-current	**935**	670
	Total interest-bearing borrowings – current	**241**	107
23.	**PROVISION FOR ENVIRONMENTAL REHABILITATION**		
	Balance at beginning of the year	**82**	82
	Balance at end of the year	**82**	82
	Estimated liability on closure	**82**	82
	An environmental impact assessment was conducted by an independent party during the 2003 financial year of TanzaniteOne Mining Limited and a management plan based on the findings was generated.		
24.	**TRADE AND OTHER PAYABLES**		
	Trade and other payables	**989**	2 213
	Trade and other payables consists of balances payable in the following currencies:		
	United States Dollars	**119**	82
	South African Rands	**954**	1 351
	Tanzanian Shillings	**(116)**	775
	Great British Pounds	**32**	5
		989	2 213

Translated into United States Dollars at foreign exchange rates applicable at balance sheet date.

		2006 $ 000	2005 $ 000
25.	**NOTES TO THE CASH FLOW STATEMENTS**		
25.1	**Cash generated from operations**		
	Profit for the year	**1 785**	9 847
	Adjusted for:		
	• Depreciation of property, plant and equipment	**1 692**	1 281
	• Amortisation of intangible assets	**–**	176
	• Impairment of intangible assets	**1 824**	–
	• Income tax expense	**737**	3 077
	• Net finance costs	**(158)**	(39)
	• Impairment of property, plant and equipment	**–**	1
	• Reversal of impairment of property, plant and equipment	**–**	(23)
	• Equity settled share-based payment expenses	**235**	365
	• Profit on disposal of property, plant and equipment	**(89)**	(9)
	• Net foreign exchange difference	**(605)**	(514)
	Operating income before working capital changes	**5 421**	14 162
	Change in inventories	**3 986**	(1 849)
	Change in trade and other receivables	**(636)**	(6 477)
	Change in trade and other payables	**(1 223)**	336
		7 548	6 172

		2006 $ 000	Restated 2005 $ 000
25.2	**Taxation paid**		
	Income tax receivable at 1 January	**278**	663
	Income tax payable at 1 January	**(179)**	(285)
	Current taxation charge	**(2 365)**	(2 183)
	Income tax receivable at 31 December	**(2 125)**	(278)
	Income tax payable at 31 December	**1 996**	179
		(2 395)	(1 904)
25.3	**Net proceeds from the issue of share capital**		
	Issue of common share capital by the Company	**–**	911
	Issue of A class share capital by TanzaniteOne SA Limited	**788**	297
		788	1 208

26. FINANCIAL INSTRUMENTS

In the normal course of its operations, the Group is exposed to tanzanite prices, currency, interest rate, liquidity and credit risk. General corporate hedging unrelated to any specific project is not undertaken. The Group also does not issue or acquire derivative instruments for trading purposes.

26.1 Concentration of credit risk

The Group's financial instruments do not represent a concentration of credit risk as the Group deals with a number of reputable banks. Credit risk related to trade receivables is not significant. Debtors are regularly monitored and reviewed for impairment indicators annually.

26.2 Foreign currency and commodity price risk

In the normal course of business, the Group enters into transactions primarily for the sale of its gemstones, denominated in US Dollars. However, the Group has investments and liabilities in a number of different currencies. As a result, the Group is subject to translation exposure from fluctuations in foreign currency exchange rates.

The Group does not currently hedge its exposure to foreign currency exchange rate fluctuations.

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26.3 Interest rate and liquidity risk

The Group is not exposed to significant interest rate risks as interest-bearing borrowings and investments are mainly of a short to medium-term nature. Liquidity risk is actively managed through cash flow projections. At present, no liquidity risk is foreseen.

26.4 Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

26.5 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

26.6 Fair values of financial instruments

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect fair value. All other receivables/payables are discounted to determine the fair value.

Interest-bearing borrowings

The fair values of finance lease liabilities are estimated as the present value of future flows, discounted at market interest rates for homogeneous lease arrangements. The estimated fair values reflect the change in interest rates.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Note	**Carrying amount 2006 $ 000**	**Fair value 2006 $ 000**
Long-term loan receivable	10	–	–
Trade and other receivables	14	**11 497**	**11 497**
Cash and cash equivalents	15	**7 005**	**7 005**
Interest-bearing borrowings	22	**1 176**	**1 176**
Trade and other payables	24	**990**	**990**

	Note	Carrying amount 2005 $ 000	Fair value 2005 $ 000
Long-term loan receivable	10	2	2
Trade and other receivables	14	10 861	10 861
Cash and cash equivalents	15	8 298	8 298
Interest-bearing borrowings	22	777	777
Trade and other payables	24	2 213	2 213

27. COMMITMENTS

27.1 Capital commitments

No capital commitments existed at balance sheet date (2005: $ nil).

27.2 Finance lease commitments

Finance lease liabilities are payable as follows:

	Minimum lease payments 2006 $ 000	**Interest 2006 $ 000**	**Principal 2006 $ 000**
Less than one year	**315**	**(74)**	**241**
Between two and five years	**1 033**	**(98)**	**935**
More than five years	**–**	**–**	**–**
	1 348	**(172)**	**1 176**

	Minimum lease payments 2005 $ 000	Interest 2005 $ 000	Principal 2005 $ 000
Less than one year	142	(35)	107
Between two and five years	761	(91)	670
More than five years	–	–	–
	903	(126)	777

28. SUBSEQUENT EVENTS

No material transactions occurred after balance sheet date.

29. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 30), and key management personnel.

Related party transactions

During the year, the Company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with one another. These transactions occurred under terms and conditions that are no less favourable than those arranged with third parties.

Directors of the holding company and their close family members control 19% (2005: 49%) of the voting shares of Tanzanite One Limited.

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2006

		2006 $ 000	2005 $ 000
29.	**RELATED PARTIES (continued)**		
	Key management personnel		
	Sales commission paid to C Nunn (spouse of former Chief Executive Officer and significant shareholder)	**442 877**	471 324
	Directors' emoluments for the year		
	Services as directors of the Company		
	Non-executive directors		
	Directors' fees		
	G Stenbolt	**24 000**	–
	M Adams	**44 000**	23 825
	A Mpungwe	**31 500**	13 614
	N Sibley	**27 500**	13 614
	E Nealon	**26 500**	10 211
		153 500	61 264
	Executive directors		
	Directors' fees		
	M Nunn (resigned)	**–**	45 689
	I Harebottle	**34 013**	30 643
	M Summers	**29 442**	26 524
		63 455	102 856
	Services as directors of the subsidiaries.		
	Non-executive directors		
	A Mpungwe	**–**	16 173
	Executive directors		
	I Harebottle		
	– Salary	**124 439**	111 140
	– Bonus	**–**	34 086
	– Share options	**198 929**	335 447
		323 368	480 673
	Consulting fees paid to Amari Services (Pty) Limited in respect of		
	M Nunn	**94 909**	233 157
	M Summers	**129 192**	135 640
		224 101	368 797
	Payments received in respect of bonus		
	M Nunn	**–**	50 865
	M Summers	**–**	29 506
		–	80 371
	Payments received in respect of share options for M Summers	**198 929**	167 742
	Professional fees paid to MAA Securities Limited, a company of which M Adams is a director	**100 000**	100 000

30. GROUP ENTITIES

Significant subsidiaries	Country of incorporation	Products/ Services	Functional currency	Shareholding %
Tanzanite One (UK) Limited	Great Britain	Polished gemstone and jewellery sales	GBP	100
Tanzanite One (SA) Limited	Republic of South Africa	Management services	ZAR	100
The Tanzanite Company (Pty) Limited	Republic of South Africa	Polished gemstone and jewellery sales	ZAR	100
Afgem International Limited	Republic of Mauritius	Holding company	$	100
Tanzanite One Mauritius Limited	Republic of Mauritius	Rough and polished tanzanite sales	$	100
Tanzanite One Mining Limited	United Republic of Tanzania	Tanzanite mining	$/TSH	100
Tanzanite One Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	$/TSH	75
Tanzanite Foundation Limited	Nevis	Tanzanite marketing	$	100

All transfers of funds between South African entities and non-South African entities are monitored and approved by the South African Reserve Bank, and all necessary approvals have been obtained from the South African Reserve Bank.

31. CONTINGENT LIABILITIES

No contingent liabilities existed at year-end (2005: $ nil).

32. ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 18 contains information about the assumptions and their risk factors relating to share-based payments.

Corporate information

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