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This document, which comprises a prospectus and has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) and the AIM Rules, has been delivered for registration to the Registrar of Companies of England and Wales under Regulation 4(2) of the Public Offers of Securities Regulations 1995.

The Directors of Tanzanite One Limited, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. Under no circumstances should the information contained in this document be relied upon as being accurate at any time after Admission.

TANZANITE ONE LIMITED

(incorporated and registered in Bermuda with registered number EC33385)

PLACING OF 11,904,761 NEW COMMON SHARES OF US\$0.0003 EACH AT 42P PER SHARE

ADMISSION TO TRADING ON THE ALTERNATIVE INVESTMENT MARKET OF THE LONDON STOCK EXCHANGE

**Nominated Adviser and Broker
Williams de Broë Plc**

SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING AND ADMISSION

Authorised		Issued and fully paid	
Number of Common Shares of US\$0.0003 each	Amount	Number of Common Shares of US\$0.0003 each	Amount
166,666,667	US\$50,000	69,987,933	US\$20,996

Application has been made for all of the issued and to be issued Common Shares of Tanzanite One Limited to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Common Shares will commence on AIM at 8.00 a.m. on 20 August 2004. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority ("Official List"). A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List and it is emphasised that no application is being made for admission of these securities to the Official List. Further, neither the UK Listing Authority nor the London Stock Exchange plc have themselves examined or approved the contents of this document.

Williams de Broë Plc, which is regulated by the Financial Services Authority and is a member of the London Stock Exchange, is the Company's Nominated Adviser and Broker for the purposes of the AIM Rules and is acting exclusively for the Company in relation to the Admission and will not be responsible to any other person for providing the protections afforded to clients of Williams de Broë Plc nor for advising any other person on the contents of this document or any transaction or arrangement referred to herein. Its responsibilities as the Company's Nominated Adviser and Broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director. Williams de Broë Plc has not authorised the contents of any part of this document for the purposes of Regulation 13(1)(g) of the POS Regulations and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Williams de Broë Plc for the accuracy of any information or opinions contained in this document nor for the omission of any material information from this document and no representation or warranty, express or implied, is made by Williams de Broë Plc as to any of the contents of this document, for which the Company and its Directors are solely responsible. The information contained in this document has been prepared solely for the purposes of Admission and is not intended to inform or be relied upon by any subsequent purchaser of the Common Shares and accordingly no duty of care is accepted in relation to them.

The Common Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States of America, Australia, Canada, Japan or the Republic of Ireland. Accordingly, subject to certain exceptions, the Common Shares may not, directly or indirectly, be offered or sold within the United States of America, Australia, Canada, Japan or the Republic of Ireland or to or for the account or benefit of any national, resident or citizen of Australia, Canada, Japan or the Republic of Ireland or any person located in the United States. This document does not constitute an offer, or the solicitation of an offer, to subscribe or buy any of the Common Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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DIRECTORS, SECRETARY AND ADVISERS

Directors:	Michael Alexander Peter Adams, <i>Non-executive Chairman</i> Ami Ramadhan Mpungwe, <i>Non-executive Deputy Chairman</i> Michael John Nunn, <i>Chief Executive Officer</i> Ian Timothy Harebottle, <i>Chief Operating Officer</i> Mark Robert Summers, <i>Chief Financial Officer</i> Nicholas Theobald Sibley, <i>Non-executive director</i> Edward Francis Gerrard Nealon, <i>Non-executive director</i> Georg von Opel, <i>Non-executive director</i> Gustav Oivind Stenbolt, <i>alternate for Georg von Opel</i> Robert Bruce Sutherland, <i>Non-executive director</i>
Company Secretary:	Willi Max Paul Boehm
Registered Office:	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Nominated Adviser and Broker:	Williams de Broë Plc 6 Broadgate London EC2M 2RP
Solicitors to the Company:	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
Solicitors to the Placing:	Memery Crystal 44 Southampton Buildings London WC2A 1AP
Reporting Accountants:	PKF Farringdon Place 20 Farringdon Road London EC1M 3AP
Competent Persons:	Ddraig Mineral Developments Limited 31 Madoc Street Llandudno Conwy North Wales
Bankers:	Bank of Bermuda 6 Front Street Hamilton HM11 Bermuda
Registrars:	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“A Shares”	the Class A ordinary shares of ZAR 0,0003 each in the capital of Tanzanite SA
“Act”	the Companies Act 1985-1989
“Admission”	admission of the Common Shares in issue to trading on AIM in accordance with the AIM Rules
“Afgem”	African Gem Resources Limited, who sold its tanzanite business to the Company, with an effective completion date of 21 May 2004
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules applicable to AIM companies and their nominated advisers as published by the London Stock Exchange from time to time
“Bermuda Act”	the Companies Act 1981 of Bermuda
“Board” or “Directors”	the current board of directors of the Company whose names are set out on page 3 of this document
“Combined Code”	the combined code on corporate governance, as appended to the Listing Rules of the UK Listing Authority
“Common Shares”	common shares of \$0.0003 each in the share capital of the Company
“CREST”	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by CRESTCo
“CRESTCo”	CRESTCo Limited, the operator of CREST
“Depository Interests”	depository interests in respect of underlying Common Shares, further details of which are set out in the paragraph entitled “Shareholders and CREST” in Part 1 of this document
“Group” or “TanzaniteOne Group”	the Company and its subsidiaries
“London Stock Exchange”	London Stock Exchange plc
“MML”	Merelani Mining Limited
“New Common Shares”	the 11,904,761 Common Shares to be issued pursuant to the Placing
“Placing”	the conditional placing of new Common Shares by Williams de Broë, pursuant to the Placing Agreement and the placing of the Tanzanian Placing Shares
“Placing Agreement”	the conditional agreement dated 16 August 2004 between the Company, the Directors and Williams de Broë relating to the Placing of 11,504,301 new Common Shares, summary details of which are set out in paragraph 11 of Part 7 of this document
“Placing Price”	42p per New Common Share
“POS Regulations”	the Public Offers of Securities Regulations 1995 (as amended)
“£”	British Pounds Sterling

“SAMREC”	South African code for reporting of mineral resources and mineral reserves, prepared by the South African Mineral Resource Committee under the auspices of the South African Institute of Mining and Metallurgy
“Shareholders”	the persons who are registered as holders of Common Shares from time to time
“Share Option Scheme”	the incentive share option scheme of the Company approved by the Directors of the Company, summary details of which are set out in paragraph 6 of Part 7 of this document
“Tanzanian Placing Shares”	the 400,460 new Common Shares issued to Tanzanian investors pursuant to the broker arrangements set out in paragraphs 14.15 and 14.16 of Part 7 of this document
“TanzaniteOne” or the “Company”	Tanzanite One Limited
“Tanzanite SA”	Tanzanite One SA Limited, formerly Tanzanite One SA (Proprietary) Limited
“The Tanzanite Company”	The Tanzanite Company (Pty) Ltd
“TSH”	Tanzanian Shillings
“UKLA”	the UK Listing Authority of the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“USA” or “US”	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia
“US\$”	United States Dollars
“Williams de Broë”	Williams de Broë Plc, the Company’s nominated adviser and broker
“ZAR”	South African Rands

PLACING STATISTICS

Placing Price	42p
Number of New Common Shares being issued by the Company pursuant to the Placing	11,904,761
Number of Common Shares in issue immediately following Admission	69,987,933
Percentage of the enlarged issued share capital subject to the Placing	17.0%
Market capitalisation of the Company at the Placing Price on Admission	£29.4 million
Number of share options in issue at Admission	3,391,726
Gross proceeds raised by the Placing	£5.0 million
Estimated net proceeds of the Placing receivable by the Company	£4.15 million

EXPECTED TIMETABLE

	<i>2004</i>
Admission effective and dealings in the Common Shares commence on AIM	20 August
CREST member accounts credited with Depository Interests (where applicable)	20 August
Despatch of definitive share certificates for Common Shares (where applicable)	27 August

KEY INFORMATION

THE GROUP'S BUSINESS

The TanzaniteOne Group is a vertically integrated, focused tanzanite business, whose management has extensive experience and a successful track record in the gemstone industry, specifically the mining and marketing of tanzanite.

Tanzanite is a gemstone variety of the mineral zoisite. With a single, limited source in northern Tanzania, tanzanite's rarity and unique blue-violet colour have rendered it a mainstream gemstone, competing with the likes of ruby, emerald and sapphire.

The TanzaniteOne Group's tanzanite business and assets were acquired from Afgem for a consideration of approximately US\$24 million. Afgem is a South African public company that has been involved in the tanzanite industry since 1993. Prior to the acquisition, Afgem had invested US\$20 million into its tanzanite business.

The TanzaniteOne Group holds a significant portion of the world's known tanzanite producing resource, as well as extensive prospecting licences over potential tanzanite producing areas adjacent to its mining licence. The Group's vertically integrated business model encompasses geology and exploration, mining, trading, beneficiation and marketing of both rough and polished tanzanite.

OBJECTIVES AND STRATEGY

It is the intention of the TanzaniteOne Group to leverage its potentially dominant position within the tanzanite industry in order to realise shareholder value through the expansion and development of the tanzanite market. With the Group's significant share of the world's tanzanite resource and its experience and expertise with respect to the tanzanite industry, it has the potential to supply, shape and structure the tanzanite market.

KEY STRENGTHS

The Directors believe that the key strengths of the Group are:

Tanzanite resource:

- mining operations based in Tanzania: a politically stable and investment-friendly environment with a progressive Mining Act
- mining licence for a proven productive tanzanite resource, representing a significant portion of the world's only known source
- logistical, development and operating experience and expertise in Tanzania
- established infrastructure, management and productive operating capability in Tanzania
- prospecting licences for sites within tanzanite's producing area

Management team:

- an expert geological and mining team, with a proven track record for the mining of tanzanite
- an experienced management team with a significant depth of knowledge related to the gemstone industry

Track record:

- a proven ability to adapt best practice mining methods to tanzanite's unique geological environment
- a proven ability to manage a low cost mining operation in Africa

- an established ability to market tanzanite at both consumer and industry levels

Global networks:

- extensive global networks of gemstone industry contacts, mainly in Tanzania, India, the USA and the Far East

PART 1

INFORMATION ON THE GROUP

INTRODUCTION

TanzaniteOne is a Bermudian registered holding company of a group involved in the mining and marketing of the gemstone tanzanite. Through its subsidiary, Merelani Mining Limited, the Group holds the mining licence over a property containing a significant portion of the world's 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, operates beneficiation facilities, manages tanzanite grading and certification and markets both rough and polished tanzanite.

TANZANITE

Tanzanite is a rare, blue-violet gemstone variety of the zoisite group of minerals. Whilst zoisite is relatively common, its occurrence in the presence of vanadium under exacting geological conditions created a unique and ideal environment for the formation of tanzanite.

Although tanzanite's formation began over 500 million years ago, the gemstone was only discovered in 1967. The discovery occurred at the site that remains its only known source in the world; a 6 kilometre strip of land near Mount Kilimanjaro in northern Tanzania.

In that year, Henry B. Platt, later president and chairman of the jewellers Tiffany & Co., named the stone 'tanzanite' after its country of origin and initiated the first marketing campaign for the gemstone in the USA.

Tanzanite's unique selling features include:

Rarity

Tanzanite's rarity is attributed to its single known source of supply and the fact that it is a limited resource. In geological terms, tanzanite is at least one thousand times more rare than diamonds.

Colour

Amongst the leading gemstones, tanzanite is uniquely trichroic, which means that in its rough form, it radiates three different colours from each of its crystallographic axes: blue, violet and burgundy. Once cut and polished, the colour of tanzanite ranges from pale blues and violets to a deep indigo. Sales of coloured gemstones indicate that blue is the most popular seller.

African mystique

Tanzanite's exclusively African heritage has proven to be a unique selling feature.

Price & investment value

Quality for quality, tanzanite is currently about one third of the price of sapphire. Although the value of tanzanite is increasing, it is still relatively affordable. This consideration, accompanied by its single source and limited supply, has rendered tanzanite an investment stone.

Tanzanite is recognised as a mainstream gemstone, associated with the likes of ruby, emerald and sapphire. As testimony to this, Colored Stone magazine, an American industry publication, rated tanzanite as the fourth most popular coloured gemstone in 2002. In 2003 the American Gem Trade Association ('AGTA') named tanzanite a December birthstone, adding to a list previously unchanged since 1912.

HISTORY AND BACKGROUND

Mining of tanzanite began in 1967, in the area currently known as Block C, now part of the TanzaniteOne Group's mining licence area. Between 1967 and 1971, an estimated two million carats of gem-quality tanzanite was produced from open-cast mining operations on that site.

In 1971, all of Tanzania's tanzanite mines were nationalised and mining was taken over by the State Mining Corporation 'STAMICO'. Production records available for the first five years of STAMICO's operations indicate a decrease in grades, mainly attributed to, *inter alia*, haphazard mining methods and theft, with official production of some 400,000 carats of gem-quality tanzanite recorded for that period.

During the next ten years, recorded production decreased significantly. There was also a steady increase in informal artisanal mining, culminating in 1989 when it was estimated that as many as 30,000 artisanal miners were working in the area, with more than half of these working on what is now Block C.

In 1990, the Tanzanian government curbed artisanal mining and demarcated the area into five blocks: A, B, C, D and D-extension, measuring approximately 6 kilometres in length, encompassing the world's entire known tanzanite-producing area. Block A was awarded to Kilimanjaro Mines Limited. Blocks B and D were awarded to small-scale miners, while Block C, the largest section at the centre of the producing area, was awarded to Graphtan Limited, a company then engaged in graphite mining activities. Artisanal mining on Block C was officially stopped.

Graphtan Limited ceased mining activities in 1996. In 1999, Block C was acquired by Merelani Mining Limited, then a subsidiary of Afgem, pursuant to the transfer to it of the Special Mining Licence 08/92. In 2000, Afgem completed a feasibility study and environmental impact assessment for the formal and commercial mining of tanzanite on Block C. Mine development was initiated in 2001 and Block C is currently the site for the world's largest formal tanzanite mining operation.

In May 2004, the TanzaniteOne Group's tanzanite business and assets were acquired from Afgem for a consideration of approximately US\$24 million. Afgem has been listed in the diamond sector of the JSE Securities Exchange South Africa since August 2000 and has been involved in the tanzanite industry since 1993. Afgem invested approximately US\$20 million into its tanzanite business prior to its sale to the TanzaniteOne Group.

MINING AND TRADING OPERATIONS

This summary does not contain all of the information investors should consider before investing in the New Common Shares. The following information should be read in conjunction with the full text of this document and in particular with the Competent Person's Report contained in Part 2.

Geology

The Merelani tanzanite mining area is situated in the Simanjiro district of Tanzania, 70 km south-east of Arusha and 16 km south of Kilimanjaro International Airport.

Tanzanite is located within a relatively complex geological environment and is found in 'chocolate-tablet' boudin structures typically located in the hinges of isoclinal folds (folds dipping in the same direction) present in the ore body. The ore body extends across the mining licence area in a south-westerly to north-easterly direction on a dip of approximately 41°. Geological work, subsequent to the initial feasibility study carried out in 2000, has indicated that multiple folding is present in the ore body and that the structure contains significantly more boudins than previously anticipated.

Tanzanite's geology is unique, and as such, efforts continue to focus on improving predictability and yields through surface exploration, trenching, minor excavation and comprehensive mapping and logging of geological data which has improved the TanzaniteOne Group's understanding of the tectonic and associated controls on tanzanite mineralisation, particularly at the level of boudins and high-grade zones.

The flexibility of the current method of mining and ore extraction, comprising monorope systems on production drives and winder systems on incline shafts, is well suited to tanzanite's geological environment.

Resource

The reserve and resource statements of the TanzaniteOne Group have been calculated in accordance with the guidelines for a diamond resource as outlined in the SAMREC code.

The results of the Competent Persons Report carried out by Ddraig Minerals Developments Limited (“DMD”) in 2004, and contained in Part 2 of this document, place the indicated resource at 0.95 million tonnes for 63 million carats to 1.26 million tonnes for 83 million carats.

Exploration

The current resource calculation is based on a measured extent of the lower horizon of the ore body to a vertical depth of 300m, at which point the mineralised zone was still open and showed no indication of pinching out below these depths. The true depth extent of the mineralisation thus remains unknown.

Current geological exploration has provided clear evidence that repetition of the mineralisation is found in the upper horizon across the length of the mining licence area. The nature of mineralisation within these zones is not well understood by the Group, however, continuous small scale mining operations on both the northern and southern borders of the mining licence area indicate that these zones are potentially productive.

Satellite mapping has identified other areas of potential mineralisation in close proximity and adjoining the Group’s mining licence. The Group has prospecting licences over these identified areas and an exploration programme is being prepared to evaluate the mineralisation and tanzanite producing potential.

Mining

Currently six shafts are being developed along the strike of the ore body with an additional two shafts in the exploration phase. The mining method is relatively simple and involves sinking decline shafts on dip of the ore body and running production drives from these shafts along the plunge of the boudin systems. Ore is extracted from the face using a monorope system, loaded into rail bound skips and hoisted to surface.

Tanzanite mineralisation associated with each boudin can vary significantly and, as such, it is not currently feasible for the Group to “bulk mine” tanzanite. Consequently, individual boudins and their associated mineralisation are exploited via a series of production drives, raises and winzes.

During the six months to December 2003, a monthly average of 2,000 tonnes was processed. The mine plan for 2004 provides for a material increase in production tonnage.

Given the nature of the Group’s operating environment, efforts focused on improving efficiency, effectiveness and increased economies are ongoing. Various capital projects are planned in support of these objectives with the intention to increase tonnage through the processing plant. These projects include:

- the purchase of additional plant and equipment;
- upgrading the Dense Media Separation (“DMS”) plant to increase throughput and improve the efficiency;
- upgrading and relocating some of the hoisting systems in line with the mine plan;
- installation of an optical sorting system;
- upgrading of processing and final recovery to fully automated security standards; and
- installation of an x-ray body scanner, similar to those used in the diamond industry.

Processing

Ore is delivered from the mine and discharged into a primary feed bin. After passing through a closed circuit crushing and screening process, material that is plus 2mm and minus 30mm is conveyed to the DMS plant, which is of a standard modular design. The processing plant has an optimal primary feed capacity of approximately 10,000 tonnes per month per shift.

The DMS concentrate passes to the sorthouse, where it is sorted, graded and prepared for Government valuation prior to export.

Security

The focus of the Group's security department is to ensure the safety and security of its people and operations by developing an efficient security team, placing emphasis on pro-active prevention, developing sound working relationships with all stakeholders and utilising advanced security solutions adapted from the diamond industry.

Trading

Whilst the mining of its own tanzanite is of primary importance to the Group, rough tanzanite is also purchased from small-scale miners operating on Blocks B and D and from dealers, through Tatan, the 75 per cent. owned subsidiary of Merelani Mining Limited. It is the Directors belief that such open market purchases will assist with the process of supply continuity and price stability of tanzanite and enable the potential to redistribute higher margins from the premium being developed on branded polished tanzanite, whilst also yielding useful information on general mining, supply and price trends. It is intended that the sale of rough tanzanite from outside buying will ultimately represent approximately 15 per cent. of the Group's revenue.

Beneficiation

The TanzaniteOne Group operates two cutting and polishing facilities, one in Tanzania and one in South Africa. Whilst modern equipment and technology have been deployed in these facilities, together with extensive training, it is unlikely that the South African operation will be expanded due to its limited ability to compete with the tanzanite beneficiation industry in India in terms of recovery (yield from rough to polished tanzanite) and also in cutting and polishing costs.

In line with the Group's commitment to the development of skills and employment at the source of tanzanite, the intention is to expand its Tanzanian facility and refine its competitiveness through training and technology improvements.

It is the intention of the Group that approximately 10 per cent. of revenue will be derived from the sale of cut and polished tanzanite that has been beneficiated in the Group's own cutting and polishing facilities.

Marketing

The TanzaniteOne Group currently markets both rough and polished tanzanite and is in the process of developing separate and specific strategies for each. The Group's marketing objectives include increasing demand for tanzanite through a strategy of consumer awareness (advertising and promotion) and industry education (promotion and incentivisation at the retail level).

Rough tanzanite marketing

The worldwide market for rough tanzanite is estimated to be worth around US\$100 million per annum. The majority of the Group's customers for rough tanzanite are based in India and most have wholesale outlets in the US. It is estimated that approximately 80 per cent. of all rough tanzanite is cut and polished in India, for onward sale to the US and, to a lesser extent, the Far East. The tanzanite cutting and polishing industry in India is very well developed and established through a long association with gemstones. Approximately 10 per cent. of the hundred or so established Indian tanzanite cutting and polishing companies account for around 50 per cent. of the tanzanite market.

The Group currently sells its production of rough tanzanite to select customers through a tender process. The Group's rough sales team prepare parcels of rough tanzanite of a mix of qualities based on colour, clarity, shape and weight. Grading is conducted using an in-house grading system. A reserve price is set on each parcel, which is sold to the highest bidder above the reserve price. Tenders have been held sporadically during exploration and development production. The intention is to hold tenders on a more regular basis as

production increases and to eventually supply parcels to select customers on a quarterly basis, outside of a tender system, but at predetermined prices.

Ultimately, it would be the Group's intention for its rough customers to vertically integrate, contribute and participate in co-operative generic tanzanite marketing, whilst also developing tanzanite jewellery brands, which compete with one another.

Polished tanzanite marketing

The worldwide market for polished tanzanite at wholesale is estimated to be worth between US\$150 million and US\$200 million per annum, with margins between rough and polished typically around 30 per cent. Such margins can be increased through branding and promotion.

The TanzaniteOne Group operates its polished marketing business through The Tanzanite Company, a wholly owned subsidiary that markets, promotes and purchases rough tanzanite from the Group at tender prices, as well as purchasing polished tanzanite on the open market.

Until recently, The Tanzanite Company has only operated in South Africa. The TanzaniteOne Group is developing new markets for its polished tanzanite and, as part of this process, has recently incorporated a subsidiary in the United Kingdom.

The Tanzanite Company's objectives include expanding its range of tanzanite products by continuing to develop its branded polished tanzanite and its jewellery lines, increasing revenue and gross profit margins, streamlining supply, developing premiums for certified tanzanite and expanding existing and developing new markets.

Tanzanite jewellery

Retail sales of set tanzanite jewellery in the USA are estimated at around US\$500 million per annum.

Market research conducted by The Tanzanite Company has identified demand from retail jewellers for branded and certified tanzanite jewellery. It is the Group's intention to develop this market, outsourcing the manufacture and supply of tanzanite jewellery from the Group's rough tanzanite customers.

The Group has developed a range of tanzanite jewellery branded 'Tanzanite BLUE', which is endorsed by the Tanzanite Foundation. Initial test marketing by The Tanzanite Company has been encouraging.

Tanzanite Foundation

The TanzaniteOne Group has developed the Tanzanite Foundation as an industry body and endorsement brand, which performs several important functions: it is the Group's primary vehicle for the promotion of tanzanite; it has developed a ubiquitous grading system for polished tanzanite; it provides education and promotional services to jewellery retailers; it disseminates tanzanite information to consumers and industry and it is a conduit for the Group's social investment and community projects within the tanzanite producing area in northern Tanzania.

The Tanzanite Foundation grades, certifies and hallmarks polished tanzanite, assuring consumers that the tanzanite they have purchased is genuine, of natural origin and that it has made the journey from mine to market with integrity and adherence to social and environmental ethics.

It is the Group's intention that its customers of rough tanzanite will use the Tanzanite Foundation for the grading and endorsement of their production of polished tanzanite.

OBJECTIVES AND STRATEGY

It is the intention of the TanzaniteOne Group to leverage its potentially dominant position within the tanzanite industry in order to realise shareholder value through the expansion and development of the tanzanite market. With the Group's significant share of the world's tanzanite resource and its experience and expertise with respect to the tanzanite industry, it has the potential to supply, shape and structure the tanzanite market. It is intended that this be achieved through the following:

- increasing tanzanite resources through further exploration and acquisition of mining and prospecting licences;
- significantly increasing extraction of tanzanite bearing ore increasing processing capacity through upgrading of the tanzanite processing plant;
- improving effectiveness and recoveries from the tanzanite sorting process through improved 'hands-off' security systems and the application of optical sorting technology;
- increasing supply of rough tanzanite to the Group's trading operation through the development of mutually beneficial relationships with small-scale miners and dealers;
- significantly improving awareness and demand for all qualities of tanzanite through marketing and promotion at consumer and industry levels.

CURRENT TRADING AND PROSPECTS

The companies now owned by the TanzaniteOne Group have, to date, invested approximately US\$20 million in their tanzanite business and are presently producing tanzanite from their exploration and development operations. The Group has completed construction and commissioning of an integrated processing plant and mining operations are equipped for initial production. The Group's outside buying operation is trading, its beneficiation facilities are operational, the Directors believe that its initial rough marketing strategy is effective and that the results of its test marketing of branded polished tanzanite and tanzanite jewellery have been positive.

It is the view of the Group's directors that the business is well positioned to complete its initial development of the tanzanite business and to further develop and expand all aspects of its operations. The Group intends to leverage off of its unique assets, knowledge and experience to build a world class company with the ability to shape and structure the tanzanite market in a sustainably profitable manner.

Currently, the Group is on target to achieve its anticipated production volumes for 2004, given the current level of capital investment. Measured grades have, as in the past, fluctuated on a month-to-month basis (in line with the nature of the tanzanite mineralisation) and although the actual average grade achieved to date is lower than the target average grade for the year of 66 carats per tonne, that figure remains realistic. The Group commenced its rough trading business in September 2003 and currently this business is performing well. Sales of polished goods are on target for the year to date.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Michael Adams (56), Non-executive Chairman

Mr Adams graduated from Cambridge University in 1969. He has 34 years experience in the financial services sector including 31 years in senior management. During this time he has been directly involved in a broad spectrum of industry 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 is, or has been, the Chairman, Vice Chairman, President or Director of a wide range of public and private companies.

Ami Mpungwe (53), Non-executive Deputy Chairman

Mr Mpungwe has been chairman of the Group's Tanzanian subsidiary, Merelani Mining Limited since March 2000 and has been integral to its establishment and development. He has an Honours degree in International Relations and Political Science and 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 with numerous companies, including Illovo Sugar (South Africa), National Bank of Commerce (ABSA, Tanzania), Aveng Limited (South Africa), Tanzanian Breweries (Tanzania), Multichoice (Tanzania) Limited and Air Tanzania (Tanzania).

Mike Nunn (44), Chief Executive Officer

Mr Nunn founded Afgem in 1998 and has been involved in the tanzanite industry since 1993. He has extensive experience in mining operations and management, beneficiation, grading and marketing of high value gemstones. He was a founding member of the Diamond Merchant's Association of South Africa and is the International Colored Stone Association's Ambassador to South Africa.

Ian Harebottle (41), Chief Operating Officer

Mr Harebottle joined Afgem as Operations Director of its tanzanite business in September 2001 after consulting for Afgem on strategic and operational issues prior to that. He has vast experience in consulting to the mining industry, specialising in the development of strategic response programmes for business challenges presented by rapid change. Mr Harebottle graduated from the Witwatersrand Technical College in 1985 and received his Graduate Diploma in management from Henley Management College in 1992.

Mark Summers (34), 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 Afgem as Finance Director.

Nicholas Sibley (66), 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 and a director of Corney and Barrow Group and Asia Pacific Fund Inc.

Edward Nealon (53), Non-executive Director

Mr Nealon is a geologist with 27 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 the Rio Tinto Group. He founded his own consulting company in 1983 and has practised in Africa, Australia, US, Canada and other regions. Mr Nealon holds a Masters degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

Robert Bruce Sutherland (69), Non-executive Director

Mr Sutherland has 45 years experience in the mining industry including 20 years with the Johannesburg Consolidated Investment Company (JCI) during which time Mr Sutherland worked in a variety of senior engineering, technical and management positions in JCI's base metal and platinum divisions prior to retiring as an Executive Director of JCI in 1994. Mr Sutherland currently provides consultancy services to the mining industry and is a director of Aquarius Platinum (South Africa) (Proprietary) Limited. Mr Sutherland holds a Masters degree in Engineering and is a member of the Engineering Council of South Africa.

Georg von Opel, (38), Non-executive Director

Mr von Opel is the owner and a member of the Board of Directors of Hansa Aktiengesellschaft, Basel, a Swiss holding company. He is also non-executive member of the Board of Jelmoli Holding AG, Zurich and TD Esop Holdings Ltd., Cayman Island. Hansa owns a majority stake in Pelham Investments SA, Geneva and a minority stake in ENR Russia Invest SA, Geneva. Mr von Opel has studied at the University of Rhode Island and at the American InterContinental University, London.

Gustav Oivind Stenbolt, (47), Alternate Director for Georg von Opel

Mr Stenbolt is an executive member of the Board of Jelmoli Holding AG, Zurich and President of the Board Committee of Jelmoli Holding AG, Zurich. He is Chairman of the board of MCTrustco, Geneva, which

among other functions, is the management company of HANSA Aktiengesellschaft, Basle and Pelham Investments S.A., Geneva. Mr Stenbolt is vice-president of the board of directors of Pelham Investments SA, Geneva and of ENR Russia Invest SA, Geneva and member of the board of directors of the Anglo Chinese Group, Hong Kong. Mr Stenbolt graduated from Fribourg University in economics.

Senior Management

Candice Nunn, Sales Manager – Tanzanite Foundation Limited (Rough Sales) and director of The Tanzanite Company

Mrs Nunn, wife of Mike Nunn, has 12 years' experience in the coloured gemstone industry, including experience in purchasing, sorting, grading, sales and marketing. She is responsible for building and managing the Group's rough sales operation, which comprises overseeing the trading operation (purchase of rough) and all rough tanzanite sales.

Adrian Banks, Managing Director – Tatan Limited (Outside Buying)

Mr Banks joined Afgem's tanzanite business in 1999 to assist in the development of the initial infrastructure at the Merelani tanzanite mine. Mr Banks developed the tanzanite sorting operation, including the establishment and security of the sorthouse, building and training a sorting and grading team and developing a rough tanzanite grading system. In September 2003, Mr Banks managed the Group's establishment of Tatan Ltd, the Group's tanzanite trading company in Arusha, which he currently manages.

Jason Krause, Managing Director – The Tanzanite Company (Polished Sales)

Mr Krause joined Afgem following his previous role as Managing Director of Merchants SA (Pty) Ltd (a subsidiary of Dimension Data). Prior to his involvement at Merchants SA (Pty) Ltd, Jason was the Strategy Manager at Accenture and a litigation lawyer at Denneys Reitz. Mr Krause obtained his Masters in Business Administration in 1998 and completed his Bachelor of Laws, Bachelor of Arts in 1991.

Janet Silk, Sales Director – The Tanzanite Company (Polished Sales)

Ms Silk has eight years' experience in the gemstone and silver industry, mainly in sales, distribution and promotion at a retail jewellery level. In January 2004, Janet rejoined Afgem and now heads The Tanzanite company's sales team. Janet holds a Bachelor of Social Sciences degree from The University of Natal.

Marilyn Chaimowitz, Operations Director – The Tanzanite Company (Polished Sales)

Mrs Chaimowitz has eight years' experience in the coloured gemstone industry, primarily in the sales and marketing of tanzanite. She has been an integral part of building the South African market for tanzanite and continues to service a broad range of premium and commercial customers in South Africa, as well as internationally. In addition, Marilyn is responsible for the sourcing and purchasing of polished tanzanite.

The profiles of the key mine management and staff are summarised at paragraph 12 of Part 2 of this document.

DETAILS OF THE PLACING

The Company is issuing 11,904,761 New Common Shares at 42 pence per Common Share pursuant to the Placing, to raise approximately £5 million, before expenses. The New Common Shares will represent approximately 17.0 per cent. of the enlarged issued share capital of TanzaniteOne. The Placing is conditional upon, *inter alia*, Admission becoming effective. Details of the Placing Agreement are set out in paragraph 11 of Part 7 of this document.

The New Common Shares will, on issue, rank *pari passu* with the other Common Shares then in issue in all respects including the right to receive all dividends declared or paid (after the date of allotment of the New Common Shares) on the common share capital of the Company.

Admission is expected to take place and dealings in the Common Shares are expected to commence on AIM at 8.00 a.m. on 20 August 2004. It is intended that, where applicable, definitive share certificates in respect

of the Placing will be posted by first class post on 27 August 2004, or as soon thereafter as is practicable. No temporary documents of title will be issued in connection with the Placing.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The estimated net proceeds of the Placing receivable by the Group of £4.15 million will be used to finance the next stage of the Group's development and growth. Specifically, the proceeds will be utilised as follows:

- £2.25 million on capital expenditure to expand existing mining operations;
- £1.0 million to be used to develop the Group's trading operations;
- £0.3 million on marketing;
- £0.3 million on exploration on the Group's prospecting licence areas; and
- £0.3 million for general working capital purposes.

FINANCIAL INFORMATION

The profit and loss history for the Group for the financial periods ending 31 December 2003 as extracted, without material adjustment, from the financial information in Part 4, is set out below:

	<i>Year ended 28 February 2001</i>	<i>13 months ended 31 March 2002</i>	<i>Year ended 31 March 2003</i>	<i>9 months ended 31 December 2003</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Retained profit	2,503	310	(733)	2,295

An unaudited pro forma statement of net assets of the Group is set out in full in Part 5 of this document. Based on the Group's balance sheet as at 31 December 2003 and the net proceeds of the Placing, the Group is expected to have pro forma net assets of US\$36 million and pro forma net cash balances of US\$12 million following Admission.

DIVIDEND POLICY

Any future decision to declare dividends on the Common Shares will be made by the Directors depending upon the financial requirements of TanzaniteOne to finance growth, the financial condition of TanzaniteOne and other factors which they may consider appropriate in the circumstances.

CORPORATE GOVERNANCE

The Directors support high standards of corporate governance and confirm that, following Admission, they intend to comply with the Combined Code insofar as possible given the Company's size and propose to follow, where possible, the recommendations on corporate governance of the Quoted Companies Alliance.

The Company has established four Board committees, namely the Remuneration Committee, the Nominations Committee, the Audit and Risk Committee and the Mining Committee.

The Remuneration Committee is chaired by Michael Adams and also consists of Edward Nealon and Ami Mpungwe, all of whom are non-executive directors. The mandate of this committee is to review and make recommendations to the Board in respect to the level of remuneration and other compensation (including share options) to be made available to the executive officers of the Company. It is intended that the Remuneration Committee will also determine the allocation of share options to employees of the Company.

The Nominations Committee is comprised of the full Board. The mandate of this committee is to monitor the size and composition of the Board, to review Board succession plans and recommend individuals for nomination as members of the Board and its Committees.

The Audit and Risk Committee is chaired by Nicholas Sibley and also consists of Michael Adams and Gustav Stenbolt, all of whom are non-executive directors. It is mandated to review audit functions and the financial statements. It is intended that it will meet with management and with the auditors, independently

of management, to review financial statements and works with management and the Company's auditors to develop and implement internal financial controls. The Company does not have internal auditors. It is intended that the Audit Committee will meet with the auditors at least twice each year for the purpose of reviewing the bi-annual unaudited financial statements and the year end audited financial statements with management and the auditors.

The Mining Committee comprises Edward Nealon and Bruce Sutherland, both non-executive directors and Ian Harebottle, the Chief Operating Officer. The mandate of this committee is to provide guidance and technical expertise to the mining executive team to assist in developing the Group's mining assets.

The Company has adopted the Model Code, as appended to chapter 16 of the UKLA Listing Rules for dealings by Directors and applicable employees.

SHARE OPTION SCHEME

The Company has, by resolutions of the Board, established a Share Option Scheme known as the "Tanzanite One Option Plan" (the "Share Option Scheme"). Under the terms of the Share Option Scheme, the Company intends to grant options, following recommendation by the Remuneration Committee, to directors, officers, employees and/or consultants of the Group including those who have agreed that their options issued under the African Gem Resources Ltd Share Incentive Scheme (2000) should be converted to options over A Shares to acquire Common Shares or A Shares at an option exercise price to be determined in accordance with the terms of the Share Option Scheme. The total number of shares under option will represent in aggregate not more than 10 per cent. of the Company's issued share capital from time to time. Further information on the Share Option Scheme is set out in paragraph 6 of Part 7 of this document.

DEALING AND SETTLEMENT

Marketing and trading of the Securities

The Company has made an application for the Common Shares and the New Common Shares to be admitted to trading on AIM.

Shareholders and CREST

CREST is a UK electronic paperless share transfer and settlement system which allows shares and other securities to be held in electronic rather than paper form.

CRESTCo is unable to take responsibility for the electronic settlement of shares issued by non-UK companies. However, to enable investors to settle the Common Shares under the Crest system, the Company, through the Registrars, has established a depository arrangement whereby depository interests ("DI's") representing the Common Shares and established pursuant to a deed poll executed by the Registrars, acting as depository, will be issued to investors who wish to hold the Common Shares in electronic form within the CREST system. The DI's will constitute independent securities under English law and may be held and transferred through the CREST system.

Under this arrangement, the Common Shares will not themselves be admitted to CREST but the Company will apply for the DI's representing Common Shares to be admitted to CREST with effect following Admission. The DI's will have the same security code ('ISIN') as the underlying Common Shares and will not require a separate quotation on AIM.

Please note that CREST is a voluntary system and holders of shares who wish to receive and obtain share certificates and will also be able to do so. Accordingly, settlement of transactions in Common Shares, represented by DI's, following Admission will take place within the CREST system if the relevant investor wishes.

Shareholders who currently hold Common Shares in certificated form will receive share certificates in respect of the Common Shares to which they are entitled on Admission. These are expected to be despatched to Shareholders by 27 August 2004. If such Shareholders wish to hold DI's through the CREST system they should contact the registrars, Computershare Investor Services Plc, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH, telephone: 0117 941 7781.

Further details regarding settlement are set out in paragraph 13 of Part 7 of this document.

TAXATION

Your attention is drawn to paragraph 12 of Part 7 of this document which sets out information regarding relevant UK and Bermudian taxation in relation to the Placing.

WORKING CAPITAL

The Directors are of the opinion, having made due and careful enquiry, that the working capital available to the Group will be sufficient for its present requirements, that is for at least twelve months from Admission.

LOCK-IN AND ORDERLY MARKET ARRANGEMENTS

The Directors and Jade Pacific Resources Limited have agreed (save in limited circumstances) not to dispose of any, and in the case of Jade Pacific Resources Limited, certain of their respective interests in Common Shares held at the time of Admission (and any Common Shares acquired or issued pursuant to the exercise of options or warrants) for a period of 12 months after Admission. Any disposal of Common Shares by the parties subject to these lock-in and orderly market arrangements before the second anniversary from Admission will be made by the Company's brokers in such orderly manner as they reasonably determine. The Common Shares in issue at Admission which will be subject to such restrictions account for approximately 58 per cent. of the issued share capital as enlarged by the Placing.

LEGAL AND REGULATORY ISSUES

Shareholders should note that, as a Bermudian registered corporation, the TanzaniteOne Common Shares will not be subject to the provisions of the UK City Code on Takeovers and Mergers, even where the Common Shares are traded on AIM.

Please refer to further details on legal and regulatory issues in Part 7 of this document.

FURTHER INFORMATION

Your attention is drawn to the additional information in Parts 2 to 7 of this document, including the Risk Factors set out in Part 6.

PART 2

COMPETENT PERSON'S REPORT



DMD

Ddraig Mineral Developments Limited
31 Madoc Street
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Conway
North Wales LL30 2TL

The Directors
Tanzanite One Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

The Directors
Williams de Broë Plc
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London
EC2M 2RP

16 August 2004

Dear Sirs

1. EXECUTIVE SUMMARY

1.1 Overview

Ddraig Mineral Developments Limited ("DMD") was retained by Tanzanite One Limited (TanzaniteOne) to prepare a Competent Person's Report ("CPR") on TanzaniteOne's tanzanite mining operations located at Merelani in the United Republic of Tanzania ("Tanzania").

This report is specific to TanzaniteOne's tanzanite mining operation which is located in the United Republic of Tanzania and operated by Merelani Mining Limited ("MML"), a wholly owned subsidiary of TanzaniteOne.

The subject of this CPR is the rare gem variety of the Zoisite Group minerals, known as tanzanite, that is only found in Tanzania, East Africa. The MML operation at Merelani is currently the only commercial tanzanite mine of any scale in Tanzania and there are therefore no comparable mining properties. The crystalline chemistry, optical properties and unique colour of the gemstone has established it as a very marketable commodity in the global luxury goods markets. Table 1 illustrates the ranking of sales of tanzanite and various coloured gemstones between the periods 1995 and 2002.

Table 1 – Ranking of sales of coloured gemstones in USA by value

(source: Colored Stone magazine)

<i>Sales</i>								
<i>Ranking</i>	1995	1996	1997	1998	1999	2000	2001	2002
1	Sapphire	Sapphire	Sapphire	Sapphire	Sapphire	Sapphire	Sapphire	Sapphire
2	Ruby	Ruby	Tanzanite	Tanzanite	Ruby	Tanzanite	Pearl	Ruby
3	Emerald	Emerald	Amethyst	Ruby	Tanzanite	Ruby	Tanzanite	Emerald
4	Amethyst	Tanzanite	Ruby	Emerald	Emerald	Emerald	Ruby	Tanzanite
5	Tanzanite	Tourmaline	Emerald	Tourmaline	Tourmaline	Tourmaline	Emerald	Amethyst

Tanzanite is hosted in high grade metamorphic rocks of the East African Orogen, a polyphase Mobile Belt Terrain of early to late Proterozoic age. Geologically, the mineral was formed as a result of several episodes of metamorphism and folding of a host rock JWZ with a unique chemical composition, containing an anomalous amount of vanadium, as well as a structural disposition that offered the ideal conditions for its development within a common place metamorphic reaction.

The MML tanzanite mine is in the vicinity of Merelani, a mining village situated on the western flank of the Lelatema mountain range in Northern Tanzania, East Africa. The mining area is situated southeast of Kilimanjaro International Airport (“KIA”) and is accessed via a 16km dirt road. The nearest towns are Arusha and Moshi that are respectively located to the west and east of KIA and are each accessed by approximately 45km of tar road. Two rainy seasons occur in November to December and from April through June and access via the dirt road in two-wheel drive vehicles may be difficult during these rainy seasons.

The mining area has been subdivided into five licences namely, A, B, C, D and D-extension. MML is mining the Block C area under a Special Mining Licence (“SML”). Smaller operators mine Blocks A and Block D-extension, and local individual miners or consortiums of miners work 50m by 50m claims within Blocks B and D.

The SML granted to MML covers an area of 8km² and confers on MML the exclusive right to carry on mining operations for tanzanite and other minerals and gemstones in the area. The SML is valid for a period of 12 years and four months from 10 March 2000 and will be extended for a further period of 25 years, provided that MML complies with the provisions of Section 42 of the Mining Act (No.5 of 1998) (“the Act”). The conditions of the SML renewal are not considered to be onerous.

1.2 Derivation of Resources

The geological distribution of tanzanite mineralisation is defined in a series of parallel shallow plunging, narrow structurally controlled shoots and is a difficult form of mineralisation to evaluate. It is not possible to assay for tanzanite and therefore, to identify and quantify tanzanite, it has to be physically recovered. The low proportion and homogeneity, measured in standard metric carats (0.2g), has made initial attempts at resource estimations difficult.

It is recognised that the identified extent of the JWZ in Block C, the area currently being mined by MML is in the order of 6.3 million tonnes. Records indicate that during mining only between 10 to 15 per cent. of the JWZ is economically recoverable with a tanzanite grade of 66cts/t. At this time, under present economic conditions, an estimated mine resource of about 1.0 million tonnes with a recoverable estimate of 66 million carats is regarded as realistic.

In terms of the establishment of a reserve/resource base, the exploration and development of MML aims to define a reserve/resource base that adheres as far as possible to accepted International Codes while at the same time contributing to the development of an acceptable system applicable to the unique tanzanite mining environment. Prior to the acquisition of MML by TanzaniteOne from Afgem, MML was a wholly owned subsidiary of Afgem that was listed on the JSE Securities Exchange South Africa (“JSE”) and consequently, MML had to comply with SAMREC regulations.

MML with three years of exploration and mining experience in Block C, has established a geological model that is assisting them in both the location and development of mining areas. Tanzanite mineralisation in favourable geological zones is now identified in all shaft systems.

The difficulty of defining reserves under the International Codes for tanzanite mineralisation is recognised by TanzaniteOne. Extensive geological studies and bulk sampling have been completed during the past three years of mining. This work has given MML the confidence to implement a three year mining plan. The plan will establish mineralised areas by either sills and raises or by sills alone to permit immediate extraction. Resulting mineralisation will be processed through the existing facility to produce graded rough tanzanite.

1.3 Valuation

This three year mining plan has been utilised as the basis for the derivation of an economic assessment that results in a valuation. The valuation technique is based on the future cash flow resulting from a proposed operating plan that is successfully implemented such that the projected returns can be discounted to a present value. The plan is based on a detailed operating proposal for the next three years that has been extended to 10 years as the basis for the valuation. This envisaged ten year life is more than supported by the existing resource base.

DMD has considered the project and the particular situation and are confident that the use of historical production data derived from the mining of mineralisation (supported by Professor Scheepers work), initially classified in the inferred resource category, may be used in a DCF model to value the deposit.

The valuation of the tanzanite project of TanzaniteOne using a discounted cashflow is shown in Table 2 and results in the following after tax NPVs at various discounts rates:

Table 2 – Valuation showing after tax NPV at various discount rates

<i>Exchange Rate (to US\$)</i>	<i>ZAR6.50</i>	<i>£STG1.80</i>
<i>% Discount</i>	<i>NPV US\$</i>	<i>£ STG</i>
0	60,377,379	33,542,988
10	35,270,676	19,594,820
20	22,812,774	12,673,764

The above table relates to the tanzanite mining operations of MML and not the total TanzaniteOne business. The basis for the revenue stream is the selling of rough tanzanite.

The financial model has utilised constant prices and takes no account of inflation rates, changes in exchange rates or financing charges. The assessment includes appropriate royalty payments and local Tanzanian taxation.

The DMD study involved a consideration of historical information and discussions with key TanzaniteOne personnel to ascertain that the proposed level of operating performance together with associated capital and operating costs were consistent with current and past performance. The independent review by DMD confirmed the integrity and methodology of the MML operating plan and the accuracy of its data.

A sensitivity analysis showed that the project is most sensitive to changes in the revenue stream (grade, recovery and price) and less but still sensitive to variations in operating costs and capital costs.

1.4 Conclusions and Recommendations

The DMD study has confirmed the potential of the TanzaniteOne's tanzanite mine and therefore, it supports its proposed operating plan and its on-going implementation. The operating parameters and associated operating costs are based on accurate information. The proposed capital investment programme is sufficient to support the increased level of production. This increased level of productions is supported by the resource base, the market for tanzanite over the previous years and is within the operating and technical capabilities of the TanzaniteOne directors and staff.

2 INTRODUCTION

2.1 Background

DMD was retained by TanzaniteOne to prepare a Competent Person's Report (CPR) on TanzaniteOne's tanzanite mining operations located at Merelani in Tanzania.

This report is specific to the TanzaniteOne's tanzanite mining operation that is located in Tanzania and operated by MML that is a wholly owned subsidiary of TanzaniteOne.

DMD is a specialist company that offers independent technical advice and assists with the development and financing of mineral projects. The principals of DMD are Tony Hopkins and David Jordan who have a wealth of experience and knowledge in the minerals' industry and who are members in good standing of the Institute on Materials, Mining and Metallurgy (IMMM previously IMM). They have been accepted as authors of Competent Person's Reports or Recognised Mining Professional Reports for various International Stock Exchanges and Financing concerns.

This report is based on site visits to the project areas, reviews of available operating, technical and financial data together with discussion with TanzaniteOne senior company personnel.

2.2 Reporting Definitions

A Competent Person's Report is defined as a technical audit of the information available on TanzaniteOne's mineral related properties that results in the derivation of a Fair Market Value of these assets by a Competent Person.

The Fair Market Value is defined as the price agreed between a willing buyer and a willing seller dealing at arm's length, both fully informed and under no compulsion to act, in an open and unrestricted market, at a given point in time. The effective date at which the fair market value is established is important as this value can change with variations in conditions and base parameters.

A Competent Person can in practice be an individual or a company in which case a Director or Partner has to sign the CPR. A Competent Person has to be professionally qualified and have at least five years of relevant experience with regard to the type of mineral deposits in question. A Competent Person must visit the site and have access to all available information, data and results and reach only conclusions that can be substantiated by evidence.

2.3 Resource Base

In terms of the establishment of a reserve/resource base, the exploration and development by TanzaniteOne at Merelani aims to define a reserve/resource base that adheres as far as possible to accepted International Codes while at the same time contributing to the development of an acceptable system applicable to the unique tanzanite mining environment. Prior to the acquisition of MML by TanzaniteOne from Afgem the project was a wholly owned subsidiary of Afgem that was listed on the JSE and consequently, MML had to comply with SAMREC regulations.

2.4 Valuation Procedures

The mineral assets of TanzaniteOne have been valued using a discounted cashflow method. This technique is based on an operating plan and associated budget that has been proposed by TanzaniteOne and agreed by DMD. This valuation method has been selected because of the operating history of MML and the knowledge that there is a significant resource base that will support the envisaged tanzanite production schedule for a minimum of 10 years.

2.5 Reporting Restrictions

DMD reserves the right to alter the conclusions of its report should additional information become available. Permission is hereby granted to TanzaniteOne to use this report in support of submissions to Securities Commissions or Stock Exchanges or in support of funding provided the meaning intended by the report as a whole is not altered by partial extractions or quotations.

2.6 Fee component

DMD is independent of Afgem, MML and TanzaniteOne and has been commissioned on a fee-paying basis and has not received, does not own nor does it expect to receive any interest, directly or indirectly, in the properties that are the subject of this report or in Afgem or TanzaniteOne.

2.7 Statement from TanzaniteOne

TanzaniteOne has disclosed all material information pertaining to the scope of work (“the information”) and declared that to the best of its knowledge, all such information is complete, accurate and true.

2.8 Disclaimer

DMD is of the opinion that the information and the various reports that form the basis for this study have been prepared by professional qualified persons.

The main reports referred to in this report are as follows:

- (a) **An Independent Competent Person’s Report On the Proposed Listing of African Gem Resources Limited** (Within the ‘diamond’ section of the Mining Resources sector of the Johannesburg Stock Exchange) by Steffen Robertson and Kirsten (South Africa) (Proprietary) Limited (“SRK”) in 2000.
- (b) **Various reports on tanzanite occurrence in the Lelatema anticline area of Tanzania** by B. Olivier and R. Scheepers, Gemstone Research Centre, Department of Geology, University of Stellenbosch, Private Bag X1, Matieland, 7602. Tel: 27 21 808 3124; Fax: 27 21 808 3129; E-mail: bo@webmail.co.za and rsc@sun.ac.za
- (c) **Merelani tanzanite mine: geological and exploration summary.** (10 October 2003) by Owen Dix, Craton Resources, Randburg, South Africa

3 TANZANIA COUNTRY PROFILE

3.1 History and Background Information

Tanzania was formed in 1964 when shortly after independence, Tanganyika and Zanzibar merged. The first democratic elections were held in 1995 following one-party rule. The country is a Republic and its current President is Benjamin William Mkapa.

The country has a land area of 945 088 km² (including the islands of Mafia, Pemba and Zanzibar). The official capital city is Dodoma although the coastal city of Dar es Salaam is the *de facto* commercial capital.

The population of Tanzania is as follows:

<i>Year</i>	<i>Population</i>
1978	17,564,000
1988	23,174,300
2003	34,827,600

The main religions are Christian 45 per cent., Muslim 35 per cent., indigenous beliefs 20 per cent. Zanzibar is more than 99 per cent. Muslim. The main languages are Swahili (official) and English with some Arabic also spoken in Zanzibar.

3.2 Political, Financial and Economic Risk

3.2.1 *Economical overview of the economy*

The Tanzanian economy depends heavily on agriculture which accounts for half the national GDP. It provides 85 per cent. of the country’s exports and employs about 80 per cent. of the workforce. However, the topography and climatic conditions limit cultivated crops to only 4 per cent. of the total land area. Traditionally, industry features the processing of agricultural products and includes light consumer goods.

The World Bank, the International Monetary Fund, and bilateral donors have provided funds to rehabilitate Tanzania’s economic infrastructure and to support the alleviation of poverty.

Tanzania’s growth in 1991-2002 was generated from an increase in industrial production and a substantial increase in the output of minerals (predominately gold). In addition, oil and gas exploration

and development became an important part of this growth. Recent banking reforms have helped increase private sector growth and investment. Continued donor support and solid macroeconomic policies have led to forecasts of continued real GDP growth of + 5 per cent.

Tanzania has an abundance of natural resources, a diversified base for raw materials supply from local sources; political stability, a positive market policy (privatisation, investment incentive, liberalised foreign exchange controls and the ongoing establishment of a socially responsible economy) an excellent geographical location in the East African region and superior tourist attractions.

3.2.2 Economic outlook

Real GDP grew by 5.4 per cent. in 2003 and is forecast to grow by 5.5 per cent. in 2004, driven by steady growth in mining and agriculture and infrastructure development. The government has stated that it wishes to improve its capacity to undertake and deliver on projects and if it succeeds, this may well lead to higher growth rates.

3.2.3 Debt outlook

Tanzania's stock of external debt is forecast to fall steadily to US\$6.4bn by end 2004, as loan disbursements are increasingly replaced by grant aid and debt write-offs under the IMF-World Bank's heavily indebted poor countries (HIPC) initiative. Similarly, the debt-service ratio is forecast to fall from 11 per cent. in 2002 to 9 per cent. in 2003-2004, thanks to the HIPC initiative and rising exports.

3.2.4 Political risk

Tanzania is one of the most politically stable countries in Africa. The political risk is rated 'medium'. Security risk is rated 'low' (high in Burundi, Rwanda and border areas).

3.2.5 Security of tenure

Investments in Tanzania are guaranteed against nationalisation and expropriation. Tanzania is a member and signatory of several international agreements for protecting investments. Any disputes arising between the Government and investors are settled through negotiations or may be submitted for arbitration before the relevant international organisation.

3.2.6 Laws and conditions governing mining operations

Investments in mining in Tanzania are currently covered under the Act. The Act provides for mineral mining, trading and other related matters.

4 THE MERELANI MINE

4.1 Location

The general location of Merelani is shown as Figure 1.

Figure 1 – General Location of Merelani



Tanzanite is mined in the vicinity of Merelani that is situated on the western flank of the Lelatema mountain range in Northern Tanzania, East Africa. The mining area has been subdivided into five licences namely, A, B, C (which is owned by MML), D and D-extension.

The mining area is situated southeast of Kilimanjaro International Airport (“KIA”) and is accessed via a 16km dirt road. The nearest towns are Arusha and Moshi that are respectively located to the west and east of KIA and they are each accessed by approximately 45km of tar road. Access from KIA using the dirt road in two-wheel drive vehicles may be difficult during the rainy season although the site can be reached at all times in four-wheel drive transport. In general, access and availability of infrastructure (including electricity and water) is good. The two rainy seasons are November to December and from April through June. Travelling time from KIA to the mine area is approximately 20 minutes and one hour from Arusha and Moshi.

The general layout of mining blocks within MML’s mining area is shown in Figure 2 and the mine layout in Figure 3.

Figure 2: Mining blocks at the Merelani area

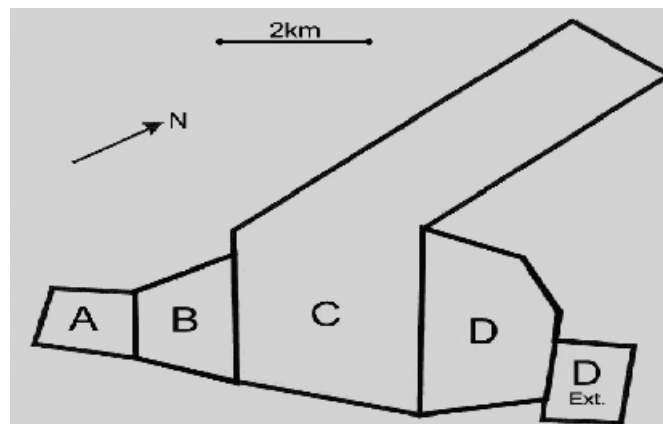
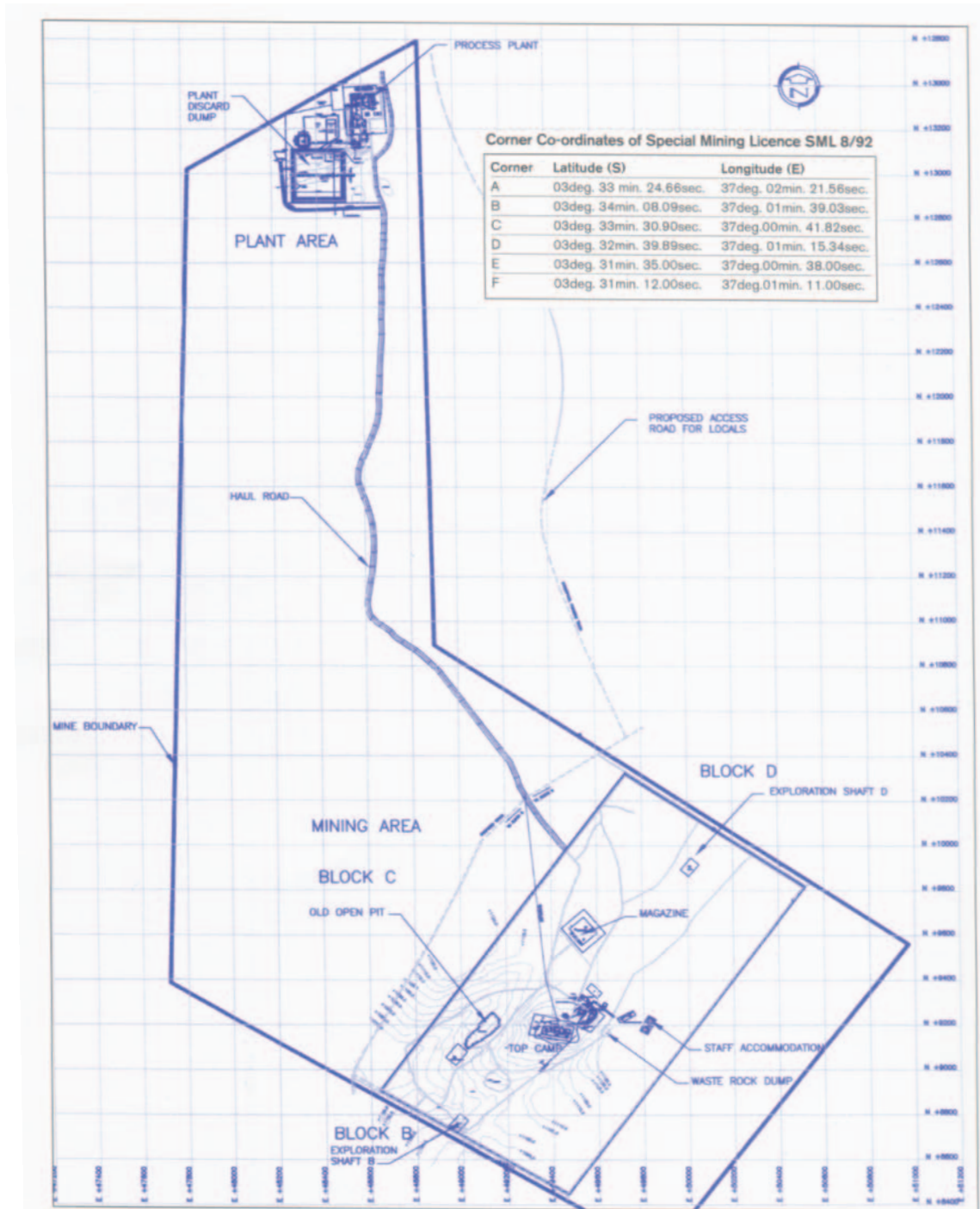


Figure 3: Merelani mine layout



Mining of Block C is conducted by MML. Small operators mine Blocks A and Block D-extension, and local individual miners or consortiums of miners operate 50m by 50m claims within Blocks B and D.

4.2 Special Mining Licence

MML was granted a Special Mining Licence No. SML 08/92 in accordance with the provisions of Section 39 of the Act, on 10 March 2000. In terms of this SML, MML has been granted the right to use the surface area. An annual rental is paid for the use of the total licence area, which incorporates both the surface and mineral rights.

The SML provides mining rights over Block C within the Merelani mining area in the Simanjiro District of the Arusha region, as defined by lines of latitude and longitude with the following corner coordinates as shown in Table 3:

Table 3 – Corner coordinates of SML 08/92

<i>Corner</i>	<i>Latitude (S)</i>	<i>Longitude (E)</i>
A	03deg,33min, 24.66sec	37deg,02min, 21.56sec
B	03deg,34min, 08.09sec	37deg,01min, 39.03sec
C	03deg,33min, 30.90sec	37deg,00min, 41.82sec
D	03deg,32min, 39.89sec	37deg,01min, 15.34sec
E	03deg,31min, 35.00sec	37deg,00min, 38.00sec
F	03deg,31min, 12.00sec	37deg,01min, 11.00sec

This SML covers an area of 8km² and confers on MML the exclusive right to carry on mining operations for tanzanite and other minerals and gemstones in the area. The SML is valid for a period of 12 years and four months from 10 March 2000 and will be extended for a further period of 25 years, provided that MML complies with the provisions of Section 42 of the Act.

The provisions for an extension of the SML relate specifically to the following issues that are quoted in the SML:

- reasonable progress with mining development
- sufficient remaining ore reserves
- the future mining programme being in accordance with good mining practice
- environmental management satisfying the standards set by the National Environment Management Council of the Government of Tanzania

Compliance with these provisions is not considered to be onerous and has been incorporated into TanzaniteOne's strategy. The SML also grants TanzaniteOne the authority to export tanzanite. Under the Act, the holder of an SML is defined to be an authorised miner, who may export any mineral product recovered subject to the payment of royalties.

4.3 Mineral rights

The mineral rights of the area encompassed by the SML grants MML the exclusive right to mine, search for, dig, mill, process, transport, use and/or market graphite, tanzanite, tsavorite, kyanite or other minerals found to occur in association with that mineral in or under the special mining area. In addition, MML may execute such other works as are necessary for the above purpose.

4.4 Surface rights and land ownership

In terms of the Land Ordinance, Cap113, a person may only own the 'unexhausted improvements on land'. The 'unexhausted improvement' is defined in terms of Section 2 of the Land Ordinance, Cap113, as any thing or any quality permanently attached to land resulting from the expenditure of capital or labour by an occupier or any person acting on his behalf and in creating the productive capacity, the utility of the amenity thereof.

All surface rights in Tanzania vest in the Government of Tanzania. The Government of Tanzania may grant the rights to the use of surface to a third party who or which would enjoy the use of those rights in terms of the relevant agreement with Tanzania. The granting of a SML in accordance with the Act, grants the holder of the SML these rights.

The right to use the surface area of the SML is therefore granted to MML pursuant to Section 43 of the Act. An annual fee of US\$12 000 (based on US\$1 500 per square kilometre) is paid as rent for the use of the licence area in total and is inclusive of mining and surface rights.

4.5 Water permits

MML holds valid Final Grant Water Rights for three boreholes.

4.6 Royalties

MML has an obligation in terms of Section 86 of the Act to pay a royalty of 3 per cent. of the “net back value” of minerals produced under its SML. The “net back value” is defined in Section 86(3) as the free on board (“FOB”) market value of minerals at the point of export from Tanzania, or, in the case of consumption within Tanzania, at the point of delivery within Tanzania. The licence holder is entitled to deduct from the FOB value the cost of transport (including insurance and handling charges) from the mining area to the point of delivery and processing costs not normally carried out in Tanzania in the mining area. This implies that the processes of cobbing and grading are normal mine processing costs and therefore not deductible from the FOB value.

In terms of the SML, MML is entitled to undertake further beneficiation of the tanzanite. These costs would then be deductible against the higher FOB value of the tanzanite.

4.7 Methods of operation

The SML granted to MML refers to three key documents, viz. the Mining Plan, the Environmental Management Plan (“EMP”) and the Employment and Training Plan (“EATP”). The plans referred to in the SML relate to those previously submitted by Graphtan Limited (“Graphtan”), to whom the SML was originally issued.

In terms of Section 45 of the Act, the holder of a SML may make amendments to these plans and submit the amended plans to the Minister of Energy and Minerals. As long as the new plans do not in any way alter a provision that forms a part of the conditions of the licence or adversely affect environmental management, the plans shall have immediate effect.

4.8 Accessibility and local infrastructure

The plant is situated above an underground aquifer that is capable of providing adequate water supply for operations and human consumption. The road from KIA has been built and is maintained by MML. Power supply is provided by way of a 2MW line connection onto the National Grid. While installation of the initial infrastructure to the mining area was paid for by MML, it is now maintained by TANESCO (the Tanzanian Electricity Supply Company) and has been made accessible to the local miners working in the adjacent blocks. Back up power is catered for by way of various diesel-powered generators that have sufficient output capacity to ensure full-scale operations at all times.

Various other infrastructural requirements (sundry buildings, sewerage treatment plants, access road upgrades, water purification etc) have all been completed and made operational by MML.

4.9 Historical exploration and mining activities

The earliest organised prospecting and mining in Tanzania took place during the German colonial period, beginning with gold discoveries in the Lake Victoria region in 1894. Mining began at the Sekenke Mine in 1909. After 1930, gold production was substantial and increased steadily until the Second World War. By 1967, the gold industry had declined, only to revive after 1974. In April 1990, the Bank of Tanzania began buying gold at market prices through commercial banks, paying miners in Tanzanian shillings calculated at the parallel-market rate for the US dollar.

Diamond mining, which had been relatively small-scale prior to 1940, received a major boost with the discovery of the Mwadui Mine in 1940.

Besides gold and diamonds, which have long been the foundations of mineral production, mining of other commodities has been relatively modest, namely: copper, lead, phosphate, coal, kaolin and coloured gemstones.

The mining industry developed slowly in Tanzania, largely due to historically unfavourable mining policies and lack of finance. Until recently, Tanzania's mining sector has been predominantly informal and dominated by small-scale artisanal miners using underdeveloped mining methods.

In 1985 the government emphasised the important role that the country's mining industry could play in reviving the national economy. 1990 saw the beginning of an investment code that laid the foundation for a fiscal regime to attract both foreign and local investment into the mining industry. Between 1995 and 1999, fifty companies from abroad obtained 500 prospecting licences and invested US\$297 million into exploration. In 1999, the mining sector in Tanzania grew by 27 per cent., adding to Tanzania's steadily growing economy. The Ministry of Energy and Minerals anticipates the industry to represent as much as 10 per cent. of Tanzania's gross domestic product by 2025.

4.10 Discovery

Little detail exists as to the discovery of tanzanite but the consensus appears to be that tanzanite was first discovered in 1967 and that it was named tanzanite after its country of origin. Tiffany & Co. introduced the newcomer to the world market, making them the earliest promoters of tanzanite.

The Tanzanian Government took control of the tanzanite mines in 1971, under the name Tanzanian Gemstone Industries ("TGI") which later became a subsidiary of the State Mining Corporation ("STAMICO"). Production declined steadily and by the end of the 70's, Tiffany & Co. stopped purchasing tanzanite due to the erratic nature of supply.

During 1996 and 1997, the mining of tanzanite boomed and the market was over supplied, causing prices to drop dramatically. In 1998, there was extensive flooding in the mining area that severely disrupted production and as a result, the prices rose again and continue to remain high.

In 1989, the UK-based mining company, SAMAX reported approximately 30 000 illegal miners on the deposit mining in a haphazard and often dangerous fashion. In 1990, the Ministry of Home Affairs cleared the area of all illegal miners and subdivided the area into five main areas or blocks. Block C, the largest of the five blocks comprising an area of eight square kilometres, was awarded to Graphtan, a company managed by SAMAX. Graphtan was, however, predominantly focused on mining graphite and only started a tanzanite evaluation-drilling project in 1996. By the end of 1996, Graphtan ceased its operations and was liquidated in mid-1998. At the end of 1998, Merelani conducted a preliminary investigation and subsequently entered a bid for Graphtan's mining licence. In July 1999, Merelani was awarded the mining licence after submitting the highest tender. At the time Merelani was a subsidiary of Afgem. Afgem listed on the JSE in August 2000.

Graphtan was the first company to undertake systematic exploration and mining of both graphite and tanzanite at Merelani. Graphtan's exploration included eight diamond-drill holes which intersected the main tanzanite-bearing JWZ unit at depths of 95-155m (LHD1-2 and LHD4-9). These holes were all vertical except LHD1, which was drilled at -80° on 135°.

As part of a bankable-feasibility study in 2000, which led to mining commencing in 2001, MML extracted two bulk samples from the bottom of the existing JW winze (shaft 1) under the supervision of SRK. The winze sample was 400t and was taken from a well-mineralised area with dimensions of about 25m by 3m by 2m. A raise was then developed up dip for 25m perpendicular to the winze, where a 220t sample was obtained.

The above winze sample graded at 508cpt and the raise sample at 20cpt. SRK concluded from this that the former represented the grade of enriched pay zones and the latter the average background grade. Subsequent exploitation of the deposit by Merelani has shown, however, that selective mining of pay zones is required to achieve a head grade of 66cpt and that intervening areas are virtually barren.

5. GEOLOGY

5.1 Introduction

The subject of this CPR is the rare variety of the Zoisite mineral group, tanzanite, which is found only in Tanzania. Based on its beauty and rarity, tanzanite is rated high in both intrinsic and extrinsic values that have helped to establish it as a very marketable commodity in the world's luxury goods and gemstone markets.

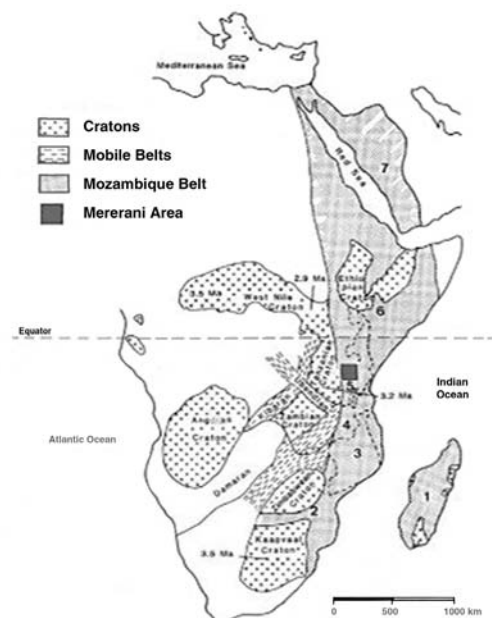
The appeal of tanzanite lies in its colour and rarity. The rarity of this mineral is based not only on its physical and chemical properties, but also on the combination of the geological controls through which it was formed. In this respect, DMD is of the opinion that a comprehensive description of these geological processes is a prerequisite for the understanding of the formation, mining and economic viability of the tanzanite deposit.

5.2 Geological setting

5.2.1 Continental setting

The MML tanzanite deposit is located within the continental scale geological feature that dominates the eastern side of Africa. Formerly known as the Mozambique Belt, it is now referred to as the East African Orogen ("EAO") and is illustrated in Figure 4. The EAO represents a belt of sedimentary and volcanic rocks of around 2.5Ga and younger in age that were deposited in a series of sinuous basinal depressions between a sequence of ancient sialic crustal nuclei of the 3.5Ga old primoidal crust. This belt of sediments and associated volcanics is aligned north to south and is over 7,000 km long, 1,000km at its widest and up to 30km thick at its deepest. In global terms, it may be regarded as a very long, narrow and extremely thin sinuous geological feature that has suffered a cyclic history of metamorphism and deformation in a sequence of early (>2.2Ga), mid (1.4Ga) and late (0.5Ga) Proterozoic tectono metamorphic events.

Figure 4 – East African Orogen



Early geological interpretation bestowed the events with local names but as the ages are common throughout the EAO as a whole, it is deemed simpler to refer to them in this manner.

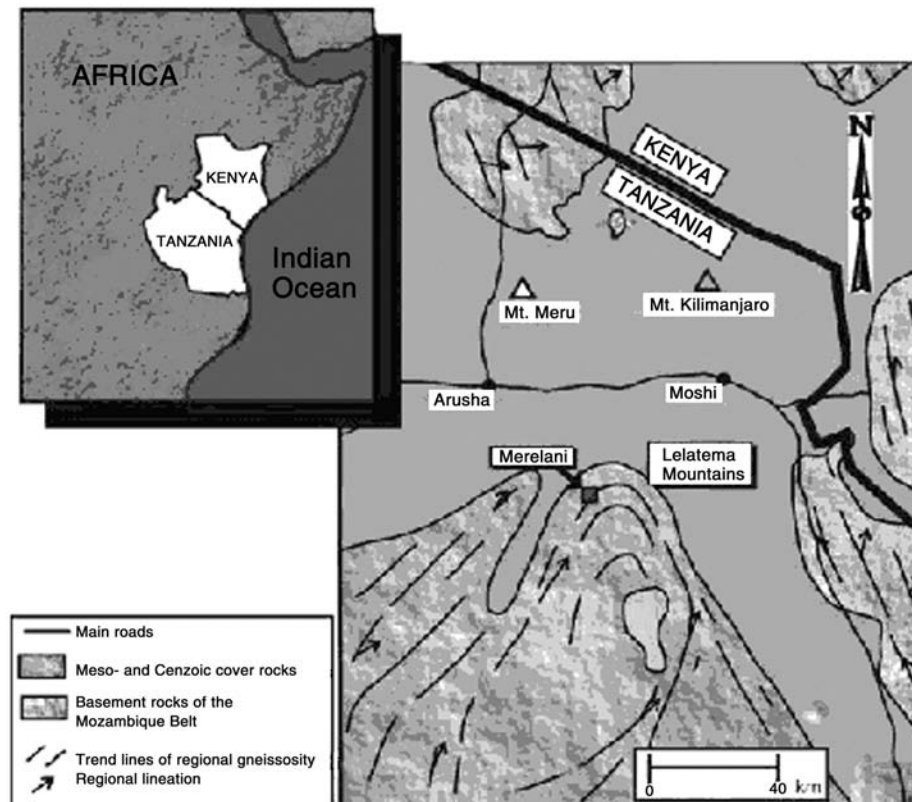
The initial geological history is one of a major high-grade metamorphic event associated with depth of burial and high heat flow through a thin continental crust. Accompanying deformation associated with intercratonic movement tightening the basinal structure produced pronounced polyphase folding of the metamorphosed sediments and volcanics.

Subsequent intercratonic movements initiated later brittle deformation and minor granitic style mobilisate intrusive activity. Post the late Proterozoic, there has been a prolonged hiatus with geological activity only recommencing in the late Palaeozoic (<250 Ma) with the deposition of the pan Gondwana Karoo system followed by continental rifting, Cenozoic (<65Ma) and late Quaternary volcanism and sedimentation. None of these later formations are present on the mine area and play no part in the geology of the property.

5.2.2 Regional setting

The Merelani tanzanite deposit is located within a sequence of banded gneisses and marbles that have been metamorphosed and deformed during the earliest tectono-metamorphic event of the area. The mine area crops out on the northwest flank of the local Lelatema dome, a late age regional open fold structure that plunges both to the northeast and south west and measures about 50km across.

Figure 5 – Regional geology



5.2.3 Mine setting

In the area of the mine and its immediate surrounds, the geological units that make up the mine succession are exposed in the core of an over turned syncline that has been duplicated by thrusting through of the lower limb. DMD has designated this structure the Mine Syncline (“MS”). The axes of the duplicated MS strike northeast to southwest and dip around 45° to the northwest. The MS also plunges around 20° to the northeast. The core geology has a strike length of 3,000m and is some 1,200m at its widest. A satellite image of the Lelatema anticline is shown in Figure 6.

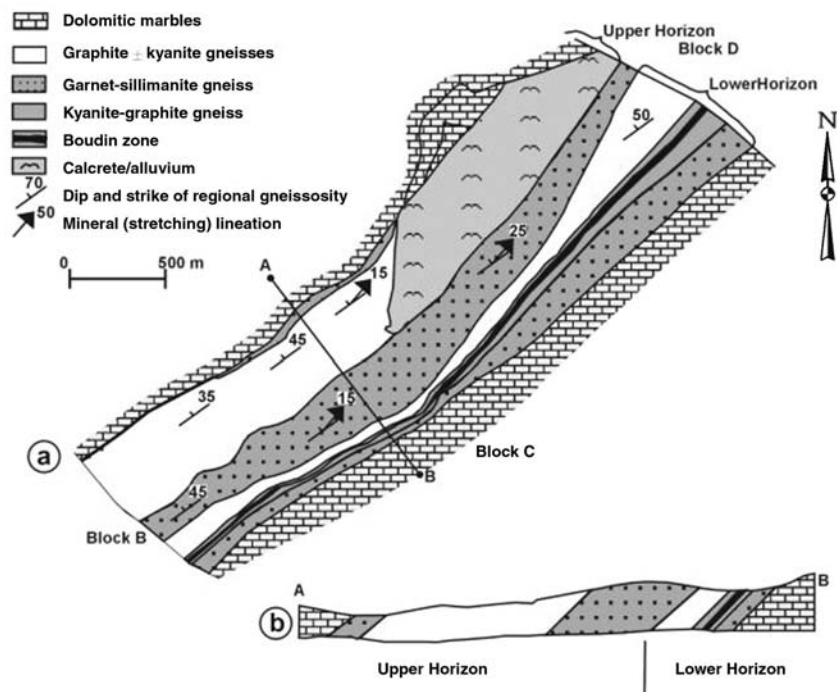
Figure 6 – Satellite image of Lelatema anticline



The stratigraphic column at Merelani mine

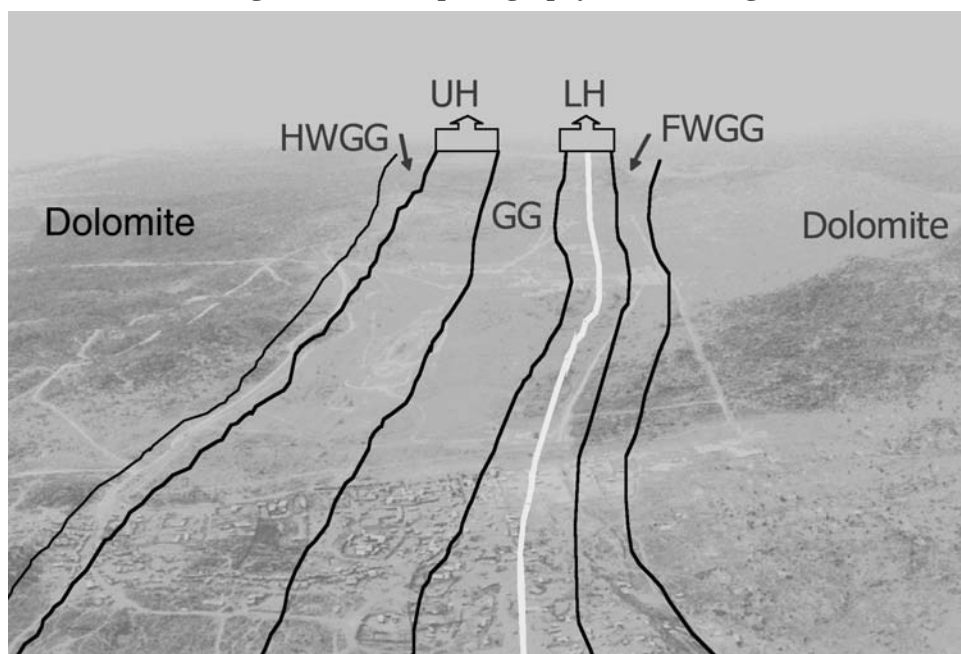
The formations exposed in the core of the MS that make up the Mine Succession are comprised of at least 10 identified major mappable units grouped into an Upper, Middle and a Lower Horizon. The local geology is illustrated in Figure 7.

Figure 7 – Local geology



An aerial photograph of the area is given in Figure 8.

Figure 8 – Aerial photograph of the mining area



Recent work indicates there could be fold repetition of the above sequence, with the Upper and Lower Horizons being tectonic duplications.

The main tanzanite bearing unit, the JWZ, is located in the lower part of the Lower Horizon, with two other similar units present within the overlying sequence (called the C and D zones). Most of these units are characterised by abundant disseminated sulphides and irregular, thin stringers. These consist mainly of pyrite, with minor pyrrhotite and sphalerite.

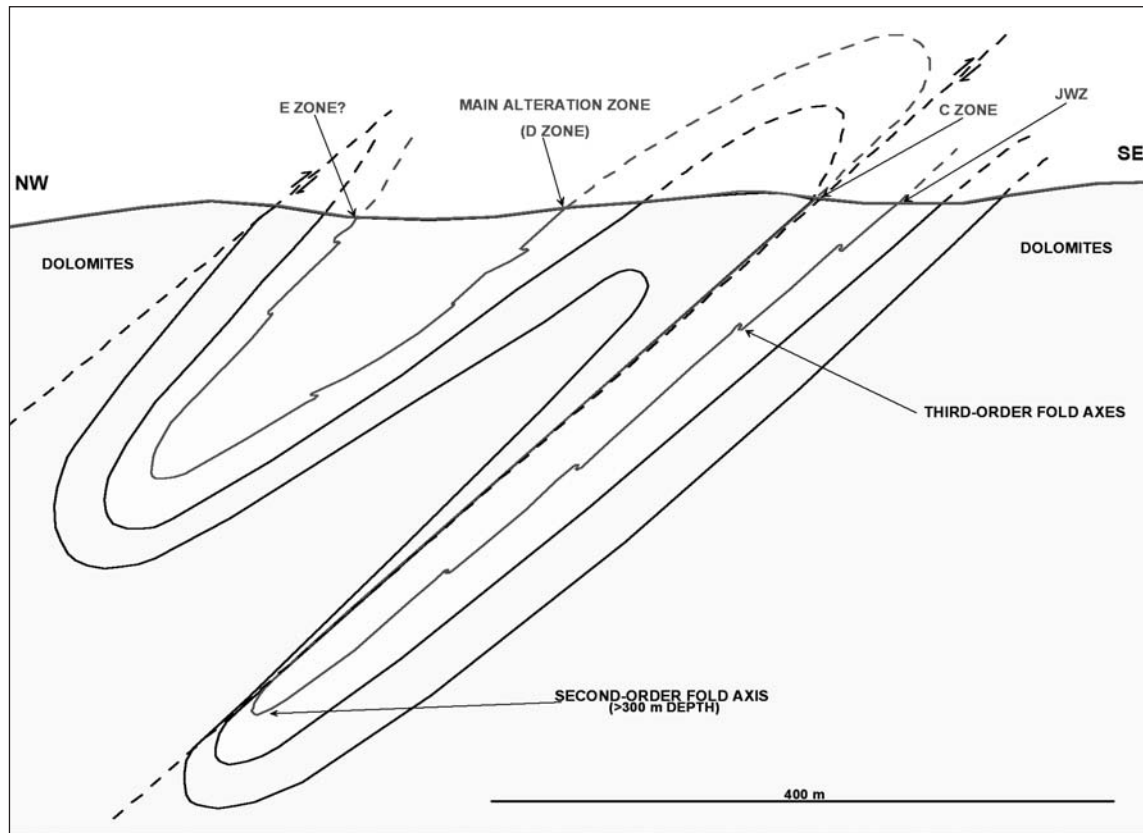
The lithostratigraphy succession and subdivision of the Lower Horizon is shown in Table 4

Table 4– Lithostratigraphy succession and subdivision of the Lower Horizon

Central Garnet silliminite biotite gneiss
Kyanite Graphite Gneiss (LK4)
C-zone
Kyanite Graphite Gneiss (LK3)
Grossular Graphite Schist (GCS2)
Kyanite Graphite Schist
Banded calc silicate fels (BCF2)
Dolomitic marble
Banded calc silicate fels (BCF1)
Graphite calc silicate schist (GCS1)
Kyanite Graphite Gneiss (LK2) HW
JWZ (tanzanite bearing horizon)
Kyanite Graphite Gneiss (LK1) FW
Lower Garnet silliminite biotite gneiss

An illustration showing second order folding is given in Figure 9.

Figure 9 – Second order folding



According to the above model, two synclines and an anticline are present, resulting in the JWZ occurring at four positions within this stratigraphic sequence. This has economic implications in that the JWZ could occur at surface in up to three additional locations in the MML licence area, two of which have been identified (that are designated the C and D zones).

Drilling indicates that the stratigraphic sequence remains fairly consistent both laterally and down dip within the licence area. Although some faulting has been identified, the throw is generally less than about 0.5m. No dykes have been identified within the current mining area.

5.2.4 JWZ (the tanzanite bearing zone)

During the period from 1968 to 1971, Ali Juuyawatu, a Maasai tribesman, started larger scale mining operations in the now Block C area. He apparently produced between 200 and 400kg of gem-quality tanzanite from approximately 28000t of rock. The main tanzanite bearing ore-zone, the JWZ, was named after him.

The JWZ, where mining and recovery of tanzanite is currently taking place on Block C, is well-layered on a centimetre scale and consists mainly of feldspar-quartz-graphite gneiss with calc-silicate layers that have been selectively boudinaged during the early tectonomorphic event. The grain size of the JWZ is generally finer than the enclosing kyanite gneisses.

The JWZ is typically 2-4m thick, but with a range of 1.5-14m. It is a tabular unit that has been traced at surface continuously across the entire licence area for 2.0km with a northeast strike (40°). The unique tabular nature of the JWZ together with its mineral compositions are the main contributors to the formation of the tanzanite mineralisation. The dip averages 40-45° to the northwest and drilling indicates it extends down to vertical depths of at least 285m. Locally the dip is variable, increasing for example to nearly 60°. In the south-western part of the licence area, the JWZ is covered by 1-5m of soil and alluvium, whereas in the northern area, there is a hard calcrete cover that thickens to over 25m.

The JWZ, delineated by eight shallow boreholes (95-155m depth), has an average true width of 2.6m, whereas in the five deeper holes (225-285m depth), it averages 3.5m. Surface mapping indicates that it also varies in width along strike, being thinner in the central area than in the southwest and northeast.

5.2.5 Depositional setting

An interpretation of the lithostratigraphy of the area, especially the planar tabular nature of the JWZ and the abundant carbonate rocks, suggests a typical shallow marine depositional environment on the flanks of a volcanic arc. The arc setting on the eastern flank of the Tanzanian Craton is also suggested by the extensive development of shallow water continental shelf carbonate formations in both Kenya and Tanzania, as well as the exposure of pre EAO basement in the form of granulites in the Pare Mountains to the east.

The JWZ, on inspection, is seen to be very similar in composition and form to typical carbonate iron facies, BIF (Banded Iron Formation), as found in greenstone belt volcanogenic gold systems. The abundant graphite reflects prolific algal growth as found in such early to mid Proterozoic systems.

The prolific garnet development again reflects ferruginous sedimentation as developed in back arc basins, whilst the strongly aluminous kyanite gneisses may represent acid volcanics. The metabasites found adjacent to the mine area are typical of volcanic arc environments.

5.3 Structure and metamorphism

The succession of gneisses and marbles at Merelani indicate that they represent a suite of sediments and volcanics that have been metamorphosed and deformed in an early high grade tectonothermal event characterised by continuous episodes of deformation and progressive metamorphism.

In terms of structures and metamorphism that affect the tanzanite mine area, two, or possibly three, main episodes are identified being:

5.3.1 Deformation Sequence 1: Metamorphism Sequence 1

An early imposition of a stress field on the JWZ produced a stress pattern of alternating centres of tension and compression within the planar structure. It is envisaged that the effect on the planar JWZ was akin to a mesoscopic scale fold with very short wave length (0-5m) on a single surface, with culminations and depressions developed as in an embryonic cylindrical fold. The axes of the culminations may show double plunging. It is envisaged that there was very little or no translation movement during deformation sequence 1.

Associated structures are a mineral foliation structural sequence 1, developed parallel to the possible sedimentary banding structural sequence 0, as exhibited by the contacts of the JWZ with the surrounding gneisses.

This deformation may have been early in the history of the deposit. The recognition of this phase of deformation to produce a relatively symmetrical stress pattern is critical to identifying potential centres of tanzanite mineralisation in the mine.

Current mine development and exploration indicates that in deformation sequence 1, the centres of tension culmination were possibly on an orthogonal spacing of 120m.

5.3.2 Fold Sequence 1: Metamorphic Sequence 2: Deformation Sequence 2

The first evidence of translation movement and folding of the JWZ is seen as boudinage of the pegmatoidal development in the deformation sequence 1 tension culminations, followed by intrafolial folding of the intraformational calc silicate bands developed in the JWZ in response to amphibolite grade metamorphism.

This intrafolial folding took place under plastic conditions of partial anatexis. The effect of onstrike compression is evident from the refolded style as well as the plastic progression into rootless style folds.

Within the country rocks adjacent to the JWZ, leucosomes exhibit the same style of folding. It is evident that the metamorphic grade attained was in the Upper Amphibolite and possible Granulite facies, as ascertained from the mineralogy metamorphic sequence 2. The main effect of this phase was both the formation of tanzanite related to the metamorphism and the duplication of the areas of tanzanite formation by the intrafolial folding.

Mapping to date suggests that the intrafolial folds have axes that plunge parallel to the current dip of the JWZ.

5.3.3 *Fold Sequence 2: Deformation Sequence 3*

The first signs of folding to affect the mine on a regional scale are seen as the tight overfolding, fold sequence 2. The possibility of duplication of the JWZ in this episode has been discussed.

The main structure to affect the mine has been the fold sequence 2 drag folding of the JWZ on the eastern limb of the MS. This folding is tight in nature and has a symmetrical development of plunging to the northeast at around 15°.

The distance between the drag fold crests is about 80m, which equates to around 120m on unfolding of the JWZ. The superimposition of the fold sequence 2 drag folds on the fold sequence 1 intrafolial folds has produced an interference pattern that has also succeeded in further duplication of the zone of tanzanite development. The fold sequence 2 folding has also resulted in the dislocation of the original drag sequence 1 orthogonal symmetry of the centres of tension culmination.

5.4 Deposit types

The Merelani tanzanite mineralisation may be classified as a Strata Bound deposit that within selected favourable structural zones there has been the development of tanzanite in response to a regional tectonic-metamorphic event.

The tanzanite is hosted in a series of parallel shallow dipping narrow fold structures. The thin planar development of the JWZ with the mineralisation developed in structurally defined shoots imparts a very low homogeneity and very low proportion of mineral to the deposit.

This type of deposit falls into the most difficult category to interpret in terms of the identification of reserves and resources as defined in the codes of practice of International Exchanges.

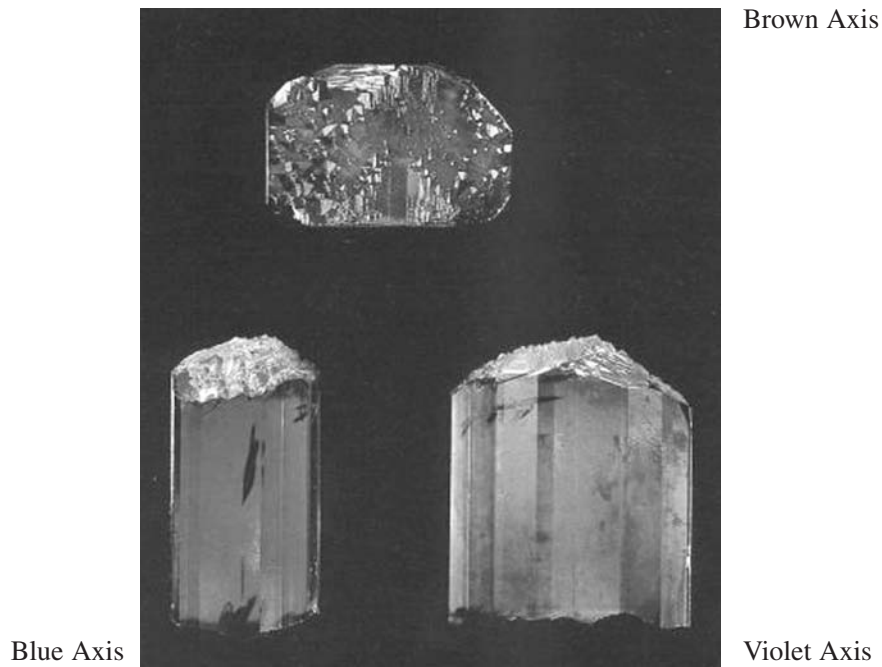
5.5 Mineralisation

5.5.1 *Definition of tanzanite*

Tanzanite is a violet-blue variety of the high-temperature, high-pressure metamorphic Zoisite Group minerals. This is a hydrous calcium-aluminium silicate mineral of the Epidote Group that is widespread in calcium-rich metamorphic rocks. It varies in colour from grey to brown, greenish and blue with a hardness of 6.0-6.5 on the Moh's scale and a specific gravity of 3.35. The colour of tanzanite, which is only known from the Merelani area of Tanzania, is attributed to crystal-lattice shifts associated with a change in oxidation state involving vanadium ("V"), titanium ("Ti") and strontium ("Sr"). The main catalysts are identified as V and Ti.

The presence or availability of Ti is well understood in the JWZ as a primary element in the calc silicate minerals sphene and titanite. Vanadium as an element however is very enigmatic in nature as it is prone to hiding in the lattice of siderophile elements such as iron and titanium. Its presence in the JWZ may be related to the carbonate iron facies mineralogy. The trichroism of tanzanite is shown in Figure 10.

Figure 10: Trichroism of tanzanite



5.5.2 Formation of tanzanite

The catalyst chemistry that imparts the colour to tanzanite is the key to its formation. In other respects the formation of zoisite is a common mineral developed in progressive regional metamorphism of calcareous rocks and is represented in the progressive development of the triclinic mineral epidote to the higher symmetry orthorhombic zoisite.

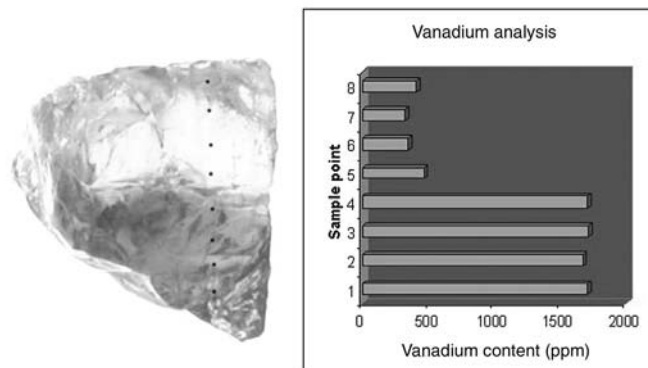
This progressive development is a function of an increase in both temperature and pressure with the expelling of Fe from the epidote lattice and its replacement by V in the zoisite.

Where the V originates from is either as a direct component of the carbonate iron facies or as detrital V scavenged by carbon in the original sediments.

At Merelani, there is a unique localised development within the JWZ that has resulted in the localisation of tanzanite.

The vanadium analysis of a zoned crystal is shown in Figure 11.

Figure 11 – Vanadium analysis of zoned crystal



5.5.2.1 Regional metamorphism

A regional tectono-metamorphic event is normally characterised by an initial thermal episode, followed by a tectono-thermal episode of plastic deformation and ending in a brittle episode of tectonic deformation.

- *Thermal phase*

In this episode the ensuing rise in temperature caused devolatilisation and dehydration of the regional geology. It is a high temperature-low pressure regime in which exolved liquids and gasses may comprise up to 10 per cent. by volume of the rock mass.

The destruction of phyllosilicates such as chlorite and other micas, releases low concentrations of Cl, H₂O and CO₂ that act as ligands for the collection and transportation of mineral elements in a silica (quartz) medium.

It must be noted also that the formation of volcanic related belts is often sub-marine in nature and the volcano-sedimentary piles are saturated with seawater.

- *Mobilisation*

The exolved low-grade quartz mineralisation is induced to flow through the rock pile via suitable areas of permeability. If the source of the primary mineralisation is close to or in contact with a permeability barrier, then there is the possibility of developing a localised entrapment of the silica mobilisate ("the trap"). At Merelani, this area of the fold sequence 1 fold culminated in the JWZ.

Permeability barriers may be natural, such as dense rock types (volcanics or dykes) or self generated by silicification of the local porosity.

If ponding develops, then it forms what may be considered as mini-localised hydrothermal systems where concentration of the mobilisate liquor takes place.

In this phase, both high temperature and pressure conditions prevail and are sustained in the localised fold sequence 1 fold culminations of the JWZ.

- *Emplacement and tanzanite formation*

The emplacement of the mineralised mobilisate into the host environment takes place in the waning stages of metamorphism when with a fall in temperature plastic deformation gives way to brittle failure.

Because the feldspar-quartz-graphite gneisses of the JWZ are less competent than the footwall and hanging wall kyanite-graphite gneisses, transverse shearing during regional metamorphism resulted in concentration of strain within this unit and it became isoclinally folded with shearing nearly parallel to its contacts. The JWZ itself also contains competent layers in the form of calc-silicates, which tended to disrupt into boudins during this process. The surrounding feldspar-quartz-graphite gneisses flowed by ductile deformation around these competent units as they pinched out and eventually formed separate boudins.

The boudins are generally equidimensional (so-called chocolate-tablet boudins), but with a wide range in size and characteristics. They typically have lateral dimensions of 1.5-3.5m with a maximum of over 5m, and an average height of 1.0-2.0m. Boudins are not uniformly distributed within the JWZ, but tend to occur in clusters referred to as pay zones or multiple-fold structures. Boudin separation within pay zones is typically in the 0.5-2.0m range. All known economic tanzanite mineralisation occurs as pockets and veins adjacent to and within these boudin structures.

The core of each boudin consists of competent calc-silicates consisting mainly of fine-grained (<1 mm) clinopyroxene (mainly diopside, which generally constitutes 60-80 per cent. of the rock), grossular garnet (5-20 per cent.), quartz (5-15 per cent.), pyrite (5-15 per cent.) and graphite (5 per cent.). Faint compositional layering is commonly present, and the original rock type is thought to have been impure limestone of the carbonate iron facies. The boudins are surrounded by the less competent feldspar-quartz-graphite gneiss.

The following is a summary of the sequence of events that is thought to have culminated in the Merelani tanzanite mineralisation:

- Accumulation of carbonate-rich sediments, probably in a shallow marine volcanic arc environment;
- Prograde metamorphism to upper-amphibolite and granulite facies. Formation of competent calc-silicate layers within the JWZ from pre-existing sedimentary units by a gain in Ca and Mg and a loss of Si. Transverse shearing resulted in formation of boudins with calc-silicate relics (or cores) in the JWZ. Accumulation of quartz-rich material in strain shadows between boudins. The second-order folding was large-scale and open, and appears to have resulted in repetition of the JWZ and enclosing units four times across the mining licence. The folding within the JWZ is tight, isoclinal with most of the economic tanzanite mineralisation located within their fold hinges; and
- Formation of tension fractures in boudins and hydrothermal alteration within the JWZ. The main period of tanzanite mineralisation is likely to have occurred during this late stage, which included growth of coarse quartz, calcite, pyrite and tanzanite predominantly within boudin strain-shadows and in tension fractures in boudin relicts. Some tanzanite formed by replacement of earlier tsavorite (grossular garnet), with formation of secondary quartz and calcite.

5.5.2.2 Mesoscopic tanzanite distribution and controls

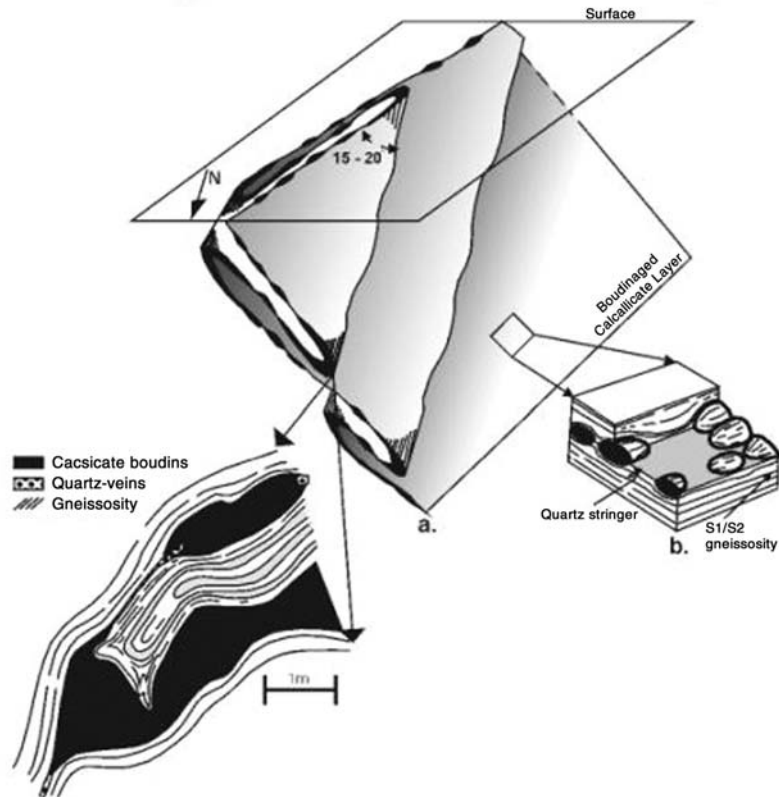
Mesoscopic controls on tanzanite mineralisation, namely at the scale of individual boudins and clusters of boudins, is fairly well understood. Important tanzanite mineralisation is located in two main sites associated with boudins:

- strain shadows adjacent to boudins, particularly in the down-dip and down-plunge areas; and
- tension fractures within the calc-silicate relics that form the cores of boudins.

The mineralisation consists predominantly of coarse quartz and calcite with subordinate tanzanite, tsavorite, graphite and pyrite. The presence of clear as opposed to opaque quartz, which can be very friable and readily excavated by hand, is regarded as a positive sign. Tanzanite crystals, which are typically 2-20mm in size but can reach +10cm, are mostly brownish in colour with subordinate blue crystals. Pyrite crystals can be up to 5cm or more in diameter. In places, this quartz-rich lithology forms a sheet-like stringer along necking zones between boudins, and is used to trace the layer of interest.

The folding of the calc silicate layer is shown in Figure 12.

Figure 12 – Folding of calc silicate layer



5.5.2.3 Macroscopic tanzanite distribution and controls

Macroscopic controls on tanzanite distribution are not that well defined. The well-mineralised boudins tend to be concentrated within the hinges of intrafolial folds. There can be up to six folds in these areas, with the JWZ sequence repeated up to seven times. In places, footwall or hanging wall kyanite-graphite gneiss has been caught up in the folding and occur within pay zones. Shearing parallel to fold axes is also evident.

Mineralisation is best developed within clusters of 20 or more boudins located predominantly along fold closures, the axes of which plunge at 10-30° to the north. These enriched areas are not continuous along the axial length of these fold closures however, but restricted to isolated areas referred to as pay zones or multiple-fold structures. These are variable in size with dimensions of about 40-150m parallel to the fold axis, 20-80m perpendicular to the axis in the plane of the JWZ, and 2-8m perpendicular to this plane. Each pay zone typically consists of a series of enriched areas called pay shoots. The latter are thought to have average dimensions of about 80m by 2-3m by 3-4m, 100 per cent. of which is generally processed through the plant.

The reason that mineralised boudins do not persist along the full length of each fold-closure axis is attributed to localised tightening of the folds and reduction in both boudin size and frequency. This may be associated with later folding recently identified in a strike-oriented trench north of CT Shaft. The axis of the latter folding plunges at 70° west, which is roughly perpendicular to the earlier fold axes. Mapping has recently identified dip-oriented fractures with hydrothermal alteration that appear to be parallel to the later folding. If so, these may be more abundant between pay zones and would be a useful guide.

The JWZ in pay zones contains a significantly higher proportion of calc-silicates than in the intervening poorly-mineralised areas (as much as 70 per cent. versus 10-20 per cent.). It is not known whether this is due to primary sedimentary variations or predominantly to structural and

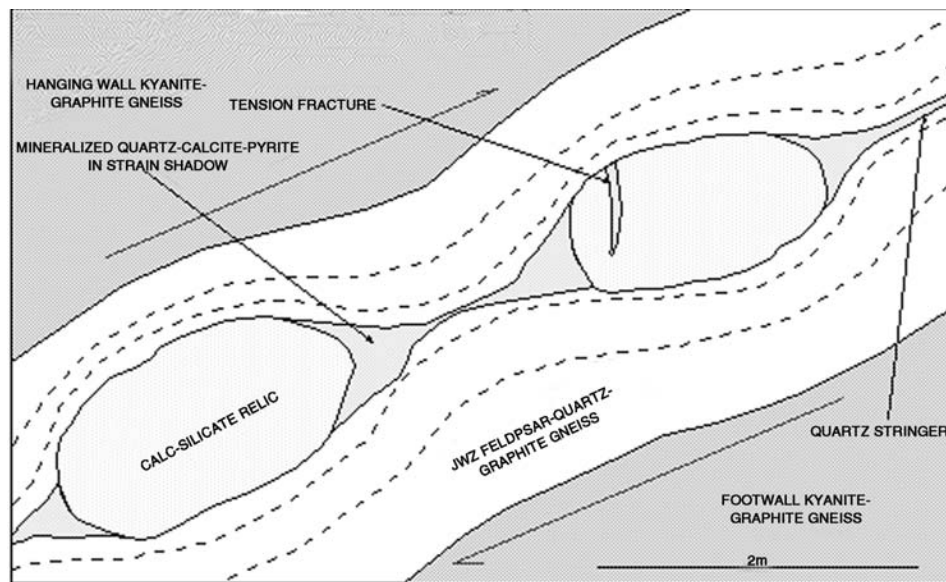
hydrothermal effects. The distribution of pay zones is unlikely to be consistent, with variations along strike or down dip related to the above primary and secondary controls.

Tanzanite grades associated with each boudin range from virtually zero to over 1,000cpt. Because the average grade of pay zones is below the mine cut-off grade of about 25cpt, however, they cannot currently be economically bulk mined. Instead, individual boudins and their associated liberalisation are exploited via winzes and raises with a cross section of 2m by 2m on average. These are locally enlarged to mini-stopes up to about 4m wide where appropriate, but no true stoping is done. Only about 10-20 per cent. of each pay zone is processed, at an average grade to date of about 66cpt.

It appears that the above fold closures form a series of parallel, linear zones within the JWZ, about 80-100m apart. Each is expected to contain a series of pay zones along their axes plunging at 10-30° to the north.

The association of the mineralisation associated with boudins is illustrated in Figure 13.

Figure 13 – Mineralisation associated with boudins



Tanzanite mineralisation has been identified in two other stratigraphic units referred to as the C and D zones, which are thought to be repetitions of the JWZ. Boudins and tanzanite mineralisation have been identified in these two zones, both of which were intersected by some of the deeper boreholes.

Other than the occurrence of tanzanite in Block C, according to the SRK feasibility study, good-quality tanzanite mineralisation is exploited in Block D from a 0.5-2.5m-thick unit 20m below the JWZ, and poor-quality mineralisation is also known from the JWZ hanging wall (possibly the C or D zones). Some of the surface boreholes have intersected the former unit.

The only other significant tanzanite mineralisation known from the area are alluvial deposits exploited by artisanal miners at the bedrock-calcrete contact. This has presumably been derived from the adjacent JWZ subcrop.

5.6 Geophysics and geochemistry

No geophysical data is available and none was undertaken by DMD. A large geochemical dataset is available from work conducted by various students through the Gemstone Research Centre at Stellenbosch University. The geochemical signature of the JWZ is characteristic and the geochemistry point towards a duplication of the stratigraphy around the central dolomite unit in the Lower Horizon.

6. MINING

6.1 General

Merelani started equipping and developing inclined shafts in September 2000 (in addition to the JW winze/Shaft 1 from which the initial bulk sample was extracted) and has been processing ore since taking the bulk sample. The average monthly production rate to date has been in the region of 3,000t of waste and 2,000-2,700t of mined material, which is processed through MML's Dense Media Separation ("DMS") plant. There are currently six shafts or winzes located along the JWZ strike at the mine, which are from south to north: Bravo, CT, Shaft 1, Main, Askari and Delta (Bravo, CT, Main, Askari and Delta are all new shafts developed by Merelani).

- Bravo Shaft extends for 300m on true dip (41°) to a vertical depth of about 200m;
- CT Shaft is inclined on an apparent dip of 41° to the southwest to 130m on dip;
- Shaft 1 is inclined at 16° to the northwest;
- Main Shaft has been developed to 300m on dip and is inclined at 35° to the southwest;
- Askari Shaft is developed to 120m on true dip is inclined at 41°; and
- Delta has been developed for 250m on true dip (41°).

Production has historically been mainly from Shaft 1 and Bravo Shaft, with emphasis having been placed on developing CT, Main and Askari shafts down to areas where pay zones occur in order to secure future production.

No mining problems are present in that the footwall and hanging wall gneisses can be visually distinguished from the JWZ and the hanging wall is generally competent. Roof bolting is locally required, however, particularly where some JWZ is left in the hanging wall.

More recently an additional five cored holes were drilled (LHD10-14), which intersected the JWZ at vertical depths of 225-285m. Four of these were within 6° of vertical, with the fifth inclined at -78° on 104°. Underground drilling is also used to probe for additional mineralisation within pay zones, with a drilling limitation of 20m.

6.2 Mining

Merelani conducts mining using two methods that are summarised as follows:

- (a) Shafts that are sunk at an angle of 42° along dip of the JWZ mineralisation zone. The shafts are fitted with tracks and material is removed via a hoist and inclined shaft structure.

Drives are driven along strike at an angle of approximately 16° along the plunge of fold noses. A monorope system is used to remove materials in bags from the mining fronts in drives, raises and winzes towards the inclined shaft. Blasting is used as the main method of mine advancement. Once favourable boudin structures are approached, pneumatic drilling and handpicking is used to remove tanzanite as carefully as possible.

- (b) Inclined shafts that are sunk parallel to the strike direction of the JWZ, dipping at an angle of ±16° to follow the plunge of fold noses.

Raises are developed from the incline shaft in an up-dip direction in the JWZ plane and winzes in a down-dip direction of the JWZ plane. Material from work faces is removed using a system of monoropes and also out of the shaft using a monorope. Hand picking is also conducted once a favourable boudin system is approached.

6.3 Mine plan 2004-2006

Based on the mining experience attained over the period 2000-2003, it has become apparent that an approach to mining tanzanite is required that is somewhat different to that which was first envisaged at the time of the initial SRK study. The period in question from 2000-2003 is considered to be relatively short with regards to the ability to fully understanding the geological complexities of the MML tanzanite deposit. During this period substantial new geological information has been collected and documented, which has in turn directed and supported various updates to the mining plan from that initially proposed. The mining equipment requirements have not changed as a consequence of these improvements to the mine plan. Costs have been carefully controlled and at no stage has it been necessary to obtain additional funding for the project.

The new approach adopted for the period 2004-2006 is a sustained ramp up of tonnages to obtain both lateral and depth access over the whole deposit within the SML 08/92 Licence.

It is believed that as the deposit is aggressively opened in the initial part of the 2004-2006 time period, and productive areas are located, the understanding will improve sufficiently to enable the planned percentage change in processed tonnes to total tonnes to be effectively increased and implemented.

During the 2004-2006 period a further TC (Top Camp) exploration shaft will be established to facilitate the investigation of the deposit between JW Decline and CT shaft. The total of 6 inclined shafts on the JW ore horizon will adequately cover the JW deposit. This information will then be used in 2007 onwards to exploit the Upper Horizon Deposits and the JW to greater depths.

It is also planned to improve the security of the deposit by utilizing a Body Scanning System to prevent theft of tanzanite from the mining and processing areas, and to install the Optical Sorting System to substantially increase hands-off sorting. Both systems will be installed by mid 2004.

The mine plan and associated production schedules for year 2004, 2005 and 2006 are shown respectively in the attached Figures 14, 15 and 16.

Figure 14 – Merelani PROCESSED TONS FORECAST – 2004

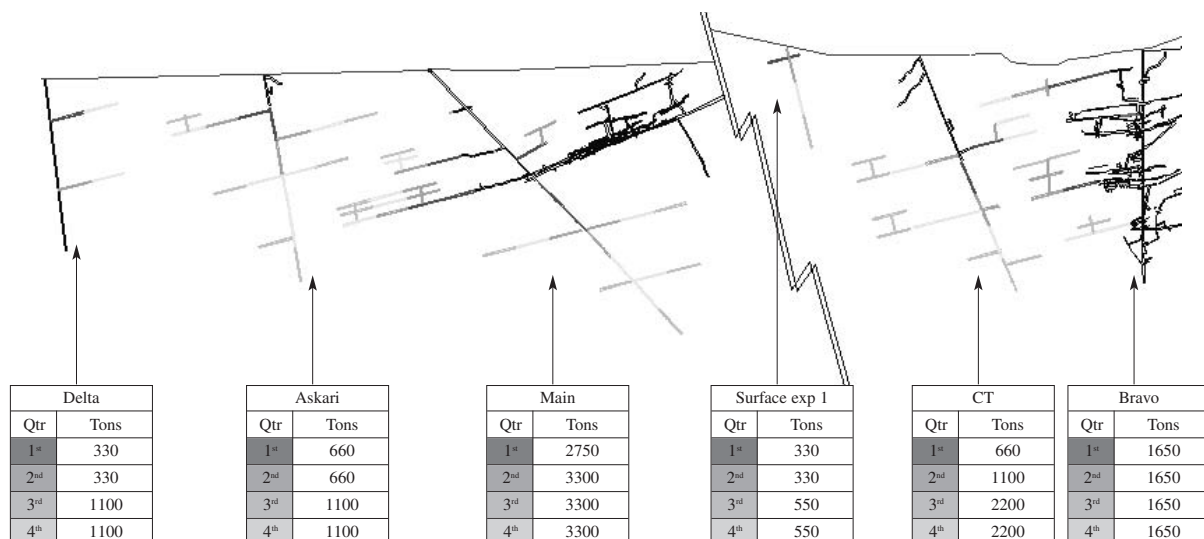


Figure 15 – Merelani PROCESSED TONS FORECAST – 2005

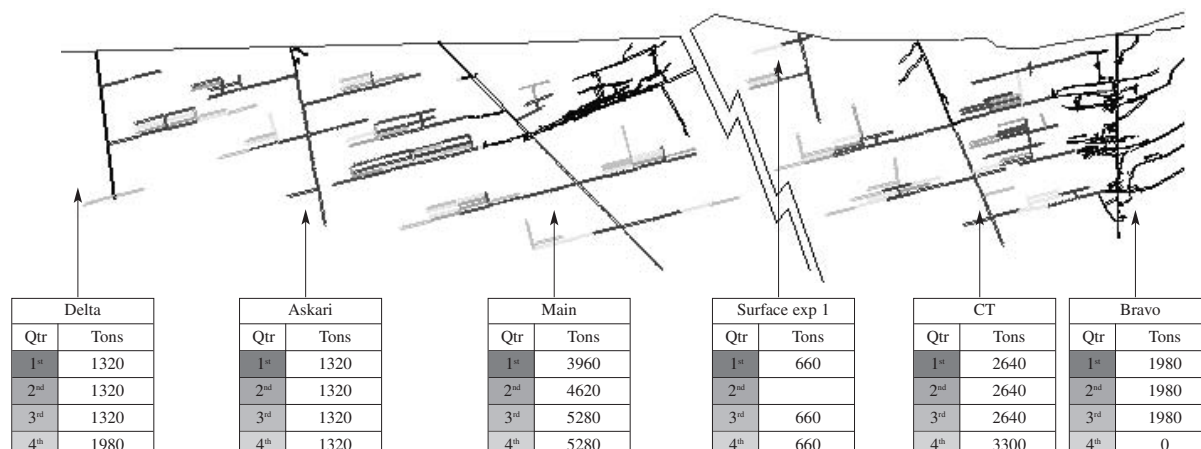


Figure 16 – Merelani PROCESSED TONS FORECAST – 2006

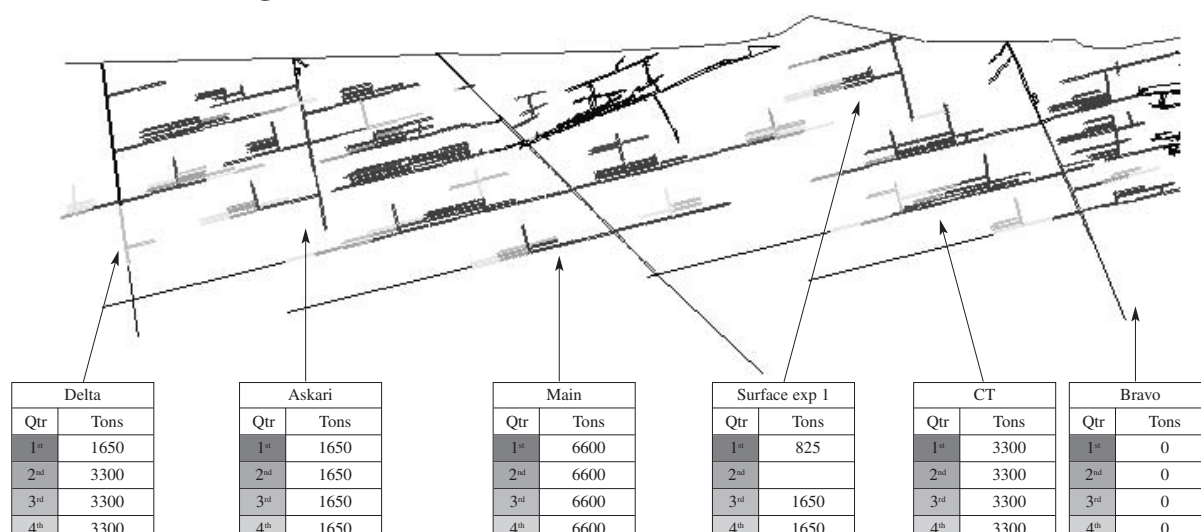


Table 5 shows the projected processed tonnes over the next three years.

Table 5 – Projected total tonnes of material processed

	Shaft Quarter	Delta	Askari	Main	Surface	CT	Bravo	Total
					Exp 1			
2004	1st	330	660	2750	330	660	1650	6380
	2nd	330	660	3300	330	1100	1650	7370
	3rd	1100	1100	3300	550	2200	1650	9900
	4th	1100	1100	3300	550	2200	1650	9900
	Total	2860	3520	12650	1760	6160	6600	33550
2005	1st	1320	1320	3960	660	2640	1980	11880
	2nd	1320	1320	4620	669	2640	1980	12549
	3rd	1320	1320	5280	660	2640	1980	13200
	4th	1980	1320	5280	660	3300	0	12540
	Total	5940	5280	19140	2649	11220	5940	50169

2006	Quarter	Delta	Askari	Main	Surface			Total
					Exp 1	CT	Bravo	
	1st	1650	1650	6600	825	3300	0	14025
	2nd	3300	1650	6600	1650	2200	0	15400
	3rd	3300	1650	6600	1650	3300	0	16500
	4th	3300	1650	6600	1650	3300	0	16500
	Total	11550	6600	26400	5775	12100	0	62425

Year 1-3	Quarter	Delta	Askari	Main	Surface			Total
					Exp 1	CT	Bravo	
	1st	3300	3630	13310	1815	6600	3630	32285
	2nd	4950	3630	14520	2649	5940	3630	35319
	3rd	5720	4070	15180	2860	8140	3630	39600
	4th	6380	4070	15180	2860	8800	1650	38940
	Total	20350	15400	58190	10184	29480	12540	146144

The above table is indicative and a more detailed monthly schedule over the three year period has shown that in practice during 2004 a total of 103,410t is planned to be mined, with 34,470t being processed, or 33.3 per cent. of the total being processed. This will be followed by a total of 126,212t being mined in 2005, with 40 per cent. or 50,076t being processed. Finally in year 2006 a total of 126,212t will be mined with 50 per cent. or 63,106t being processed. Throughout the period 2004-2006 the grade of the processed ore will be targeted at achieving 66cpt.

During the 2004-2006 period a further exploration shaft (Surface Exploration One) will be established to facilitate the investigation of the deposit between Shaft 1 and CT shaft. The total of six incline shafts on the JW ore horizon should adequately cover the JW deposit. This information will then be used in 2007 onwards to exploit the Upper Horizon Deposits and the JWZ to greater depths.

6.4 Mining method 2004-2006

The mining methods used will in essence remain largely unchanged in that inclined shafts will be used to access the deposits, with main lateral drives being targeted at the lowermost fold nose of a productive fold stack. From these main lateral drives, sills or sub-levels will access the individual productive zones up-dip from the main lateral drive. The ore will be transported to the inclined shaft and possibly binned (dependent on the size of the stacks being extracted) prior to being hoisted to surface.

It is also planned to increase the size of the winding and hoisting system for Main Shaft during 2004 and to relocate the present Main Shaft hoisting equipment to CT Shaft. At present, the electrical system to Main Shaft is scheduled to be upgraded. This will cater for the increased compressed air required and the 125KW winder.

6.5 Sampling method

It is not possible to assay for tanzanite and therefore, to identify and quantify it, it has to be physically recovered. This is carried out by trial mining or bulk sampling. In addition, there is no need to construct a laboratory. Limited chemical assays are carried out at the University of Stellenbosch in order to try and identify a chemical footprint for the mineralisation. To date this has not proved satisfactory, as identical chemical footprints exist for areas containing tanzanite zones and tanzanite-barren zones within the JWZ.

6.5.1 Sample preparation

Currently, the sample preparation process is manual. The main sample preparation procedures are currently visual hand sorting and physical cleaning of tanzanite crystals derived from the recovery plant. TanzaniteOne is planning to install optical sorting that will be used to complement the existing manual sorting methods.

The run of plant crystals are screened into a variety of size fractions that are sorted on the basis of shape, colour and clarity. The crystals are physically cleaned by cobbing to remove all traces of country rock adhering to the tanzanite.

Table 6 defines the grades of tanzanite in terms of TanzaniteOne's proprietary grading system

TABLE 6 – Definitions of the grades of tanzanite (TanzaniteOne system)

<i>Grade</i>	<i>Clarity</i>	<i>Description</i>
A	Clean Crystal	Inner area of the crystal should be clear and inclusion free. The outer edges of the crystal may contain needles and or inclusions if these can be removed during preforming. The material may include a crack or needle only if this occur along a possible sawable direction. Cut stones will have a good to exceptional colour.
B	Slightly Included Crystal	Material is predominantly clean, but may include limited needles, feathers and inclusions. Sawing of the material will produce smaller fine quality tanzanites. Also include clean crystals with a lighter colour. Cut stones will have a light to good colour.
C	Included Crystal	Heavily included, containing several cracks, needles and inclusions. Require cobbing to obtain clean material. Normally cut into the rounded cabochon form or other low-yield shapes, e.g. flats.
D	Opaque	Extremely cracked and fully included material. Normally undergo abrasive tumbling and made into beads. Sometimes suitable for a cabochon cut. Impossible to obtain faceted stones.
Low Grade		Poor quality opaque material that may be used for low-grade beads or carvings.
Specimens		Crystals that have a good prismatic orthorhombic structure.

6.5.2 Data verification

DMD has examined the relevant TanzaniteOne records and believe them to be true and correct.

6.5.3 Mineral processing

6.5.3.1 Description of plant and planned modifications

The TanzaniteOne processing plant was originally designed to process both graphite and tanzanite ore. It consisted of a three stage crushing circuit, DMS modular plant, milling, flotation, filtering, drying, bagging, tailings disposal and water reticulation sections. Of these, only the crushing, DMS, tailings disposal and water reticulation sections are required for tanzanite concentration. A schematic process flow diagram for the plant is shown in Figure 17.

Tanzanite with a density of approximately 3.3t/m³ to 3.4t/m³ is contained within a rock matrix with a specific gravity ("SG") of predominantly 2.65t/m³. Liberation of virtually all the tanzanite from the host boudin material is relatively straightforward, as the boudin material is friable and crumbles easily, with the harder tanzanite staying intact.

The plant has been operated and tested over the past three years and continues to deliver acceptable results. No limitations to the plants capacity to handle the projected throughput tonnes are foreseen.

6.5.3.2 Run of mine receiving, crushing and screening

The secondary screen oversize passes through a rolls crusher set at 35mm, after which it is returned to the secondary sizing screen. The screen undersize is conveyed to the DMS concentrate storage bin. The bin has a live capacity of 30t.

6.5.3.3 DMS plant

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6.5.3.4 Sort house and final recovery

During the bulk sample, it was identified that the quantity of concentrate which had to be sorted posed a security and operational problem. This was alleviated by using a series of 450mm diameter screens sized at 20mm, 12mm and 9mm to wet screen the concentrate and separate the concentrate according to more manageable size fractions.

The sort house now contains two double deck Sweco screens fitted with 20mm, 12.5mm, 5.15mm and 3.3mm decks.

The finer screen sizes as compared with those used during the bulk sample became necessary as the -9mm fraction took by far the greatest amount of time to sort. After sorting, the stones are cobbled and graded prior to dispatch.

An optical sorting unit would be expected to have a significant impact on productivity and risk management.

6.5.3.5 Effluent treatment and water reticulation

The DMS plant effluent is pumped to the thickener which allows clarified water to overflow into the 50m³ process water tank. Thickened tailing is pumped to the tailings settling facility. The thickener does not need any flocculant.

6.5.3.6 Tailings and waste management

All fine tailings (-1mm) are pumped to concrete-lined settling ponds where the solids can settle and the free water can be decanted for return to the process plant. The settled fine material is co-disposed with the coarse fraction (+1mm-30mm) in a discard dump. Both these facilities are within 500m of the plant. Seepage from the coarse discard dump gravitates via a system of toe drains and seepage collection trenches to a return water dam.

Waste rock generated from underground mining is used as land-fill material to re-habilitate various open cast pits left from the Graphtan operations.

Provision has been made for the concurrent rehabilitation of both the tailings discard dump and the waste rock dump.

7 MINERAL RESOURCES AND MINERAL RESERVE

7.1 Introduction definitions and methodology

The reserve and resource statements of Merelani have been addressed in terms of the definitions stipulated for Diamonds in the SAMREC Code as the project was previously owned by Afgem which is a JSE listed company that adhered to the SAMREC code. The SAMREC code is related to those used by other International Codes including JORC and this relationship is covered in the Denver Accord.

Tanzanite presents the following two main challenges in its identification and the subsequent derivation of reserves and resources:

- It is not possible to assay for tanzanite and therefore, to identify and quantify, it has to be physically recovered.
- Tanzanite is highly individualistic and varies in shape, size, colour and clarity, all of which (from a statistical basis) means that a 'parcel' of crystals must be recovered to give an indication of the average characteristics and subsequent worth. (In the International Code definitions and specifically mentioned in the SAMREC and JORC codes it is recommended that a minimum size parcel of 2,000 carats is collected).

In practice, reserve or resource figures quoted will be for tonnes of mineralised material that can be measured under the stipulated rules, however where the tanzanite content and associated value cannot be stated accurately, it is included based on the available historic information.

The following are definitions pertaining to diamonds by De Beers Consolidated Mines Limited (“De Beers”) as quoted in its annual report. These definitions are classified according to the SAMREC Code, which has been compiled along the lines of the Australian JORC Code that is also being used as a guideline for codes drafted in the United Kingdom, Canada, USA and possibly other countries.

- *Inferred Resource:* That part of a resource from which tonnage, grade and diamond (tanzanite) value can be estimated with a low level of confidence. It is inferred from geological evidence, and assumed, but not verified by geological and/or grade continuity. A sufficiently large parcel is not available to ensure a reasonable representation of the diamond (tanzanite) assortment. It is based on information that may be limited or of uncertain quality or reliability.
- *Indicated Resource:* That part of a resource for which tonnage, densities, shape, physical characteristics, grade and diamond (tanzanite) value can be estimated with a reasonable level of confidence. It is based on information at locations that are too widely or inappropriately spaced to confirm geological and/or grade continuity, but are spaced closely enough for continuity to be assumed. Sufficient diamonds (tanzanite) have been recovered to allow a confident estimate of an average value.
- *Probable Reserve:* The economically mineable material derived from a measured or indicated resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.

SRK and Bateman were commissioned in 2000 to carry out a feasibility study to support the listing of Afgem as required under the JSE regulations. This exercise assessed all the aspects of a mining project, including geological, mining, metallurgical, infrastructural, environmental, social, legislative and commercial factors. The study was sufficiently detailed to support a decision on the project’s implementation.

The study included a bulk sample of the tanzanite mineralisation to both quantify and qualify the nature of the tanzanite. The trial mining enabled associated technical and economic studies to be completed. This established an indicated resource of 2,238,470 tonnes with an average tanzanite content of 22cpt for a total in-situ content of 50 million carats. This exercise acknowledged the difficulty of determining grade and value of the contained tanzanite.

Even though a definitive reserve base was not in place after the feasibility study, a decision was taken that the best way to go forward was to initiate trial mining in an attempt to establish the tanzanite content and continuity, as well as the viability of the deposit.

In the period 2001 through 2003 in which systematic exploratory mining had been established, 48,000 tonnes of mineralised material was mined and processed providing an overall recovery of 66cpt. This period of production afforded the accumulation of mining, financial and geological data.

The nature of the mineralisation precludes standard measures of grade and cut-off grade determination.

7.2 Establishment of resources and reserves

Three resource estimates have been made since 2000 by SRK, Professor R Scheepers and Craton Resources. Each of these estimates have been reviewed by DMD and a summary of the results are reproduced to demonstrate the difficulty in erecting a resource/reserve statement as defined under the various International Codes of Practice.

The various resource estimates have resulted in three estimates of grade, i.e. 22cpt, 66cpt and 95cpt (each grade estimate being the result of different computation methods). DMD has reviewed all available data and the current mine plan, DMD is of the opinion that a grade of 66cpt is realistic and achievable and has as such been used in the DCF model.

7.2.1 SRK resource calculation (2001)

7.2.1.1 Bulk sample

A bulk sampling programme was conducted to arrive at a mine grade and to detail the geological features controlling tanzanite mineralisation. Two 25m long developments were blasted in the plane containing the JWZ. The 25m winze sample, which was a continuation of the existing decline dipping at an average of 16°, yielded some 399t of material. The raise sample, which contained some 218t, was developed perpendicular to the winze in an up-dip direction.

Strict geological control was exerted and a complete photographic record was kept of each mapped area. After each blast, the blasted face was inspected and any exposed tanzanite was recovered separately.

All bulk sample material was processed through the existing DMS plant on the site.

7.2.1.2 Sampling and quality assessment

The entire bulk sampling programme and the final recovery and sorting of tanzanite was conducted under close scrutiny of an independent monitoring team comprising Stellenbosch University, SRK and Bateman staff.

Some 384 100ct of rough tanzanite (375 990ct from the winze and 8 110ct from the raise) recovered from the bulk sample was subjected to final quality assessment and valuation. The winze material comprised 123 400ct of tanzanite recovered from the face and 252 590ct of tanzanite recovered from material processed through the plant.

A randomly selected sample of 53 384ct from the tanzanite recovered from the winze (20 436ct and 32 948ct from the face and DMS materials respectively) and the 8 110ct of tanzanite from the raise was subjected to final quality assessment. SRK monitored the cobbing, sizing and grading process to obtain clean, gem-quality tanzanite, which was conducted by Merelani personnel. The Jewellery Council of South Africa (“JC”) critically evaluated the size/quality grading as conducted by Merelani. Generally, the JC tended to marginally downgrade MML’s grading of the A-quality stones (see Table 7), although there were instances of B-quality stones being reclassified as A. The classification of a piece of rough tanzanite into an A, B or C grade (see Table 8) depends on the assessment of its clarity, the strength of its trichroism (colour) and the estimated recovery of a polished stone from the rough. These involve subjective decisions that are dependent on the experience and skill of the person doing the evaluation. Note that the size classifications of the stones are all done on the basis of mass and no changes in size were thus necessary.

Table 7 – Summary of grading results

<i>Material Source</i>	<i>Raise (%)</i>	<i>Winze – face (%)</i>	<i>Winze – DMS (%)</i>
Recovery (cobbed weight to received weight)	68.4	80.9	65.4
Proportion of material in each grade			
A	75.1	60.2	73.3
B	24.3	36.7	24.4
C	0.6	3.1	2.3

Table 8 – Jewellery Council audit of the consolidated grading results

<i>Quality Grade</i>	<i>MML Grading</i>		<i>JC Audit</i>		<i>Difference</i>	
	<i>Mass</i> <i>(ct)</i>	<i>Proportion</i> <i>(%)</i>	<i>Mass</i> <i>(ct)</i>	<i>Proportion</i> <i>(%)</i>	<i>Mass</i> <i>(ct)</i>	<i>Proportion</i> <i>(%)</i>
A	4 781	72.5%	4 522	68.6%	–259	–3.9%
B	1 707	25.9%	1 936	29.4%	+229	+3.5%
C	106	1.6%	136	2.1%	+30	+0.4%
Total	6 594		6 594		–	

The results of the JC audit have been used to provide a measure of confidence in the size/quality classifications derived by MML for gem-quality tanzanite.

7.2.1.3 Resources and Reserves

(a) Data

- **Quality and quantity of data**
Information for geological modelling consisted of drillhole data logs, trench sampling and mapping data, surface topography contours, interpreted geological plans and sections dated October 1996 and August 1997 and a plan of the location of artisanal pits on Block C dated October 1997. In addition, the Graphtan database in electronic format enabled details pertaining to surface topography spot heights, location of artisanal shafts and drillhole collars and orientations to be extracted. The drillhole cores were examined on site and were found to be consistent with the information detailed in the drillhole logs. The drillholes are spaced at an average of 300m along strike. The JWZ hanging wall contact was intersected at depths ranging from 95.6m to 153.8m below surface. The thickness of the JWZ intersected in the drill holes varied from 0.8m to 6.6m. SRK considered the available data as adequate for conceptual modelling of the ore body.
- **Bulk density measurements**
Density determinations were conducted on samples of the JWZ. The results yielded a range of densities between 2.43t/m³ and 2.76t/m³, with the former considered to be due to the slightly altered nature of the core sample. The arithmetic mean of the results is 2.64 t/m³, which is comparable to the density assumed for the JWZ of 2.65t/m³.

(b) Grade Estimation and Geological Modelling

- **Geological modelling**
The geological modelling was limited to the Lower Horizon formations. Geological sections were created at each drillhole position. The extent of each rock unit was defined on each section by four points on a polyline representing the top and bottom of the unit from surface geology and drillhole intersections. Geological solids were created for each rock unit by linking sectional polylines across the expanse of the property. The bottom of the model for geological modelling was clipped to the 920m elevation, equivalent to about 20m below the deepest JWZ footwall contact in drillhole LHD 1. The Base Case model as developed in the feasibility study assumed that the pay shoot as identified in the winze extends for a further 516m to the lower defined edge of the orebody. Although evidence indicated that additional pay shoots should be present in the orebody, SRK did not identify other pay shoots and none have been confirmed and systematically sampled in underground workings.

- **Grade Estimation**

Using the measured tonnes mined and the resultant gem-quality tanzanite for each one-metre advance, the grade in carats per tonne for each one-metre sample for both the winze and raise was calculated. The range in determined grades of recovered gem-quality tanzanite was 140cpt to 2,200cpt for the winze and 2.5cpt to 140cpt for the raise.

Extreme value analysis performed on these results showed that the cumulative mean, the cumulative standard deviation and the cumulative coefficient of variation do not stabilise within the two data sets. The data sets were therefore considered to be too skewed for their arithmetic means to be reliable estimates of the mean grade. The median value was selected as the preferred non-parametric estimator for the likely average grade, with the following results:

Pay shoot (fold closure in winze) 508cpt

Low grade (raise) 20cpt

- **Resource classification**

The orientations, depths and extent of artisanal workings of more than 250 identified pits in Block C were not clearly understood. It was therefore, not possible to quantify the extent to which the JWZ near to surface has been mined. Rather than assume an arbitrary percentage to describe the ore that is still in place, the material within 50m of surface was excluded from the resource. The lower limit of the resource model was restricted to an interpolated surface 20m down dip of each drillhole JWZ intersection. The pay shoot was modelled to follow the orientation of the winze, with dimensions set at a width of 2m and a thickness consistent with the JWZ as constructed in the geological model.

The resource was classified as indicated in accordance with the guidelines for a diamond resource as outlined in the SAMREC Code. There is considerable evidence to indicate the presence of additional pay shoots (fold closures) within the JWZ in Block C, as well as a continuation with depth of the JWZ beyond 150m below surface. Until further exploration confirms this, SRK concluded that these additional resources can only be classified as inferred at this stage. Similarly, the tanzanite mineralisation which is known to occur in the Upper Horizon cannot be taken into account. Table 10 illustrates the indicated resources within the MML Block C licence area.

Table 9 – Indicated tanzanite resource within the MML Block C

<i>Category</i>	<i>Volume (m³)</i>	<i>Tonnes</i>	<i>Recovered Tanzanite Grade (carats per tonne)</i>	<i>Contained Tanzanite (000carats)</i>
JWZ low grade (excluding pay shoot)	840 350	2 226 920	20	44 538
Pay shoot	4 360	11 550	508	5 867
Total JWZ	844 710	2 238 470	22	50 405

(A density of 2.65t/m³ has been used)

7.2.2.1 Mineral resources and mineral reserves

Due to the fact that explorative mining took place over an extended period of time (September 2000 to November 2003) and that a complete record of these mining activities is available, the calculation of reserves was based on these results.

The dataset used included:

- (a) Dates mined;
- (b) Shaft mined;
- (c) Batch locality;
- (d) Batch tonnages; and
- (e) Grades subdivided in terms of gem quality tanzanite (grades A, B, C) and non gem quality (grades D and below).

The numbers database was combined with the geological database and the current knowledge of the ore body to derive acceptable reserve estimates based on true ground controls.

Important geological aspects based on the scientific geological approach followed over the three years prior to this report were built into the reserve calculations and are:

- (a) The JWZ is repetitively folded down dip creating so called fold stacks, which have the highest potential for tanzanite mineralisation. The fold axis orientations are inconsistent, probably due to rotation and reorientation as described for boudins above, implying that prediction of 3rd order fold spacing, fold sequence 2 fold style showing schematic refolded, stretched and boudinaged layer with late brittle ('Riedel') fractures and repetition of ore shoots is virtually impossible. On second-order scale, the ore zone appears to have been thrust/sheared along an axial planar shear surface at the base of the middle garnet-sillimanite unit where further remobilisation and reconcentration may have occurred.
- (b) The repetitions are in the form of fold stacks with little or no folding in between.
- (c) Each of these fold stacks results in an up to seven times replication of the alteration zone.
- (d) Mining in Bravo Shaft illustrated that the fold stacks occur at an interval of ~80m down dip.
- (e) Folds axes in these stacks are parallel to a well developed lineation between 0° and 25°.
- (f) The plunge of the folds present in these fold stacks vary between 16° to 25° in Shaft 1, 0° to 10° in Bravo Shaft and 25° to 40° in CT shaft.
- (g) The extension of the fold stacks in the direction of plunge is not predictable as a result of the following:
 - (i) the positions where intrafolial folds developed during fold sequence 1 were controlled by local geological factors including lithology and geochemistry; and
 - (ii) oblique compression during fold sequence 2 resulted in inconsistent orientation of fold axis implying that the prediction of 3rd order fold spacing and prediction of the repetition of ore shoots is not possible.
- (h) Within each of the fold stacks, preferred zones of mineralisation are encountered, typically related to fold noses, but also encountered in pressure shadow zones in between individual folds.

Based on the above geological information, the reserves and life of mine were calculated based on the following two methods.

METHOD A – Based on three years’ experience, tonnage mined and tanzanite yield:

This method is based on tanzanite in hand and tonnage through the plant.

- (a) There are, on average seven of the mineralisation zones per fold stack
- (b) The average dimensions of the mineralisation zones are 120m by 2,5m by 3,5m.
- (c) Recorded grams per fold stack and the contained mineralisation zones are:
 - Shaft 1: 2,625,575ct;
 - Bravo Shaft, Level 17 system: 1,341,735ct; and
 - The average of the combined mineralisation zones in the two fold stacks are thus 1,983,655ct per fold stack.

(Both figures are conservative, as illegal miners had removed significant portions of the systems in both cases, particularly in Bravo Shaft.)

- (d) The down dip extent of the JWZ has been proven by core drilling down to a vertical depth of 283m. At 45° dip angle of the JWZ, this represents a JWZ down dip extent of approximately 400m. As fold stacks occur at approximately 80m intervals, four stack systems will be encountered down to 400m.
- (e) Combined with the strike repetition (six accepted) of the ore shoots a total of 6 X 4 fold stacks will be encountered.
- (f) The total predicted mineralisation is thus $396\,731\text{g} \times 24 \text{ fold stacks} = 9\,521\,544\text{g} = 9\,521\,544\text{g} / 1000 = 9\,521.544\text{t}$
- (g) The fact that selective mining is applied also affects the specific gravity of the mineralisation and a realistic estimate would be 2.80 instead of the 2.65 currently used. This is due to the fact that the mineralisation zones contain an abundance of heavy minerals including pyrite, tsavorite, diopside and pyrrhotite.
- (h) Based on the present mine grade of 95cpt (19g/t) and an SG of 2.80 the reserve tonnage is $396\,731 \times 24 = 9\,521\,544.00 / 19\text{g/t} = 501,344\text{t}$.

METHOD B – Based on three years experience, shape, size and repetition of geological structure and tanzanite yield:

Mineralisation zone= 120m x 2,5m x 3.5m = 2940t.

- (a) Seven mineralisation zones per fold stack= $2940 \times 7 = 20,580\text{t}$ per fold stack.
- (b) Total of 24 fold stacks therefore $20,580 \times 24 = 493,920\text{t}$

As in the model above (METHOD A), the repetition of ore shoots along strike (six accepted) is not predictable. The number of six is based on the repetition distance between Bravo, CT, Shaft 1, Main, Askari and Delta Shafts, all of which are related to potential systems. This study also concluded that the extension of ore shoots in the strike direction is not predictable.

The above calculations are based on actual mining experience over three years, the only influence on the reserves not being predictable being the repetition of ore shoots along strike (six accepted). The number of six is based on the repetition distance between Bravo, CT, Shaft 1 and Main shafts all of which are related to actual systems. As stated above it is however a

fact that the extension of ore shoots in the strike direction is not predictable. These resources may therefore only be categorised as inferred.

An argument may however be made for the category to be upgraded to indicated resources as grade variation, controls and continuity in the JW zone has been proved by mining. As stated in the code for an indicated resource “..that part of a mineral resource for which tonnage, densities, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence.” This part of the definition is applicable to the resource as it stands for the so-called fold stacks. However the continuity of fold stacks remains a problem and is inherent in the nature of the ore deposit, for instance these reactions only took place in zones where chemical imbalances were sufficient and are primarily controlled by conditions in the sedimentary basins (lap out) during deposition as well as local conditions during diagenesis and introduce a specific unpredictability to the eventual zones of mineralisation. More than one competent layer may have been present in the succession before mineralisation occurred, or the mineral chemistry of this layer may vary along strike or dip causing local grade variations or non-deposition of tanzanite.

It was concluded that the mineralisation which may be classified as inferred, had some characteristics of an indicated mineral resource.

7.2.3 Craton Resources (October 2003)

In October 2003, Owen Dix of Craton Resources reviewed the resource situation at Merelani and commented as follows:

For the feasibility study, SRK estimated an indicated resource of 2.24 million tonnes at 22cpt, with a contained tanzanite resource of 50 million carats. This was based on the following: exclusion of the upper 50m along dip because of previous mining (30-35m vertically); a lower limit 20m down dip from each of the eight original borehole intersections; a width of 2m; and a relative density of 2.65. This estimated resource consequently extends down reef from 50m to 170-270m.

Grade was based on the two bulk samples and comprised 2.23 million tonnes at 20cpt representing background ore and 0.01 million tonnes of pay zone at 508cpt (0.5 per cent. of the resource). In estimating this resource, it was consequently assumed that the entire JWZ is payable, with a background grade of 20cpt and enrichment in pay zones. The SRK mine plan consequently called for exploitation of the entire JWZ, with stope dimensions of 15m by 4m by 2m. Recent mining by MML has shown this is not the case however, and that selective mining of pay zones is required to achieve an average plant-feed grade of around 66cpt, with no true stoping.

Estimation of indicated resources is not currently possible for the following reasons:

- (a) the extreme nugget effect means a very high drill density or extensive underground development would be required, the cost of which the mine cannot withstand.
- (b) macroscopic controls on mineralisation are not yet known, so production from a small area cannot be extrapolated to the whole deposit with any confidence. As a result, only very small tonnages of indicated resources and probable reserves can be determined from pay zones exposed by underground development.

The following estimation has been effected to provide a preliminary indication of the resource potential, based on the expected average size and frequency of pay zones. Although reserves cannot strictly be determined from these inferred resources, an estimate has been done based on the average expected payability of pay zones using selective mining at the prevailing cut-off grade. The following summarises the assumptions used:

- Average payzone dimensions of 120m by 35m by 5m, giving about 55,000t;
- An average payzone frequency along third-order fold axes of 300 m (centre to centre);

- An average separation between third-order fold axes of 100m;
- A strike length within the licence area of 2,000m, and a down dip extent of 500m to a vertical depth of just over 300m; and
- An average payzone grade of 30cpt with a 15 per cent. payability made up of pay shoots at an average grade of 190cpt diluted 50 per cent. by low-grade development material within the pay zone down to 95cpt. This effectively increases payability to 30 per cent., with each pay zone yielding 4,500t at 95cpt.

The above scenario gives about 30 pay zones with a resource of 1.7 million tonnes at 30cpt, excluding reserves mined out to date. These pay zones account for 12 per cent. of the JWZ. At the current mine grade these will have a reserve of 0.5 million tonnes at 95cpt, with a total tanzanite yield of about 48 million carats less historic production. If the payability is 20 per cent. instead of 15 per cent. in pay zones then the yield increases to 64 million carats. Based on a width of 3m for the JWZ this gives an overall payability of less than 10 per cent., with an average grade for the entire JWZ of less than 10cpt.

At a production rate of 2,500 t/mth, the life of mine to a vertical depth of 300m using the above scenario will be 17-23 years. This does not take into account deeper resources on the JWZ or other mineralised units.

NOTE:– The references in the Craton Resources report refer to the period Q4 2000 to Q4 2003 (see Table 10 below). However, in determining the grade in the current work a more conservative figure of 66cpt has been used, as reflected in the period Q1 to Q4 2003. The, more conservative, figure has been adopted since it was only during this later period that MML can be considered to have initiated broad based formal mining across the JWZ and a ramp up of tonnes in line with projections.

Table 10 – Historic tonnes processed and grade achieved

<i>Date</i>	<i>Tonnes</i>	<i>Carats</i>	<i>cpt</i>
4 Quarter 2000	877	358408	409
1 Quarter 2001	1126	194239	172
2 Quarter 2001	1576	50189	32
3 Quarter 2001	2274	557761	245
4 Quarter 2001	2924	334022	114
1 Quarter 2002	3515	202722	58
2 Quarter 2002	3427	486323	142
3 Quarter 2002	5099	341806	67
4 Quarter 2002	7121	118578	17
Total	27939	2644047	95
<i>Date</i>	<i>Tonnes</i>	<i>Carats</i>	<i>CPT</i>
1 Quarter 2003	4161	286166	69
2 Quarter 2003	5342	449188	84
3 Quarter 2003	7980	400440	50
4 Quarter 2003	4860	335170	69
Total	22343	1470963	66

7.2.4 Current investigation by DMD

The above resource estimates prepared by SRK and Professor R Scheepers demonstrate that the tanzanite content of the Merelani deposit is difficult to assess. DMD has reviewed the reports summarised in 7.3.3 above in detail, together with MML's own data and information, but has not conducted any exploration work. The SRK estimate was made on limited geological exposure, whilst the Scheepers estimate was made utilising a geological model based on exploration and mining.

The estimation by Craton Resources is an interpretation of the SRK and Scheepers models.

In the period 2001 through 2003, when systematic mining by MML had been established, 48,000t of mineralised material was mined and processed which achieved an overall recovery of 66cpt.

The current situation with respect to the estimation of a resource base for the JWZ is that:

- An overall estimate of the volume/tonnage of the JWZ in Block C can be made by considering the length of strike, an average thickness and an estimated dip extent as indicated from the diamond drilling. Continuity can be demonstrated from mining, underground development and exploration drilling.
- On the basis of a 2km strike, a 400m down dip extent, an average thickness of 3.0m and a specific gravity of 2.65, an estimated 6.36 million tonnes is present in the current mine area to a depth of 400m.

Based on mineable recovery factors of between 15 per cent. to 20 per cent. and current tanzanite grades, DMD is confident (having visited the mine and having reviewed all available data) that the JWZ recoverable resource is 0.95 million tonnes for 63 million carats to 1.26 million tonnes for 83 million carats, and that these resources can be used in the DCF model, and support Professor Scheepers view that there is sufficient justification to upgrade the resource from the inferred to indicated category.

All the above estimates and interpretations are for the definition of a Resource for the mine.

7.2.5 MML mining plan

The tanzanite at Merelani is hosted in a series of parallel shallow plunging, narrow, structurally controlled shoots. It is a most difficult form of geological mineralisation to evaluate because of the low proportion of mineralisation and the low homogeneity of the mineralisation. In respect to deposits with very low concentrations of mineralisation such as tanzanite, the best way to establish a reserve base is by small-scale mining and development.

MML, with three years explorative mining experience in Block C, has established a geological model that is assisting in both the location and development of mining areas, and tanzanite mineralisation in fold culmination zones is now identified in all the shaft systems. A plan for establishing mineralised areas by either sills or raises or by sills alone to permit immediate extraction has been implemented.

A three year mining plan has been drawn up based on the current development and geology.

DMD are of the opinion that the reconciliation of mining with production will provide a method with which to establish a static resource base that will ideally be maintained on a tonne for tonne basis by future development and exploration.

8 ENVIRONMENTAL LIABILITIES

An Environmental Impact Assessment (EIA), which is an important part of any project's implementation, was carried out when the mining licence was issued. In February 2004, DMD met with Mr J. R. Kombe, Director of the National Environment Management Council (NEMC) in Dar es Salaam to ascertain the current status of the Environmental Licence. Mr Kombe confirmed to DMD that MML was adhering to the terms of the SML and that all was in order and no further studies were required.

8.1 Strategy

MML's strategy is to partner with local communities in supporting social upliftment programmes that make a meaningful and enduring contribution to the quality of life and well-being of the recipients.

In terms of environmental management, the company has a three-pronged strategy, namely:

- Environmental protection;
- Environmental monitoring; and
- Remediation and rehabilitation.

In Tanzania, the legislation to make Environmental Impact Assessments and Environmental Management Plans mandatory has not yet been enacted. However, several laws, with which the tanzanite mining project must comply, contain provisions for environmental protection including the Mining Act, Explosives Act, Water Utilisation Act, The National Environment Management Act, The Forests Ordinance, The Land Act, The Village Lands Act, Town and Country Planning Ordinance, The National Land Use Planning Commission Act, The Tanzania Investment Act and the Factory Inspectorate Act.

8.2 Water management

Initiatives have included recovery and recycling process of water by means of a thickener, monitoring borehole capacity and maintaining the water supply to communities. The pollution of water by means of hydrocarbons and from oil and fuel has been reduced by disposing of old oil and the plant runoff is monitored actively and vehicle refuelling and maintenance areas have been concrete floored. MML conducts a yearly water analysis by testing the water thoroughly each year for any hydrocarbons.

8.3 Flora and fauna

To date, MML has planted many indigenous trees (for example acacia and indigenous grasses) to encourage vegetation back to the Merelani area where so many of the open cast pits were found. This will have a spin off effect by encouraging much natural insect and plant life into the area.

By planting the indigenous trees, removing dangerous and unsightly debris and scrap materials and creating watering holes, MML has steadily encouraged animals (hyena, leopard, baboons, kudu and impala have been spotted) and bird life back into the area.

In general, MML's involvement has facilitated the recreation of a liveable eco-system for fauna and flora in the area.

9 COMMUNITY DEVELOPMENT

"It is noteworthy that all community development and social investment projects have been undertaken during MML's development period, and prior to the initiation of commercial production." Ernest Mtwale, Construction Manager and MML's Community Development Committee Member.

MML has put in place an extensive rehabilitation programme with the main aim of rehabilitating the land as quickly as possible. The rehabilitation process has involved infrastructural work, such as the upgrading of the main road between KIA and the entrance to the mine. MML currently represents a mere fraction of the traffic on this road, as it is an important access-way for small miners and MML's other neighbours.

10 SECURITY

The tanzanite mineralisation is found in quantities measured in carats per tonne with an average mined grade of 66cpt or 330 parts per million.

The identification of tanzanite in the mine is visual. Spectacular mineralisation is readily visible in the mined faces, where the opportunity for theft is most likely, however, elsewhere throughout the mine and recovery process, the tanzanite is diluted and obscured by the mined waste.

MML has a stringent security system in place based on visual, manual and CCTV systems which covers:

- Mine face exposure and loading
- Mine exit for all personnel
- Mine transport to plant
- Mill recovery systems of screening, reduction and concentrate production
- Concentrate sorting
- Grading and classification

- Entry and exit of all personnel into the reduction and sorting facilities.
- Entry and exit to the mine property
- Manual sorting of concentrate is carried out in standard secure sort boxes with no physical contact
- Physical contact is confined to the cutting sector which is covered by manual and CCTV security
- Random full body searches are performed on all personnel, including security

The planned installation of a Body Scanning System to prevent theft of tanzanite from the mining and processing areas, and an Optical Sorting System to substantially increase the level of hands-off sorting, would enhance these security efforts.

11 HEALTH AND SAFETY

MML models its health and safety philosophy for the tanzanite mine on the guidelines and methods of the National Occupation and Safety Association (NOSA) of South Africa, structured to comply with The Mining (Safe Working and Occupational Health) Regulations, GN219 of 1999 of the Mining Act. A member of staff is responsible for all safety, training, monitoring and record keeping in terms of MML's Health and Safety Policy.

Medically trained personnel run the on-site medi clinic and train selected personnel in first aid. Such medical personnel, in conjunction with the staff member responsible for safety and training, control the occupational health issues related to water quality, respirable dust, heat and noise as encompassed in MML's environmental impact monitoring policies.

12 KEY OPERATIONAL MANAGEMENT AND STAFF

MML's operation and administrative headquarters are based in Merelani, Tanzania.

12.1 Operating Management Staff

MML's key management team comprises the following persons:

Ian Timothy Harebottle Optom (SA), FOSA (SA), GDM (UK) – Managing Director

Ian joined MML in September 2001 after consulting to the company on strategic and operational issues prior to that. Ian has ten years' experience in business management and turnaround and four years' experience in strategic and operations consulting in the mining industry, specializing in the development of strategic response programmes for business challenges presented by rapid change.

Ian is Managing Director of MML, where he oversees mine development and operations, as well as managing the company's socio-political relations in Tanzania. Furthermore, he is integrally involved in the operations and strategy of the South African-based sales and marketing business.

Joseph Martin Kimble (B. Eng (Mining), ACSM (UK)) – General Manager

Prior to being appointed General Manager of MML in 2001, Joe served as the Mine Manager and Head of Security for Navan Mining Plc. in Bulgaria. His mining experience comprises senior mining and production designations held in various African and British operations, namely in coal, tin and gold mining, including Union Carbide, Crofy Tin Mine, Lonrho Africa and CK Quarries Pvt Ltd. where he was Managing Director.

Joseph's responsibilities include establishing and overseeing implementation of procedures for mine development, mining and mine related operations, evaluating and developing improved methods of controlling and managing operations and overseeing all support functions.

Glenham Shaw – Processing Plant Manager

Glen has over 30 years' operational and management experience in metallurgy, including nine years at various operations within the Metorex Group of Companies as plant superintendent, gold plant manager and metallurgical superintendent (for Graphtan). Prior to joining MML in 1999, Glen worked at Barbrook Gold Mine, Falconbridge and Havelock Asbestos Mines Limited.

At MML, Glen is responsible for the planning, implementation and maintenance of systems and procedures for processing plant operation, as well as the efficient operations of the processing plant.

Adrian Roy Banks – Managing Director – Tatan (Proprietary) Limited (a trading operation that is 75 per cent. held by MML)

Adrian joined MML in 1999 to assist in the development of the initial infrastructure at the company's tanzanite mine. Adrian helped in the development of the tanzanite sorting operation, including the equipping and securitisation of the sort house, building and training the team and developing a rough tanzanite grading system. In September 2003, MML, together with a Tanzanian trading company, set up Tatan (Pty) Ltd, a tanzanite trading company in Arusha, which Adrian currently manages.

Bernard Olivier (BSc. (Honours) Geology) – Chief Geologist

Bernard began working with MML as part of his post graduate research in 1999, during which he was involved in the bulk sampling exercise that formed part of the feasibility study on the tanzanite project. Bernard joined MML permanently in March 2003.

12.2 Manpower

The mining manpower for MML is summarised below.

Certain engineering, security, construction and administrative personnel are shared between the processing plant and the mine, which is common for operations of this size. The level of manpower is acceptable for an operation of this size.

The manpower component is summarised in Table 11.

Table 11 – Manpower

<i>Manpower category</i>	<i>Employees</i>
Management, administration and support	37
Security	68
Construction	29
Engineering	46
Maintenance	6
Sort house	27
Plant	10
Mining	114
Surveying	1
Total	338

13 ECONOMIC FORECASTS AND PRINCIPAL FINANCIAL ASSUMPTIONS

13.1 Capital expenditure estimates

New and on-going capital estimates have been calculated for the operating plan. This capital expenditure includes mine investment, modifications and additions to the processing facility, together with expenditure associated with the mine support buildings.

Although the capital provisions are not supported by detailed estimates or quotations, the expenditure covers the work TanzaniteOne management discussed with DMD during the visits and appears to be reasonable for the work to be done.

The estimated new and ongoing capital expenditure for each of the three financial years ending 31 December and for the calculated 10 year life of mine for MML is summarised in Tables 12 and 13 below.

Table 12 – New capital expenditure for MML (US dollars in real terms)

<i>Year</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>10 Year Mine Life</i>
Mining licence	–	–	–	–
Mining & related equipment	975,000	412,500	271,000	5,528,333
Motor vehicles	135,000	135,000	45,000	1,050,000
Furniture & fittings	61,000	23,000	21,000	350,000
Buildings & infrastructure	182,000	229,500	72,000	1,611,667
Earthmoving equipment	–	320,000	300,000	2,066,667
Processing Plant	25,000	25,000	25,000	250,000
Capital Development expenditure	900,000	900,000	900,000	9,000,000
Total New Capital	<u>2,278,000</u>	<u>2,045,000</u>	<u>1,634,000</u>	<u>19,856,667</u>

Notes

- The mining and related equipment includes provision for improved surveillance equipment and a new Optical Sorting System.
- Buildings and infrastructure will be upgraded in general.
- Various earthmoving equipment and plant will be acquired including additional articulated dump trucks.
- Capital mine development includes the expansion of the Main, B and D shafts, provision for an additional shaft and on-going exploration.

Table 13 – Ongoing capital expenditure for MML (US dollars in real terms)

<i>Year</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>10 Year Mine Life</i>
Mining licence	–	–	–	–
Mining & related equipment	54,000	54,000	54,000	540,000
Motor vehicles	26,000	41,000	41,000	360,000
Furniture & fittings	4,000	4,000	4,000	40,000
Buildings & infrastructure	35,000	35,000	35,000	350,000
Earthmoving equipment	75,000	105,000	240,000	1,400,000
Processing Plant	39,000	39,000	39,000	390,000
Development	1,003,680	1,121,760	1,136,520	11,217,600
Total Replacement Capital	<u>1,236,680</u>	<u>1,399,760</u>	<u>1,549,520</u>	<u>14,297,600</u>

Notes

- The costs associated with on-going development are based on historical and current costs and have been increased to be compatible with proposed increased future production levels.

13.2 Operating Expenditure Estimates

Operating expenditures include those associated with the mine and the processing plant.

The historical operating costs for MML are summarised in Table 14 below for the two financial years ending 31 March 2003 (12 months) and 31 December 2003 (nine months) and estimates for the three financial years ending 31 December 2004 to 2006 and for the calculated 10 year life of mine.

Table 14 – Operating expenditure for MML (US dollars in real terms)

<i>Year</i>	<i>Historical March 2003 (12 mths)</i>	<i>Historical Dec 2003 (9 mths)</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>10 Year Mine Life</i>
Staff costs	1,352,704	284,296	1,513,131	1,582,679	1,580,509	15,739,884
Purchases	427,848	279,695	711,079	849,922	856,442	8,412,539
Fuel, lubricants and repairs	113,256	74,039	186,000	186,000	186,000	1,860,000
Total Power	104,544	68,343	180,000	180,000	180,000	1,800,000
Services	65,050	42,535	216,000	216,000	216,000	2,160,000
Communications	31,365	20,503	78,000	78,000	78,000	780,000
Travel	236,967	154,912	372,000	372,000	372,000	3,720,000
Food and beverages	145,202	94,921	150,000	150,000	150,000	1,500,000
Housing and rent paid	12,350	8,100	12,800	12,800	12,800	128,000
Medical	19,747	12,909	20,400	20,400	20,400	204,000
Selling expenses	604,002	380,304	993,608	1,389,120	1,719,360	16,137,608
Non operating costs	87,120	56,958	90,000	90,000	90,000	900,000
Total Operating Costs	<u>3,200,195</u>	<u>2,077,500</u>	<u>4,523,018</u>	<u>5,126,922</u>	<u>5,461,512</u>	<u>53,342,031</u>

MML has operated the mine for three years and maintain detailed records and therefore, they have a good understanding and knowledge of operating costs. These costs have been utilised to derive the budget associated with the proposed three year operating plan.

MML has advised DMD that operating expenditure includes the operating costs for the slimes and tailings disposal.

13.3 DMD comments on capital and operating expenditures

Capital expenditure provisions have not been supported by detailed estimates or quotations, however, the proposed expenditure levels should enable TanzaniteOne to maintain an operational state and sustain the operations for the calculated 10 year life of mine, as well as confirming additional resources.

Although the capital and operating expenditures appear to be reasonable, DMD cannot express an opinion as to the accuracy of the amounts. Although some saving in the costs may be possible, DMD have accepted the capital and operating expenditure budgets prepared by TanzaniteOne.

14 TECHNICAL AND ECONOMIC VALUATION

14.1 Introduction

This section summarises a valuation of the TanzaniteOne tanzanite project utilising the planned production rates and capital and operating costs structures for MML. The planned production rates and operating cost structures for MML are based on the life of mine plan developed by TanzaniteOne and the operating budget of the operation.

The life of mine is assumed to be 10 years, although the resource base is in excess of the amount required to support this scenario. The grade utilised in the production schedule is based on the average historical grade over the past three years. The revenue stream is based on the historical selling price of tanzanite.

The cost structures have been subjected to reviews by DMD and DMD has received the necessary assurances that the technical and economic data presented to DMD is valid and accurate. This data, that has been taken in good faith, has formed the basis of the analysis and the opinions expressed in this CPR.

14.2 Basis of valuations and technical-economic input parameters

The technical-economic input parameters, which have been provided to DMD for deriving the valuation, are summarised below.

- DMD has performed all calculations in real terms for this CPR, i.e. at a constant tanzanite price per carat. Views on various macro-economic parameters such as inflation rates in the USA, Tanzania and South Africa and future exchange rates of the ZAR quoted against the US Dollar have been excluded from this report.
- The basis for revenue is the estimated selling price for rough tanzanite. Random samples of tanzanite sales invoices were used to confirm sales volumes and values. A royalty of 3 per cent. of the FOB value of rough tanzanite must be paid to the Government of Tanzania on all tanzanite exported. DMD did not adjust any of the revenue numbers in the valuation. Sales of tanzanite are assumed to occur in the same period they are mined and sales proceeds on such sales are received during the period they are sold.
- All operating expenditures are quoted in 2004 real terms. During its independent review, DMD did not adjust any of the estimated operating expenditures.
- All capital expenditures (new and ongoing) are quoted in 2004 real terms. During its independent review, DMD did not adjust any of the estimated capital expenditures.
- DMD conducted a detailed review of historical performance as reflected in the audited annual financial statements of MML. Detailed questioning of key operational management regarding the actual results achieved in the past established the basis for the assumptions used in revenue projections and the assessment of operating and capital expenditure estimates and confirmed that the estimates were consistent with past performance.
- Environmental costs have been included in the operating expenditure estimates and cover the cost of ongoing monitoring and rehabilitation as set out in MML's Environmental Management Plan. To date, a provision of US\$82 000 has been made for environmental rehabilitation, which includes provisions for capping of shafts on closure, ongoing closure of artisanal pits on MML's mining licence area, ongoing rehabilitation of the slimes and tailings dams and general environmental rehabilitation work.
- TanzaniteOne contributes a substantial portion of profits to community development projects within the community adjacent to the mining licence area. To date MML has built a new church in the Nasinyai village and is currently doing extensive renovations and additions to the Nasinyai School, anticipated to be completed in the first half of 2004.
- MML is subject to 30 per cent. corporate taxation in Tanzania on all profits. As at 31 December 2003 MML has an estimated assessed tax loss of circa US\$3,9 million. This is as a result of development expenditure being written off for taxation purposes and the mine not achieving full economic production as at the date of this report.
- In the valuation model, all sales of tanzanite, capital expenditure, operating costs and tax payments are assumed to be paid/received in the same period to which they relate.

14.3 Capital expenditure estimates

Ongoing capital expenditure has been included with new capital expenditure in the valuation model to ensure amortisation is correctly determined. New and ongoing capital expenditures are stated in real money terms.

No unit costing has been done due to the fluctuating rates of recovery.

14.4 Operating expenditure estimates

The operating costs represent the annual mining, processing and administration costs for MML, as extracted from MML's budgets and mine plan. Operating expenditures are stated in real money terms.

14.5 Cash flow projections

The economic valuation utilised the discounted cash flow (“DCF”) method and incorporated the free cash flow generated by MML. Given that all revenues, capital expenditure and operating expenditure at MML are in US Dollars, all financial figures have been prepared in US Dollars and converted to South African Rand where necessary at an average rate of ZAR6.50 to the US Dollar.

Revenue projections have been derived from rough tanzanite production and rough tanzanite price projections.

- all capital (new and on-going) will be funded from equity finance and from cash generated by the mine, so no financing costs are accrued.
- Capital expenditure incurred in a particular year can be fully written off for taxation purposes against operating income for purposes of calculating the taxation liability.
- As indicated above, MML had an assessed loss of US\$3.9 million as at 31 December 2003. No Secondary Taxation on Companies, as levied in terms of the South African Income Tax Act on dividends, has been provided for. No capital gains taxation in Tanzania has been provided for in the cash flow projections.

No salvage values have been ascribed to any assets.

The resultant after tax cash flows are reflected in real constant money terms and exclude any financing costs.

There is no formal market for tanzanite and formal rate or hedging contracts are in place or accrued.

The net free operating cashflows were calculated as: revenue – operating expenditure – capital expenditure – tax. The resulting summary cashflows are shown in Table 15. This table is for illustrative purposes only and does not form an official forecast of TanzaniteOne’s future cashflow.

Table 15 – US dollar cashflows for MML in real terms

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	1	2	3	4	5	6	7	8	9	10
Production										
Total Tonnes Mined	103,410	125,189	126,212	126,212	126,212	126,212	126,212	126,212	126,212	1,238,296
Tonnes Processed	34,470	50,076	63,106	63,106	63,106	63,106	63,106	63,106	63,106	589,394
Cts/Tonne Produced	66	66	66	66	66	66	66	66	66	66
Cts Production	2,275,020	3,305,000	4,165,000	4,165,000	4,165,000	4,165,000	4,165,000	4,165,000	4,165,000	38,900,020
Revenue										
Revenue/Ct	5	5	5	5	5	5	5	5	5	5
Revenue	10,920,096	15,864,000	19,992,000	19,992,000	19,992,000	19,992,000	19,992,000	19,992,000	19,992,000	186,720,096
Expenditure										
Total Operating Costs	4,523,018	5,126,922	5,461,512	5,461,512	5,461,512	5,461,512	5,461,512	5,461,512	5,461,512	53,342,031
Tax	0	3,973,247	4,359,147	4,359,147	4,359,147	4,359,147	4,359,147	4,359,147	4,359,147	38,846,419
Total New Capital	2,278,000	2,045,000	1,634,000	1,985,667	1,985,667	1,985,667	1,985,667	1,985,667	1,985,667	19,856,667
On-going	1,236,680	1,399,760	1,549,520	1,444,520	1,444,520	1,444,520	1,444,520	1,444,520	1,444,520	14,297,600
Total	8,037,698	12,544,929	13,004,178	13,250,845	13,250,845	13,250,845	13,250,845	13,250,845	13,250,845	126,342,717
Cashflow	2,882,398	3,319,071	6,987,822	6,741,155	6,741,155	6,741,155	6,741,155	6,741,155	6,741,155	60,377,379
Cm Cashflow	2,882,398	6,201,470	13,189,292	19,930,447	26,671,602	33,412,758	40,153,913	46,895,068	53,636,223	60,377,379

14.6 Discounted cash flows

The net free operating cash flows were calculated as: revenue – operating expenditure – capital expenditure – tax. Using the DCF method, a net present value (“NPV”) of the after tax free operating cash flows, in constant money terms has been calculated for different discount rates. This is not a valuation of the MML business, but an indication of the MML tanzanite project NPV only. At an average exchange rate of ZAR6.50 to the US Dollar and a discount rate of 10 per cent., the NPV for the operating cash flows is US\$35.3 million. The summary NPV’s at a range of discounts are given in Table 16. The calculation in £STG is given at an exchange rate of £1.00 equals US\$ 1.80.

In calculating the NPV’s, all US Dollar free opportunity cash flows were converted to SA Rand at an average exchange rate of R6.50 to the US Dollar in Rand terms.

Table 16 – Summary of NPVs for MML

Exchange Rate (to US\$)	ZAR 6.50	£STG 1.80
% Discount	NPV US\$	£ STG
0	60,377,379	33,542,988
10	35,270,676	19,594,820
20	22,812,774	12,673,764

14.7 Sensitivity analysis

The sensitivities of the NPV's for MML relative to changes in the key variables of grade/revenue, operating expenditure, capital expenditure and exchange rate are indicated in table 17 below. The project is most sensitive to a change in revenue that can result from a change in one or more of grade, plant recovery and US Dollar selling price. The project is less sensitive to variation operating costs and still sensitive to changes in capital costs.

Table 17 – Sensitivity analysis – NPVs in US\$

		US\$ million				
	% Change	+20%	+10%	0	−10%	−20%
Revenue	% Discount					
	0.0	85.1	72.4	59.6	46.9	34.1
	10.0	49.6	42.1	34.6	27.1	19.6
	20.0	32.0	27.1	22.2	17.3	12.4
	30.0	22.3	18.9	15.4	11.9	8.4
	40.0	16.5	13.9	11.3	8.7	6.1
	50.0	12.8	10.8	8.7	6.7	4.6
Operating	% Discount					
	0.0	52.4	56.0	59.6	63.2	66.8
	10.0	30.3	32.4	34.6	36.7	38.9
	20.0	19.3	20.7	22.2	23.6	25.1
	30.0	13.3	14.3	15.4	16.4	17.5
	40.0	9.7	10.5	11.3	12.1	12.9
	50.0	7.5	8.1	8.7	9.4	10.0
Capital	% Discount					
	0.0	52.8	56.2	59.6	63.0	66.5
	10.0	30.4	32.5	34.6	36.7	38.8
	20.0	19.3	20.8	22.2	23.6	25.0
	30.0	13.3	14.3	15.4	16.4	17.5
	40.0	9.7	10.5	11.3	12.1	13.0
	50.0	7.4	8.1	8.7	9.4	10.1

14.8 Tanzanite market

As a mining company TanzaniteOne's primary focus is the mining, processing, sorting and grading of tanzanite in its rough form (prior to beneficiation). In an effort to create jobs and promote skill development within Tanzania, and in compliance with the Government of Tanzania's desire to promote value added activities within Tanzania, MML has set up a small lapidary department on the mine. It is TanzaniteOne's intention, in conjunction with the proposed Tanzanian Export Processing Zone (EPZ) legislation, to expand the beneficiation capabilities, with most of the cut and polished tanzanite being sold into South Africa and United Kingdom.

There is no official market price for tanzanite and TanzaniteOne's rough tanzanite is sold to various preferred beneficiation partners around the world. Demand for rough tanzanite is firm, with demand outstripping supply, and is expected to remain as such for the foreseeable future. Prices achieved have risen in excess of 40 per cent. over the past three years. One of the biggest challenges for the tanzanite market remains its

ability to support the ever-increasing global consumer demand. The formal mining methods being initiated in Block's A, C and D-extension should see this situation improving, thereby supporting a steady growth in the global market. An illustration of polished tanzanite is shown in Figure 18.

Figure 18: Polished tanzanite



15 RISKS AND OPPORTUNITIES

During the review of TanzaniteOne's operations, a number of potential opportunities and risks were identified, the more pertinent of which are summarised below:

15.1 Risks

- Political and economic stability in Tanzania;
- Supply continuity and price stability;
- The impact of HIV/AIDS on the mining operations; and
- The extent of artisanal mining on neighbouring properties and the curbing of undermining of MML's mining licence area.

15.2 Opportunities

- Utilisation of optical sorting at the final recovery stage;
- Utilisation of body scanning systems to reduce theft;
- Upgrading of existing mine infrastructure, plant and equipment to improve mining efficiencies;
- Confirmation of additional reserves; and
- Supply continuity upon reaching steady state production.

Measures have been put in place to address the identified risks and opportunities going forward. The management of TanzaniteOne remain reasonably confident that no undue challenges exist that would limit the ability of the organisation to continue its operations as a going concern in the foreseeable future.

16 LEGAL

On 5 February 2004, DMD met in Dar es Salaam with Advocate L. K. Masha, of Ishengoma Masha Mujulizi Magai, advocates who act for MML. Advocate Masha informed DMD that there were no legal proceedings that would influence MML's right to mine or explore for tanzanite within the licence areas. TanzaniteOne has confirmed to DMD that there are no legal proceedings that may have an influence on the rights of MML to explore for minerals.

17 CONCLUSIONS

The views expressed by DMD in this CPR have been based on the assumptions that the required management resources, management skills and access to adequate capital necessary to achieve the life of mine plan for the TanzaniteOne mining operation are sustained.

DMD has conducted a comprehensive review and assessment of all material issues likely to influence the future operations of the MML's tanzanite operation in Tanzania. The 10 year operating plan for MML as provided to, and taken in good faith by DMD, has been reviewed in detail for appropriateness, reasonableness and viability. Where material differences were found, these were discussed with MML's management and adjusted where considered appropriate.

DMD is of the view that the resulting technical-economic parameters have been based upon sound reasoning, engineering judgment and a practically achievable mine plan, given the risks associated with a mining venture in Tanzania.

It should be noted that NPV's reported in this CPR relate only to the calculated 10 year operating plan as presented to DMD by MML's management.

Capital expenditure provisions in the plan are not supported by detailed estimates or quotations and DMD cannot express an opinion as to the accuracy of the amounts. The capital expenditure provisions however appear to be sufficient to sustain mining operations for the anticipated 10 year operating plan.

The DMD study has confirmed the potential of the TanzaniteOne tanzanite mine and therefore, they support their proposed operating plan and its on-going implementation. The operating parameters and associated operating costs are based on accurate information. The proposed capital investment programme is sufficient to support the increased level of production. This increased level of productions is supported by the resource base, the market for tanzanite and is within the operating and technical capabilities of the TanzaniteOne directors and staff and will result in an increase in the economic returns of the project.

The MML tanzanite mine has the potential to show reasonable returns within the envisaged 10 year operating period provided the plant and mine infrastructure upgrades according to the capital expenditure programme are completed and appropriate maintenance levels in the operations are maintained. There is good upside potential for additional resources to be identified at depth within the mineralised structure.

The project has in excess of the resource tonnage required to support the 10 year operating period. In addition, it is reasonable to assume that during the project life there is good potential to identify additional resources both within the known structure and at depth.

GLOSSARY

Glossary of terms, abbreviations and units

Afgem:	African Gem Resources Limited; a general term to cover the Afgem Group of companies
Artisanal miners:	informal miners

Bateman:	Bateman Minerals & Industrial Limited
Biotite:	a common rock-forming mineral of the mica group, black in colour
Boudin:	one of a series of sausage-shaped segments occurring within a boudinage structure
Boudinaged:	a structure common in strongly deformed sedimentary and metamorphic rocks, in which an original continuous competent layer or bed between less competent layers has been stretched, thinned and broken at regular intervals into bodies resembling boudins, or sausages, elongated parallel to the fold axes
ca:	circa, approximately
Calcite:	calcium carbonate, one of the most common minerals and a principal constituent of limestone
Calibrated tanzanite:	a term used to describe parcels of stones that have been matched to a high degree of accuracy in both colour, shape and size. This includes matched pairs – two stones sold as a pair, typically for earrings
Clinopyroxene:	any of a group of pyroxenes crystallising in the monoclinic system and sometimes containing considerable calcium with or without aluminium
Coarse discard:	discard material from the processing plant that is greater than 1 mm and less than 30 mm in size
Cobbing:	the process whereby opaque, non gem-quality tanzanite is removed from the rough tanzanite
CPR:	Competent Person's Report.
Denver Accord:	the provisional agreement by the Council of Mining and Metallurgical Institutions Definitions Group on the definitions of Mineral Resources and Mineral Reserves
DMD:	Ddraig Mineral Developments Limited
Dip:	inclination of a geological feature from the horizontal
DMS:	Dense Media Separation
Dolomitic marble:	a metamorphic rock composed essentially of dolomite, a calcium magnesium carbonate
EATP:	Employment and Training Plan
EIA:	Environmental Impact Assessment
EMP:	Environmental Management Programme
EAO:	East African Orogen, a polyphase Mobile Belt Terrain of early to late Proterozoic age
Fold hinge:	the line along which maximum curvature of a fold occurs
Foliation:	the laminated structure resulting from segregation of different minerals into layers parallel to the schistosity

Footwall:	the mass of rock beneath a fault plane, vein, lode or bed of ore; also the underlying side of an underground mine opening
Garnet:	a group of silicate minerals which are used as a gem and as an abrasive, typically reddish brown in colour
Gneiss:	a coarse-grained rock in which bands rich in granular minerals alternate with bands in which schistose minerals predominate
Gondwana:	The late Palaeozoic continent of the Southern Hemisphere
Geological Terminology:	for various geological terminology refer to http://www.geotech.org/survey/geotech/dictiona.html
Graphite:	a black to steel-gray, very soft mineral composed of carbon
Graptan:	Graptan Limited (a previous owner of Merelani)
Hangingwall:	the overlying side of an orebody or underground mine opening
Intercalated:	inserted among others, as a bed or stratum of lava between other beds of a different material
Isoclinal:	dipping in the same direction
JC:	Jewellery Council of South Africa
JORC:	the Australian Code for reporting of mineral resources and ore reserves
JSE:	JSE Securities Exchange South Africa
JWZ:	Juuyawatu Zone
Kyanite:	a triclinic mineral composed of aluminium silicate
Lineation:	any linear structure within or on a rock resulting from flowage shown by rotation of mineral grains or other bodies, intersection of planes, slippage along glide planes and growth of crystals
Lithostratigraphic:	stratigraphic description based only on the physical and petrographic features of rocks occurring in a given lithological sequence
LoM:	life of mine
Massive:	occurring in thick beds, free from minor joints and lamination, often without definite crystalline structure
Median:	the value associated with the midpoint of a size distribution
Metamorphic:	a term used to describe a rock which has undergone alteration of its composition, texture or internal structure by conditions and forces related to pressure, heat and the introduction of new chemical substances
Merelani or MML:	Merelani Mining Limited that is the wholly owned operating subsidiary of TanzaniteOne that operates its mine in Tanzania.
Mobile Belt:	A long, relatively narrow crustal region of tectonic activity.

Mozambique Belt:	Pan-African metamorphic suture separating Mozambique from Zimbabwe craton (Ref: EAO)
MEM:	Tanzanian Ministry for Energy and Minerals
MS:	Mine Syncline
NEMC:	Tanzanian National Environment Management Council
NPV:	net present value
Ore (Local Definition):	The naturally occurring mined tanzanite mineralisation that is processed through MML's plant.
Pay shoot:	a term used to define the zone around the fold closure axis where preferential formation of tanzanite has occurred
Plunge:	the inclination of a fold axis or other geologic structure, measured by its departure from the horizontal. Mainly used for the geometry of folds
Porphyroblast:	a term given to large grains of crystals, commonly perfect, developed in schists resulting from deformation of rocks originally containing phenocrysts
Proterozoic:	A geological era of between 2.5 to 0.6 Ga
Pyrite:	“fool’s gold”; a brass-yellow mineral of iron sulphide
Raise:	a mine development or shaft which is driven from below upward, i.e. at an angle above the horizontal
Republic:	The Government of the Republic of Tanzania; also the Republic of Tanzania
Reserve:	that portion of a mineral resource on which technical and economic studies have been carried out to demonstrate that it can justify extraction at the time of the determination and under specified economic conditions
Resource:	a tonnage or volume of rock or mineralisation or other material of intrinsic economic interest, the grades, limits and other appropriate characteristics of which are known with a specified degree of knowledge
SAMREC:	South African Code for Reporting of Mineral Resources and Mineral Reserves, prepared by the South African Mineral Resource Committee (SAMREC) under the auspices of the South African Institute of Mining and Metallurgy, March 2000
Scapolite:	a hydrous mineral consisting of alkali metal alumino-silicates, confined to metamorphic environments
Schists:	a medium to coarse-grained metamorphic rock with subparallel orientation of the micaceous minerals which dominate its composition
Schistosity:	that variety of foliation that results from the parallel arrangement of platy and ellipsoidal mineral grains

Silliminite:	an orthorhombic mineral of aluminium silicate, which is trirhomphous with kyanite and andalusite
SML:	Special Mining Licence
SRK:	Steffan Robertson and Kirsten (South Africa) (Proprietary) Limited
Stellenbosch:	the Department of Geology at the University of Stellenbosch
Suboutcrop:	the near-surface position of bedrock or strata on a paleo-surface under an overlying cover of detritus and soil
Sulphide:	a compound of sulphur joined with a positive element or radical
Tailings:	that portion of the finely ground ore from which valuable minerals have been extracted and is rejected during the concentrating stage
Tanzanite:	a vanadium-rich violet-blue gemstone variety of Zoisite
TGI:	Tanzanian Gemstone Industries
Titanite:	a monoclinic mineral of calcium titanium silicate, also called sphene
Tsavorite:	green grossular garnet
Waste:	country rock that does not contain economic mineralisation grades
Winze:	an underground development that is advanced at an angle below the horizontal or in a down-dip direction
Wollastonite:	a triclinic mineral of calcium silicate commonly found in contact-metamorphosed limestones
Zoisite:	a hydrated calcium aluminium silicate orthorhombic mineral found in metamorphic rocks

Units and chemical abbreviations

°	degree (measurement of angle)
°C	degrees Celsius
Ca	Calcium
cm	centimetre
carats per tonne	carat per tonne
c, ct	carat (5 ct = 1 g)
cpt	carats per tonne
Cl	Chlorine
CO ₂	Carbon dioxide
Fe	Iron
g	gramme
Ga	thousand million years
g/t	gramme per metric tonne

h,hr	hour
ha	hectare
H ₂ O	water
kg	kilogramme
kg/t	kilogramme per metric tonne
kg/m ³	kilogramme per cubic metre
kl	kilolitre
km	kilometre
km ²	square kilometre
l	litre
m	metre
Ma	hundred million years
masml	metres above mean sea level
m ³	cubic metres
mm	millimetre
M	million
Mt	metric tonnes
Mg	Magnesium
%	percent
Si	Silica
Sr	Strontium
t	tonnes
Ti	Titanium
tpa	tonnes per annum
tpd	tonnes per day
tph	tonnes per hour
t/m ³	tonne per cubic metre (specific gravity)
tpm	tonnes per month
US\$	United States dollar
US\$m	million United States dollars
US\$/ct, \$/ct	United States dollar per carat
V	Vanadium
ZAR	South African Rand

18 BIBLIOGRAPHY

The main references referred to in this report have been a series of reports prepared by consultants commissioned by MML. These reports are comprehensive and vary from a Bankable Feasibility Study through a Competent Persons Report to a Review document which in total have addressed all aspects of the of the MML operations.

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Gemstone Research Centre, Department of Geology, University of Stellenbosch, Private Bag X1, Matieland, 7602. Tel: 27 21 808 3124; Fax: 27 21 808 3129; E-mail: bo@webmail.co.za and rsc@sun.ac.za.

3. Craeton Resources. 2003. Merelani Tanzanite Mine: Geological and Exploration Summary.

PART 3

ACCOUNTANTS' REPORT ON TANZANITE ONE



The Directors
Tanzanite One Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

and

The Directors
Williams de Broë Plc
6 Broadgate
London
EC2M 2RP

16 August 2004

Dear Sirs

We report on the consolidated financial information set out below relating to Tanzanite One Limited (“the Company”) and its subsidiaries (together, “the Group”) as at 20 May 2004 as follows:

Tanzanite One Limited, a company incorporated in Bermuda on 20 February 2003;

Tanzanite One (SA) Limited (“Tanzanite SA”), a company incorporated in South Africa on 13 February 2001 and a wholly owned subsidiary of the Company;

The Tanzanite Company (UK) Limited, a company incorporated in the United Kingdom on 30 September 2003 and a wholly owned subsidiary of the Company.

On 21 May 2004 the Company, through its above wholly owned South African subsidiary, acquired “the Tanzanite Group” which is subject to a separate report together with various assets of African Gem Resources Limited (“Afgem”).

This financial information has been prepared for inclusion in the prospectus dated 16 August 2004 of the Company.

Basis of preparation

The financial information set out in this report is based on the audited consolidated non-statutory financial statements of the Company for the period from incorporation to 20 May 2004 and has been prepared on the basis set out in this report, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The directors of the Company are responsible for the contents of the prospectus dated 16 August 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the audited financial statements, to form an opinion on the financial information and to report our opinion to you.

The Company nor any of its subsidiaries have yet been required under the relevant national laws to prepare audited financial statements. PKF of Farringdon Place, 20 Farringdon Road, London EC1M 3AP were appointed non-statutory auditors of the Company on 4 June 2004 and have, for the purpose of this report, audited the consolidated non-statutory financial statements of the Company for the period from incorporation to 20 May 2004. Their report is unqualified.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 16 August 2004, a true and fair view of the state of affairs of the Group as at the date stated and of its consolidated results for the period then ended.

Consent

We consent to the inclusion in the prospectus dated 16 August 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(2)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

FINANCIAL INFORMATION

Accounting policies

Basis of preparation

The financial information has been prepared on the going concern basis which takes account of the placing agreement entered into with the company's brokers, Williams de Broe, to place shares on AIM.

Neither the company nor any of its subsidiaries have traded during the period.

Functional and presentation currency

Items included in the accounting records of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the company's functional and presentation currency.

Foreign currency transactions and balances

Transactions denominated in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any foreign gains or losses are accounted for in the income statement in the year in which they arise.

Consolidation

Subsidiaries represent all companies over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Inter company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Deferred taxation

Deferred tax is calculated on the comprehensive basis using the balance sheet approach. Deferred tax liabilities or assets are recognised by applying expected tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amounts. These temporary differences are expected to result in taxable or deductible amounts in determining taxable profits for future periods when the carrying amount of the asset is recovered or the liability settled. Deferred tax assets are only accounted for if their recovery is probable.

Share based payment

Where the Group has an obligation at the balance sheet date to grant shares in exchange for services rendered, the fair value of the services rendered is recognised as an expense over the vesting period. The fair value of services is measured by reference to the market price for equivalent services. The early adoption of IFRS2 has resulted in a charge to the income statement of \$100,000.

Consolidated Income Statement

		<i>15 months to 20 May 2004</i>
	<i>Notes</i>	<i>\$000</i>
Administration expenses		(228)
Operating loss		<u>(228)</u>
Loss before and after tax and for the period		<u>(228)</u>

Consolidated Balance Sheet

		<i>As at 20 May 2004</i>
	<i>Notes</i>	<i>\$000</i>
ASSETS		
Current assets		
Trade and other receivables	i	664
Cash and cash equivalents		13
Total assets		<u>677</u>
EQUITY AND LIABILITIES		
Current liabilities		
Trade and other payables	ii	970
Capital and reserves attributable to company's equity holders		
Share capital	iv	12
Other reserve	vi	(77)
Accumulated losses		(228)
		<u>(293)</u>
Total equity and liabilities		<u>677</u>

Consolidated statement of changes in equity attributable to the equity holders of the company

	<i>Share capital \$000</i>	<i>Accumulated profit \$000</i>	<i>Other reserve \$000</i>	<i>Total \$000</i>
Balance at start of period	—	—	—	—
Issue of share capital	12	—	—	12
Net loss for the period	—	(228)	—	(228)
Prepaid costs relating to potential flotation	—	—	(77)	(77)
Balance at 20 May 2004	<u>12</u>	<u>(228)</u>	<u>(77)</u>	<u>(293)</u>

Consolidated cash flow statement

	<i>Period ended 20 May 2004 \$000</i>
Cash flows from financing activities	
Issue of share capital	12
Funding provided by Jade Pacific Resources Limited	<u>1</u>
Net increase in cash and cash equivalents	13
Cash and cash equivalents at beginning of period	<u>—</u>
Cash and cash equivalents at end of period	<u>13</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

i Trade and other receivables

	<i>As at</i>
	<i>20 May 2004</i>
	<i>\$000</i>
Other receivables	664

All amounts fall due for payment within one year.

ii Trade and other payables

	<i>As at</i>
	<i>20 May 2004</i>
	<i>\$000</i>
Accrued expenses	666
Other payables	304
	<u>970</u>

iii Related party transactions

At 20 May 2004 the Company owed \$304,048 to Jade Pacific, a company controlled by Michael Adams, who is a director of the Company. At 20 May 2004 Michael Adams was the sole shareholder of the Company. Mike Allardice is the sole director of Jade Pacific and of The Tanzanite Company (UK) Limited, and a director of Tanzanite SA, wholly owned subsidiaries of the Company.

\$75,000 is payable to MAA Securities Limited, under a service contract, of which Mike Allardice and Michael Adams are directors. \$24,328 is payable to MAA Securities Limited for travel and accommodation costs incurred by the directors whilst on business for the Group. These amounts are included within the creditor to Jade Pacific above.

\$63,562 is payable to Quantum Capital and Consulting Limited, in which Mike Allardice is the Chief Executive. This amount is payable in respect of travel and accommodation costs incurred whilst on business for the Group. This amount is included within the creditor to Jade Pacific above.

iv Share capital

On incorporation the Company had an authorised share capital of 120,000 common shares, with a par value of \$0.10 per share. 120,000 shares were issued on 7 May 2003.

On 7 April 2004 the authorised share capital was increased to \$50,000, and the number of authorised common shares were subdivided on a 1,000:1 basis, resulting in an authorised number of shares of 500,000,000 at 20 May 2004. The common shares have a par value of US\$0.0001 per share.

	<i>Number of</i>	<i>Common</i>
	<i>shares</i>	<i>shares</i>
		<i>\$000</i>
Issued in period and at 20 May 2004, fully paid	<u>120,000,000</u>	<u>12</u>

v Income tax

There is no tax charge for the period. Losses carried forward amount to \$4,000.

vi Other reserve

The other reserve represents prepaid costs relating to the potential flotation. The costs will be transferred to the share premium account on issue of the common shares in connection with the proposed flotation.

vii Subsidiary companies

The subsidiary companies whose results are consolidated into these group accounts are as follows:

	<i>Country of incorporation</i>	<i>Ownership</i>
Tanzanite SA	South Africa	100%
The Tanzanite Company (UK) Limited	United Kingdom	100%

viii Contingent liabilities

At 20 May 2004 the Company had a contingent liability of \$75,000 relating to a service agreement, payable on completion of the acquisition as detailed in note ix.

ix Post balance sheet events

On 21 May 2004 the Company, through its subsidiary undertaking Tanzanite SA, acquired the whole of the issued share capital of the following companies comprising, together with their subsidiaries, the Tanzanite Group:

Merelani Mining Limited
The Tanzanite Company (Proprietary) Limited
Afgem International Limited

In addition the Company acquired certain assets, liabilities and commitments from African Gem Resources Limited. The book values, as extracted from the unaudited management accounts of African Gem Resources Limited, are as follows:

	<i>\$000</i>
Tangible fixed assets	150
Amounts due from the Tanzanite Group	7,490
Other receivables	77
Trade and other payables	(272)
	<hr/> 7,445

The value attributed to the consideration paid by the Group to satisfy the acquisition, as set out in the sale and purchase agreement, was as follows:

	<i>\$000</i>
Cash	681
139,756,951 common shares of US\$0.0001 each	23,538
71,246,593 Class A shares of ZAR0.0001 each in Tanzanite SA	1
	<hr/> 24,220

The Class A shares in Tanzanite SA have limited rights attaching and do not represent a minority equity shareholders interest in that company. Tanzanite SA remains a 100 per cent. subsidiary of the Company following the above transaction.

By a resolution dated 9 July 2004, the 500,000,000 authorised common shares of \$0.0001 each were consolidated into 166,666,667 shares of \$0.0003 each.

On 1 June 2004 Jade Pacific Limited provided cash to the Company of US\$3 million in accordance with a funding commitment dated 27 November 2003 to finance the post balance sheet acquisition and to meet working capital requirements. All of the funding provided was converted to equity shares in the Company on 4 August 2004

On 4 August 2004 the US\$304,048 due to Jade Pacific Limited at 20 May 2004 was converted to equity shares together with an additional US\$153,765 received from Jade Pacific Limited on 21 July 2004.

On 4 August 2004 the Company issued 4,180,567 common shares pursuant to a rights issue for total proceeds received by the Group of US\$2,266,995.

On 4 August 2004 the Company bought back the shares in issue at 20 May 2004 from Michael Adams at par value.

Yours faithfully

PKF

PART 4

ACCOUNTANTS REPORT ON THE TANZANITE GROUP



The Directors
Tanzanite One Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

and

The Directors
Williams de Broë Plc
6 Broadgate
London
EC2M 2RP

16 August 2004

Dear Sirs

We report on the consolidated financial information set out below relating to the following companies (“the Tanzanite Companies”, together “the Tanzanite Group”):

Merelani Mining Limited (“MML”), incorporated on 21 October 1998 in Tanzania;

TATAN Limited (“TATAN”), a 75 per cent. owned subsidiary of MML incorporated on 17 June 2003 in Tanzania;

The Tanzanite Company (Proprietary) Limited (“TTC”), incorporated 10 December 1998 in South Africa;

Afgem Logistics (Proprietary) Limited (“Logistics”), a wholly owned subsidiary of TTC incorporated on 20 December 2000 in South Africa;

Afgem International Limited (“AI”), incorporated on 7 March 2003 in Mauritius;

Tanzanite Foundation Limited (“TFL”), a wholly owned subsidiary of AI incorporated in Mauritius.

This financial information has been prepared for inclusion in the prospectus dated 16 August 2004 of Tanzanite One Limited (“the Company”).

Basis of preparation

The Tanzanite Companies were under common control and, other than in respect of the minority interest of 25 per cent. in TATAN, the Tanzanite Companies were wholly owned direct or indirect subsidiaries of African Gem Resources Limited (“Afgem”) throughout the periods covered by this report or from the date of incorporation where such dates are after 1 March 2000, as set out below.

The financial information set out in this report is based the audited financial statements of the Tanzanite Companies after making such adjustments as we considered necessary. The financial information represents a non-statutory aggregation of the Tanzanite Companies for the periods ended 28 February 2001, 31 March

2002, 31 March 2003, and 31 December 2003 (“the Relevant Period”) for all relevant entities incorporated prior to each of these dates.

The first set of accounts for Logistics were made up for the year ended 28 February 2002. The corresponding accounts for TFL were also made up for the year ended 28 February 2002. The financial information included in the non-statutory aggregation for these companies has been adjusted to present information for period ends co-terminus with the remaining Target Companies.

KPMG, Chartered Accountants (SA), 85 Empire Road, Parkstown, Johannesburg, South Africa have been auditors to TTC throughout the Relevant Period, auditors to Logistics for the three financial periods ended 31 December 2003 and auditors to TFL for the three financial periods ended 31 March 2003. Each of their audit reports was unqualified.

KPMG, Certified Public Accountants, 11th Floor, PPF Tower, Ohio Street/Garden Avenue, Dar es Salaam, Tanzania have been auditors to MML throughout the Relevant Period and TATAN for the period ended 31 December 2003. Each of their audit reports was unqualified.

H&A Partners, Chartered Certified Accountants, 3 Leoville L’Homme Street, Port Louis, Mauritius were auditors of AI for the periods ended 31 March 2003 and 31 December 2003 and TFL for the period ended 31 December 2003. All of their audit reports were unqualified.

Responsibility

The underlying financial statements upon which this report is based are the responsibility of the directors of the relevant company who approved their issue.

The directors of the Company are responsible for the contents of the prospectus dated 16 August 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the audited financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 16 August 2004, a true and fair view of the state of affairs of the Tanzanite Group as at the dates stated and of its aggregated results for the periods then ended.

Consent

We consent to the inclusion in the prospectus dated 16 August 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(2)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

FINANCIAL INFORMATION

Accounting policies

Accounting convention

The financial information has been prepared under the historical cost convention and in accordance with applicable international accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

Non statutory aggregation

The financial information has been prepared by aggregating the audited accounts of the Tanzanite Companies. All transactions and balances between the Tanzanite Companies have been eliminated on aggregation.

Fixed assets and depreciation

Fixed assets are included at historical cost less accumulated depreciation. Historical cost includes all costs directly attributable to bringing the assets to working condition for their intended use.

Depreciation is provided on the straight-line method on the cost of the assets over their estimated useful lives as follows:

Aircraft	Detailed below
Mining assets	
- Equipment and instruments	25 per cent. per annum
- Development and pre-production expenditure	Life of mine (detailed below)
Plant and machinery	25 per cent. per annum
Land and buildings	8.3 per cent. per annum
Vehicles and equipment, furniture and fittings	Between 16.7 per cent. and 33.3 per cent. per annum

Aircraft

Depreciation is provided for over the estimated life of the aircraft's three major components: the engine, airframe and undercarriage, based on the current usage of the aircraft. The engine and undercarriage are depreciated over the remaining hours prior to a major overhaul being required. The airframe is depreciated over the anticipated life of the airframe, currently 17.5 years.

Pre-production expenditure

Feasibility, development, exploration and all other costs relating to the development of a shaft are capitalised until full commercial production commences. When commercial production commences, these costs will be amortised over the life of mine on the unit of production method.

Mining licence and buildings

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

Impairment of assets

The carrying amounts of the Tanzanite Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that assets may be impaired, their recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. An impairment loss is recognised in the income statement whenever the carrying value of the asset exceeds the recoverable amount.

Foreign currency translations

Transactions denominated in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Any foreign gains or losses are accounted for in the income statement in the year in which they arise.

Inventories

Inventories are carried at the lower of cost and net realisable value. Raw materials, consumable stores and packaging materials are based on average weighted purchase prices.

Finished goods costs comprise all costs of purchase, conversion and other costs incurred in bringing the inventory to its present location and condition, and an appropriate allocation of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any costs of completion and disposal.

Stock of rough tanzanite mined whilst a particular mine shaft is in a pre-production phase is carried at the lower of cost and net realisable value. Cost includes direct mining costs and an appropriate portion of pre-production expenditure capitalised in the ratio that current production bears to total estimated production over the life of the mine shaft.

Where necessary, provision is made for obsolete, slow moving and/or defective stock.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax comprises tax payable, calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date and any adjustment of tax payable in respect of previous years.

Deferred tax is calculated on the comprehensive basis using the balance sheet approach. Deferred tax liabilities or assets are recognised by applying expected tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amounts. These temporary differences are expected to result in taxable or deductible amounts in determining taxable profits for future periods when the carrying amount of the asset is recovered or the liability is settled. Deferred tax assets are only accounted for if their recovery is probable.

Environmental rehabilitation

The Tanzanite Group has recorded a provision for environmental liabilities based on management's estimate of these costs. Such estimates are subject to adjustment based on changes in laws and regulations and as additional information become available. Estimated future costs will be charged against earnings when determined.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their fair value at the date of acquisition. The corresponding liability to the lessor is disclosed as a finance lease obligation. Finance costs represent the difference between the total leasing commitments and the fair value of the assets acquired. They are charged to the income statement over the term of the relevant lease and at interest rates applicable to the lease on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Financial instruments

Financial instruments are initially carried at cost, which includes transaction costs. Subsequent to initial recognition, these instruments are carried at fair value as set out below:

- Accounts receivable originated by the group are carried at cost less provision for doubtful debts.
- Cash and cash equivalents are carried at fair value based on the relevant exchange rates at balance sheet date.
- Financial liabilities are carried at amortised cost, comprising original debt less principal payments and amortisations.

Gains and losses on subsequent changes in carrying value are included in the income statement in the period in which they arise.

Revenue

Revenue comprises the invoiced value of sales in respect of mining and trading operations, excluding non-operating income and value added taxation. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, costs can be measured reliably and the receipt of the future economic benefits is probable.

Segmental analysis

Historically the Target Companies have not been required to present segmental information in accordance with International Accounting Standard 12. Segmental information is included within the notes to the financial information to the extent practicable.

Consolidated income statements (in US dollars)

		<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
Revenue	i	5,869	4,473	7,589	9,951
Cost of sales		(1,072)	(2,022)	(3,343)	(2,524)
Gross profit		4,797	2,451	4,246	7,427
Other operating income	1	1	76	50	88
Net foreign exchange (loss)/gain		(198)	566	(1,245)	(1,032)
Administrative expenses		(1,024)	(2,657)	(3,319)	(3,759)
Profit/(loss) from operations	ii	3,576	436	(268)	2,724
Net finance income/(cost)	iv	70	10	(150)	(203)
Profit/(loss) before tax		3,646	446	(418)	2,521
Income tax expense	v	(1,143)	(136)	(315)	(231)
Profit/(loss) after tax		2,503	310	(733)	2,290
Minority interest	xi	—	—	—	5
Net profit/(loss) for the period		2,503	310	(733)	2,295

All amounts relate to continuing activities.

Consolidated balance sheets (in US dollars)

		<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
	<i>Notes</i>				
ASSETS					
Non-current assets					
Tangible fixed assets	vi	7,839	10,952	10,331	9,698
Deferred tax	vii	9	88	372	941
		<u>7,848</u>	<u>11,040</u>	<u>10,703</u>	<u>10,639</u>
Current assets					
Inventories	viii	392	2,383	3,338	4,440
Trade and other receivables	ix	1,621	1,052	1,625	1,938
Taxation refundable		–	–	737	72
Cash and cash equivalents		3,771	4,298	4,196	5,557
		<u>5,784</u>	<u>7,733</u>	<u>9,896</u>	<u>12,007</u>
Total assets		<u>13,632</u>	<u>18,773</u>	<u>20,599</u>	<u>22,646</u>
SHAREHOLDERS' EQUITY					
Capital and reserves					
Issued share capital	x	–	–	10	10
Share premium	x	500	500	500	500
Accumulated profits		2,703	3,013	2,280	4,575
Total shareholders' equity		<u>3,203</u>	<u>3,513</u>	<u>2,790</u>	<u>5,085</u>
Minority interest	xi	–	–	–	140
LIABILITIES					
Non current liabilities					
Borrowings	xiii	400	1,802	2,167	2,214
Deferred tax	vii	363	378	911	1,144
Provisions	xiv	100	100	100	82
		<u>863</u>	<u>2,280</u>	<u>3,178</u>	<u>3,440</u>
Current liabilities					
Trade and other payables	xii	294	539	847	779
Current portion of borrowings	xiii	100	231	307	378
Amounts due to related parties	xv	8,408	12,048	13,477	12,824
Taxation payable		764	162	–	–
		<u>9,566</u>	<u>12,980</u>	<u>14,631</u>	<u>13,981</u>
Total equity and liabilities		<u>13,632</u>	<u>18,773</u>	<u>20,599</u>	<u>22,646</u>

Consolidated statement of changes in equity (in US dollars)

	<i>Share capital \$000</i>	<i>Share premium \$000</i>	<i>Accumulated profit \$000</i>	<i>Total \$000</i>
Balance at 1 March 2000	–	500	200	700
Net profit for the period	–	–	2,503	2,503
Balance at 28 February 2001	–	500	2,703	3,203
Net profit for the period	–	–	310	310
Balance at 31 March 2002	–	500	3,013	3,513
Net (loss) for the period	–	–	(733)	(733)
Issue of shares in period	10	–	–	10
Balance at 31 March 2003	10	500	2,280	2,790
Net profit for the period	–	–	2,295	2,295
Balance at 31 December 2003	10	500	4,575	5,085

Consolidated cash flow statements (in US dollars)

		<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
	<i>Notes</i>				
Cash flows from operating activities					
Cash received from customers		4,908	5,042	7,016	9,638
Cash paid to suppliers		(2,129)	(4,599)	(7,198)	(7,172)
Cash generated from operations	xvi	2,779	443	(182)	2,466
Income taxes paid		(72)	(802)	(965)	97
Net cash from operating activities		2,707	(359)	(1,147)	2,563
Cash flows from investing activities					
Purchase of property, plant and equipment		(2,758)	(4,297)	(685)	(609)
Interest received		71	203	70	2
Net cash utilised in investing activities		(2,687)	(4,094)	(615)	(607)
Cash flows from financing activities					
Proceeds from long term borrowings		4,988	3,640	1,429	(653)
Interest paid		(1)	(193)	(220)	(205)
Payment of finance lease liabilities		(1,500)	1,533	441	118
Share capital issued		–	–	10	–
Cash for shares subscribed by minority shareholder		–	–	–	145
Net cash used in financing activities		3,487	4,980	1,660	(595)
Net increase in cash and cash equivalents		3,507	527	(102)	1,361
Cash and cash equivalents at beginning of period		264	3,771	4,298	4,196
Cash and cash equivalents at end of period		3,771	4,298	4,196	5,557

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION (IN US DOLLARS)

i Segment information

All operations relate to the extraction and trading of coloured gemstones. All assets are located in Africa. We set out below an analysis of revenue by destination by geographical region.

	<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
Revenue				
South Africa	5,566	2,613	3,760	2,959
Other	303	1,860	3,829	6,992
	<u>5,869</u>	<u>4,473</u>	<u>7,589</u>	<u>9,951</u>
Net assets				
South Africa	2,852	2,124	1,627	387
Other	351	1,389	1,163	4,698
	<u>3,203</u>	<u>3,513</u>	<u>2,790</u>	<u>5,085</u>

ii Profit/(loss) from operations

	<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
Profit/(loss) from operations is arrived at after (charging)/crediting:				
Auditors' remuneration				
– audit services	(19)	(25)	(29)	(32)
– other services	(27)	(7)	(18)	(19)
Depreciation – owned assets	(181)	(1,184)	(1,306)	(1,012)
Impairment of tangible fixed assets	–	–	–	(230)
Net foreign exchange (loss)/gain	(198)	566	(1,245)	(1,032)
Staff costs (See note iii)	347	455	504	623
Write down of inventory	–	–	(722)	(839)
Provision for bad and doubtful debts	–	(144)	95	32
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

iii Staff costs

Staff costs for all employees, including executive directors, consist of:

	<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
Wages and salaries	347	455	436	538
Social security costs	–	–	68	85
	<u>347</u>	<u>455</u>	<u>504</u>	<u>623</u>

The number of employees, including executive directors, at 31 December 2003 was 464 (at 31 March 2003, 415; at 31 March 2002, 307; at 28 February 2001, 206).

In addition, the Tanzanite Group paid management fees to its parent company, Afgem, including amounts relating to administrative staff costs. The total management fees charged are set out in note xv.

iv Net finance income/(cost)

	<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
Interest expense – bank borrowings	(1)	(193)	(220)	(205)
Interest income	71	203	70	2
	<u>70</u>	<u>10</u>	<u>(150)</u>	<u>(203)</u>

v Income tax expense

	<i>Year ended 28 Feb 2001 \$000</i>	<i>13 Months ended 31 Mar 2002 \$000</i>	<i>Year ended 31 Mar 2003 \$000</i>	<i>9 Months ended 31 Dec 2003 \$000</i>
Current tax	(836)	(210)	–	(487)
Deferred tax	(307)	74	(315)	256
	<u>(1,143)</u>	<u>(136)</u>	<u>(315)</u>	<u>(231)</u>

Reconciliation of effective tax

Tax on income at standard tax rate (30%)	(1,094)	(134)	125	(756)
Effects of:				
Exchange differences	(48)	(2)	(434)	(85)
Deferred tax assets not recognised	(1)	(54)	(126)	(124)
Capital allowances	–	74	168	393
Disallowed expenditure	–	(20)	(48)	(87)
Utilisation of tax losses	–	–	–	301
Amounts due from Afgem	–	–	–	181
Other	–	–	–	(54)
	<u>(1,143)</u>	<u>(136)</u>	<u>(315)</u>	<u>(231)</u>

vi Property, plant and equipment

	<i>Mining licence \$000</i>	<i>Aircraft \$000</i>	<i>Pre- production expenditure \$000</i>	<i>Vehicles and equipment furniture and fittings \$000</i>	<i>Mining properties, plant and machinery \$000</i>	<i>Total \$000</i>
Net book value						
As at 1 March 2000	500	—	3,273	52	3,518	7,343
Additions	—	—	—	323	354	677
Depreciation	—	—	—	(1)	(180)	(181)
As at 28 February 2001	500	—	3,273	374	3,692	7,839
Additions	—	2,429	1,420	106	342	4,297
Depreciation	(50)	(186)	(71)	(126)	(751)	(1,184)
As at 31 March 2002	450	2,243	4,622	354	3,283	10,952
Additions	—	—	576	57	52	685
Depreciation	(46)	(223)	(164)	(129)	(744)	(1,306)
As at 31 March 2003	404	2,020	5,034	282	2,591	10,331
Additions	—	—	494	50	65	609
Depreciation	(35)	(167)	(156)	(94)	(560)	(1,012)
Impairment	—	—	(230)	—	—	(230)
As at 31 December 2003	369	1,853	5,142	238	2,096	9,698
At 28 February 2001						
Cost	500	—	3,273	375	3,922	8,070
Accumulated depreciation	—	—	—	(1)	(230)	(231)
Net book value	500	—	3,273	374	3,692	7,839
At 31 March 2002						
Cost	500	2,429	4,693	481	4,264	12,367
Accumulated depreciation	(50)	(186)	(71)	(127)	(981)	(1,415)
Net book value	450	2,243	4,622	354	3,283	10,952
At 31 March 2003						
Cost	500	2,429	5,269	538	4,316	13,052
Accumulated depreciation	(96)	(409)	(235)	(256)	(1,725)	(2,721)
Net book value	404	2,020	5,034	282	2,591	10,331
At 31 December 2003						
Cost	500	2,429	5,763	588	4,381	13,661
Accumulated depreciation	(131)	(576)	(621)	(350)	(2,285)	(3,963)
Net book value	369	1,853	5,142	238	2,096	9,698

The impairment charge against pre-production expenditure in the period ended 31 December 2003 has been made against the costs capitalised on two development shafts. The costs in relation to one shaft have been written down by 50 per cent. due to the level of production. The costs in relation to the other shaft have been fully written-off as no future production is anticipated.

vii Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 30 per cent.

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Liabilities:				
MML	(363)	(378)	(911)	(1,144)
Assets:				
TTC	4	46	307	632
Consolidation effects	5	42	65	309
Total	9	88	372	941

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The deferred asset arising on consolidation relates to the unearned profit in stock arising from sales and purchases between the Tanzanite Companies.

In addition to the recognised deferred tax assets set out above the Tanzanite Group has unrecognised tax losses of US\$355,000 (31 March 2003: US\$192,000) in respect of Logistics.

viii Inventories

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Rough tanzanite	11	383	212	1,345
Consumable stores	46	108	171	265
Other	–	116	74	103
Polished stones	335	1,776	2,881	2,727
	392	2,383	3,338	4,440

ix Trade and other receivables

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Trade receivables	1,590	1,116	1,660	1,803
Less : provision for impairment of receivables	(18)	(111)	(67)	(45)
Trade receivables – net	1,572	1,005	1,593	1,758
Other receivables	49	47	32	180
	1,621	1,052	1,625	1,938

All amounts fall due for payment within one year.

x Share capital and share premium

	<i>As at 28 Feb 2001</i>	<i>As at 31 Mar 2002</i>	<i>As at 31 Mar 2003</i>	<i>As at 31 Dec 2003</i>
	\$	\$	\$	\$
Share capital				
Authorised				
MML: 100,000 ordinary shares of TZS1 each	127	127	127	127
TTC: 1,000 ordinary shares of ZAR1 each	34	34	34	34
TFL: 50,000 ordinary shares of US\$1 each	<u>50,000</u>	<u>50,000</u>	<u>—</u>	<u>—</u>
Issued and fully paid				
MML: 50,000 ordinary shares of TZS1 each	64	64	64	64
TTC: 100 ordinary shares of ZAR1 each	17	17	17	17
AI: 10,000 ordinary shares of US\$1 each	—	—	10,000	10,000
TFL: 100 ordinary shares of US\$1 each	<u>100</u>	<u>100</u>	<u>—</u>	<u>—</u>
	<u>181</u>	<u>181</u>	<u>10,081</u>	<u>10,081</u>
Share premium				
MML: premium on issue of 6 ordinary shares	<u>499,944</u>	<u>499,944</u>	<u>499,944</u>	<u>499,944</u>

One ordinary share of MML is held by Ami Mpungwe, a Tanzanian resident, on behalf of the Tanzanite Group.

The authorised share capital of AI at 31 March 2003 and 31 December 2003 has not been disclosed as companies in Mauritius do not have an authorised limit for share capital.

The share capital of TFL is not disclosed at 31 March 2003 or 31 December 2003 as the company was a wholly owned subsidiary of AI at these dates.

xi Minority interests

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Balance at beginning of period				
Minority interest in new subsidiary acquired	—	—	—	145
Loss attributable to minority shareholders	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5)</u>
Balance at end of period	<u>—</u>	<u>—</u>	<u>—</u>	<u>140</u>

The minority interest arose on the incorporation of TATAN in the period ended 31 December 2003 on the issue of 25 per cent. of the share capital to third party investors.

xii Trade and other payables

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Trade payables	163	165	165	295
Accrued expenses	115	324	651	468
Other payables	16	50	31	16
	<u>294</u>	<u>539</u>	<u>847</u>	<u>779</u>

xiii Borrowings

	<i>Non-current \$000</i>	<i>Current \$000</i>	<i>Total \$000</i>
As at 28 February 2001			
African Development Bank and the Eastern and Southern African Trade and Development Bank	<u>400</u>	<u>100</u>	<u>500</u>
As at 31 March 2002			
African Development Bank and the Eastern and Southern African Trade and Development Bank	300	100	400
Stannic loan agreement	<u>1,502</u>	<u>131</u>	<u>1,633</u>
	<u>1,802</u>	<u>231</u>	<u>2,033</u>
As at 31 March 2003			
African Development Bank and the Eastern and Southern African Trade and Development Bank	200	100	300
Stannic loan agreement	<u>1,967</u>	<u>207</u>	<u>2,174</u>
	<u>2,167</u>	<u>307</u>	<u>2,474</u>
As at 31 December 2003			
African Development Bank and the Eastern and Southern African Trade and Development Bank	100	100	200
Stannic loan agreement	<u>2,114</u>	<u>278</u>	<u>2,392</u>
	<u>2,214</u>	<u>378</u>	<u>2,592</u>

The loans from African Development Bank and the Eastern and Southern African Trade and Development Bank are Dollar denominated and are payable to the above financial institutions pursuant to an agreement of sale between the financial institutions and MML. They are being settled out of the annual gross profit of MML, as defined in the agreement, at 5 per cent. per annum for five years from the year ended 28 February 2001 subject to a minimum payment of US\$100,000 per annum. The loans are guaranteed by Afgem. Interest at 15 per cent. per annum will only be charged on the loans should the repayment terms not be met. The loans are unsecured.

The loan agreement liability with Standard Bank of South Africa Limited is secured over an aircraft with a book value of US\$1,853,000 (31 March 2003: US\$2,020,000; 31 March 2002: US\$2,243,000). It bears interest at the prime overdraft rate less 3.3 per cent., and is currently repayable in monthly instalments of US\$41,097 with the final payment of US\$1,423,444 payable on 1 June 2006.

xiv Provisions

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Environmental rehabilitation provision				
Balance at beginning of period	–	100	100	100
Charged to income statement	100	–	–	–
Amount utilised in year	–	–	–	(18)
Balance at end of period	<u>100</u>	<u>100</u>	<u>100</u>	<u>82</u>

An Environmental Impact Assessment was conducted during the year ended 28 February 2001 and a management plan based on the findings was generated. The resultant plan was costed during the year ended 31 March 2003 and the provision was considered to be adequate.

xv Related parties

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Related party transactions during the period and balances at the period end:				
Management fees paid to Afgem	310	249	508	893
Office rent paid to Afgem	12	30	49	62
Amounts due to Afgem	<u>8,408</u>	<u>12,048</u>	<u>13,477</u>	<u>12,824</u>

In addition, certain of the Tanzanite Group's borrowings are secured by Afgem.

xvi Cash generated from operations

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Net profit	2,503	310	(733)	2,295
Adjustments for:				
Minority interest	–	–	–	(5)
Tax	1,143	136	315	231
Depreciation	181	1,184	1,306	1,012
Impairment of intangible fixed assets	–	–	–	230
Finance cost	(70)	(10)	150	203
Changes in working capital:				
Inventories	555	(1,991)	(955)	(1,101)
Trade and other receivables	(961)	569	(573)	(313)
Payables	(572)	245	308	(68)
Provisions	–	–	–	(18)
Cash generated from operations	<u>2,779</u>	<u>443</u>	<u>(182)</u>	<u>2,466</u>

xvii Capital commitments

The future aggregate minimum lease payments under non cancellable operating leases are as follows:

	<i>As at 28 Feb 2001 \$000</i>	<i>As at 31 Mar 2002 \$000</i>	<i>As at 31 Mar 2003 \$000</i>	<i>As at 31 Dec 2003 \$000</i>
Leases expiring				
Between two and five years	—	—	—	1

xviii Financial risk factors

The Tanzanite Group uses financial instruments comprising cash, cash equivalents, bank loans and items such as short-term debtors and creditors that arise from its operations. These financial instruments are the sole source of finance for the Tanzanite Group's operations. The principal financial risks relate to currency rate risk, liquidity risk and interest rates. Short-term debtors and creditors have been excluded from the following disclosures.

Currency rate risk

The functional currency of the Tanzanite Group is US dollars, being the currency in which the majority of the Tanzanite Group's income is generated. The Tanzanite Group's cash resources and bank loans are mainly denominated in both US dollars and South African Rand. The Tanzanite Group does not enter into any hedging arrangements in respect of foreign exchange transactions.

The policy in relation to the translation of foreign currency assets and liabilities is set out in "Accounting Policies – Foreign currency translations" to the financial information.

Liquidity risk

The Tanzanite Group is financed by equity and long term borrowings. Due to the unpredictable nature of the tanzanite ore body, the Tanzanite Group's sales can be irregular and unpredictable. The Tanzanite Group's policy is to maintain sufficient cash resources to ensure that all commitments and liabilities can be met during periods of low tanzanite recovery and sales.

Interest rate risk

The Tanzanite Group's borrowings are at fixed and variable rates as set out in note xiii. Interest on deposits is at variable rates. The Tanzanite Group does not enter into any hedging arrangements in respect of interest rates.

Financial assets and liabilities

The Tanzanite Group's financial assets and liabilities are mainly denominated in either US dollars or South African Rand.

Fair value of financial assets and liabilities

There is no material difference between fair value and book value.

xix Post balance sheet events

Subsequent to the balance sheet date the Tanzanite Group was acquired by Tanzanite One (SA) Limited (“Tanzanite SA”), a wholly owned subsidiary of the Company. A total of US\$4,772,620 has been paid to Afgem by the Tanzanite Group in June and July 2004 to settle a proportion of the amounts due to Afgem at the acquisition date. All remaining amounts due to Afgem and security over borrowings provided by Afgem have been assigned to Tanzanite SA.

Yours faithfully

PKF

PART 5

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE COMPANY

The pro forma financial information set out below has been prepared to illustrate the effect of the acquisition of the Tanzanite Group (as defined in the Accountants Report contained in Part 4 of this document), the acquisition of certain other assets and liabilities from Afgem and the net proceeds of the Placing and other fundraisings on the net assets of the Group, (as defined in the Accountants Report contained in Part 3 of this document) as if these transactions had taken place at 20 May 2004.

The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group.

			<i>Acquisition of other</i>		
	<i>The Group</i>	<i>The Tanzanite</i>	<i>Afgem assets/ liabilities</i>	<i>Adjustments</i>	<i>Total</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
ASSETS					
Non-current assets					
Goodwill	–	–	–	12,354	12,354
Tangible fixed assets	–	9,698	150	–	9,848
Deferred tax	–	941	–	–	941
	–	10,639	150	12,354	23,143
Current assets					
Inventories	–	4,440	–	–	4,440
Trade and other receivables	664	1,938	77	–	2,679
Taxation refundable	–	72	–	–	72
Amounts due from related parties	–	–	7,490	(7,490)	–
Cash and cash equivalents	13	5,557	–	7,511	13,081
	677	12,007	7,567	21	20,272
Total assets	677	22,646	7,717	12,375	43,415
LIABILITIES					
Non current liabilities					
Borrowings	–	2,214	–	–	2,214
Deferred tax	–	1,144	–	–	1,144
Provisions	–	82	–	–	82
	–	3,440	–	–	3,440
Current liabilities					
Trade and other payables	970	779	258	–	2,007
Current portion of borrowings	–	378	14	–	392
Amounts due to related parties	–	12,824	–	(12,121)	703
	970	13,981	272	(12,121)	3,102
Total liabilities	970	17,421	272	(12,121)	6,542
Net assets	(293)	5,225	7,445	24,496	36,873
Less minority interests	–	(140)	–	–	(140)
Net assets attributable to equity shareholders	(293)	5,085	7,445	24,496	36,733

Notes:

1. The audited net assets of the Group have been extracted from the balance sheet of the Group at 20 May 2004 included in the Accountants' Report set out in Part 3 of this Document.
2. The audited net assets of the Tanzanite Group have been extracted from the balance sheet of the Tanzanite Group at 31 December 2003 included in the Accountants' Report set out in Part 4 of this Document.
3. The other assets and liabilities acquired from Afgem have been extracted from the Accountants' Report set out in Part 3 of this Document
4. The other adjustments are as follows:

- (a) The goodwill arising on the acquisition of the Tanzanite Group and the other assets and liabilities of Afgem is calculated as follows:

	<i>US\$000</i>	<i>US\$000</i>
Value attributable to the consideration as set out in the sale and purchase agreement		
Cash	681	
Shares	23,539	
Acquisition costs	664	
	<hr/>	
		24,884
Assets and liabilities acquired		
Tanzanite Group	5,085	
Afgem assets	7,445	
	<hr/>	
		12,530
Goodwill		<hr/> <u>12,354</u>

- (b) The payment of US\$681,000 cash consideration for the acquisition of the tanzanite business from Afgem.
- (c) The estimated placing proceeds of US\$9,091,000 less associated costs of US\$1,536,000.
- (d) The payment of US\$4,772,000 to Afgem, representing part of the amount due to related parties from the Tanzanite Group at 31 December 2003, as set out in note xix of Part 4 of this document.
- (e) The elimination of US\$7,490,000 amounts due from the Tanzanite Group acquired from Afgem as set out in Note 3.
- (f) The accrual of a further US\$141,000 due to related parties, representing management fees charged by Afgem following finalisation of the inter-company amounts due to Afgem in the sale and purchase agreement.
- (g) The receipt of US\$5,421,000 from the issue of common shares in the Company to Jade Pacific as a result of the funding agreement and other investors as a result of the rights issue, as set out in note ix of Part 3 of this document.
- (h) The repurchase of the US\$12,000 share capital of the Company that was issued as at 20 May 2004, as set out in note ix of Part 3 of this document.

The adjustment to cash and cash equivalents is derived from the above adjustments as follows:

	<i>US\$000</i>
Adj (b)	(681)
Adj (c)	7,555
Adj (d)	(4,772)
Adj (g)	5,421
Adj (h)	(12)
	<hr/>
	7,511

5. No account has been taken of the trading performance of the Group since 20 May 2004 and of the Tanzanite Group since 31 December 2003.



The Directors
Tanzanite One Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

and

The Directors
Williams de Broë Plc
6 Broadgate
London
EC2M 2RP

16 August 2004

Dear Sirs

Tanzanite One Limited (“the Company”)

We report on the pro forma statement of net assets set out in Part 5 of the prospectus to be dated 16 August 2004 relating to the Company (“the Prospectus”). This has been prepared, for illustrative purposes only, to show the effect of the acquisition of the Tanzanite Group, the acquisition of certain assets and liabilities from African Gem Resources Limited and the proceeds of the placing and other fundraisings.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the pro forma financial information.

It is our responsibility to form an opinion on the pro forma financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of the Company.

Opinion

In our opinion:

- The pro forma net assets statement has been properly compiled on the basis stated;
- Such basis is consistent with the accounting policies of the Company; and
- The adjustments are appropriate for the purposes of the pro forma net assets statement as at 20 May 2004 as disclosed.

Yours faithfully

PKF

PART 6

RISK FACTORS

The exploration for and development of natural resources is a speculative activity which involves a high degree of financial risk. Before deciding whether to invest in the Common Shares, prospective investors should carefully consider the risks described below together with all other information contained in this document. If any of the following risks actually occur, the Group's business, financial condition and/or results of operations could be materially and adversely affected. In such case, an investor may lose all or part of his or her investment. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Group's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Group.

ESTIMATES OF RESERVES, RESOURCES AND PRODUCTION COSTS

Although reserve and resource figures incorporated in this document have been carefully prepared by the Company, or, in some instances, have been prepared, reviewed or verified by independent mining experts, these amounts are estimates only and no assurance can be given that any particular level of recovery of tanzanite from such reserves or resources will in fact be realised or that an identified resource will ever qualify as commercially mineable (or viable) which can be legally and economically exploited. In addition, any future exploration rights acquired (including under any prospecting licence held or which may be acquired in the future by the Group) may not result in the economic or feasible production of tanzanite. Estimates of reserves, resources and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grades of tanzanite ultimately mined may differ from that indicated by drilling or other exploration results. Short term factors relating to reserves, such as the need for orderly development of boudinage or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. Material changes in reserves, grades, or recovery rates may affect the economic viability of projects. Reserves are reported as general indicators of mine life. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations.

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. Technical considerations, delays in obtaining governmental, regional or local approvals, inability to obtain financing or other factors could cause delays in developing properties. Such delays could materially adversely affect the financial performance of the Group. The business of tanzanite mining is subject to a variety of risks such as cave-ins and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences may delay production, increase production costs or result in liability. The Company has insurance in amounts that it considers to be adequate to protect itself against certain risks of mining and processing. However, the Company may become subject to liability for hazards which it cannot insure against or which it may elect not to insure against because of premium costs or other reasons. In particular, the Company is not insured for environmental liability or earthquake damage and neither has it taken out specific insurance in relation to liability caused by or to its employees. The Group may incur liability to third parties in excess of any insurance cover arising from pollution or any other damage or injury.

REGULATORY APPROVALS

The operations of the Group and the exploration agreements which it has entered into require approvals, licences and permits from various regulatory authorities, governmental and otherwise (including project specific governmental decrees). The Directors believe that the Group holds or will obtain all necessary approvals, licences and permits under applicable laws and regulations in respect of its main projects and, to

the extent that they have already been granted, believes it is presently complying in all material respects with the terms of such approvals, licences and permits. However, such approvals, licences and permits are subject to change in various circumstances and further project-specific governmental decrees and/or legislative enactments may be required. There can be no guarantee that the Group will be able to obtain or maintain all necessary approvals, licences and permits that may be required and/or that all project specific governmental decrees and/or required legislative enactments will be forthcoming to explore and develop the properties on which it has exploration rights, commence construction or operation of mining facilities or to maintain continued operations that economically justify the costs involved.

TITLE MATTERS

Whilst the Group has diligently investigated title to all mineral claims and, to the best of its knowledge, title to all properties is in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior agreements or transfers and may be affected by undetected defects. If a title defect does exist it is possible that the Group may lose all or part of its interest in properties to which the title defect relates.

CURRENCY RISK

The Group reports its financial results and maintains its accounts in United States Dollars and the market for tanzanite is principally denominated in United States Dollars. The Group's operations in Tanzania and South Africa make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Group's financial position and results.

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. The Group's ability therefore to maintain earnings, pay dividends and undertake capital expenditure may be affected in the event of a sustained material reduction in realisable tanzanite prices. The price of the Common Shares is also affected by fluctuations in realisable tanzanite prices.

ECONOMIC, POLITICAL, JUDICIAL, ADMINISTRATIVE, TAXATION OR OTHER REGULATORY FACTORS

The Group's most important assets are located in Tanzania and mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry. Any changes in regulations or shifts in political conditions are beyond the control of the Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to environmental legislation and mine safety. Lack of political stability, changes in political attitudes and changes to government regulations relating to foreign investment and the mining business are beyond the control of the Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on various areas, including production, price controls, export controls, income taxes, expropriation of property (including by way of nationalisation), environmental legislation and mine safety. Operations may also be affected by on-going mine disturbances, trespass and resultant civil or criminal proceedings against members of the Group and key employees.

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. This has included attempts by artisanal miners from neighbouring properties to gain subterranean access to the Group's mine. In addition, there have been incidents of theft or attempted theft of tanzanite and other assets from 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 armed security personnel and the installation of perimeter fencing. These measures have on a few occasions resulted in injury or death to trespassing miners and ensuing criminal and/or civil proceedings against Merelani Mining Limited and/or its employees (including management personnel). It is likely that the Group's mining operations will continue to be affected by these incidents and this may delay production, increase operating costs or result in criminal and/or civil liability to the Group or its employees and/or financial damages or penalties.

ENVIRONMENTAL AND OTHER REGULATORY REQUIREMENTS

The Group's operations are subject to the extensive environmental risks inherent in the mining industry.

The current or future operations of the Group, including development activities, commencement of production on its properties, potential mining and processing operations and exploration activities require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.

Existing and possible future environmental legislation, regulations and actions could cause significant additional expense, capital expenditures, restrictions and delays in the activities of the Group. There can be no assurance that all permits which the Group may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that applicable laws and regulations would not have an adverse effect on any mining project which the Group might undertake. Although the Group believes that it is in substantial compliance in all material respects with applicable material environmental laws and regulations, there are certain risks inherent in its activities such as accidental spills, leakages or other unforeseen circumstances, that could subject the Group to extensive liability.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditure, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Group and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

COMPETITION

The mineral exploration and mining business is competitive in all of its phases. 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. The Group's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on suitable properties for exploration and development. 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.

There may also be changes to local competition regulations in the jurisdictions in which the Group carries on, or may seek to carry on business, which may affect the business of the Group.

PAYMENT OBLIGATIONS

Under the exploration licences and certain other contractual agreements to which companies in the Group are or may in the future become parties, such companies are or may become subject to payment and other obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by such companies. The Group may not have, or be able to obtain, financing for all such obligations as they arise.

DEPENDENCE ON KEY PERSONNEL

The Group's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The success of the Group is, and will continue to be to a significant extent, dependent on the expertise and experience of the Directors and senior management and the loss of one or more could have a materially adverse affect on the Group.

AREAS OF INVESTMENT RISK

The prices of publicly quoted securities can be volatile. The price of securities is dependent upon a number of factors, some of which are general or market or sector specific and others that are specific to the Company.

The Common Shares will not be listed on the Official List of the UK Listing Authority and although the Common Shares will be traded on AIM, this should not be taken as implying that there will always be a liquid market in the Common Shares. In addition, the market for shares in smaller public companies is less liquid than for larger public companies. Therefore an investment in the Common Shares may be difficult to realise and the price of the Common Shares may be subject to greater fluctuations than might otherwise be the case.

An investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Common Shares cannot be guaranteed. Investors should be aware that the value of the Common Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Common Shares may not reflect the underlying value of the Group's net assets. The price at which investors may dispose of their Common Shares may be influenced by a number of factors, some of which may pertain to the Group and others of which are extraneous. On any disposal of their Common Shares, investors may realise less than the original amount invested.

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.

The risks noted above do not necessarily comprise all those faced by the Group and are not intended to be presented in any assumed order of priority.

The investment described in this document is speculative and may not be suitable for all recipients of this document. Potential investors are accordingly advised to consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising in investments of this kind before making any investment decisions. A prospective investor should consider carefully whether an investment in the Group is suitable in the light of his personal circumstances and the financial resources available to him.

PART 7

ADDITIONAL INFORMATION

1 Responsibility statement

The directors of the Company, whose names appear in paragraph 3 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors of the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Company

The Company was incorporated and registered in Bermuda on 20 February 2003 under the company laws of Bermuda with registration number EC 33385 as an exempted private company limited by shares with the name Tanzanite One Limited.

3 The Directors

The Directors of the Company are:

<i>Name</i>	<i>Function</i>	<i>Age</i>
Michael Adams	Chairman	56
Ami Mpungwe	Deputy Chairman	53
Michael Nunn	Chief Executive Officer	44
Ian Harebottle	Operations Director	41
Mark Summers	Finance Director	34
Nicholas Sibley	Non-Executive Director	66
Edward Nealon	Non-Executive Director	53
Bruce Sutherland	Non-Executive Director	69
Georg Von Opel	Non-Executive Director	38
Gustav Stenbolt	Alternate to Georg Von Opel	47

Further details are disclosed in paragraph 7 of this Part 7 of the document.

4 Share and loan capital

- 4.1 The authorised share capital of the Company on incorporation was US\$12,000 divided into 120,000 common shares of US\$0.10 each, of which 120,000 were issued, fully paid, to the subscribers to the memorandum of association.
- 4.2 By shareholder resolution dated 26 May 2004, each authorised and issued common share of US\$0.10 in the share capital of the Company was subdivided into 1,000 common shares of US\$0.0001 in the share capital of the Company each and the authorised share capital of the Company was increased from US\$12,000 to US\$50,000 by the creation of 380,000,000 common shares of US\$0.0001 each in the share capital of the Company.
- 4.3 By resolution of the Board dated 26 May 2004 the Company resolved to repurchase 120,000,000 issued common shares of US\$0.0001 each in the share capital of the Company at their aggregate par value of US\$12,000, such repurchase being conditional upon the allotment and issuance by the Company of at least 120,000,000 common shares of US\$0.0001 each in the share capital of the Company and compliance with the relevant provisions of the Bermuda Act.
- 4.4 By resolution dated 9 July 2004, every three authorised and issued common share of US\$0.0001 in the share capital of the Company was consolidated into one Common Share of US\$0.0003 in the share capital of the Company such that following the passing of the resolution the authorised share capital

of the Company comprised 166,666,667 Common Shares of US\$0.0003 in the share capital of the Company and the issued share capital of the Company, 40,000,000 Common Shares of US\$0.0003 in the share capital of the Company.

- 4.5 On 4 August 2004, the Company allotted 48,686,541 Common Shares, fully paid up, to Tanzanite One Services Limited pursuant to the provisions of the Services Agreement referred to in paragraph 14.6 of this Part 7. On 4 August 2004 the Company allotted 6,843,621 Common Shares, fully paid up, to Jade Pacific Resources Limited pursuant to the provisions of the Commitment Letter with Jade Pacific Resources Limited referred to in paragraph 14.9 of this Part 7.
- 4.6 On 4 August 2004, (i) 22,836,787 Common Shares were transferred by Tanzanite One Services Limited to Offerees who had made a 'share acceptance' pursuant to the Offer Document as referred to in paragraph 14.4 of this Part 7; and (ii) the Company allotted 2,079,677 Common Shares, fully paid up, to these Offerees.
- 4.7 By a resolution passed on 4 August 2004 it was resolved:

4.7.1 to limit the Directors' authority to exercise all the powers of the Company to allot Common Shares up to a nominal value of share capital as represents the sum of (i) up to US\$4,000 to be allotted pursuant to the Placing; and (ii) such further number of Common Shares of up to 10 per cent. of the enlarged issued share capital following Admission, such limitation of authority to expire on the date of the next annual general meeting of the Company (unless and to the extent that this resolution is renewed, varied, revoked or extended prior to such date in a meeting of Shareholders), but so as to enable the directors before that date to make offers or agreements which would or might require Common Shares to be allotted after that date and to enable the directors to allot Common Shares in pursuance of those offers or agreements as if the authority conferred on them had not expired, this authority is to be in substitution for all existing authorities granted to the directors in respect of the allotment of relevant securities, and provided that this paragraph 4.7.1 shall not apply to the allotment of any Common Shares pursuant to the terms of the Share Option Scheme;

4.7.2 to adopt the new Bye-laws of the Company (the "Bye-laws") with effect from the date of Admission; and

4.7.3 that the directors be authorised to allot Common Shares pursuant to the authority referred to in paragraph 4.7.1, above, as if the provisions of bye-law 2 of the new Bye-laws did not apply to those allotments.

- 4.8 At the date of this document the authorised and issued fully paid share capital of the Company is:

<i>Class of shares</i>	<i>Authorised (fully paid)</i>		<i>Issued</i>	
	<i>(US\$)</i>	<i>(no)</i>	<i>(US\$)</i>	<i>(no)</i>
Common Shares	50,000	166,666,667	17,283	57,609,839

- 4.9 The authorised and issued fully paid share capital of the Company immediately following Admission will be as follows:

<i>Class of shares</i>	<i>Authorised (fully paid)</i>		<i>Issued</i>	
	<i>(US\$)</i>	<i>(no)</i>	<i>(US\$)</i>	<i>(no)</i>
Common Shares	50,000	166,666,667	20,996	69,987,933

- 4.10 Save as disclosed in this paragraph 4, and in relation to:

4.10.1 the issue of 100 ordinary shares of ZAR1 each in the capital of Tanzanite SA to the Company on 28 November 2003;

- 4.10.2 the issue of 1 ordinary share of £1 (the “Subscriber Share”) in the capital of The Tanzanite Company (UK) Limited to Instant Companies Limited as subscriber to the memorandum of The Tanzanite Company (UK) Limited on 30 September 2003. The subscriber share was subsequently transferred to the Company on 27 April 2004;
- 4.10.3 the issue of 25,849,754 A Shares fully paid up pursuant to the exercise by shareholders in Afgem of the renounceable letters of allotment issued by Tanzanite SA to Afgem (and distributed by Afgem Resources Limited to certain of its shareholders) in part satisfaction of the purchase price payable by Tanzanite SA to Afgem pursuant to the Sale Agreement referred to in paragraph 14.3 of this Part 7.

and save as otherwise set out in paragraphs 14 and 17 of this Part 7, there has been no issue of share or loan capital of the Company or any other member of the Group (other than intra-group issues by wholly owned subsidiaries) in the three years immediately preceding the date of this document and (other than pursuant to the Placing and paragraphs 6, 14 and 17 of this Part 7) no such issues are proposed.

- 4.11 Save as disclosed in paragraph 11 and in paragraph 14 below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document.
- 4.12 Save as disclosed in this paragraph 4 and in paragraphs 6 and 7 below, on Admission no share or loan capital of the Company or any other member of the Group will be under option or will be agreed conditionally or unconditionally to be put under option.
- 4.13 Other than pursuant to the Placing, none of the Common Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the Common Shares to be admitted to AIM.

5 Memorandum of Association and Bye-laws

The objects set out in the memorandum of association of the Company enable the Company to act as a holding company and as a general trading company.

The objects of the Company’s business are set out in paragraphs 6.1 to 6.10 of the Company’s memorandum of association.

The Bye-laws contain, *inter alia*, the following provisions:

5.1 Power to Issue Shares

Subject to any resolution of the members to the contrary, the Board shall have the power to issue any unissued shares of the Company on such terms and conditions as it may determine and any shares or class of shares may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital, or otherwise as the Company may by resolution of the members prescribe.

Subject to any resolution of the members to the contrary, the Company shall not allot any shares or a right to subscribe for, or to convert securities into shares in the Company (“Equity Securities”) unless (i) the Board has made an offer to each person who holds Equity Securities of the same class to allot to him on the same or more favourable terms such proportion of those Equity Securities that is as nearly as practicable (fractions being disregarded) equal to the proportion that the relevant person’s existing holding of Equity Securities of the same class bears to all the issued Equity Securities of that class and (ii) the period, which shall not be less than 21 clear days, during which any offer referred to in (i) above may be accepted has expired or the Company has received notice of the acceptance or refusal of every offer made.

The pre-emption rights, set out in the above paragraph shall not apply (i) to a particular allotment of Equity Securities if these are, or are to be, wholly or partly paid up otherwise than in cash; (ii) to the allotment of Equity Securities which would be held under any employee share scheme or which are due to be issued pursuant to any options issued to employees, directors or consultants pursuant to any Group share option schemes or plans; or (iii) to the first allotments of Equity Securities after the date of adoption of these articles (other than an allotment under (i) and (ii) of this paragraph) of up to 10 per cent. of the enlarged issued share capital following admission of the Company's Equity Securities to the London Stock Exchange prior to the Company's next Annual General Meeting at which there will automatically be put to the members a resolution to renew the authority of the Directors to issue Equity Securities.

5.2 *Voting rights*

Subject to the rights or restrictions referred to in paragraph 5.3 below and subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), on a show of hands every holder of Common Shares who is present in person shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each Common Share held by him. A corporation which is a member may, by written instrument, authorise such person or persons as it thinks fit to act as its representative at any meeting of the members and any person so authorised shall be entitled to exercise the same powers on behalf of the corporation which such person represents as that corporation could exercise if it were an individual member, and that member shall be deemed to be present in person at any such meeting attended by its authorised representative or representatives. Any question proposed for the consideration of the members at a general meeting shall unless specifically stated to the contrary require a majority of the votes cast at the general meeting and in the case of an equality of votes the resolution shall fail. Where a three quarters or 75 per cent. majority of the votes cast at the general meeting is required such proposed question shall be decided by the affirmative votes of three quarters or 75 per cent. of the votes cast.

5.3 *Restrictions on voting*

A member of the Company is not entitled, in respect of any share held by him, to be present or vote either personally or by proxy at any general meeting of the Company unless such member has paid all the calls on all the shares held by such member.

5.4 *Dividends*

Under Bermuda law, a company's Board of Directors may declare and pay dividends from time to time unless there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its liabilities as they become due or that the realisable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts.

Under the Bye-laws, each Common Share is entitled to dividends, as and when dividends are declared by the Company with the sanction of a resolution at a general meeting, subject to any preferred dividend right of the holders of any preference shares.

5.5 *Return of capital*

On a winding-up, subject to any special rights attaching to shares (of which there are none at present), the assets available for distribution shall be divided among the members in proportion to the amounts of capital paid up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary, under supervision or by the court), the liquidator may, with the sanction of resolution of the members and any other sanction required by law, divide among the members in specie or kind the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may with the same sanction, vest the whole or any part of the whole of the assets in trustees on trusts for the benefit of the members

as he with the same sanction thinks fit, but no member shall be compelled to accept any shares or other securities on which there is a liability.

5.6 *Variation of rights*

If at any time the Company has more than one class of shares, the rights attaching to any class, unless otherwise provided for by the terms of issue of the relevant class, may, whether or not the Company is being wound-up, be varied either: (i) with the consent in writing of the holders of 75 per cent. of the issued shares of that class; or (ii) with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the relevant class of shareholders at which a quorum consisting of at least three persons are present provided that if a class of members in respect of a class meeting shall have only one or two members, then one or two members (as the case maybe) holding or representing the issued shares of the relevant class is present. The creation or issue of shares ranking equally with existing shares will not, unless expressly provided by the terms of issue of those shares, vary the rights attached to existing shares. In addition, the creation or issue of preferred shares ranking prior to Common Shares will not be deemed to vary the rights attached to Common Shares.

5.7 *Transfer of shares*

The Board of Directors may in its absolute discretion and without assigning any reason refuse to register the transfer of a share that it is not fully paid. The Board of Directors may also refuse to recognise an instrument of transfer of a share unless it is accompanied by the relevant share certificate and such other evidence of the transferor's right to make the transfer as the Company's Board of Directors shall reasonably require. Subject to these restrictions, a holder of Common Shares may transfer the title to all or any of his Common Shares by completing a form of transfer in the form set out in the Bye-laws (or as near thereto as circumstances admit) or in such other common form as the Board may accept. The instrument of transfer must be signed by the transferor and transferee, although in the case of a fully paid share the Company's Board of Directors may accept the instrument signed only by the transferor.

5.8 *Alteration of capital and purchase of own shares*

The Company may alter its share capital as follows:

- 5.8.1 by resolution, it may increase its share capital, consolidate and divide all or any of its shares into shares of larger amount, sub-divide (subject to the provisions of the Statutes) all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person;
- 5.8.2 by resolution and subject to the provisions of the Statutes, it may reduce its share capital, any capital redemption reserve or any share premium account or other undistributable reserves in any manner;
- 5.8.3 subject to the approval of a majority of the members at a general meeting, the Company may purchase its own shares in accordance with the provisions of the Bermudian Companies Act 1981.

5.9 *Directors*

Number

The Board shall consist of not less than two, and not more than fifteen Directors.

Remuneration

The remuneration of the Directors is determined by the Board of Directors. The Directors may also be paid all travel, hotel and other expenses properly incurred by them in connection with the Company's business or their duties as directors.

Election, removal and retirement of Directors

Any shareholder wishing to propose for election as a Director someone who is not an existing Director or is not proposed by the Company's Board must give notice of the intention to propose the person for election as a Director not less than seven days prior to the meeting at which Directors are to be elected.

A Director may be removed by the shareholders, provided notice is given to the Director of the shareholders meeting convened to remove the Director. The notice must contain a statement of the intention to remove the Director and must be served on the Director not less than twenty-one days before the meeting. The Director is entitled to attend the meeting and be heard on the motion for his removal.

The business of the Company is to be managed and conducted by the Board. Bermuda law requires that the Directors be individuals, but there is no requirement in the Bye-laws or Bermuda law that directors hold any of the Company's shares. There is also no requirement in the Bye-laws or Bermuda law that the directors must retire at a certain age.

At the annual general meeting every year, any Director who is still in office at the start of the annual general meeting which falls to the nearest third anniversary of the annual general meeting at which he was appointed or was last reappointed shall retire by rotation. Subject to the previous sentence, at the annual general meeting in every year, one third of all the Directors shall retire by rotation.

Directors' interests

Provided a director discloses a direct or indirect interest in any contract or arrangement with the Company as required by Bermuda law, such director is entitled to vote in respect of any such contract or arrangement in which he or she is interested unless he or she is disqualified from voting by the chairman of the relevant Board meeting. A director (including the spouse or children of the director or any company of which such director, spouse or children own or control more than 20 per cent. of the capital or loan debt) can not borrow from the Company, (except loans made to directors who are bona fide employees or former employees pursuant to an employees' share scheme) unless shareholders holding 90 per cent. of the total voting rights have consented to the loan.

5.10 *Borrowing powers*

Subject to any resolutions of shareholders, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party.

5.11 *Indemnity of Directors/Officers*

The Company indemnifies the directors and officers in respect of their actions and omissions, except in respect of their fraud or dishonesty. The indemnification is not exclusive of other indemnification rights to which a director or officer may be entitled, provided these rights do not extend to the Director's fraud or dishonesty.

5.12 *Disclosure of interests*

The Company may require the holder of a share to provide a statement in writing setting out (i) the full details of the holder's interest in any shares that causes or permits a person to: (a) exercise or to influence (or restrain) the exercise of voting rights on shares (whether through the giving of voting instructions or as a proxy or otherwise); or (b) dispose or to influence (or restrain) the disposal of shares, including *inter alia* the legal ownership of a share and an interest under an option agreement to acquire a share (a "Relevant Interest") and of the circumstances giving rise to that Relevant Interest; and (ii) the name and address of each other person who has a Relevant Interest together with full details of the nature and extent of the Relevant Interest; and the circumstances that give rise to the person's Relevant Interest; and (iii) the name and address of each person who has given the holder of the shares or the person as referred to in (ii) above instructions about the acquisition or disposal of a

Relevant Interest or the exercise of any voting or other rights attached to a Relevant Interest or any other matter relating to a Relevant Interest.

Where a statement is delivered to the Company containing any details as referred to in (ii) or (iii) above, the Company may, by giving notice in writing, require a holder of a share to give to the Company or to use its best endeavours to procure that any other persons as referred to in (ii) or (iii) above to give to the Company, a statement in writing setting out the details as referred to in (i), (ii) and/or (iii) above.

6 Share Option Scheme

The Company, by resolution of the Board, has established a Share Option Scheme to be known as the 'Tanzanite One Option Plan' (the "Share Option Scheme"). The principal terms of the Share Option Scheme are set out below.

6.1 Administration

The Share Option Scheme will be administered and the grant of options supervised by the Remuneration Committee of the Board.

6.2 Eligibility

The Remuneration Committee may from time to time select any person who is in full-time or part-time employment of, or is a director of, or consultant to the Company and/or of any of its subsidiaries including those who have agreed that their options issued under the African Gem Resources Ltd Share Incentive Scheme (2000) should be converted to options over A Shares to whom (or to their nominees) (the "Eligible Person") options may be granted over Common Shares or A Shares (together, the "Option Shares").

6.3 Exercise Price

The exercise price per Option Share shall be determined by the Remuneration Committee. The exercise price must not be less than the greater of:

- (a) the par value of the Option Share; and
- (b) whichever of the following applies:
 - (i) if there was at least one transaction in Common Shares on AIM during the one week period up to and including the date on which the Remuneration Committee issued an invitation to the Eligible Person to acquire the relevant option under the Share Option Scheme (the "Offer Date"), the weighted average of the prices at which the Common Shares were traded on AIM during that period; or
 - (ii) if there were no transactions in Common Shares on AIM during the one week period up to and including the Offer Date, the last price at which an offer was made on AIM to purchase a Common Share.

6.4 Aggregate and Individual limits

Subject to the remainder of this paragraph 6.4, the Remuneration Committee may exercise its powers in relation to the participation in the Share Option Scheme of any Eligible Person on any number of occasions and shall determine the extent of any Eligible Person's participation.

The Remuneration Committee must ensure that the nominal amount of Shares over which options are to be granted on any date does not exceed 10 per cent of the issued share capital of the Company on the day before the date on which the Remuneration Committee resolved to grant the options in question (the "Grant Date"), less the total nominal amount of:

- (i) Shares issued on the exercise of options granted within the previous 3 years under any employee share option plan;
- (ii) Shares remaining issuable in respect of options granted on the same date within the previous three years under any employee share option plans; and
- (iii) Shares issued on the same date or within the previous three years under any employee share option plan in respect of monies available by the Group.

6.5 *Exercise of options*

An Participant may exercise options at any time or from time to time during the exercise period applicable to those options.

The ‘exercise period’ in relation to an option is the period specified by the Remuneration Committee on the Grant Date and ending on the day prior to the tenth anniversary of the Grant Date unless the Remuneration Committee specifies a shorter period on the Grant Date.

Subject to what is stated below, if at any time during the exercise period a person to whom options have been granted ceases to be an Eligible Person, all options held by that person will lapse one month after that person ceases to be an Eligible Person. If a person ceases to be an Eligible Person by reason of any of the following events, the options held by that person will lapse at the expiration of 12 months after the relevant event:

- (i) the retirement or retrenchment of that person, or if that person is not an employee, the retirement or retrenchment of the employee by virtue of whom an Eligible Person holds options; or
- (ii) the bankruptcy or commencement of winding up or deregistration procedures in respect of that participant in the Share Option Scheme; or
- (iii) the death of the participant, or if that participant is not an employee, the death of the employee by virtue of whom that Eligible Person holds options.

Notice of exercise of an option must be accompanied by payment in full of the exercise price. Alternatively, the participant may enter into such arrangements for the payment of the exercise price in cash as the Remuneration Committee may approve. Shares shall only be issued to the participant pursuant to the exercise of an option once all monies payable in respect of the exercise of option are received by the Company.

6.6 *Grant of options*

Options granted under the Share Option Scheme shall be granted free of charge.

6.7 *Terms of options and issue of ordinary shares*

Options are neither transferable nor assignable. As soon as practicable after the exercise of an option granted over unissued Shares, the appropriate number of Shares will be allotted and issued to the option holder or his nominee and the Company will in relation to Common Shares apply to the London Stock Exchange for Admission of such Shares. The Shares allotted will rank *pari passu* with all other issued Common Shares or A Shares, as the case may be, save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to their issue.

6.8 *Variation of capital*

If, prior to the expiry of an option, there is a reorganisation of the issued share capital of the Company or of Tanzanite SA, as the case may be, (including a consolidation, subdivision or reduction of capital or return of capital to shareholders), the number of Shares subject to the option and/or the exercise price shall be adjusted in such manner as the auditors of the Company confirm in their opinion is fair and reasonable and in any event in accordance with AIM Rules. The Remuneration Committee is obliged to notify each Participant to whom options have been granted of any adjustment to the options as soon as practicable after its decision.

6.9 *Amendment and termination*

The Remuneration Committee may from time to time make amendments to the Share Option Scheme, but no amendment (subject to the exceptions set out in the Share Option Scheme) may be made which would adversely affect any rights already acquired by a participant (other than with his consent in writing or with the consent of the majority of the participants to whom options have been granted and who are affected by the amendment).

6.10 *Governing Law*

The Share Options Scheme and any Options granted under it are governed by Bermuda law.

6.11 *Options Granted*

At the date of this document, the Company has granted options over a total of 3,391,726 A Shares under the terms of the Share Option Scheme to employees and executive officers of the Group (the “Existing Employee Share Options”). The Existing Employee Share Options include replacement options granted to employees and executive officers by Afgem prior to the date of the Sale Agreement referred to in paragraph 14.3 of this Part 7, below.

7 **Directors’ and other interests**

7.1 As at the date of this document the interests (all of which are beneficial) of the Directors in the securities of the Company which have been notified to the Company (or which are required under the AIM Rules to be notified) including (to the extent known or which can with reasonable diligence be ascertained by the relevant Director) the interests of persons connected with that Director, and as these interests are expected to be immediately following Admission, are as follows:

	<i>Before Admission</i>		<i>Following Admission</i>	
	<i>Number of Common Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Common Shares</i>	<i>Percentage of issued share capital</i>
Michael Adams*	8,759,962	15.21	9,572,230	13.68
Ami Mpungwe**	3,155,002	5.48	3,155,002	4.51
Michael Nunn	—	—	—	—
Mark Summers	—	—	—	—
Ian Harebottle	—	—	—	—
Nicholas Sibley	1,657,785	2.88	1,747,778	2.50
Edward Nealon	—	—	—	—
Georg von Opel***	6,792,747	11.79	6,792,747	9.71
Bruce Sutherland	—	—	—	—
Gustav Stenbolt***	756,474	1.31	756,474	1.08

* Mr Adams’ interest arises through his beneficial holdings in Jade Pacific Resources Limited, which is the registered holder of 15,392,074 Common Shares and Tomori Enterprises Limited which is the registered holder of 3,288,007 Common Shares.

** Mr Mpungwe’s interest arises through his beneficial holding in Bona Fide Nominees Limited which is the registered holder of 3,155,002 Common Shares.

*** Mr von Opel and Mr Stenbolt’s interests arise through the beneficial holdings in Pictet et cie Banquiers, which is the registered holder of 7,549,221 Common Shares.

7.2 As at the date of this document the interests (all of which are beneficial) of the Directors in the securities of Tanzanite SA which have been notified to Tanzanite SA including (to the extent known or which can with reasonable diligence be ascertained by the relevant Director) the interests of persons connected with that Director, and as these interests are expected to be immediately following Admission, are as follows:

	<i>Before Admission</i>		<i>Following Admission</i>	
	<i>Number of A Shares</i>	<i>Percentage of A issued share capital</i>	<i>Number of A Shares</i>	<i>Percentage of issued share capital</i>
Michael Adams	—	—	—	—
Ami Mpungwe*	4,546	0.02	4,546	0.01
Michael Nunn**	14,328,227	55.43	14,328,227	55.43
Mark Summers***	83,333	0.32	83,333	0.32
Ian Harebottle****	166,667	0.64	166,667	0.64
Nicholas Sibley	—	—	—	—
Edward Nealon	—	—	—	—
Georg von Opel	—	—	—	—
Bruce Sutherland	—	—	—	—
Gustav Stenbolt	—	—	—	—

* In addition, Ami Mpungwe is interested in 90,925 A Shares which are the subject of existing options granted to him.

** In addition, Michael Nunn is interested in 1,030,350 A Shares which are the subject of existing options granted to him under the terms of the Share Option Scheme.

*** In addition, Mark Summers is interested in 624,293 A Shares which are the subject of existing options granted to him under the terms of the Share Option Scheme.

**** In addition, Ian Harebottle is interested in 715,218 A Shares which are the subject of existing options granted to him under the terms of the Share Option Scheme.

- 7.3 In addition to the interests of Directors disclosed in paragraph 7.1 above, the Company is aware of the following persons who at the date of this document have, or who is expected on Admission to have, an interest in 3 per cent. or more of the issued share capital of the Company. Their interests as at the date of this document and as they are expected to be immediately following Admission are as follows:

	<i>Before Admission</i>		<i>Following Admission</i>	
	<i>Number of Common Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Common Shares</i>	<i>Percentage of issued share capital</i>
Jade Pacific Resources Limited	15,392,074	26.72	16,246,376	23.21
Tanzanite One Services Limited	25,849,754	44.87	25,849,754	36.93
Pictet et Cie Banquiers	7,549,221	13.10	7,549,221	10.79
Tomori Enterprises Limited	3,288,007	5.71	3,288,007	4.70
Bona Fide Nominees Limited	3,155,002	5.48	3,155,002	4.51
Ruffer Investment Management Limited	—	—	2,380,952	3.40

- 7.4 Save as disclosed in paragraphs 7.1 to 7.3 above and 14.4, the Company is not aware of any person who will, immediately following Admission, be interested directly or indirectly in 3 per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.
- 7.5 Save as set out in paragraphs 4.5 and 4.6 above and 7.6, 14.5 and 14.9 below, no Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 7.6 On 9 May 2003, pursuant to the terms of a sale of shares agreement of that date, Afgem acquired from Ami Mpungwe the 7,500 ordinary shares of TSH1 each in the capital of MML then held beneficially by Mr Mpungwe (the “MML Shares”) in consideration for the payment by Afgem to Mr Mpungwe of ZAR19,012,500 which sum was satisfied by Afgem allotting and issuing to Mr Mpungwe 12,675,000 ordinary shares of ZAR0,00001 each in the capital of Afgem. Mr Mpungwe received the

MML Shares pursuant to an agreement with Afgem in consideration for the provision of services by Mr Mpungwe to MML.

- 7.7 Candice Nunn, the wife of Michael Nunn and a director of The Tanzanite Company, is party to an arrangement under which Mrs Nunn receives commissions and a monthly retainer from Tanzanite Foundation Limited in consideration for managing sales of tanzanite through auctions conducted on behalf of Tanzanite Foundation Limited. The commissions payable to Mrs Nunn are calculated as a percentage of total sales revenue earned by The Tanzanite Foundation Limited at each auction. As at 31 December 2003, the total sums paid to Mrs Nunn for these services (including a monthly retainer of US\$7,000 paid since 1 July 2003) were US\$100,809. The payments to Mrs Nunn were ratified by the Afgem Remuneration Committee on 26 November 2003 and Tanzanite Foundation Limited by resolution of the board on 1 July 2004. The Tanzanite Company receives a management fee from Tanzanite Foundation Limited, for the provision of administrative and support services to Tanzanite Foundation Limited, pursuant to the terms of a management services agreement between The Tanzanite Foundation Limited and The Tanzanite Company dated 1 May 2004
- 7.8 The table below states the names of all companies and partnerships (other than any member of the Group) of which the Directors have been a director or partner at any time during the period of five years immediately preceding the date of this document. Where the company or partnership is marked with an asterisk the Director concerned is no longer at the date of this document a director or partner (as the case may be) of the relevant company or partnership.

Michael Adams

Directorships

AAA Realty & Development Corporation
 Adagram Advisory Services Inc
 Aquarius Platinum Limited*
 JRMA Realty Inc
 Kroondal Platinum Mines Limited*
 MAA Consultants Inc
 MAA Development Corporation
 MAA Securities Limited
 Material Resources International Corporation
 New Manila Properties Inc
 Philnico Developments Limited
 Philnico Industrial Corporation
 Philnico Processing Corporation
 Pryce Development Corporation*
 Valley Mountain Mines Exploration Inc

Partnerships

None

Ami Mpungwe

Directorships

African Gem Resources Limited
 Air Tanzania Limited
 Aveng Limited
 Illovo Sugar Limited
 Multichoice Tanzania Limited
 Namitech East Asia Limited
 National Bank of Commerce Limited
 Tanzanian Breweries Limited
 Venture Communications Tanzania Limited

Partnerships

None

Michael Nunn

Directorships

African Gem Resources Limited
 Amari Management Services (Pty) Limited
 Montana Mining Proprietary Limited *

Partnerships

None

Mark Summers*Directorships*

African Gem Resources Limited
Amari Management Services (Pty) Limited
Ever Splendor Investments CC
Scientific System Integration CC
TBC Investments CC*

Partnerships

None

Ian Harebottle*Directorships*

African Gem Resources Limited
Ian Harebottle & Associates CC*
M.I.D.L. Consulting CC*

Partnerships

None

Nicholas Sibley*Directorships*

Aquarius Platinum Limited
Asia Pacific Fund Inc
Baring Peacock Fund Limited*
Corney and Barrow Group Limited
Henley Developments Limited
JF Japan OTC Fund Inc*
JP Morgan Fleming Japanese Smaller Companies
Investment Trust Plc *
Sefton Park Limited
Stockland Group Limited
Taiwan Index Fund Limited*

Partnerships

None

Edward Nealon*Directorships*

Almaretta (Pty) Limited
Aquarius Platinum Limited*
Athlone International Consultants (Pty) Limited
Danwell Holdings (Pty) Limited
Diamix Plc
Dwyka Diamonds Limited

Partnerships

None

Georg von Opel*Directorships*

COS Computer Systems AG*
HANSA Aktiengesellschaft
Jelmoli Holdings AG
TD Esop Holdings Ltd.

Partnerships

None

Bruce Sutherland*Directorships*

Aquarius Platinum (South Africa) (Proprietary)
Limited
Beekay Fifty Six Trading (Pty) Limited
Jakkalsfontein Home Owners Association
Kroondal Platinum Mines Limited

Partnerships

None

Gustav Stenbolt*Directorships*

Anglo Chinese
Eastern Property Holdings Limited
ENR Russia Invest SA
Jelmoli Holdings AG
Marcuard Cook Fund Advisory SA
MCG Holdings SA
MC Premium
MCT Global Opportunities Fund
MCT Russian Telecommunications
MC Trustco
MC Trustco (Luxembourg) SA
MCT Wealth Management SA
Pelham Investments SA
Red Square Equity Fund
The MC Russian Market Fund

Partnerships

None

- 7.9 None of the Directors has any unspent convictions.
- 7.10 None of the Directors have been the subject of any public criticism by any statutory or regulatory authority.
- 7.11 None of the Directors has been a director of a company at the time of, or within the preceding 12 months of, that company being the subject of a receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or where it has made any composition or arrangement with its creditors generally or any class of its creditors.
- 7.12 None of the Directors has been a partner of a partnership at the time of, or within the preceding 12 months of, the partnership being the subject of a compulsory liquidation, administration or partnership voluntary arrangement nor in that time have the assets of any such partnership been the subject of a receivership.
- 7.13 No asset of any Director has at any time been the subject of a receivership.
- 7.14 None of the Directors is or has been bankrupt nor made at any time an individual voluntary arrangement.
- 7.15 None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 7.16 There are no outstanding loans granted by any member of the Group to any of the Directors nor has any guarantee been provided by any member of the Group for their benefit.

8 Directors' service agreements

- 8.1 The following agreements have been entered into between the Directors and the following members of the Group in each case conditional on and commencing from Admission:
- 8.1.1 a service agreement dated 30 July 2004 between (1) Michael Nunn and (2) the Company under which Michael Nunn is to be employed as Chief Executive Officer of the Company for an initial period of one year. During the initial period, the Company shall be entitled to terminate the service agreement on 6 months written notice. Following the initial period, the service agreement shall continue in force unless terminated by either party on 6 months written notice. The salary (subject to annual review) payable by the Company to Michael Nunn under the service agreement is US\$41,600 per annum. The service agreement provides for Michael Nunn to be released, so far as it is reasonably possible, for periods of time from the obligations under the consultancy agreement with Amari Management Services Pty Limited ("Amari") referred to in paragraph 8.1.5 below, to enable him to render his services to the Company;

- 8.1.2 a service agreement dated 30 July 2004 between (1) Mark Summers and (2) the Company under which Mark Summers is to be employed as Finance Director of the Company for an initial period of one year. During the initial period, the Company shall be entitled to terminate the service agreement on 6 months written notice. Following the initial period, the service agreement shall continue in force unless terminated by either party on 6 months written notice. The salary (subject to annual review) payable by the Company to Mark Summers under the service agreement is US\$24,150 per annum. The service agreement provides for Mark Summers to be released, so far as it is reasonably possible, for periods of time from the obligations under the consultancy agreement with Amari referred to in paragraph 8.1.6 below, to enable him to render his services to the Company;
- 8.1.3 a service agreement dated 30 July 2004 between (1) Ian Harebottle and (2) the Company under which Ian Harebottle is to be employed as Operations Director of the Company, for an initial period of one year. During the initial period, the Company shall be entitled to terminate the service agreement on 6 months written notice. Following the initial period, the service agreement shall continue in force unless terminated by either party on 6 months written notice. The salary (subject to annual review) payable by the Company to Ian Harebottle under the service agreement is US\$27,900 per annum. The service agreement provides for Ian Harebottle to be released for periods of time, so far as it is reasonably possible, from his obligations under his service agreement with Tanzanite SA referred to in paragraph 8.1.7 below, to enable him to render his services to the Company;
- 8.1.4 letters of appointment dated 28 July 2004 under which each of Michael Adams, Ami Mpungwe, Nicholas Sibley, Edward Nealon, Georg von Opel (and his alternate director, Gustav Stenbolt) and Bruce Sutherland are appointed as non-executive directors of the Company. The letters of appointment provide for an initial term of appointment of three years commencing on 1 August 2004 and are capable of being terminated at any time by either party upon one months written notice. The non-executive Directors above will be paid the following fees:

<i>Name</i>	<i>Amount (US\$)</i>
Michael Adams	35,000
Ami Mpungwe	20,000
Nicholas Sibley	20,000
Edward Nealon	15,000
Georg von Opel	15,000
Bruce Sutherland	18,000

Save for Bruce Sutherland, the above non-executive Directors have elected to waive 50 per cent. of their above stated fees until the period ending one year after Admission. Furthermore, each of them shall be entitled to reimbursements of their costs in accordance with their letter of appointment;

- 8.1.5 a consultancy services agreement dated 30 July 2004 between Amari and Tanzanite SA in terms of which Amari has agreed to provide the services of Michael Nunn as Chief Executive Officer to Tanzanite SA, the services being terminable on 6 months written notice and which are provided at an annual fee (exclusive of VAT) of ZAR1,040,000;
- 8.1.6 a consultancy services agreement dated 30 July 2004 between Amari and Tanzanite SA in terms of which Amari has agreed to provide the services of Mark Summers to Tanzanite SA, the services being terminable on 6 months written notice and which are provided at an annual fee (exclusive of VAT) ZAR603,200; and
- 8.1.7 a service agreement dated 30 July 2004 between (1) Ian Harebottle and (2) Tanzanite SA under which Ian Harebottle is to be employed as the Operations Director of Tanzanite SA, for an initial period of one year. During the initial period, Tanzanite SA shall be entitled to terminate the service agreement on six months written notice. Following the initial period, the service

agreement shall remain in force unless terminated by either party on six months written notice. The salary (subject to annual review) payable by Tanzanite SA to Ian Harebottle under the service agreement is ZAR696,800 per annum. The service agreement provides for Ian Harebottle to be released, as far as it is reasonable possible, from the service agreement so as to enable him to comply with his obligations to the Company under his service agreement referred to in paragraph 8.1.3, above. The service agreement further provides for a motor vehicle allowance and for participation in Tanzanite SA's incentive bonus scheme and in the Share Option Scheme.

- 8.2 In addition to the fees stated above, Michael Nunn, Mark Summers and Ian Harebottle are entitled to participate in the Share Option Scheme and also in an incentive bonus scheme operated by the Company. Any awards under the Share Option Scheme will follow recommendation by the Remuneration Committee. Further information on the Share Option Scheme is contained in Part 1 and in paragraph 6 of this Part 7.

As currently constituted, no incentive bonuses can be paid to the executive Directors under the incentive bonus scheme if they do not reach certain performance criteria agreed by the Remuneration Committee for that financial year. If such performance criteria are met, the incentive bonus payments commence at a level of 50 per cent. of executive Directors fees for that financial year.

- 8.3 For the period ended 20 May 2004 the aggregate remuneration paid to the Directors by members of the Group was US\$27,000. It is estimated that the aggregate remuneration, benefits and consultancy fees in respect of the current financial year (under arrangements in force at the date of this document) will be approximately US\$360,000.

9 The Company and its subsidiaries

- 9.1 The Company is the holding company of the Group and has the following principal subsidiaries:

<i>Name</i>	<i>Principal activity</i>	<i>Issued share capital</i>		<i>Number</i>
Tanzanite One (SA) Limited	Holding company and engaged in mining, trading and beneficiation of rough tanzanite	ZAR100 + ZAR2,585		1,000 ordinary shares of ZAR0,10 each and 25,849,761 A Shares
Merelani Mining Limited	Engaged in mining, trading and beneficiation of rough tanzanite	TSH50,000		50,000 ordinary shares of TSH1 each
The Tanzanite Company (Pty) Limited	Engaged in the marketing and beneficiation of coloured gemstone	ZAR100		100 ordinary shares of ZAR1 each
Afgem International Limited	Investment holding company	US\$10,000		10,000 ordinary shares of US\$1 each
Tatan Limited	Rough tanzanite trading	TSH600,000,000		1,000 ordinary shares of TSH600,000 each
Afgem Logistics (Pty) Limited	Logistics support services	ZAR100		100 ordinary shares of ZAR1 each
Tanzanite Foundation Limited	Engaged in marketing and selling of rough tanzanite	US\$100		100 ordinary shares of US\$1 each
The Tanzanite Company (UK) Limited	Marketing Agent	£1		1 ordinary share of £1

- 9.2 The above companies are direct or indirect subsidiaries of the Company and, save in respect of Tatan Limited, are wholly owned. The subsidiaries have their place of incorporation and registered offices as follows:

<i>Company</i>	<i>Place of Incorporation</i>	<i>Registered Office</i>
Tanzanite One (SA) Limited	South Africa	381 Ontdekkers Road, Florida Park Ext. 3, Florida, 1709, Gauteng, South Africa
Merelani Mining Limited	Tanzania	Block C, Merelani, Simanjiro District, Mnayara, Tanzania
Tatan Limited	Tanzania	Plot No 35, Block E, India Street, Arusha, Tanzania
The Tanzanite Company (Pty) Limited	South Africa	10 Melrose Boulevard, Melrose Arch, 2196, Gauteng, South Africa
Afgem Logistics (Pty) Limited	South Africa	10 Melrose Boulevard, Melrose Arch, 2196, Gauteng, South Africa
Afgem International Limited	Mauritius	C/o CKLB International Management Limited, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Mauritius
Tanzanite Foundation Limited	British Virgin Islands (now registered by continuation in Mauritius)	C/o CKLB International Management Limited, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Mauritius
The Tanzanite Company (UK) Limited	England	20-22 Bedford Row, London, WC1R 4JS, England

10 Principal establishments

- 10.1 The principal establishments of the Group are as follows:

<i>Location</i>	<i>Approx area</i>	<i>Tenure</i>	<i>Current rent (per annum excl. of VAT)</i>	<i>Term of lease</i>
Third floor and mezzanine level, H304, 10 Melrose Boulevard, Melrose Arch, 2196, Gauteng, South Africa	938m ²	Leasehold	ZAR787,478	Until 31 March 2005 (with option to renew for three years)
Block C, Merelani, Simanjiro District, Mnayara, Tanzania	8km ²	Held under mining licence SML 08/92	US\$12,000	Until September 2004 (capable of renewal for a period of 25 years)
Plot No. 35(e), Apartment 004, India Street Arusha, Tanzania	95.35m ²	Leasehold	TSH1,909,440	Until 1 November 2005 (subject to renewal every two years)

11 Placing arrangements

Under an agreement (“the Placing Agreement”) dated 16 August 2004 and made between Williams de Broë, the Company and others, Williams de Broë has agreed (conditionally, *inter alia*, on Admission taking place not later than 1 September 2004) as agent for the Company to procure subscribers for 11,504,301 new Common Shares at the Placing Price.

Under the Placing Agreement and subject to its becoming unconditional, the Company has agreed to pay Williams de Broë commissions aggregating 3.5 per cent. of the value at the Placing Price of the Placing Shares together with corporate finance fees and, in each case, any applicable VAT.

The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.

The Placing Agreement contains representations, warranties and indemnities given by the Directors and the Company to Williams de Broë as to the accuracy of the information contained in this document and other matters relating to the Group and its business. Williams de Broë is entitled to terminate the Placing Agreement in certain specified circumstances, including *force majeure*, prior to Admission.

The Directors and others have agreed (save in limited circumstances) not to dispose of any of their respective interests in Common Shares held at the time of Admission (and any Common Shares acquired or issued pursuant to the exercise of options or warrants) for a period of 12 months after Admission. Any disposal of Common Shares by the parties subject to these lock-in and orderly market arrangements before the second anniversary from Admission will be made by the Company's brokers in such orderly manner as they reasonably determine.

12 Taxation

The following paragraphs are intended as a general guide to the current tax law and practice in the UK and Bermuda in the areas referred to below. It applies (unless otherwise expressly indicated) to persons who are resident or ordinarily resident in the UK for tax purposes, who are not share dealers or charities or persons with special tax status and who beneficially own shares as investments. A person who is in doubt as to his tax position or requires further information should consult an appropriate professional adviser.

12.1 UK Taxation

12.1.1 UK taxation of dividends

No tax will be withheld by the Company when it pays dividends under current United Kingdom tax legislation.

12.1.1.1 Individual and trustee shareholders

- (a) An individual shareholder, resident for tax purposes in the United Kingdom, who receives a dividend from the Company will be entitled to a tax credit equal to one ninth of the amount of the net dividend which is also equivalent to a tax credit of 10 per cent. of the sum of the net dividend and the tax credit (the "gross dividend").
- (b) Individual shareholders resident for tax purposes in the United Kingdom will be liable to income tax on the amount of the gross dividend. Dividend income will be treated as the top slice of an individual's income. The tax credit referred to in (aa) above will discharge the liability to income tax in respect of the dividend of an individual shareholder who is subject to United Kingdom income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability to income tax on the gross dividend. A higher rate taxpayer will be liable to income tax on the gross dividend at a rate of 32.5 per cent. After setting off the tax credit, a higher rate tax payer will be liable to an additional income tax equal to 25 per cent. of the net dividend. However, if an individual United Kingdom resident shareholder's total tax credit on such dividends exceeds his overall United Kingdom tax liability, he may no longer claim from the Inland Revenue repayment of the excess.

- (c) For dividends paid to trustees of United Kingdom resident discretionary or accumulation trusts the gross dividend will be subject to United Kingdom income tax at a rate of 40 per cent. with a tax credit equal to 10 per cent. of the gross dividend.
- (d) The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, charity or venture capital trust, will not be repaid.

12.1.1.2 Corporate shareholders

A corporate shareholder (other than a share dealer) resident for tax purposes in the United Kingdom will not generally be liable to United Kingdom corporation tax on dividends received.

12.1.1.3 Non-resident shareholders

The amount of the tax credit will mean that, in many cases, no amount in respect of the tax credit may be claimed under a relevant double taxation agreement.

12.1.2 *Taxation on capital gains for shareholders*

If a shareholder disposes of all or any of his or its Common Shares, he or it may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

The Inland Revenue have confirmed that securities dealt with on AIM will not fall to be treated as listed or quoted securities for tax purposes. There are a number of tax reliefs available for unquoted securities (subject to a number of different requirements in each case) and anyone who requires further information on this should consult an appropriate professional adviser.

12.1.3 *Stamp duty and stamp duty reserve tax ("SDRT")*

12.1.3.1 The Company will establish a UK branch register in respect of the Common Shares.

12.1.3.2 UK stamp duty is chargeable (at 0.5 per cent. on the purchase price) on transfers on sale of Common Shares on the UK branch register.

12.1.3.3 UK stamp duty at a fixed rate of £5 will be payable where an investor wishes to deposit the Common Shares with the depositary in order that DI's will be issued under the Depositary Interest arrangements outlined in paragraph 13 below.

12.1.3.4 UK stamp duty reserve tax (at 0.5 per cent.) will be chargeable in respect of an agreement to sell the Common Shares or Depositary Interests representing the Common Shares. Where a SDRT charge arises, payment of the stamp duty within six years of the date of an agreement on a transfer executed pursuant to the agreement will generally cancel any charge to SDRT.

12.2 *Bermuda Taxation*

12.2.1 At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or by the Company's shareholders in respect of the Company's shares. The Company has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to the Company or to any of the Company's operations or to the Company's shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by the Company in respect of real property owned or leased by the Company in Bermuda.

12.2.2 The Company has been designated as non resident of Bermuda for the purposes of the Exchange Control Act, 1972 and, as such, is free to acquire, hold and sell foreign currency and

securities without restriction. Consent under the Exchange Control Act 1972 (and its related regulations) has been obtained from the Bermuda Monetary Authority for the issue and transfer of the Common Shares to and between non-residents of Bermuda for exchange control purposes provided the Company's shares remain listed on an appointed stock exchange, which includes AIM. This prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the Company's financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus.

12.2.3 As an exempted company, the Company is liable to an annual registration fee in Bermuda based on its assessable capital (being its authorised share capital and share premium (if any)). The minimum fee payable is US\$1,780 and the maximum fee is US\$27,825.

The above comments are intended solely as a general guide to the current tax position in the United Kingdom and Inland Revenue practice and in relation to the tax law of Bermuda on matters referred to above, and do not constitute advice to any shareholder on his or her personal tax position. They apply principally only to shareholders resident in the United Kingdom for tax purposes and who hold their Common Shares as an investment. If you are not resident in the United Kingdom or are in any doubt as to your tax position, you should consult your own professional adviser.

13 Settlement

It is proposed that on Admission, Common Shares may be delivered, held and settled in CREST by means of the creation of dematerialised depository interests representing such Common Shares. Pursuant to a method proposed by CRESTCo under which transactions in international securities may be settled through the CREST system, Computershare Investor Services Plc, the Company's Registrars, will issue dematerialised depository interests representing entitlements to Common Shares, known as Depository Interests ("DI's"). DI's will be independent securities constituted under English Law which may be held and transferred through the CREST system.

As required to meet market demand for Common Shares through CREST, Common Shares will be transferred to an account of Computershare Investors Services Plc which will then issue DI's (one DI representing one Common Share) to participating members.

Each DI will be treated as one Common Share for the purposes of determining, for example, eligibility for any dividends. Computershare Investors Services Plc (or its custodian) will pass on to holders of DI's any stock or cash benefits received by it (or its custodian) as holder of Common Shares on trust for such DI holder.

Information received by Computershare Investors Services Plc in respect of its (or its custodian's) holding of Common Shares will be passed on to DI holders.

The DI's will have the same security code ('ISIN') as the underlying Common Shares and will not require a separate quotation on AIM.

The DI's will be created pursuant to a deed poll by Computershare Investor Services Plc.

14 Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group in the two years preceding the date of this document and are or may be material:

- 14.1 the Placing Agreement, details of which are set out in paragraph 11 above of this Part 7;
- 14.2 an engagement letter dated 25 June 2004 (the "Engagement Letter") between Williams de Broë and the Company, pursuant to which Williams de Broë has agreed to act as nominated advisor and broker to the Company under the AIM Rules in relation to the Placing and further, conditionally upon

completion of the Placing, to provide continuing services as nominated advisor and broker to the Company on the terms of the Engagement Letter. The Engagement Letter provides for an initial term of 12 months from 25 June 2004, following which it is terminable by either party on one month's notice. In consideration for the services to be provided by Williams de Broë to the Company in relation to the Placing, the Company has agreed to pay certain fees and commissions to Williams de Broë and has, in addition, agreed to grant Williams de Broë two warrants over Common Shares. The first warrant entitles Williams de Broë to subscribe for such number of Common Shares as are equivalent to $\frac{1}{2}$ per cent. of the enlarged issued share capital of the Company on Admission at an exercise price of 25 per cent. premium to the Placing Price and the second, such number of Common Shares as are equivalent to $\frac{1}{2}$ per cent. of the enlarged issued share capital of the Company on Admission, at an exercise price of 50 per cent. premium to the Placing Price. The exercise period for the first warrant is the 21 month period commencing on Admission, and for the second warrant the 24 month period commencing at the beginning of the 13th month following Admission;

- 14.3 a sale and purchase agreement dated 29 April 2004 between Tanzanite SA and Afgem (the "Sale Agreement") pursuant to which Tanzanite SA purchased Afgem's 'Tanzanite' business comprising its accounts receivables, fixed assets, intellectual property, goodwill, the shares in Afgem's subsidiaries, Merelani Mining Limited ("MML"), The Tanzanite Company (Pty) Limited and Afgem International Limited as well as the provision of certain management and support services to the subsidiaries included in the sale (together, the "Tanzanite Business"). The consideration payable under the Sale Agreement for the Tanzanite Business was the sum of ZAR157,904,362, apportioned in accordance with the terms of Annexure D of that agreement and payable as to a maximum of ZAR45,418,261 in cash and the balance by way of Renounceable Letters of Allotment (the "RLAs") for A Shares. Under the terms of the Sale Agreement, Afgem has granted Tanzanite SA certain warranties both in respect of the Tanzanite Business and the shares sold as well as certain indemnities;
- 14.4 pursuant to an offer document dated 29 April 2004 (the "Offer Document") the Company has offered to acquire the A Shares and unexpired RLA's from the holders of A Shares and the holders of unexpired RLAs in Tanzanite SA (together, the "Offerees") (the "Offer"). The Offer is open for acceptance by the Offerees for a period of twenty years from the effective date of the Offer, being 29 April 2004, (the "Offer Period") either by way of a 'share acceptance' or a 'cash acceptance'. Under a 'share acceptance' at any time during the Offer Period, the Offeree is entitled to exchange its A Shares or unexpired RLA's for an equivalent number of Common Shares. Under a 'cash acceptance' taking place prior to the date of Admission, the purchase consideration for each A Share shall be, subject to the availability of cash resources to the Company, the lower of the ZAR equivalent of the net asset value of the Company (as that term is defined in the Offer Document) divided by the common shares in the Company in issue at that date, and the issue price of the A Shares. Under a 'cash acceptance' following the date of Admission, subject to the AIM Rules, the Company shall have the option, in its sole and absolute discretion, to either procure the sale of Common Shares to generate cash to acquire the relevant A Shares or to purchase such shares from the Offeree for a price per share equal to the weighted average price at which the Common Shares traded on the ten trading days prior to the relevant acceptance effective date (as such term is defined in the Offer Document). South African Resident Offerees who accept the Offer warrant to the Company that they have obtained the required South African Exchange Control approval for the acceptance of the Offer and all accepting Offerees, under the terms of the Offer Document, undertake to indemnify the Company for all losses and other liabilities arising in connection with the acceptance of the Offer;
- 14.5 an agreement between Afgem, the Company and Jade Pacific Limited ("Jade") (the "Warranty Agreement") whereby the Company has given certain warranties to Afgem and the Afgem shareholders in relation to, amongst other matters, Tanzanite SA and the Company's shareholding in Tanzanite SA and the Company and Jade have given certain warranties to Afgem and the Afgem shareholders regarding, among other matters, the Company and Jade's shareholding in the Company. Certain of the terms in this agreement are expressed for the benefit of the Afgem shareholders and are expressed to be capable of being enforced by those shareholders;
- 14.6 a share services agreement between the Company and Tanzanite One Services Limited ("Tanzanite Services") dated 30 April 2004 (the "Services Agreement") pursuant to which the Company has agreed to issue to Tanzanite Services one fully paid up ordinary share in the capital of the Company

(the “Services Shares”) for each A Share issued during the Offer Period. Tanzanite Services has further agreed, on the terms of this agreement, to hold, sell and transfer the Services Shares at the direction of the Company to enable the Company to fulfil certain of its obligations to Offerees under the Offer Document (described in paragraph 14.4 above). The Services Agreement includes reciprocal undertakings by each of the Company and Tanzanite Services to facilitate the purpose of this agreement, including but not limited to, undertakings by Tanzanite Services to issue irrevocable proxies to Offerees to enable each Offeree to vote in respect of the Services Shares corresponding to the A Shares held by each of them and to execute a floating charge over the Services Shares to secure its obligations to the Company under the Services Agreement. Tanzanite Services further undertakes, within three months of the expiry of the Offer Period, to return any Services Shares still held by it for redemption at par value by the Company;

- 14.7 a loan agreement dated 12 May 2004 between the Company and Tanzanite SA (the “Loan Agreement”) pursuant to which the Company has on 21 May 2004 lent and advanced to Tanzanite SA a sum in United States Dollars equivalent (at the ZAR/US\$ exchange rate applicable on the effective date of this agreement, being 21 May 2004) to the cash portion of the purchase price payable by Tanzanite SA to Afgem under the Sale Agreement plus an additional US\$1,000, subject to a maximum of ZAR44,761,941 plus an additional US\$1,000 (the “Loan”). The advance of the Loan was conditional upon receiving South African Exchange Control approval (since obtained) for the Loan as well as on completion of the Sale Agreement. The Loan and any interest accrued thereon attracts interest calculated at LIBOR (as defined in the Loan Agreement). The Loan Agreement provides for the quarterly repayment to the Company of interest accrued on the Loan with the first repayment to be made on 1 June 2004 and for the capital sum of the Loan to be repaid in full to the Company by no later than 20 May 2005. Any sum not paid on the due date for payment accrues interest at LIBOR plus 2 per cent. from the due date until final date of payment;
- 14.8 a share charge deed dated 6 May 2004 between Tanzanite Services and the Company (the “Share Charge Deed”) pursuant to which Tanzanite Services has agreed to charge its interest in the Services Shares in favour of the Company as security for the performance by it of its obligations under the Services Agreement, and has, in addition, given certain warranties to the Company, for instance, in relation to its legal and beneficial entitlement to the Services Shares and all dividends or other distributions, interest and other moneys paid or payable in relation to the shares;
- 14.9 commitment letters entered into between the Company and each of Jade Pacific Resources Limited, CC Development Partners L.P., Onyx L.P., Blakeney L.P., Blakeney Investors Sicav and Development Partners International L.P. (each an “Investor”) (the “Commitment Letters”), pursuant to which each Investor agreed to subscribe for Common Shares in the Company and further agreed that the subscription monies be used to fund Tanzanite SA’s acquisition of the Tanzanite Business. The Commitment Letters further provide that upon the Company’s confirmation of the fulfilment of certain conditions relating to the acquisition of the Tanzanite Business, each Investor shall advance to the Company the full subscription sum for its shares (the “Advance”). Following completion of the Sale Agreement within a stated time period following the date of the Advance, the Advance shall be automatically converted into subscription monies for the shares referred to in each Commitment Letter and the subscription monies may at the sole discretion of the Company be converted into South African Rands or such other currency necessary or desirable to effect the payment of consideration and expenses due in respect of the acquisition of the Tanzanite Business. In the event of the acquisition of the Tanzanite Business not being completed within three months of the date of receipt of the advance (referred to above) then the advance shall be repaid to the Investors with any accrued interest less a pro rata share of the transaction costs referred to in the Commitment Letters. The terms of the Commitment Letters have been amended on the terms of extension letters between each of the Investors and the Company and on the terms of a letter dated 11 June 2004 from the Company to Blakeney Management Limited, the Company confirmed the release of CC Development Partners L.P., Onyx L.P., Blakeney L.P., Blakeney Investors Sicav and Development Partners International L.P. from their funding commitments to the Company.

- 14.10 a sale of shares and shareholders agreement dated 12 December 2003 (as amended on 8 July 2004) between MML, Abdulhakim Mulla (“Mulla”) and Tatan Limited (“Tatan”) (the “Tatan Agreement”) regulating the rights and obligations of MML and Mulla as shareholders of Tatan and providing for the sale by MML to Mulla of a further 70 ordinary shares of TSH600,000 each in the capital of Tatan (the “Further Tatan Shares”) so as to bring Mulla’s total shareholding in Tatan to 250 ordinary shares of TSH600,000 each, comprising 25 per cent. of the total issued share capital in Tatan. The terms of the Tatan Agreement provide for Mulla to pay to MML the sum of US\$63,860.47 (partly for the Further Tatan Shares and partly in respect of Mulla’s contribution to the total start-up costs of Tatan), such sum to be discharged by Mulla in full and in cash on the closing date of that agreement. The Tatan Agreement further provides that MML undertakes to use its reasonable endeavours to procure that following Admission the Company issues up to 266,668 Common Shares to Mulla in return for the intellectual capital, experience and other managerial benefits brought to Tatan by Mulla, in equal tranches of 66,667 Common Shares, the first tranche to be issued within 90 days following Admission and the further tranches to be issued, subject to Tatan achieving certain levels of profits over the course of the three financial periods ending on 31 December 2004, 2005 and 2006, and a further tranche of up to 33,333 Common Shares subject to Tatan’s aggregate profits exceeding the targeted figures (as agreed in the Tatan Agreement) at the end of three years trading. Mulla shall not be entitled to trade any Common Shares issued to him pursuant to the Tatan Agreement for 12 months following the date of issuance to him of such Common Shares. Mulla and MML, in addition under the Tatan Agreement, agree to be bound by restraints of trade for the duration of the period of their shareholding and for a further period of two years thereafter. In addition, Mulla has agreed to enter into a service agreement with Tatan recording his appointment as an executive director and trader;
- 14.11 a share sale agreement dated 15 November 2002 between Afgem and the Tanzania Development Finance Company Limited (“TDFL”) pursuant to which Afgem acquired the 5,000 ordinary shares of TSH1 each in the issued share capital of MML held by TDFL (the “TDFL Shares”) and TDFL’s corresponding loan account in MML in consideration for the payment by Afgem to TDFL of the cash sum of US\$550,000. The TDFL shares were allotted to TDFL in consideration for its sale (in its capacity as a mortgagee bank in the receivership of a certain Graphtan Limited) to MML (pursuant to a licence sale agreement entered into between TDFL and MML on 30 June 1999) of its right title and interest in and to the mining licence SML 08/92 then held by Graphtan Limited;
- 14.12 an agreement dated 30 June 1999 between Afgem, The African Development Bank (“ADB”), the Eastern and South African Trade and Development Bank (“Eastern”) and MML (the “ADB Agreement”) in terms of which ADB and Eastern in their capacities as mortgagees in the receivership of Graphtan Limited agreed to sell their right, title and interest in and to the mining licence SML 08/92 to MML with the purchase consideration satisfied by (i) the payment by MML to Andrew Douglas Gregory in his capacity as Receiver of Graphtan Limited (in receivership) of the sum of US\$1,000,000 (ii) the payment by MML to ADB and Eastern of 5 per cent. of MML’s annual gross profits or a minimum of US\$500,000 payable in cash in equal instalments of US\$100,000 over a period of five years commencing from the date when MML commenced mining (but not later than one year from the date of completion of this agreement) and (ii) the allotment by Afgem to ADB and Eastern of US\$1,500,000 in Afgem shares. Afgem has agreed to guarantee MML’s obligations to ADB and Eastern under the terms of the ADB Agreement;
- 14.13 a loan agreement dated 1 June 2001 between the Standard Bank of South Africa Limited, Stannic Division (“Stannic”) and Afgem Logistics (the “Stannic Loan Agreement”) pursuant to which Stannic had lent and advance to Afgem Logistics the sum of ZAR22,459,387.95 for the purpose of financing Afgem Logistics purchase of a Pilatus PC-12 Aircraft. The loan is due for repayment to Stannic in full on 1 June 2006 with periodic payments to be made by Afgem Logistics up to and including that date in accordance with an agreed repayment schedule. Afgem has agreed to stand as surety, jointly and severally and as co-principal debtor with Afgem Logistics for the repayment of sums due under the loan on the terms of a Deed of Suretyship with Stannic dated 19 September 2002 (the “Deed of Suretyship”). Pursuant to the terms of the Sale Agreement Afgem’s obligations under the Deed of Suretyship have been transferred to Tanzanite SA;

- 14.14 an intra-group loan agreement dated 5 September 2003 between Afgem and MML (the “Loan Agreement”) pursuant to which Afgem on 5 March 2003 advanced the sum of \$9,250,000 to MML to finance the establishment of the mine in Tanzania. The remaining sum fell due on 1 April 2004. The Loan Agreement provides for the loan to bear interest on written demand by Afgem if the loan is not repaid in full by that date, at the rate of LIBOR plus 2 per cent. from 1 April 2004 to the date of final payment capitalised monthly in arrears, but is otherwise interest free. Afgem’s right title and interest in the balance of this loan outstanding following completion of the Sale Agreement has been transferred to the Company under and subject to the terms of the Sale Agreement;
- 14.15 a letter of engagement between TanzaniteOne and Core Securities Limited (“Core Securities”) dated 27 July 2004 pursuant to which Core Securities agrees to provide the services of joint lead stockbroker as set out in the letter of engagement in connection with the placing of New Common Shares with qualified Tanzanian investors (“the Tanzanian Placing”) for a fee of 1.25 per cent. of the amount raised by TanzaniteOne from the Tanzanian investors (including those clients of Vertex referred to below) via the Tanzanian Placing. Reasonable costs of Core Securities will be payable to a maximum of US\$5,000 if the AIM listing does not occur;
- 14.16 a letter of engagement between TanzaniteOne and Vertex International Securities Limited (“Vertex”) dated 27 July 2004 pursuant to which Vertex agrees to provide the services of joint lead stockbroker as set out in the letter of engagement in connection with the Tanzanian Placing for a fee of 1.25 per cent. of the amount raised by TanzaniteOne from the Tanzanian investors (including those clients of Core Securities referred to above) via the Tanzanian Placing. Reasonable costs of Vertex will be payable to a maximum of US\$5,000 if the AIM listing does not occur; and
- 14.17 any other agreement referred to elsewhere in this Part 7.

15 Working capital

The Directors are of the opinion (having made due and careful enquiry) that, after taking into account the financing facilities available and the net proceeds of the Placing, the Group has sufficient working capital for its present requirements, that is, for at least the period of 12 months from Admission.

16 Litigation

No member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group’s financial position nor are the Directors aware of such proceedings pending or threatened against any member of the Group.

17 Miscellaneous

- 17.1 Other than as disclosed in this document, there has been no significant change in the financial or trading position of the Tanzanite Group since 31 December 2003, the date to which the last audited accounts of members of the Tanzanite Group were drawn up and also of the Group since 20 May 2004, the date of which the last audited accounts of the Company and its subsidiaries were drawn up.
- 17.2 The total costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 11 above) payable by the Company are estimated to amount to approximately £745,000 (excluding VAT). The net proceeds of the Placing will be £4,255,000.
- 17.3 PKF has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of its reports and the references to the reports and to its name in the form and context in which they are included and it has authorised the contents of its reports for the purposes of regulation 13(1)(g) of the Regulations.

- 17.4 In the opinion of the Directors, the minimum amount which must be raised for the purposes mentioned in paragraph 21 of Schedule 1 to the Regulations by the allotment of Common Shares pursuant to the Placing is as follows:
- | | |
|--|------------|
| 17.4.1 Purchase price of property | £nil |
| 17.4.2 Costs and expenses payable under the Placing | £745,000 |
| 17.4.3 Repayment of money borrowed in respect of 17.4.1 and 17.4.2 above | £nil |
| 17.4.4 For the purposes set out in Part 1 of this document and for working capital | £4,255,000 |
- 17.5 In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the New Common Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised. Neither the delivery of this document nor any subscription made under it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.
- 17.6 Williams de Broë is registered in England and Wales under company number 2412739 and its registered office is at PO Box 515, 6 Broadgate, London EC2M 2RP, London. Williams de Broë is regulated by the Financial Services Authority.
- 17.7 Williams de Broë has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 17.8 Ddraig Mineral Developments Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of its report set out in Part 2 of this document and to the references to the report and to its name in the form and context in which they are included and it has authorised the contents of its report for the purposes of regulation 13(1)(g) of the Regulations.
- 17.9 Save as stated in paragraphs 14.10, 17.10, 17.11, 17.12 and below, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 17.9.1 received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission; or
- 17.9.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission,
- any of the following:
- 17.9.2.1 fees totalling £10,000 or more;
- 17.9.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- 17.9.2.3 any other benefit with a value of £10,000 or more at the date of Admission:
- | | |
|---|----------|
| KPMG Inc. | £24,871 |
| Conduit PR | £14,251 |
| Brait Corporate Finance | £165,395 |
| Werksmans Attorneys | £62,076 |
| Maajar, Rwechungura, Nguluma and Makani Advocates | £13,514 |
- 17.10 The Company appointed MAA Securities Limited (a company connected to Michael Adams) to assist it and Tanzanite SA in relation to the acquisition of the Tanzanite Business, the Offer (as each term is defined in paragraph 14 of this Part 7) and related matters, pursuant to the terms of an engagement

letter with MAA Securities Limited dated 24 October 2003 under which the Company has agreed to pay to MAA Securities Limited the sum of US\$150,000. In addition, to assist it in the Placing and Admission the Company has, by an agreement dated 22 July 2004, agreed to pay MAA Securities Limited the sum of US\$100,000 in cash and 283,333 Common Shares, such fee to be conditional on and satisfied on Admission.

- 17.11 The Company is party to an agreement with Messrs Magai and Masha (“M&M”), and Afgem, with effect from 1 July 2004, in terms of which the Company has (conditionally upon a listing of the Company’s shares on the Dar-es-Salaam stock exchange (the “DSE”) not being completed by 31 December 2004 and on Admission taking place on or before 1 December 2004), agreed to allot to M&M, or their nominee, such number of Common Shares as (calculated on the basis of the weighted average trading price of Common Shares on AIM during the month of December 2004) is equal to US\$100,000. The Company’s undertaking to allot Common Shares to M&M is in consideration for assistance granted by M&M to the Company in respect of proposals to list the Company’s shares on the DSE which the Company has elected not to proceed with.
- 17.12 By an agreement dated 26 July 2004, the Company appointed BFT Management Services (“BFT”), a company associated with the Company Secretary, Mr Willi Boehm, to assist it and Tanzanite SA in relation to Admission and for general company secretarial services provided since November 2002. This agreement will continue until one year following Admission. Under the arrangement BFT will receive a fee of 190,000 Common Shares on Admission.

18 Availability of prospectus

Copies of this prospectus are available free of charge from the Company’s registered office and at the offices of Williams de Broë Plc, 6 Broadgate, London EC2M 2RP during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and shall remain available for at least one month after Admission.

Dated 16 August 2004