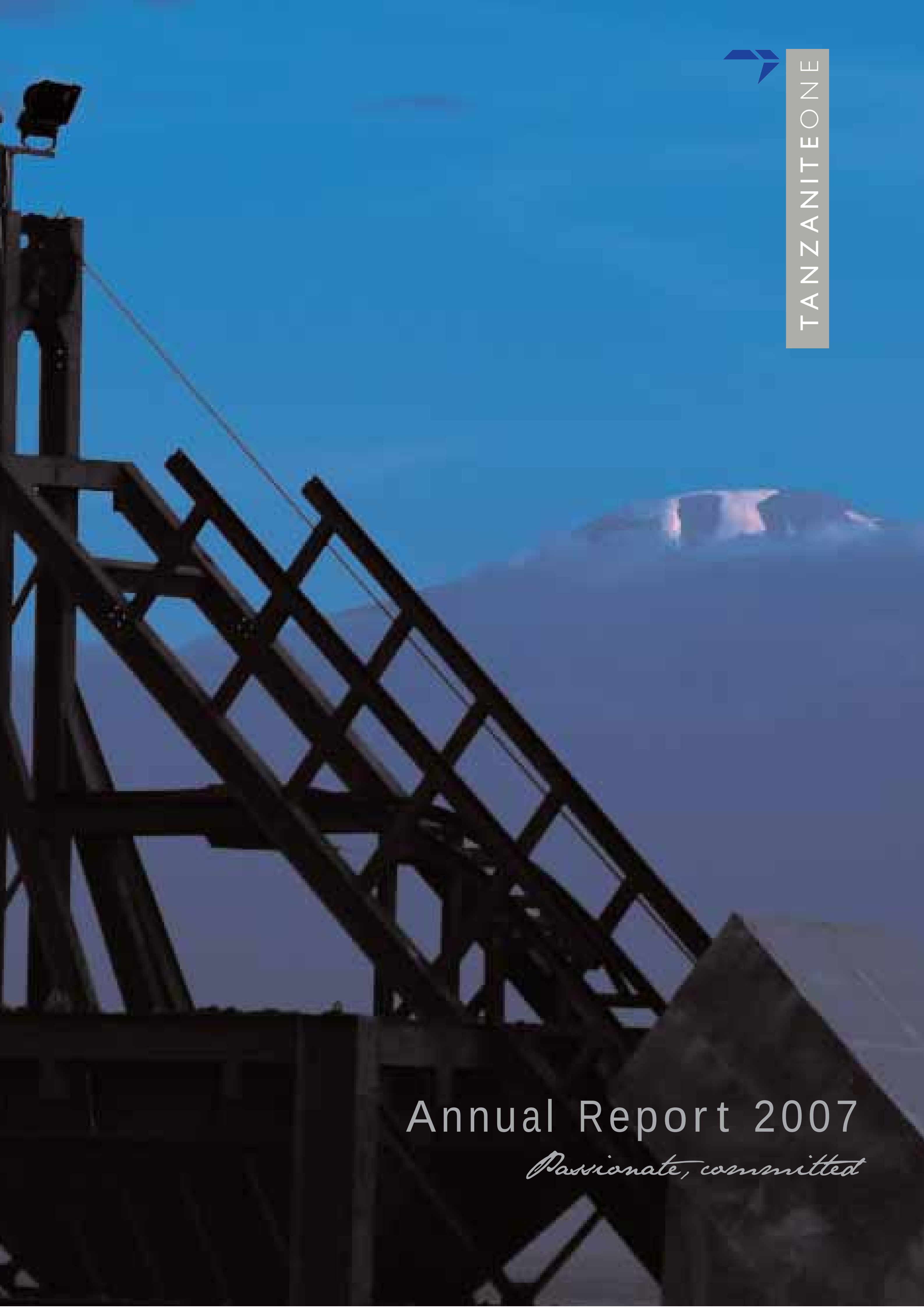


TANZANITEONE

Annual Report 2007

Passionate, committed

Highlights

A year of consolidation. Operational and financial performance back on track.

Operational

- 60% increase in tonnes processed to 25,367 tonnes
- 38% increase in tanzanite recovered to 1.7 million carats

Financial

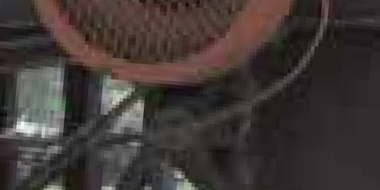
- 267% increase in net profit to $6.6 million attributable to equity holders
- Net cash generated from operating activities up $9.1 million to $14.4 million
- Cash and near cash balances up $5.9 million to $12.9 million at year end
- Full year dividend increased 25% to US10 cents per share

Market

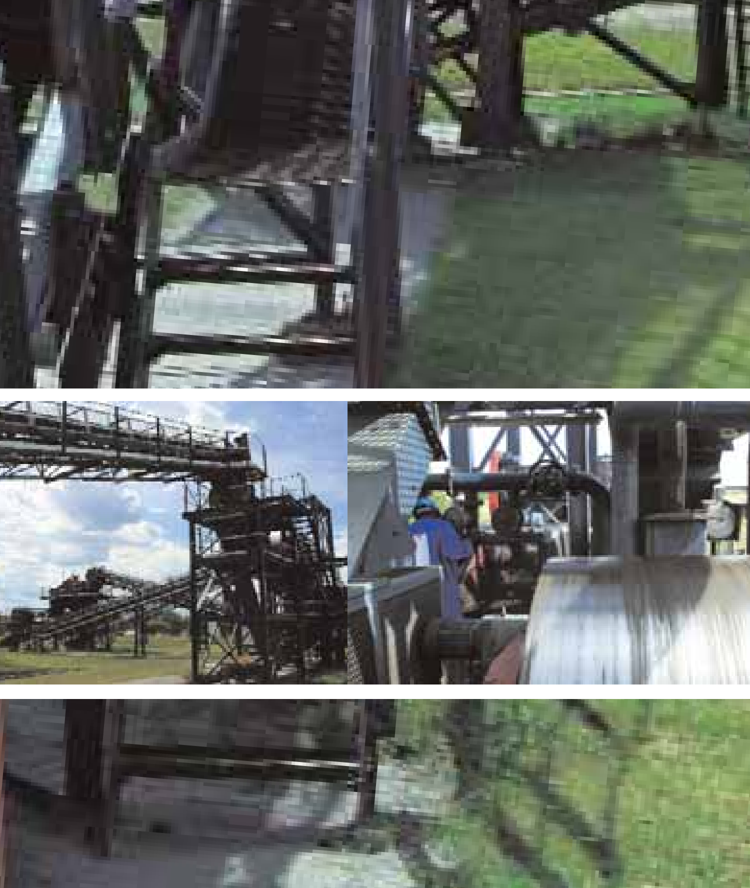
- Increase in unit and US Dollar value sales in all major markets

Note: throughout this report $ or Dollar represents US Dollars unless otherwise stated.

Contents



Objective and strategy

Objective:

To be the world leader in premium coloured gemstones (PCGs).

Tanzanite strategy:

The Company will improve exploration and grow mining and rough tanzanite trading activities, while leveraging relationships downstream to optimise value at every stage in the tanzanite pipeline.

PCG strategy:

As the technical and scientific leader in coloured gemstone mining and with good stakeholder relationships, TanzaniteOne's business model is uniquely suited to explore and capitalise on opportunities for growth in other gemstones to realise increased shareholder value.

Chairman's letter

Dear Shareholder

I am pleased to be able to report that the year under review yielded positive results and improved returns for TanzaniteOne's business. The Company increased production significantly during the year, and this has given us a strong base on which we can build. This turnaround has demonstrated that the revised strategies we have implemented are now starting to bear fruit, and indeed, has increased our confidence that further improvements will be achieved in the future.

TanzaniteOne benefited from an improved operational performance, and delivered more tonnes and additional carats into the premium coloured gemstones market. On a strictly comparative basis, this resulted in a significant increase in sales revenue with rough tanzanite contributing $40.9 million of FY2007's total sales revenue of $42.6 million, compared to rough tanzanite contributing $28.4 million of FY2006's total sales revenue of $35.6 million. The enhanced level of production has had a significant effect on reducing unit costs which were 24% lower as compared to the previous financial year. This efficiency was reflected in the Company achieving a net profit of $6.6 million attributable to equity holders as compared to $1.8 million last year. This rise in profits has enabled the Company to increase dividends by 25% to a total of US10 cents per share for the year as a whole.

We believe that TanzaniteOne is the largest and most scientifically advanced miner and supplier of rough tanzanite as well as, by implication, a global leader in the mining and supply of premium coloured gemstones. This provides a clear opportunity to expand, both in Tanzania and other parts of the world, into other premium coloured gemstones.

This strategy has already commenced with the conditional acquisition of the Lemshuku-Shamberai Tsavorite Project in late 2007. Transfer of the prospecting licenses forming part of the acquisition process is under way. Tsavorite is a beautiful and rare green gemstone, enjoying a price that is significantly higher than that of tanzanite. The proximity of the tsavorite project to our existing tanzanite operations will, we anticipate, enable us to leverage off our existing mine-to-market infrastructure, and put us in a position to complete the project in a rapid and low-cost manner. Indeed, we think we are better placed than most to develop opportunities in premium coloured gemstones and thereby add value to our business.

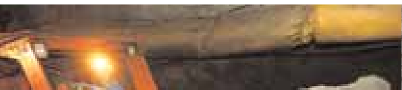
We have organised a specialised projects team within TanzaniteOne that will be dedicated to the development of new projects. This team has been tasked with the responsibility of evaluating various targets of premium coloured gemstones that may fit our Company's expansion strategy both in Africa and elsewhere. This represents an exciting new growth avenue for us, and one which we hope will put the Company in a good position in the coming years, while, at the same time, we strive to improve returns from our tanzanite business.

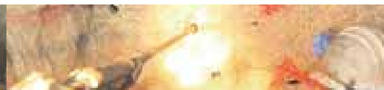
It remains for me to express my gratitude to my colleagues, who have worked hard to deliver results based on our new strategies and achieve improved results in a challenging year. I would like to express my appreciation to Ian Harebottle, who resigned as C.E.O. in February 2008, and would like to thank him for his efforts and commitment to the Company. We wish him well with his new endeavours. Zane Swanepoel has subsequently been appointed Managing Director, with a mandate to maintain the Company's focus on the revised mining and other strategies that have brought about our improved results.

I would also like to express my thanks to Gustav Stenbolt and Ben de Bruyn, both of whom retired from the Board during 2007, and above all, to our shareholders, for the patience they have shown as we have worked to put in place our plans for the future delivery of diversification and growth.

Yours sincerely,

Michael Adams
Chairman, TanzaniteOne
20 June 2008





Managing Director's review

TanzaniteOne is a unique business operating in a unique environment. We are passionate about premium coloured gemstones and we are committed to Tanzania. This is clearly evident in the short history of our Company and the legacy that we have already created for our product. I share this passion, and I look forward to working with our shareholders and stakeholders alike to take TanzaniteOne to the next level. I am delighted to have the opportunity to write this review on our successes during the 2007 financial year, and indeed, to provide some details about how we plan to achieve the strategies that the Chairman alluded to in his letter to shareholders.

Yesterday, today and tomorrow

The year just gone is characterised in my mind as a turnaround period. TanzaniteOne has undergone considerable internal change as the Company refocused its attention on the business fundamentals, in particular, improving mining and processing efficiencies, and moving the key business functions to Tanzania, the heart of the Company and its activities. Change is never easy, however, the improvement in our operational results in the second half of the year clearly demonstrates that our renewed efforts are being rewarded. This change has provided a new optimism in the Group that we are now back on track to deliver improved returns following the disappointments of 2006, and further, that we are making clear progress in developing a new platform for growth in other premium coloured gemstones, thereby providing us with multiple opportunities to add value to our unique business model.

The tanzanite proposition

From mine-to-market we are the leaders in what we do and have increased value to our shareholders and stakeholders at every level. This we will continue to do, for example, by further improving our understanding of the geology through our exploration activities, by installing efficient mechanised mining techniques, and with our Sightholders, developing the downstream rough and polished markets. Unlike any other commodity, I believe that we are uniquely positioned in our ability to add value through the entire pipeline, and thereby sustainably grow the market and financial returns in tanzanite mining.

New premium coloured gemstones proposition

The gemstone industry is one of the last mining sub-sectors that is overly fragmented and largely artisanal in terms of mine supply and technology. I believe that there exists a clear opportunity to capitalise on this missed opening by creating a single company producing and trading in a range of premium coloured gemstones. Across the industry, TanzaniteOne is increasingly recognised as the leading producer of tanzanite and a significant participant in the premium coloured gemstone market. As we look to grow and widen the Company's position as a producer of premium coloured gemstones, it is only natural that we apply our experience, knowledge and relationships to other gems which are complementary to tanzanite.

In October 2007, we announced the planned acquisition of a tsavorite project as the first step to grow into other premium coloured gemstones. Tsavorite possesses a range of exquisite and vivid green hues and makes for a beautiful sister gemstone to tanzanite, as some of the images in this report illustrate.

The project area that we are acquiring comprises some 12 prospecting licences, covering 100km^2. This potentially represents the largest known single-source of tsavorite. The project is at the earliest stages of exploration. Its development, however, has the potential to add significant new value to the overall business in the medium term.

I am particularly excited about tsavorite because it shares similar mineralogy, geology, locality, route-to-market and market positioning as tanzanite. I am confident that the proximity of the project, starting at a short 20km from our existing tanzanite operations, will allow us to effectively leverage off our existing infrastructure. This should allow for rapid project development and economies on the mining, processing and trading fronts.

2007 operational and financial review

A significant improvement was achieved in production rates during the year, and the earliest signs suggest that this trend is to continue into 2008. These improvements are due to:

- a better geological understanding of the orebody;
- the various steps implemented to enable multiple producing faces to be mined concurrently by increasing the security presence;
- improved security measures to reduce undermining and shrinkage;
- the introduction of mechanised mining techniques together with increased underground and surface ore handling measures to minimise the risk of theft;
- the introduction of additional body scanning equipment strategically placed at high risk areas; and
- the commissioning of a CCTV system allowing high-risk operations to be viewed and recorded from a central control room.

The improvements in mining efficiencies can be seen across the operations. Some examples include the CT Shaft, where equipping of the surface infrastructure made good progress, with completion of the upgraded hoisting and tipping infrastructure. Similarly, further improvements in surface security infrastructure are anticipated to be completed in early 2008, resulting in the shaft being fully productive in the second half of the financial year. At Main Shaft, development has reached a depth of 620 metres with the sub-shaft infrastructure being carried out. This includes a dedicated ventilation and second access shaft to enable the ultimate depth of approximately 1,200 metres to be attained. In addition to planned development for stoping operations in old workings, efforts are currently concentrating on shaft sinking to intersect fold-stacks at greater depths. At Bravo Shaft, the much reported 17-Level structure has been producing for over a year now. Encouragingly, the sub-shaft off this structure is yielding exceptional results with a large scale stoping operation being laid out and planned to be worked over the next year. Stoping in the upper levels continues with the main aim being to remove all potential mining areas to reduce the temptation for illegal mining activities.

The improvements in mining over the year are demonstrated in the table below:

	1H 2007	2H 2007	Movement
Tonnes processed	9,818	15,549	58%
Carats per tonne	78	60	(23%)
Production (carats recovered)	762,073	938,061	23%
On-mine cash costs per carat	$3.53	$3.29	(7%)

For the year as a whole, tonnes processed increased 60% to over 25,000 tonnes. Despite the grade averaging a touch lower at 67 carats per tonne, total carats recovered increased due to the higher volumes by 38% to 1.7 million carats. On-mine cash costs fell significantly, down 25% to $3.39 per carat.

Translating into our financial performance for the year under review, the increased production and prices achieved clearly offset reduction in the grade and quality. Revenues from ordinary activities for the period increased 20% to $42.6 million from $35.6 million in the 2006 financial year. With effective control over cash costs, this resulted in a significant increase in consolidated earnings attributable to equity holders of some 267% to $6.6 million, equal to US8.96 cents per share (2006: US2.47 cents per share).

The increase in profits aided a boost to cash flows. Cash balances at 31 December 2007 were $12.9 million, representing a $5.9 million increase over the previous twelve months. This was due to strong net cash generated from operating activities of $14.4 million, up from $5.3 million in the 2006 financial year. The improved cash position provided the Board with the confidence to increase the dividend by 25% to US10 cents. It was pleasing to note that despite the ongoing turmoil in international capital markets, TanzaniteOne has delivered a significant improvement in earnings, cash flows and dividend. Indeed, on the date of the dividend announcement, the dividend equated to a 8.77% yield, a return that I venture to suggest is quite unusual for a growing small cap mining company listed on the London AIM Market.

2008 and beyond

As our new strategies continue to take hold, improvements in operational performance are anticipated. Looking to the 2008 financial year, we are targeting production of between 1.8 and 2.0 million carats. Our detailed geological modelling suggests this is achievable through further improvements in mining efficiencies and layouts, and continued focus on security measures and systems. Tanzanite quality mix is expected to remain constant during and beyond 2008, however, a consistent year-on-year increase in the price of rough material is anticipated through increased market demand.

Conclusion

The opportunities for our tanzanite business to grow and add value are unrivalled. The opportunities to leverage our unique position as a leading and reputable premium coloured gemstone business into new gems has already commenced and should result in the creation of additional new value. Further, we will continue to examine new opportunities, at home and abroad, to grow our business.

Zane Swanepoel
Managing Director, TanzaniteOne
20 June 2008

Financial review

For the year ended 31 December 2007

Revenues from ordinary activities for the period increased 20% to $42.6 million from $35.6 million in FY2006. This increase was largely due to an increase in carats recovered during the year in line with the 60% increase in tonnes processed. Consolidated earnings attributable to equity holders increased 267% to $6.6 million. This is equal to US8.96 cents per share (2006: US2.47 cents per share).

The total dividend in respect of the year ended 31 December 2007 was US10 cents, an increase of 25% over the previous year. This dividend comprised a final dividend of US7 cents (2006: US6 cents) and an interim dividend of US3 cents (2006: US2 cents).

On-mine cash costs per carat for the full year at $3.39 per carat were 24% lower compared to FY2006 due to increased production volumes mined during the year. The 60% increase in tonnes processed has had a significant effect on reducing unit costs despite inflationary challenges. On-mine cash costs include mine operating costs, mine administration costs and royalty charges incurred at Merelani mine.

The Group achieved a gross margin for the year of 50% compared to 44% for FY2006. Whilst this reflects a 14% improvement compared to 2006, after adjusting for the non-cash write down of stock in 2006, the current year's gross margin shows a deterioration of 2% compared to 2006's adjusted margin. The reduction in gross margin is due to a number of factors including increased costs incurred at the mine level in support of increased capacity for growth, increased costs at the trading operation, local inflationary pressures, legislative changes requiring some wage adjustments, and the lower overall quality mix of tanzanite recovered during the year.

Corporate and other operating costs include group mining overhead plus other costs associated with growth and the evaluation of projects. These costs were incurred in conjunction with the development of systems and structures in line with the Group's expansion into other gemstones, an objective which is part of the Group's aim of becoming a diversified global gemstone company. The first of these, the tsavorite project is in its preliminary stages and is working towards commencing bulk sampling. Anticipated savings from the closure of the South African offices have not occurred due to the delay in relocating services to Tanzania.

Inventory levels are down to $3.8 million, largely on account of the sale of historic jewellery stock, in-line with the Group's decision to divest from the wholesale jewellery business in FY2006.

Capital expenditure for the year of $2.6 million included upgrades to security (including the purchase of X-Scann security machines and equipment for $0.8m), mine development ($1.2m), and sundry plant and equipment.

Cash balances at 31 December 2007 were $12.9 million representing a $5.9 million increase over the previous twelve months. This was due to strong net cash generated from operating activities of $14.4 million, up from $5.3 million in the 2006 financial year.

Mining overview

The tanzanite resource is divided into five blocks. TanzaniteOne undertakes larger-scale mining in Block C and medium-scale mining is undertaken by Kilimanjaro Mining in Block A and Tanzanite Africa in Block D-extension. The Company's neighbouring Blocks B and D are mined largely by artisanal and small-scale miners.

2007 Production

Production for the year totalled 1,700,134 carats of tanzanite, from 25,367 tonnes at an average of 67.0 carats per tonne. During the first half of the year the mine recovered 762,073 carats of tanzanite from 9,818 tonnes processed. Production increased sharply by 23% during the second half, recovering 938,061 carats from 15,549 tonnes. The increase in production volumes was as a result of a change in mining practice to allow multiple producing faces to be mined concurrently. The concept of not locking up potential production faces (for later mining) and mining all faces concurrently continues to work well subsequent to December 2007. This new practice is possible due to improved security measures introduced at the mine. As a result of this new practice, a total of four production areas in Bravo, CT, Main and Delta Shafts were mined at various times. Indications are that Delta, Main, CT and Bravo Shafts will give a more even distribution in 2008, based on the current level of development and the mineralised areas identified. The Merelani mine plant is currently operating at 90% capacity on a single shift basis. There is sufficient capacity to increase production through the introduction of a second shift at the plant.

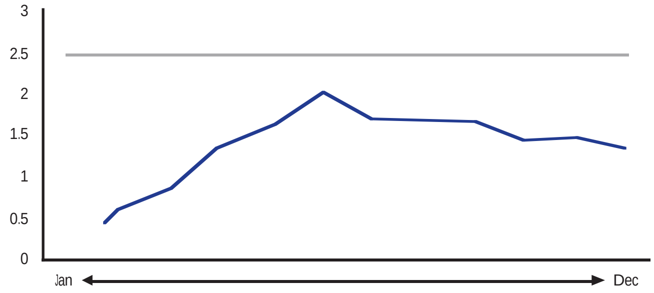
Production statistics

	2007	2006	Movement
Tonnes processed	25,367	15,896	60%
Carats per tonne	67	77	(13%)
Production (carats recovered)	1.7m	1.2m	38%
On-mine cash costs per carat*	$3.39	$4.47**	(24%)
On-mine revenue per carat	$9***	$12	(25%)

* On-mine cash costs include operating costs, mine administration costs and royalty charges incurred at Merelani mine.

** For comparative purposes, the on-mine cash costs figure for FY2006 ($2.54) has been revised to include ongoing mining overhead costs previously reported as part of administration and other costs.

***Reduction in revenue per carat achieved is as a direct result of the lower overall quality of produced material since the year saw an average 10% increase in the quality-for-quality price achieved.



Safety

Operations reported an overall improvement in the lost time injury frequency rate for the year to 1.35 mine wide. This improvement was due to a well directed safety focus whereby routine and new tasks were critically evaluated and, through improved communication, resulted in a safer working environment.

Undermining

The major challenge to the operation remains the ongoing illegal mining activity mainly taking place from Blocks B and D. Continued communication with officials from the Ministry of Energy and Minerals is starting to yield results with initiatives undertaken to identify offending operators. Management recognises that a high staff turnover at an operational level is mainly attributable to theft infringements. To minimise the effects on efficiencies, recruitment and training policies have been strengthened and additional security procedures have been implemented.

During the year, undermining and delays in the delivery of key equipment resulted in some internal project start dates not being met. The commissioning of the Investor Shaft winder is now scheduled to be initiated in the latter part of 2008. Stoping tonnage contribution was disappointing as stoping resources were allocated to development and production areas.

On-mine cash costs

Cash costs for the period decreased to $3.39 per carat from $4.47 in 2006, largely due to a significant increase in production from 1.2 million carats in FY2006 to 1.7 million in FY2007. The increased number of carats recovered was a function of increased processed tonnes, up 60% to 25,367 tonnes from 15,896 tonnes in FY2006. On-mine cash costs include operating costs, mine administration costs and royalty charges incurred at Merelani mine. For comparative purposes, the on-mine cash costs figure for FY2006 ($2.54) has been revised to include mining overhead costs previously reported as part of administration and other costs.

Security

The introduction of five security specialists into the production areas has increased the recoveries and reduced shrinkage from mine faces due to a significantly increased security presence at the production faces.

Planned changes in mining operations aimed at introducing alternative mechanisation methods, and the placing of greater emphasis on selective stoping, remain viable options for continued growth and will result in a significant increase in material passing through the processing plant and sorthouse. To ensure recovery rates are not adversely affected by increased throughput, the micro-sort unit has been re-programmed to sort only the medium to smaller sizes, with larger gems selected by hand in a secure gloved sorting box. This has resulted in a dramatic improvement in the recovery rate of smaller sizes, whilst freeing sorthouse personnel to concentrate their efforts on hand-sorting the larger, higher-value material.

The tanzanite pipeline

Optimising value in the tanzanite pipeline is achievable through TanzaniteOne's involved participation in mining and processing. Downstream activities are encouraged via the Tanzanite Foundation, an independently positioned body funded partly by TanzaniteOne.

Mining

Processing

Polished

Retail

TanzaniteOne is unique in the mining industry because of its ability to influence the economics at each stage in the route to market.

Exploration

Tanzanite

Activities in 2007 centred on the exploration of the area surrounding the 7km² tanzanite controlled area.

The first area of focus was PL2148 (AEGIS) with area reconnaissance and outcrop mapping. The field team was subsequently moved to the Shamberai region, namely PL2939 and PL4195. Work in this region comprised pitting and trenching with the aim of putting together a surface geology map of the region. As most of the rock had a competent overburden and very little outcrop, a 20km² area was systematically worked over a period of seven months.

A drilling programme, comprising 2,300 metres of long-hole core drilling, commenced in early 2008. Two holes were drilled within PL2148 (AEGIS), with two deep holes SW of Block C. In addition to the 'off-site' exploration, three short-holes were drilled on-site, exploring the Upper Horizon of the tanzanite deposit and enabling the mine planning team to position a prospect shaft. Core samples have been sent away for analysis.

The exploration team has also focused on long-hole core drilling and geophysics over the existing licence area (SML 8/92) to determine the extent of mineralisation at greater depths. Favourable results from the first two drill holes: LHD 15 and 16, warranted the drilling of an additional two holes: LHD 17 and 18. The graphitic host rock or JW-zone was intersected in all four drill holes.

The second two holes, LHD 17 and 18, intersected the JW-Zone at a down-dip extent of over 1,400 metres. The overall drilling programme indicates that the Lower Horizon, which hosts the economic mineralisation, extends three times further down-dip than previously established.

All of the four drill holes intersected the JW-zone. The ore-bearing horizon intersected at depth was shown to be geochemically similar to the tanzanite-bearing zone currently being mined. The drilling programme has also revealed that the JW-zone appears to thicken out at deeper levels.

Tsavorite

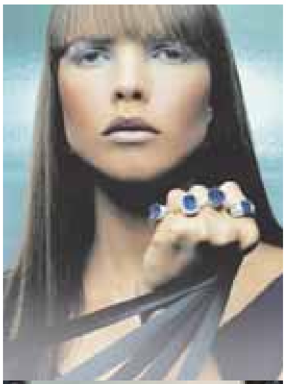
During the year, TanzaniteOne commenced the acquisition of the Lemshuku-Shamberai Tsavorite Project (the Project) as a first step to grow into other premium coloured gemstones. The Project comprises 12 prospecting licences, covering 100km², potentially the largest known single-source of tsavorite. The Project is located 20km from the existing tanzanite operations, hence a significant synergistic potential with existing infrastructure is in place.

TsavoriteOne's exploration focus will be to complete a bulk-sampling programme which is already under way. The work is focussing on upgrading the alluvial resource category from 'inferred' to 'indicated' and will therefore be compliant with the JORC-code standard. Funding is being covered out of available cash from the Company and it is anticipated that the resource evaluation will be completed by the end of the first quarter of 2009, with the results being made available thereafter.

Tsavorite

Tsavorite is a brilliant green gemstone first discovered in 1967. Tsavorite has a vivid-green colour, is bright and lively with a high refractive index, durability and clarity. Tsavorite has a hardness approaching 7.5 on the Mohs Scale and no cleavage plane, which makes it suitable for almost any jewellery application and durable enough for everyday wear.

Trading and marketing



TanzaniteOne Trading is a group subsidiary based in Arusha, Tanzania, that purchases rough tanzanite from smaller miners, brokers and dealers. TanzaniteOne Trading operates under the guidelines of the Tucson Tanzanite Protocols.

TanzaniteOne Marketing is the Group's sales arm for rough tanzanite. The subsidiary consolidates the available mined and traded rough tanzanite, applies a proprietary rough grading system and prepares parcels of rough tanzanite specifically suited to the individual business needs of each of its customers.

This is achieved through the "Preferred Supply Strategy", a world first in the coloured gemstone industry. The aim is to grow the global market for tanzanite through strategic collaborative relationships with exclusive distribution partners, known as Sightholders, selected from the world's leading gemstone houses and jewellery manufacturers.

Sightholders have been chosen for their focus on tanzanite, ability to make a long-term commitment, distribution capabilities, understanding of the need for vertical integration and most importantly, their operational standards of integrity. TanzaniteOne initially appointed six Sightholders and this was increased to eight in March 2007. The eight Sightholders are: AG Color, Colorjewels, Intercolor, Paul Wild, KL Tambi, Rare Multicolor Gems, STS Jewels and Tanzanite International. This distribution strategy supports supply continuity which in turn increases retailer confidence and builds demand.

Sightholders are offered parcels at regular "Sights". In 2008, Sights will be moved from Johannesburg to Dubai where offices have been purchased within the Dubai Multi Commodities Centre. This move ensures a presence within a booming market.

During 2007, the focus of TanzaniteOne Trading continued to be the purchasing of medium- to fine-quality rough tanzanite of 2.5 carats and above. These qualities of rough were in short supply during the first four months of 2007 due to limited production from the adjacent blocks.

Regular supply started in May and continued to increase throughout the second half of the year with October seeing record purchases. With these larger volumes being available, TanzaniteOne Trading placed strong focus on procuring much of the A quality rough supply and purchases of A quality rough increased threefold compared to 2006.

FY2007 saw continued growth and confidence in tanzanite with more retailers stocking and marketing the gemstone. Despite a weakened US economy, global demand for tanzanite increased during the year and is expected to reflect a gradual increase in A quality rough tanzanite prices for 2008. Five Sights were held during 2007 with all the Sights being successfully sold. A new market was established for the lighter coloured rough tanzanite (termed B-Light).

Quality-for-quality, TanzaniteOne achieved a 10% increase in rough tanzanite prices for the year. This was in spite of'A quality tanzanite sales contributing only 11% of sales by value, a 45% reduction in A quality tanzanite from 2006 where A quality sales represented 20% of sales by value.

The production received in early 2008 looks promising with both quality and quantities being higher than in previous years. The demand for tanzanite remains strong and an increase in price of A quality rough is expected.

The
Tanzanite Foundation

The Tanzanite Foundation ("TF") is a non-profit, industry-supported organisation dedicated to safeguarding and promoting tanzanite. The TF was founded in 2003 to stimulate the growth and development of the tanzanite industry, while creating value for ethically operating and socially conscious industry stakeholders. The organisation is committed to developing, maintaining and communicating confidence in tanzanite's integrity and gaining stakeholder co-operation in the formalisation of an ethical, dynamic tanzanite industry of which all stakeholders are proud to be a part. The Mark of Rarity™ is the icon of the Tanzanite Foundation and is a consumer's guarantee of the rarity, preciousness and distinction of their tanzanite purchase. The TF strives to uphold an ethical route to market in accordance with the Tanzanite Tucson Protocols, and invests in meaningful and sustainable upliftment projects developed in harmony with indigenous communities at tanzanite's source.

The TF is involved with promoting and marketing tanzanite at both a trade and consumer level. Activities involve creating public relations and advertising campaigns in target markets, training and educating both trade and consumer, collaborating with designers and brands worldwide, establishing tanzanite jewellery design competitions to encourage new and exciting jewellery designs using tanzanite and, ensuring worldwide trade show presence. The TF is working in collaboration with reputable and independent gemmological laboratories to implement a universal, standardised tanzanite grading system to ensure price and quality comparability and consistency.

Tanzanite Foundation community development projects

The TF is committed to making a real difference to the lives of communities at tanzanite's source by contributing to social and economic upliftment projects. The TF works to empower indigenous communities to improve their way of life. This principle is based on the belief that through stimulating demand for tanzanite, sustaining the industry's economic viability and most importantly channelling revenues back up the value chain to the source, both Tanzanian communities and the country's economy will derive significant benefit. Members of the TF undertake to operate in accordance with legal and ethical employment practices and adhere to strict safety standards across the board. The TF has developed the Small Mines Assistance Programme ("SMAP"), which aims to build relations with small mines in the area by facilitating the transfer of geological, mining and safety guidance as well as providing crisis management assistance.

The TF has made significant investments into grass roots infrastructure programmes and into creating environments in which communities can grow and develop in a self-sustaining manner. Equipped with persistence and resourcefulness, the Masai people continue to practice their ancient rituals and ceremonies, even in the face of adversities such as drought or heavy rainfall. For these tall, proud, nomadic people, cattle are sacred and they work hard to protect them. In an effort to assist the resulting plight of the communities in this area, the TF has been providing fresh water to approximately 2,000 villagers and 4,500 heads of cattle daily.

The TF has refurbished and expanded the Nasinyai Primary School, which is located in the village adjacent to the tanzanite mining area and educates 420 children. With the help of the TF, a secondary school and staff accommodation facilities have been constructed. The TF renovated and installed electricity in a medi-clinic in the rural region, an essential resource in the area which the TF continues to support. The TF has also constructed a Community Centre for the residents of Nasinyai. The Community Centre, used for social gatherings, community congregations and church meetings for local residents, is a valued community asset.

Corporate social responsibility

TanzaniteOne, together with the Tanzanite Foundation, continues to advance corporate social responsibility projects in the communities in which it operates.

Over the last year, fresh water has continued to be supplied to the communities adjacent to the tanzanite mining area, and infrastructural upgrades, such as the maintenance of roads and the supply of electricity to surrounding areas, have been undertaken. The community centre is occupied regularly by community gatherings, official meetings and religious congregations. Regular meetings with local community leaders are ongoing.

At the Nasinyai Village, the roof at the local secondary school is complete and the TF has secured over 200 double bunk bends, mattresses and mosquito nets to equip the school's boarding facilities.

An additional eye clinic is scheduled for development in late 2008, following the success of the operation conducted in late 2007 where more than 300 people received treatment from the TanzaniteOne-sponsored project implemented by the Charitable Eyecare Mission Tanzania, a locally registered NGO. Meetings with the Chairman of the Nasinyai Village and the Merelani Ward continue at regular intervals, with the focus being on ways to improve the co-operation and mutually beneficial relationships between Company employees and their neighbours.

A leading British jeweller, Stephen Webster, recently spent time at the community development projects in Tanzania donating money to pay for mattresses for the TF-sponsored secondary school in Merelani. Furthermore, a prominent US jewellery brand, Anthony Nak, created a tanzanite jewellery collection and donated a percentage of the profits to the TF community projects.

The TF, along with Miss South Africa, attended the Cape Town Mining Indaba and hosted an auction during the Ambrian Partners Ltd event. $13,500 was raised which will be used to continue to uplift communities at tanzanite's source.

The TF is in discussion with an organisation called Kids of Kilimanjaro that feeds 10,000 pre-school children in the Monduli district. We are exploring the potential to expand this programme to accommodate children in the area surrounding Merelani.

Research is being conducted into the feasibility of installing playpumps to pump water from natural boreholes. Additionally, third party collaborations are being investigated in order to further develop the medi-clinic. The TF is also working on facilitating a beadwork project whereby beadmaking skills will be taught with all proceeds going towards community development.

Annual financial statements

Contents

Statement of directors' responsibility

International Financial Reporting Standards ("IFRS") require the directors to prepare consolidated financial statements for each year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these consolidated financial statements, the directors have:

- selected suitable accounting policies and applied these accounting policies consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with applicable accounting standards; and
- prepared the financial statements on a going concern basis.

The directors are responsible for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements which disclose with reasonable accuracy, at any point in time, the financial position of the Group that is free from material misstatement whether due to fraud or error and to enable them to ensure that the financial statements comply with IFRS. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

Directors' declaration

In accordance with a resolution of the Board of directors ("the Board") of TanzaniteOne, I state that in the opinion of the directors:

a) the financial statements and notes of the consolidated entity:

   i) give a true and fair view of the financial position as at 31 December 2007, performance and cash flow for the year ended on that date of the consolidated entity; and

   ii) comply with IFRS; and

b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Zane Swanepoel
Director
TanzaniteOne Limited

20 June 2008

Directors' report

for the year ended 31 December 2007

The directors present this report, together with the audited financial statements for the year ended 31 December 2007.

Principal activities, business review and future developments

TanzaniteOne is a Bermudian registered holding company involved in the mining and marketing of the rare gemstone tanzanite via its subsidiary companies. Through its subsidiary, TanzaniteOne Mining Limited, the Group holds the mining licence over a property containing a significant portion of the world's only known tanzanite resource, as well as extensive prospecting licences over potential tanzanite producing properties adjoining its mining licence area. The Group also conducts outside buying, operates beneficiation facilities, manages tanzanite grading and certification and markets both rough and polished tanzanite. The Group also has a dedicated exploration team that is responsible for the Group's expansion both in tanzanite and other coloured gemstones.

Going concern

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

Results

The consolidated income statement for the year ended 31 December 2007 and the consolidated balance sheet at that date are set out on pages 32 and 33 of this report respectively. The Group recorded a profit of $6.6 million attributable to equity holders (2006: $1.8 million) for the financial year after minority interest. Taking into account this profit, shareholders' equity at 31 December 2007 is $45.6 million (2006: $44.9 million). The directors have, after year end, declared a final dividend of US7 cents per share that was paid on 25 April 2008. This brings the total dividend in respect of the year ended 31 December 2007 to US10 cents (2006: US8 cents) per share, an increase of 25%.

A class share capital

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

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

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

Upon valid acceptance of the offer by a TanzaniteOne SA A class shareholder, a share sale agreement will become effective between the disposing A class shareholder and TanzaniteOne. The disposing shareholder has a choice of making a Cash Acceptance or a Share Acceptance in respect of their A class shares. If the acceptance is a:

a) Share Acceptance, the disposing A class shareholder shall have the election to implement the purchase of their shares by exchanging one TanzaniteOne share (held by Rembrandt Nominees in London) for each A class share disposed of; or
b) Cash Acceptance, TanzaniteOne shall procure the sale of the number of TanzaniteOne shares, out of Rembrandt Nominees Limited, equal to the number of A class shares that the disposing A class shareholder wishes to sell. As such, the number of shares held by Rembrandt Nominees Limited will at all times equal the number of TanzaniteOne SA A class shares in issue. Sale costs incurred in the implementation of the TanzaniteOne offer shall be for the account of the disposing A class shareholder.

Directors' report

for the year ended 31 December 2007

Directors

Michael Adams (59), Non-executive Chairman

Mr Adams graduated from Cambridge University in 1969. He has 36 years' experience in the financial services sector including 33 years in senior management. During this time, he has been directly involved in a broad spectrum of industries since his private investment group, the MAA Group, began to focus on direct investment activities in 1982.The MAA Group has interests in mining, heavy industry and information technology. He has been the Chairman,Vice Chairman, President and director of a wide range of public and private companies.

Ami Mpungwe (57), Non-executive Deputy Chairman

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

Zane Swanepoel (48), Managing Director

Mr Swanepoel was appointed Managing Director of TanzaniteOne Limited on 29 February 2008. He has 25 years' experience in mining of which 18 years has been at senior mine management level. Mr Swanepoel has been instrumental in coordinating and developing the Group's operational growth to date and will continue to be based at the mine in Merelani. He will drive the operational performance and growth of the tanzanite operations and the tsavorite project. Mr Swanepoel joined the Company in September 2005 as General Manager – Mining.

Ian Harebottle (45), President and Chief Executive Officer – resigned 29 February 2008

Mr Harebottle joined the business as Operations director of its tanzanite business in September 2001, after consulting to the business on strategic and operational issues prior to that. He has vast experience in consulting within the mining industry. Mr Harebottle graduated from the Witwatersrand Technical College in 1985 and received his Graduate Diploma in Management from Henley Management College in 1992. Subsequent to year-end, Mr Harebottle resigned as a director.The effective date of his resignation was 29 February 2008.

Mark Summers (38), Non-executive director

Mr Summers is a Chartered Accountant and a Chartered Management Accountant. After completing his articles at Coopers and Lybrand, he joined Anglo American's Corporate and International Finance Department. From 1999 to 2002, he was an associate director in the Mining Corporate Finance division at HSBC, where his corporate clients included Afgem, De Beers, Kroondal Platinum and the Industrial Development Corporation of South Africa. In April 2002, Mr Summers joined the business as Chief Financial Officer. Mr Summers resigned his executive position of Chief Financial Officer of the Company on 18 July 2007 but remains on the Board as a non-executive director.

Edward Nealon (57), Non-executive director

Mr Nealon is a geologist with 31 years' experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practiced in most of the world's major mining centres. Mr Nealon was responsible for Aquarius' introduction into the platinum industry and served on its board for a number of years. He holds a Masters degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

Nicholas Sibley (70), Non-executive director

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

Gustav Oivind Stenbolt (51), Non-executive director – resigned 18 July 2007

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

Ben de Bruyn, alternate to Gustav Stenbolt – resigned 18 July 2007

Mr De Bruyn joined Valartis Asset Management during 2006 and has more than 11 years of experience advising in merger and acquisitions, capital raisings, privatisations and group restructurings. Prior to joining Valartis AM, Mr De Bruyn led the Corporate Finance division of Brait S.A., a listed and leading South African private equity and investment advisory group. He holds business and legal degrees from the University of Stellenbosch, South Africa as well as a postgraduate diploma in taxation from the Rand Afrikaans University, South Africa. He was admitted as an attorney of the High Court of South Africa during 1993.

Meetings of directors

The number of meetings of the Board of directors of the Company held during the year ended 31 December 2007 and the number of meetings attended by each director are tabled below:

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

[(1)] Mr Harebottle resigned on 29 February 2008.

[(2)] Mr Stenbolt resigned on 18 July 2007.

[(3)] Mr De Bruyn (alternate to Mr Stenbolt) resigned on 18 July 2007.

Directors' report

for the year ended 31 December 2007

Interests in the shares and options of the Company

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

	TanzaniteOne Limited Common shares	TanzaniteOne SA Limited A class shares	TanzaniteOne SA Limited Options over A class shares
Michael Adams	8,812,230	–	–
Ami Mpungwe	2,972,045	–	–
Ian Harebottle	–	500,952	160,000[a]
Mark Summers	–	240,172	–
Nicholas Sibley	1,792,778	–	–
Zane Swanepoel	–	–	75,000[b]

[a] Option strike prices are denominated in South African cents. Strike prices listed below are calculated at an exchange rate of ZAR14.14 to the British Pound Sterling as at 31 December 2007. Options exercisable at £0.55 per share up to 30 November 2007.

[b] Includes options exercisable at £0.46 per share up to 31 January 2018.

Directors' and executives' emoluments

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

Details of the nature and amount of each element of the emolument of each director of the Group during the financial year are shown in the table below. Refer also Note 16 – Share options outstanding for participation by the directors in the Company's Group Share Option Plan.

Director	Base salary $	Share options $	Consulting fees $	Total $
Michael Adams	54,325	–	–	54,325
Ami Mpungwe	62,243	77,164 [1]	–	139,407
Ian Harebottle	242,696	147,451 [1]	–	390,147
Mark Summers	160,383	319,219 [1]	172,309 [2]	651,911
Edward Nealon	38,950	–	–	38,950
Nicholas Sibley	35,875	–	–	35,875
Gustav Stenbolt	16,500	–	–	16,500
Ben de Bruyn	–	–	–	–

[1] Payments received on share options exercised.

[2] A consultancy services agreement, dated 30 July 2004, was entered into between Amari Management Services (Proprietary) Limited ("Amari") and TanzaniteOne SA Limited, wherein Amari agreed to provide the services of Mark Summers as Chief Financial Officer to TanzaniteOne SA Limited, the services being terminable on six months written notice and which are provided at an estimated annual fee of ZAR800,000.

Directors' and officers' insurance

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

Environmental regulation and performance

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

Corporate governance

The following statement sets out the governance practices of TanzaniteOne.

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

Board of directors

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

In order to retain full and effective control over the Company and monitor the executive management team, the Board meets regularly and at least on a quarterly basis. Details of directors' attendance at these meetings are set out on page 21. In consultation with the Managing Director and the Company Secretary, the Chairman sets the agenda for these meetings. All directors may add to the agenda. Key executives of the Group contribute to Board papers and are from time to time invited to attend Board meetings.

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

The names of the directors in office at the time of this report and their relevant qualifications and experience are set out on pages 20 and 21. Their status as non-executive, executive or independent directors and tenure on the Board is set out in the table below:

Board structure

Name of director in office at the date of this report	Date appointed to office	Executive/ Non-executive	Independent
Michael Adams	1 August 2004	Non-executive	No
Ami Mpungwe	1 August 2004	Executive	No
Zane Swanepoel	29 February 2008	Executive	No
Mark Summers	1 August 2004	Non-executive	No
Edward Nealon	1 August 2004	Non-executive	Yes
Nicholas Sibley	1 August 2004	Non-executive	Yes

Directors' report

for the year ended 31 December 2007

The bye-laws of the Company determine that the Board consists of not less than two and no more than nine directors. At the date of this report, the Board is comprised of six directors, four of whom are non-executive directors.

The division of responsibilities between the Chairman and the Managing Director is reviewed regularly and is defined below:

- The Chairman, Mr Michael Adams, is responsible for leadership of the Board, ensuring that the Board receives accurate, timely and clear information in order to facilitate effectiveness of its role.
- Mr Zane Swanepoel, Managing Director, leads executive management. He has been delegated responsibility by the Board for the day-to-day operation and administration of the Company's tanzanite assets via its subsidiary company TanzaniteOne Mining Limited. The Managing Director is assisted in managing the business of the Group by an executive team that comprises the Management Committee. Chairman of the Management Committee is Ami Mpungwe.

Independence of non-executive directors

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

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

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

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

a) is not a substantial shareholder (5%) of the Company or an officer of, or otherwise associated directly with a substantial shareholder of the Company;

b) within the last three years has not been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;

c) within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;

d) is not a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

e) has no material contractual relationship with the Company or another Group member other than as a director of the Company;

f) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company; and

g) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company.

Company Secretary

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

Succession planning

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

Induction training and continuing professional development

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

Performance review

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

Directors' retirement and re-election

TanzaniteOne's bye-laws determine that at each Annual General Meeting, at least one third of the Board are retired by rotation, therefore holding their positions for no longer than three years. This period of time provides sufficient continuity. A director appointed during the year is subject for re-election at the forthcoming Annual General Meeting. On retirement by rotation, directors are able to offer themselves for re-election by shareholders at the Annual General Meeting.

Securities trading policy

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

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

Directors' report

for the year ended 31 December 2007

Committees of the Board

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

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

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

Audit and Risk Management Committee

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

The Committee consists of:

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

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

- Mr Nicholas Sibley (Chairman)
- Mr Michael Adams
- Mr Ami Mpungwe

Qualifications of Audit and Risk Management Committee members:

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

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

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

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

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

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

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

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

Remuneration Committee

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

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

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

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

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

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

For details of remuneration of directors and executives please refer to page 22.

The Committee meets as necessary; but must meet at least once a year. The Company Secretary acts as secretary of the meetings and distributes minutes to all Board members. Details of attendance at Committee meetings are set out on page 21.

Directors' report

for the year ended 31 December 2007

Nomination Committee

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

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

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

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

Continuous disclosure

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

The Board regularly reviews the Company's compliance with its continuous disclosure requirements.

Communications with shareholders

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

Meetings

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

Upon release of the Notice of Meeting and Explanatory Memorandum to the market, a full text of the Notice of Meeting and Explanatory Memorandum is placed on the website of the Company at www.tanzaniteone.com for shareholders and other market participants who may consider investing in the Company.

Risk factors and management

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

Special Mining Licence ("SML")

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

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

Risks of development, construction, mining operations and uninsured risks

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

Currency risk

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

Tanzanite price volatility

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

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

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

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

Directors' report

for the year ended 31 December 2007

Local disturbances

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

Competition

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

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

Dependence on key personnel

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

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

Additional financing

The Group's operations may require additional financing to meet future expenditures. It is unlikely that the Group may be unsuccessful in obtaining finance.

Events subsequent to balance sheet date

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

Signed in accordance with a resolution of the directors.

Zane Swanepoel
Managing Director
TanzaniteOne Limited

20 June 2008

Independent auditor's report

for the year ended 31 December 2007

To the members of TanzaniteOne Limited

We have audited the consolidated annual financial statements of TanzaniteOne Limited, which comprise the balance sheet at 31 December 2007, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 32 to 74.

Directors' responsibility for the Financial Statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated financial position of TanzaniteOne Limited at 31 December 2007, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Inc.
Registered Auditor

Per AJ Davel
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road, Parktown
Johannesburg, South Africa

20 June 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	$000 2007	$000 2006
Revenue	4	42,635	35,593
Cost of sales		(21,319)	(20,102)
Gross profit		21,316	15,491
Distribution expenses		(413)	(179)
Administrative expenses		(2,168)	(1,057)
Other operating expenses		(10,067)	(11,891)
Operating profit	5	8,668	2,364
Finance income	6	399	227
Finance cost	6	(80)	(69)
Profit before tax		8,987	2,522
Income tax expense	7	(2,503)	(737)
Profit for the year		6,484	1,785
Attributable to:			
Equity holders		6,575	1,783
Minority interest	18	(91)	2
Profit for the year		6,484	1,785
Basic earnings per share (US cents/share)	19.1	8.96	2.47
Diluted earnings per share (US cents/share)	19.2	8.74	2.35

Consolidated balance sheet
at 31 December 2007

	Note	$000 2007	Restated $000 2006
Assets			
Property, plant and equipment	8	21,560	20,824
Deferred tax assets	9	2,376	1,957
Inventories	10	500	613
Total non-current assets		24,436	23,394
Inventories	10	3,774	9,872
Income tax receivable	11	2,757	2,125
Trade and other receivables	12	10,227	11,497
Cash and cash equivalents	13	12,935	7,005
Total current assets		29,693	30,499
Total assets		54,129	53,893
Equity			
Issued share capital	14	22	22
Share premium	15	38,709	37,671
Share option reserve	16	706	739
Foreign currency translation reserve	17	(227)	(27)
Retained earnings		6,287	6,377
Total equity attributable to equity holders of the parent		45,497	44,782
Minority interest	18	56	156
Total equity		45,553	44,938
Liabilities			
Interest-bearing borrowings	20	654	935
Provision for environmental rehabilitation	21	94	82
Deferred tax liabilities	9	3,992	4,011
Total non-current liabilities		4,740	5,028
Interest-bearing borrowings	20	256	241
Income tax payable	11	2,309	2,396
Trade and other payables	22	1,271	1,290
Total current liabilities		3,836	3,927
Total liabilities		8,576	8,955
Total equity and liabilities		54,129	53,893

Consolidated statement of changes in equity

for the year ended 31 December 2007

	Note	Common share capital $000	A class share capital $000	Total issued share capital $000	Share premium $000	Share option reserve $000	Foreign currency trans-lation reserve $000	Retained earnings $000	Total equity attributable to share-holders $000	Minority interest $000	Total equity $000
Balance at 1 January 2006		21	1	22	36,883	504	648	12,218	50,275	187	50,462
Prior year adjustment in correction of error	2	–	–	–	–	–	–	(2,452)	(2,452)	–	(2,452)
Balance at 1 January 2006 restated		21	1	22	36,883	504	648	9,766	47,823	187	48,010
Issue of share capital											
– Common share capital	14.1	*	–	*	–	–	–	–	–	–	–
– A class share capital	14.2, 15	–	*	*	788	–	–	–	788	–	788
Profit for the year		–	–	–	–	–	–	1,783	1,783	2	1,785
Share options outstanding	16	–	–	–	–	235	–	–	235	–	235
Foreign currency translation differences		–	–	–	–	–	(675)	–	(675)	–	(675)
Dividends declared and paid		–	–	–	–	–	–	(5,172)	(5,172)	(33)	(5,205)
Balance at 31 December 2006		21	1	22	37,671	739	(27)	6,377	44,782	156	44,938
Balance at 1 January 2007		21	1	22	37,671	739	(27)	6,377	44,782	156	44,938
Issue of share capital											
– Common share capital	14.1	–	–	–	–	–	–	–	–	–	–
– A class share capital	14.2, 15	–	*	*	1,038	–	–	–	1,038	–	1,038
Profit for the year		–	–	–	–	–	–	6,575	6,575	(91)	6,484
Share-based payments	16	–	–	–	–	(33)	–	–	(33)	–	(33)
Foreign currency translation differences		–	–	–	–	–	(200)	–	(200)	–	(200)
Dividends declared and paid		–	–	–	–	–	–	(6,665)	(6,665)	(9)	(6,674)
Balance at 31 December 2007		21	1	22	38,709	706	(227)	6,287	45,497	56	45,553

* – Less than $1 000.

Consolidated cash flow statement

for the year ended 31 December 2007

	Note	$000 2007	$000 2006
Cash flows from operating activities			
Cash generated from operations	23.1	17,680	7,548
Finance income received		399	227
Finance cost paid		(68)	(69)
Taxation paid	23.2	(3,591)	(2,395)
Net cash from operating activities		14,420	5,311
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,600)	(2,669)
Proceeds on disposal of property, plant and equipment		42	129
Net cash attributable to investing activities		(2,558)	(2,540)
Cash flows from financing activities			
Proceeds from issue of shares	23.3	1,038	788
Dividends paid		(6,674)	(5,205)
(Repayment) of long-term loans receivable		–	(2)
(Decrease)/increase in interest-bearing borrowings		(266)	399
Net cash from/(to) financing activities		(5,902)	(4,020)
Net increase/(decrease) in cash and cash equivalents		5,960	(1,249)
Translation difference in opening cash balance		(30)	(44)
Cash and cash equivalents at beginning of year		7,005	8,298
Cash and cash equivalents at end of year	13	12,935	7,005

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Accounting policies

TanzaniteOne Limited ("the Company") and its subsidiaries (together "the Group") mines, distributes and sells tanzanite, a precious stone found in Tanzania. The Group is also involved with exploration for other coloured gemstones.

The Company is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM II, Bermuda.

The Company has its primary listing on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The financial statements were authorised for issue by the directors on 20 June 2008.

1.1 Statement of compliance

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

1.1.1 New standards and interpretations

(a) Standards, amendment and interpretations effective in 2007

IFRS 7, '*Financial instruments: Disclosures*', and the complementary amendment to IAS 1, '*Presentation of financial statements – Capital disclosures*', introduces new disclosures relating to financial instruments and has an impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, '*Scope of IFRS 2*', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Company's financial statements.

IFRIC 10, '*Interim financial reporting and impairment*', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Company's financial statements.

(b) Interpretation early adopted by the Company

IFRIC 11, '*IFRS 2 – company and treasury share transactions*', was early adopted in 2007. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Company entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.

(c) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations:

- IFRIC 7, '*Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies*'; and
- IFRIC 9, '*Re-assessment of embedded derivatives*'.

1. Accounting policies (continued)

1.1 Statement of compliance (continued)

1.1.1 New standards and interpretations (continued)

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods, but the Company has not early adopted them:

- IAS 23 (Amendment), '*Borrowing costs*' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Company as there are no qualifying assets.

- IFRS 8, '*Operating segments* ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company will apply IFRS 8 from 1 January 2009. This interpretation does not have a material impact on the Company's financial statements.

- IFRIC 14, '*IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Company's accounts.

- IFRS 3, '*Business combinations*' (effective from 1 January 2010). It requires an entity to expense all transaction costs and recognise at fair value contingent purchase consideration at acquisition date. For successive share purchases, any gain or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will be recognised in the profit or loss. The Company will apply IFRS 3 from 1 January 2010 but is not expected to have an impact on the Company's accounts.

- IAS 1, '*Presentation of financial statements*' (effective from 1 January 2009). It requires the presentation of all non-owner changes in equity in a single statement of comprehensive income (which will include the current income statement) and owner changes in equity in the statement of changes in equity. The Company will apply IAS 1 from 1 January 2009.

- IAS 27 (Amendment), '*Consolidated and separate financial statements*' (effective from 1 January 2010). In accordance with IAS 27 amendments, acquisitions of additional non-controlling equity interests in subsidiaries have to be accounted for as equity transactions. Disposals of equity interests while retaining control are also accounted for as equity transactions. When control of an investee is lost, the resulting gain or loss relating to the transaction will be recognised in profit and loss. The amendments to IAS 27 also require that losses (including negative "other comprehensive income" as detailed in the revised IAS 1) have

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Accounting policies (continued)

1.1 Statement of compliance (continued)

1.1.1 New standards and interpretations (continued)

to be allocated to the non-controlling interest even if doing so causes the non-controlling interest to be in a deficit position. It has always been the Group's accounting policy to treat all acquisitions of additional interest in subsidiaries, as well as disposals of interest in subsidiaries as equity transactions. The Group will, however, change its accounting policy relating to the loss of control when an equity interest is retained. In future, when control is lost, through sale or otherwise, the resulting gain or loss recognised in profit and loss will include any remeasurement to fair value of the retained equity interest.

- IAS 32 (Amendment), '*Financial instruments: presentation*'. IAS 32 requires certain puttable instruments that meet the definition of a financial liability to be classified as equity if and only if they meet the required conditions. This amendment does not have a material impact on the Company's financial statements.

- IFRS 2 (Amendment), '*Share-based payment*' (effective from 1 January 2009). The amendments apply to equity-settled share-based payment transactions and clarify what are vesting and "non-vesting conditions". Vesting conditions are now limited to service conditions (as defined in the current IFRS 2) and performance conditions. Non-vesting conditions are conditions that do not determine whether the entity receives the services that entitle the counterparty to a share-based payment are non-vesting conditions. Non-vesting conditions are taken into account in measuring the grant date fair value and thereafter there is no "true-up" for differences between expected and actual outcomes. These changes will have no impact on the Group's financial statements as the treatment of 'non-vesting' conditions is consistent with the Group's current accounting policies.

(e) Interpretations to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Company's operations:

- IFRIC 12, '*Service concession arrangements*' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Company's operations because the Company does not provide services for the public sector.

- IFRIC 13, '*Customer loyalty programmes*' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programmes.

1. Accounting policies (continued)

1.2 Basis of preparation

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

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

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are:

Trade Receivables/Held To Maturity Investments And/or Loans And Receivables

The Company assesses its trade receivables/held to maturity investments and/or loans and receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The Company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each class of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Accounting policies (continued)

1.2 Basis of preparation (continued)

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred taxation assets

Deferred tax assets are recognised to the extent it is probable that the taxable income will be available in future against which they can be utilised. Future taxable profits are estimates based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

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

1.3 Basis of consolidation

1.3.1 Subsidiaries

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

1.3.2 Transactions eliminated on consolidation

Inter-company balances and any unrealised gains and losses or income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

1.4 Foreign currency

1.4.1 Foreign currency transactions

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

1.4.2 Financial statements of foreign operations

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

1. Accounting policies (continued)

1.4 Foreign currency (continued)

1.4.3 Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are recognised in equity in a foreign currency translation reserve. They are transferred into the income statement upon disposal.

1.5 Financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

1.5.1 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investment in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Accounting policies (continued)

1.5 Financial instruments (continued)

1.5.2 Derivative financial instruments

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

1.5.3 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

1.5.4 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1.6 Property, plant and equipment

1.6.1 Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to bring the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have difference useful lives, they are accounted for as separate items of property, plant and equipment.

1.6.2 Leased assets

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

1.6.3 Subsequent costs

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

1. Accounting policies (continued)

1.6 Property, plant and equipment (continued)

1.6.4 Depreciation

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

The useful lives are as follows:

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

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

Development costs

Subsequent to determining the technical feasibility and commercial viability of a mineral reserve, all directly attributable mine developments are capitalised until commercial production commences, that is when the mine is capable of operating in the manner intended by management. When commercial production commences, these costs will be depreciated over the estimated life of the mine on the units of production method or over the period of the mining licence, whichever is shorter.

Assets under construction

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the income statement when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.7 Exploration and evaluation expenditure

Exploration expenditure relating to property acquisitions and mineral and surface rights are capitalised. Other exploration and evaluation expenditure are expensed as incurred. When a decision is taken that a mining property is capable of commercial production, all further directly attributable expenditure are capitalised (see policy on development costs). Exploration assets are assessed for impairment on an annual basis.

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Accounting policies (continued)

1.8 Intangible assets

1.8.1 Brands

Intangible assets are initially recognised at cost. Subsequent to initial recognition, intangible assets are measured by the Group at cost less accumulated amortisation and any impairment losses.

1.8.2 Amortisation

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

The estimated useful life was as follows:

• Brands	18 years

1.8.3 Subsequent expenditure

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

1.9 Inventories

1.9.1 Current inventories

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

Cost is determined as follows:

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

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

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

1.9.2 Non-current inventories

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

1.10 Trade and other receivables

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

1. Accounting policies (continued)

1.11 Cash and cash equivalents

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

1.12 Impairment

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

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

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

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

1.12.1 Calculation of recoverable amount

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

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

1.12.2 Reversal of impairment

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Accounting policies (continued)

1.13 Employee benefits

1.13.1 Share-based payment transactions

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

1.13.2 Short-term employee benefits

Short-term employee benefits are those that are paid within 12 months after the end of the period in which the services have been rendered are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.13.3 Defined contribution plans

Contributions to defined contribution retirement benefit plans are charged to the income statement as incurred.

1.14 Provisions

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

1.14.1 Environmental rehabilitation

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

1.15 Trade and other payables

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

1.16 Revenue

1.16.1 Sale of tanzanite

Revenue from the sale of tanzanite is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, associated costs or the possible return of goods can be estimated reliably and if there is no continuing management involvement with the goods.

1. Accounting policies (continued)

1.17 Expenses

1.17.1 Finance lease payments

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

1.17.2 Finance costs

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

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

1.18 Income tax expense

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

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

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

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

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

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

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

1.19 Segment reporting

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

1.20 Earnings per share

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

Notes to the consolidated financial statements

for the year ended 31 December 2007

2. Prior year adjustments

An error was detected with respect to the estimation of income tax values of property, plant and equipment and deferred tax asset recognition in TanzaniteOne Polished Sales (Propriety) Limited (formerly The Tanzanite Company (Propriety) Limited) for the period ended 31 December 2005. The adjustment relating to the revised deferred taxation calculations has been effected retrospectively as required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Minority interest was also restated.

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

	$000
Retained earnings:	
Balance at 1 January 2006 as previously reported	12,218
Increase in deferred taxation liability on correction of income tax values of property plant and equipment	(1,193)
Increase in income tax liability on revision of prior year tax computation for TanzaniteOne Mining Limited	(401)
Increase in trade and other payables on revision of withholding tax liability	(301)
Derecognition of deferred tax asset in TanzaniteOne Polished Sales (Propriety) Limited	(557)
Balance at 1 January 2006 restated	9,766

3. Segment reporting

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

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

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

Business segments

The Group comprises the following main business segments:

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

Geographical segments

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

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

3. Segment reporting (continued)

Business segments

	Rough tanzanite $000	Cut and polished tanzanite and jewellery $000	Total $000
31 December 2007			
Total revenue	66,492	1,731	68,223
Intra-segment revenue elimination	(25,588)	–	(25,588)
Revenue from external customers	40,904	1,731	42,635
Segment result	8,830	(162)	8,668
Net financing income			319
Income tax expense			(2,503)
Minority interest			91
Net profit for the year attributable to shareholders			6,575
Segment assets	51,763	2,366	54,129
Segment liabilities	8,571	5	8,576
Capital expenditure	2,599	–	2,599
Cashflow from operating activities	12,372	2,048	14,420
Cashflow from investing activities	(2,558)	–	(2,558)
Cashflow from financing activities	(5,902)	–	(5,902)
31 December 2006			
Total revenue	52,260	9,343	61,603
Intra-segment revenue elimination	(23,846)	(2,164)	(26,010)
Revenue from external customers	28,414	7,179	35,593
Segment result	11,657	(7,469)	4,188
Impairment of intangible asset			(1,824)
Net financing income			158
Income tax expense			(737)
Minority interest			(2)
Net profit for the year attributable to shareholders			1,783
Segment assets	46,700	7,193	53,893
Segment liabilities	8,301	654	8,955
Capital expenditure	2,619	50	2,669
Impairment losses	–	(1,824)	(1,824)
Cash flow from operating activities	13,867	(8,556)	5,311
Cash flow from investing activities	(2,670)	130	(2,540)
Cash flow from financing activities	(4,791)	771	(4,020)

Notes to the consolidated financial statements

for the year ended 31 December 2007

3. Segment reporting (continued)

	Tanzania $000	United Kingdom $000	Mauritius $000	South Africa $000	Total $000
Geographical segments					
31 December 2007					
Total revenue	27,955	1,098	38,536	634	68,223
Intra-group revenue elimination					(25,588)
Revenue from external customers					42,635
Segment assets	28,823	1,467	18,589	4,898	53,777
Unallocated assets					352
					54,129
Segment liabilities	8,022	29	11	292	8,354
Unallocated liabilities					222
					8,576
Capital expenditure	2,539	9	2	49	2,599
Cash flow from operating activities	2,567	1,243	11,617	(1,007)	14,420
Cash flow from investing activities	(2,509)			(49)	(2,558)
Cash flow from financing activities	774		(2)	(6,674)	(5,902)
31 December 2006					
Total revenue	24,973	2,436	27,287	6,907	61,603
Intra-group revenue elimination					(26,010)
Revenue from external customers					35,593
Segment assets	34,306	(1,768)	12,393	8,962	53,893
Unallocated assets					–
					53,893
Segment liabilities	8,245	32	56	512	8,845
Unallocated liabilities					110
					8,955
Capital expenditure	2,619	7	–	43	2,669
Impairment losses					(1,824)
Cash flow from operating activities	6,220	123	2,442	(3,474)	5,311
Cash flow from investing activities	(2,671)	(7)	–	138	(2,540)
Cash flow from financing activities	414	–	–	(4,434)	(4,020)

	$000 2007	$000 2006

4. Revenue

Sale of tanzanite	42,635	35,593

5. Operating profit

Operating profit includes:		
Auditor's remuneration		
– audit fees	225	195
Royalties	1,401	1,238
Depreciation of property, plant and equipment	1,858	1,692
Inventory write-down to net realisable value	–	2,800
Impairment loss on brands included in other operating expenses	–	1,824
Impairment of trade receivables	308	–
Profit on disposal of property, plant and equipment	(31)	(89)
Net foreign exchange difference	(79)	(64)
Directors' emoluments and consulting fees	845	762
Operating leases instalments	341	286
Salaries and wages	4,065	2,997
Share-based payment (reversal)/expense	(33)	235

6. Net financing income

Finance income	399	227
Finance cost	(68)	(69)
Unwinding of discount (note 21)	(12)	–
	319	158

7. Income tax expense

Recognised in the income statement		
Current tax expense		
Current year	2,559	2,182
Prior year under provision	71	–
Secondary tax on companies	242	183
	2,872	2,365
Deferred tax expense		
Origination and reversal of temporary differences	(369)	(1,628)
Total income tax expense in the income statement	2,503	737

Notes to the consolidated financial statements

for the year ended 31 December 2007

	% 2007	% 2006

7. Income tax expense (continued)

Reconciliation of effective tax rate	% 2007	% 2006
Tax rate applicable to the Group's primary operating location	30.0	30.0
Profit before tax ($000)	8,987	2,522
Current year's charge as % of profit before tax	27.8	29.2
Non-deductible expenses	1.0	(12.7)
Effect of tax rates in foreign jurisdictions	16.8	33.5
Deferred tax assets not recognised	(10.4)	(44.3)
Overprovision in prior year	0.7	–
Effect of secondary tax on companies	(2.9)	(7.3)
Other allowances	(3.0)	31.6
Group's primary operating tax rate	30.0	30.0

8. Property, plant and equipment

31 December 2007

	Cost $000	Accumulated depreciation and impairment losses $000	Foreign exchange movement $000	Carrying amount $000
Owned				
Computer and other equipment	253	(118)	1	136
Cutting and gemmological equipment	135	(117)	–	18
Development costs	9,627	(946)	–	8,681
Earthmoving equipment	292	(112)	–	180
Furniture, fittings and improvements to leased premises	265	(117)	–	148
Infrastructure and surface buildings	2,399	(746)	–	1,653
Plant, machinery and mining equipment	5,186	(1,154)	–	4,032
Motor vehicles	391	(150)	–	241
Office equipment	83	(43)	1	41
Mining licence	3,986	(1,536)	–	2,450
Pre-production expenditure	3,445	(251)	–	3,194
Assets under construction	784	–	(5)	779
Total owned	26,846	(5,290)	(3)	21,553
Leased				
Computer and other equipment	27	(27)	–	–
Motor vehicles	20	(13)	–	7
Office equipment	22	(22)	–	–
Total leased	69	(62)	–	7
Total property, plant and equipment	26,915	(5,352)	(3)	21,560

8. Property, plant and equipment (continued)

31 December 2006

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

Notes to the consolidated financial statements

for the year ended 31 December 2007

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – 2007

	Opening balance	Acqui-sitions	Dispo-sals	Depre-ciation	Move-ment in foreign exchange	Total
Computer and other equipment	130	64	(2)	(62)	6	136
Cutting and gemmological equipment	70	2	(9)	(45)	–	18
Development costs	7,920	1,155	–	(394)	–	8,681
Earthmoving equipment	167	69	–	(56)	–	180
Furniture, fittings and improvements to leased premises	107	81	–	(38)	(2)	148
Infrastructure and surface buildings	1,820	83	–	(250)	–	1,653
Plant, machinery and mining equipment	3,807	620	–	(396)	1	4,032
Motor vehicles	240	77	–	(68)	(1)	248
Office equipment	57	3	–	(20)	1	41
Mining licence	2,980	–	–	(529)	(1)	2,450
Pre-production expenditure	3,193	–	–	–	1	3,194
Assets under construction	333	446	–	–	–	779
	20,824	2,600	(11)	(1,858)	5	21,560

Leased equipment

The Group leases equipment under a number of finance lease arrangements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007, the carrying amount of leased equipment was $6,982 (2006: $18,749). The leased equipment secures the lease obligations (refer note 20).

Security

Except for the leased equipment and equipment acquired through NBC bank loan with a carrying value of $615,586 (2006: $951,519) (refer note 20.2), there are no restrictions on title and no property, plant and equipment has been pledged as security for liabilities.

	2007 $000	Restated 2006 $000

9. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets comprise of the following temporary differences:

Inventories	35	374
Prepayments	(13)	(3)
Property, plant and equipment	586	590
Foreign exchange differences	207	313
Assessed losses	1,561	683
Deferred tax assets	2,376	1,957

The above deferred tax asset relating to assessed losses has been recognised as management believes that tax planning opportunities are available that would create taxable profit in the period in which unused tax losses and tax credits can be utilised.

Deferred tax liabilities comprise of the following temporary differences:

Property, plant and equipment	(3,992)	(4,038)
Foreign exchange differences	–	27
Deferred tax liabilities	(3,992)	(4,011)
Net deferred tax liability	(1,616)	(2,054)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Tax losses	1,984	1,120

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

Movement in temporary differences

	Restated balance at 31 December 2006 $000	Recognised in income statement $000	Recognised in equity $000	Balance at 31 December 2007 $000
Inventories	374	(339)	–	35
Foreign exchange differences	340	(133)	–	207
Assessed losses	683	809	69	1,561
Property, plant and equipment	(3,448)	42	–	(3,406)
Prepayments	(3)	(10)	–	(13)
	(2,054)	369	69	(1,616)

Notes to the consolidated financial statements

for the year ended 31 December 2007

	$000 2007	Restated $000 2006
10. Inventories		
Non-current		
Rough gemstone specimens	8	8
Show jewellery	492	605
	500	613
Current		
Rough gemstones	2,848	7,514
Cut and polished gemstones	–	40
Jewellery	–	1,460
Consumables	926	858
	3,774	9,872
	4,274	10,485
Inventories stated at net realisable values	–	1,387

All inventories are translated into United States Dollars at exchange rates which approximate rates on transaction date. No inventories have been pledged as security for liabilities.

11. Income tax receivable and payable

	$000 2007	Restated $000 2006
Income tax receivable	2,757	2,125
Income tax payable	(2,309)	(2,396)
	448	(271)

The net current income tax receivable represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments.

	2007 $000	2006 $000

12. Trade and other receivables

Trade and other receivables from customers	10,535	11,497
Provision for impairment of trade receivables	(308)	–
	10,227	11,497

Trade receivables that are less than two months past due are not considered impaired. As of 31 December, trade receivables of $2,896,000 (2006: $3,965,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

Past due 61 to 120 days	2,419	3,965
More than one year	477	–
	2,896	3,965

As at 31 December 2007, trade receivables of $308,000 (2006: nil) were impaired and provided for. The amount of the provision was $308,000 as of 31 December 2007 (2006: nil). The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. It was assessed that no amount is recoverable from the identified impaired receivables. These receivables are outstanding for more than a year.

Movements on the Group provision for impairment of trade receivables are as follows:

At 1 January	–	–
Provision for receivables impairment	308	–
At 31 December	308	–

Trade and other receivables consists of balances receivable in the following currencies:

United States Dollars	6,908	7,459
South African Rands	1,399	2,366
Tanzanian Shillings	1,772	1,029
Great British Pounds	148	643
	10,227	11,497

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

The Group's exposure to credit risk and impairment losses related to trade receivables are disclosed in note 24.1.

Notes to the consolidated financial statements

for the year ended 31 December 2007

	$000 2007	$000 2006

13. Cash and cash equivalents

Cash at bank and on hand	12,418	2,537
Call deposits	517	4,468
Cash and cash equivalents	12,935	7,005
Cash and cash equivalents consists of balances receivable in the following currencies:		
United States Dollars	11,327	5,644
South African Rands	1,120	913
Tanzanian Shillings	45	254
Great British Pounds	443	194
	12,935	7,005

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

14. Capital and reserves

14.1 Common share capital

Authorised		
166,666,667 common shares of $0.0003 each	50	50
Issued		
74,476,691 (2006: 72,673,952) ordinary shares of $0.0003 each	21	21

Reconciliation of number of common shares in issue

	Number of shares	Number of shares
Shares in issue at beginning of the year	72,673,952	71,588,397
Shares issued pursuant to a sale of shares and shareholders agreement dated 12 December 2003	166,667	–
Shares issued pursuant to share option plan	1,636,072	1,085,555
Shares in issue at end of the year	74,476,691	72,673,952

	$000 2007	$000 2006

14.2 A class share capital

Authorised		
66,666,667 A class shares of ZAR0.0003 each	3	3
Issued		
17,303,088 (2006: 19,992,038) A class shares of ZAR0.0003 each issued by the Company's wholly-owned subsidiary, TanzaniteOne SA Limited.	1	1
	1	1

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

Total issued share capital	22	22

14. Capital and reserves (continued)

14.2 A class share capital (continued)

Reconciliation of A class share capital

	Number of shares	Number of shares
Shares in issue at beginning of the year	19,992,038	20,122,304
Shares issued pursuant to share option plan	1,636,072	1,085,555
Share buy back	(4,325,022)	(1,215,821)
Shares in issue at end of the year	17,303,088	19,992,038

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

Rights attaching to A class shares

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

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

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

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

$$D = A \times F$$

where

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2007

14. Capital and reserves (continued)

14.2 A class share capital (continued)

Rights attaching to A class shares (continued)

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

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

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

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

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

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

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

14. Capital and reserves (continued)

14.2 A class share capital (continued)

Rights attaching to A class shares (continued)

Should TanzaniteOne acquire any TanzaniteOne SA A class share, TanzaniteOne SA will automatically redeem out of moneys which may be lawfully applied for that purpose those TanzaniteOne SA A class share on the basis that the price payable for each TanzaniteOne SA A class share on redemption of same will be at a redemption price of 0,01 (point zero one) cent per TanzaniteOne SA A class share. Notwithstanding the provisions of this clause 9, all of the TanzaniteOne SA A class shares that are in issue at 21 April 2024 shall be automatically redeemed on the basis that the price payable for the redemption of each A share on redemption of same will be at a redemption price of 0,01 (point zero one) cents per TanzaniteOne SA A class share.

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

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2007

	$000 2007	$000 2006

15. Share premium

	2007	2006
Balance at beginning of the year	37,671	36,883
Arising on issue of A class shares pursuant to share option plan	1,038	788
Balance at end of the year	38,709	37,671

16. Share option reserve

	2007	2006
Balance at beginning of the year	739	504
Arising on issue of shares pursuant to share option plan	(33)	235
Balance at end of the year	706	739

Share-based payments

The Group established a share option plan that entitles certain senior employees the opportunity to purchase shares in the Group. In accordance with the plan, options are exercisable over a period of 3 years and vest as follows:

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

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

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

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

	2007 Weighted average exercise price (pence/share)	2007 Number of options	2006 Weighted average exercise price (pence/share)	2006 Number of options
Outstanding at the beginning of the year	99	3,208,231	59	4,458,985
Forfeited during the year	(78)	(701,159)	(83)	(165,199)
Exercised during the year	(63)	(1,636,072)	(73)	(1,085,555)
Outstanding at the end of the year	177	871,000	99	3,208,231
Exercisable at the end of the year	157	618,500	82	1,051,166

The options outstanding at 31 December 2007 have an exercise price in the range of ZAR7.59 to ZAR16.14 (2006: ZAR3.27 to ZAR16.14) and a weighted average contractual life of 5.56 years (2006: 5.56 years). The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

	2007 Senior employees	2006 Senior employees

16. Share option reserve (continued)

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

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

	$000 2007	$000 2006

17. Foreign currency translation reserve

Balance at beginning of the year	(27)	648
Translation of foreign operations	(200)	(675)
Balance at end of the year	(227)	(27)

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

18. Minority interest

25% interest in the equity of TanzaniteOne Trading Limited	77	156
25% interest in the equity of TsavoriteOne Mining Limited	(21)	–
	56	156
25% interest in the (loss)/profit for the year of TanzaniteOne Trading Limited	(67)	2
25% interest in the loss for the year of TsavoriteOne Mining Limited	(24)	–
	(91)	2

Notes to the consolidated financial statements

for the year ended 31 December 2007

19. Earnings per share

19.1 Basic earnings per share

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to common shareholders of $6,575,000 (2006: $1,783,000) and a weighted average number of common shares outstanding during the year ended 31 December 2007 of 73,397,545 (2006: 72,301,380) calculated as follows:

	$000 2007	$000 2006
Profit attributable to common shareholders	6,575	1,783

Weighted average number of common shares	Number of shares	Number of shares
Effect of common shares on 1 January	72,673,952	71,588,397
Effect of common shares issued on 30 April 2006		709,889
Effect of common shares issued on 30 October 2006		1,438
Effect of common shares issued on 30 November 2006		1,656
Effect of common shares issued on 31 March 2007	630,195	
Effect of common shares issued on 20 August 2007	36,438	–
Effect of common shares issued on 5 December 2007	56,960	
Weighted average number of common shares	73,397,545	72,301,380
Basic earnings per common share (US cents/share)	8.96	2.47

19.2 Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2007 was based on the profit attributable to common shareholders of $6,575,000 (2006: $1,783,000) and a weighted average number of common shares outstanding during the year ended 31 December 2007 of 73,397,545 (2006: 72,301,380) and a weighted average number of share options outstanding during the year ended 31 December 2007 of 1,819,917 (2006: 3,580,803) calculated as follows:

Weighted average number of common shares	2007 Number of shares	2006 Number of shares
Effect of common shares on 1 January	72,673,952	71,588,397
Effect of common shares issued on 30 April 2006		709,889
Effect of common shares issued on 30 October 2006		1,438
Effect of common shares issued on 30 November 2006		1,656
Effect of common shares issued on 31 March 2007	630,195	
Effect of common shares issued on 20 August 2007	36,438	–
Effect of common shares issued on 5 December 2007	56,960	
Weighted average number of common shares	73,397,545	72,301,380

19. Earnings per share (continued)

19.2 Diluted earnings per share (continued)

	2007 Number of options	2006 Number of options
Weighted average number of share options		
Effect of options issued on 1 January	3,208,231	4,458,985
Effect of options exercised	(1,388,314)	(878,182)
Weighted average number of share options	1,819,917	3,580,803
Total weighted average number of common shares, share options and share warrants for purposes of diluted earnings per share calculation	75,217,462	75,882,183
Diluted earnings per common share (US cents/share)	8.74	2.35

19.3 Dividends per share

On 25 April 2008, the following dividends were declared by the directors. The dividends have not been provided for.

	$000 2007	$000 2006
7 US cents (2006: 6 US cent) per common share	5,202	4,360
Total dividends paid during the year (US cents/share)	9	7

19.4 Net asset value per common share

	$000 2007	Restated $000 2006
Net assets ($000)	45,553	44,938
Net asset value per common share (US cents/share)	61.16	61.84

Notes to the consolidated financial statements

for the year ended 31 December 2007

	2007 $000	Restated 2006 $000

20. Interest-bearing borrowings

20.1 Stannic instalment sale agreement

	2007 $000	2006 $000
	25	35
Less: Current portion transferred to current liabilities	(25)	(10)
Balance payable between one and five years	–	25

The Stannic instalment sale agreement is secured over certain property, plant and equipment assets with a carrying amount of $6,689 (2006: $18,749), bearing interest at the prime overdraft rate of South African minus 1.8% and is fully repayable in 2008.

20.2 NBC Bank loan agreement

	2007 $000	2006 $000
	885	1,141
Less: Current portion transferred to current liabilities	(231)	(231)
Balance payable between one and five years	654	910

The NBC Bank loan agreement is secured over plant and equipment with a carrying value of $615,586 (2006: $951,519), bearing interest at 6% per annum for the first year and thereafter the rate shall be based on the 1 year Libor rate plus 2.5% with a floor of 6% and is currently repayable in monthly instalments of $14,065 commencing 1 April 2006.

	2007 $000	2006 $000
Total interest-bearing borrowings – non-current	654	935
Total interest-bearing borrowings – current	256	241

21. Provision for environmental rehabilitation

	2007 $000	2006 $000
Balance at beginning of the year	82	82
Unwinding of discount	12	–
Balance at end of the year	94	82
Estimated liability on closure	94	82

An Environmental Impact Assessment was conducted by an independent party during the 2003 financial year of TanzaniteOne Mining Limited and a management plan based on the findings was generated. The provision is re-assessed annually.

	$000 2007	$000 2006

22. Trade and other payables

Trade and other payables	1,271	1,290

Trade and other payables consists of balances payable in the following currencies:

United States Dollars	456	119
South African Rands	148	954
Tanzanian Shillings	664	185
Great British Pounds	3	32
	1,271	1,290

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

23. Notes to the cash flow statements

23.1 Cash generated from operations

Profit before income tax	8,987	2,522
Adjusted for:		
• Depreciation of assets	1,858	1,692
• Impairment of intangible assets	–	1,824
• Finance income	(399)	(227)
• Finance costs	68	69
• Unwinding of discount	12	–
• Impairment of trade receivables	308	–
• Equity settled share-based payment (reversal)/expenses	(33)	235
• Profit on disposal of property, plant and equipment	(31)	(89)
• Net foreign exchange difference	(244)	(605)
Operating income before working capital changes	10,526	5,421
Change in inventories	6,211	3,986
Change in trade and other receivables	962	(636)
Change in trade and other payables	(19)	(1,223)
	17,680	7,548

Notes to the consolidated financial statements

for the year ended 31 December 2007

	2007 $000	Restated 2006 $000

23. Notes to the cash flow statements (continued)

23.2 Taxation paid

	2007 $000	Restated 2006 $000
Income tax receivable at 1 January	2,125	278
Income tax payable at 1 January	(2,396)	(579)
Current taxation charge	(2,872)	(2,365)
Income tax receivable at 31 December	(2,757)	(2,125)
Income tax payable at 31 December	2,309	2,396
	(3,591)	(2,395)

23.3 Net proceeds from the issue of share capital

	2007 $000	Restated 2006 $000
Issue of A class share capital by TanzaniteOne SA Limited	1,038	788
	1,038	788

24. Financial instruments

In the normal course of its operations, the Group is exposed to credit, market risk, liquidity risk, cash flows and price risk.

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of directors on its activities.

The Groups overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. General corporate hedging unrelated to any specific project is not undertaken. The Group also does not issue or acquire derivative instruments for trading purposes.

The Board of directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

24.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash deposits and cash equivalent. The Company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The credit quality of the customer is assessed, taking into account its financial position, past experience and other factors. Individual risk limits are set in accordance with limits set by the Board. The utilisation of credit limits is monitored monthly.

24. Financial instruments (continued)

24.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored on a monthly basis.

Interest rate risk

The Group is not exposed to significant interest rate risks as interest bearing borrowings and investments are mainly of a short to medium term nature. At present, no liquidity risk is foreseen.

24.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

Foreign currency risk

The Group does not hedge foreign exchange fluctuations and therefore are exposed to all foreign currency movements.

The Company strategy towards managing its foreign currency exposure is through transacting mainly using its functional currency.

Sensitivity analysis

A 10 per cent strengthening of the United States Dollar against the following currencies at 31 December would have increased/(decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

Profit and loss	2007 $000	2006 $000
South African Rands	(341)	(217)
Tanzanian Shillings	(11)	(97)
Great British Pounds	(252)	(356)
	(604)	(670)

Equity would have decreased in 2007 by $1,170,000 (2006: $494,000).

A 10 percent weakening of the United States Dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Price risk

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 Company's control, including demand, inflation and expectations with respect to the rate of inflation, the strength of the United Sates Dollar and other currencies, interest rates, global or regional political or financial events, and production and cost levels.

Through the introduction of the preferred supply strategy, supply irregularity and concomitant price instability are being addressed and should be alleviated through ongoing marketing campaigns.

Notes to the consolidated financial statements

for the year ended 31 December 2007

24. Financial instruments (continued)

24.4 Fair value of financial instruments

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

24.5 Trade and other receivables

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

24.6 Fair values of financial instruments

Non-derivative financial liabilities

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

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect fair value. All other receivables/payables are discounted at LIBOR +2% to determine the fair value.

Interest-bearing borrowings

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

24. Financial instruments (continued)

24.6 Fair values of financial instruments (continued)

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

2007	Note	Carrying amount $000	Fair value $000
Trade and other receivables	12	10,227	10,227
Cash and cash equivalents	13	12,935	12,935
Interest-bearing borrowings	20	910	910
Trade and other payables	22	1,271	1,271

2006	Note	Carrying amount $000	Fair value $000
Trade and other receivables	12	11,497	11,497
Cash and cash equivalents	13	7,005	7,005
Interest-bearing borrowings	20	1,176	1,176
Trade and other payables	22	1,290	1,290

24.7 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitor the level of dividends to ordinary shareholders.

The Group's target is to achieve a return on capital of between 12 and 16 percent.

The Group's achieved a return on capital of 14.3 percent in 2007 (2006: 4.0 percent). The increase in return on capital is a result of the increased net operating income.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. Commitments

25.1 Capital commitments

No capital commitments existed at balance sheet date (2006: $ nil).

Notes to the consolidated financial statements

for the year ended 31 December 2007

25. Commitments (continued)

25.2 Finance lease commitments

Finance lease liabilities are payable as follows:

	Minimum lease payments $000 2007	Interest $000 2007	Principal $000 2007
Less than one year	314	(57)	257
Between two and five years	720	(67)	653
More than five years	–	–	–
	1,034	(124)	910

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

26. Subsequent events

No material transactions occurred after balance sheet date.

27. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 28), and key management personnel (note 27).

Related party transactions

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

Directors of the holding company and their close family members control 17% (2006: 19%) of the voting shares of TanzaniteOne Limited.

	$ 2007	$ 2006

27. Related parties (continued)

Short-term benefits		
Key management personnel		
Sales commission paid to C Nunn (spouse of former Chief Executive Officer and significant shareholder)	458,496	442,877
Directors' emoluments for the year		
Services as directors of the Company		
Non-executive directors		
Salary		
G Stenbolt	16,500	24,000
M Adams	54,325	44,000
A Mpungwe	62,243	31,500
N Sibley	35,875	27,500
E Nealon	38,950	26,500
M Summers	32,046	–
	239,939	153,500
Executive directors		
Salary		
I Harebottle	34,013	34,013
M Summers	–	29,442
	34,013	63,455
Services as directors of the subsidiaries		
Non-executive directors		
A Mpungwe	44,848	29,654
Executive directors		
I Harebottle	208,683	174,439
M Summers	128,337	–
Consulting fees paid to Amari Services (Pty) Ltd in respect of		
M Nunn	–	155,429
M Summers	172,309	307,362
Payments received in respect of share options for Mark Summers	319,219	198,929
Payments received in respect of share options for Ian Harebottle	147,451	198,929
Payments received in respect of share options for A Mpungwe	77,164	–
Payments received in respect of share options for Mike Nunn (a significant shareholder)	285,578	232,398
Professional fees paid to MAA Securities Limited, a company of which Michael Adams is a director	–	100,000

Notes to the consolidated financial statements

for the year ended 31 December 2007

28. Group entities

Significant subsidiaries	Country of incorporation	Products/ Services	Net amounts owing by/(to) Group companies 2007 $000	2006 $000	Functional currency	Share holding %
The Tanzanite Company (UK) Limited	Great Britain	Polished gemstone and jewellery sales	(2,520)	(3,571)	GBP	100%
TanzaniteOne (SA) Limited	Republic of South Africa	Management services	(14,449)	(11,650)	ZAR	100%
TanzaniteOne Polished Sales (Proprietary) Limited	Republic of South Africa	Polished gemstone and jewellery sales	(752)	(2,222)	ZAR	100%
Afgem International Limited	Republic of Mauritius	Holding company	(27)	(18)	$	100%
TanzaniteOne Mauritius Limited	Republic of Mauritius	Rough and polished tanzanite sales	(182)	(5,557)	$	100%
TanzaniteOne Mining Limited	United Republic of Tanzania	Tanzanite mining	11,330	8,174	$/TSH	100%
TanzaniteOne Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	(434)	(201)	$/TSH	75%
The Tanzanite Laboratory Limited	United Republic of Tanzania	Certification of tanzanite	(178)	–	$/TSH	100%
TsavoriteOne Mining Ltd	United Republic of Tanzania	Tsavorite exploration	(90)	–	$/TSH	75%
Tanzanite Foundation Limited	Nevis	Tanzanite marketing	(3,205)	(1,860)	$	100%

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

29. Contingent liabilities

Guarantees

At 31 December 2007, the Group guaranteed the bank overdraft facilities of TanzaniteOne Mining Limited and TanzaniteOne Trading Limited of $100,000 each (2006: $100,000). No amounts were outstanding at the end of the year (2006: none).

Corporate information

Registered office

TanzaniteOne Limited
Clarendon House, 2 Church Street,
Hamilton, HM II, Bermuda
Tel: +1 441 295 1422
Fax: +1 441 299 4988

Company Secretary

Willi Boehm
Suite 5, Level 4, South Shore Centre,
85 The Esplanade, South Perth,
Western Australia, 6151
Tel: +61 8 9367 5211
Fax: +61 8 9367 5233

Transfer Secretary

Computershare Investor Services Plc
PO Box 82, The Pavilions, Bridgewater
Road, Bristol
BS99 7NH, United Kingdom
Tel: +44 870 703 6025
Fax: +44 870 703 6115

Nominated Advisor and Broker

Evolution Securities Limited
100 Wood Street, London EC2V 7AN
Tel: +44 207 071 4305
Fax: +44 791 780 7690

Broker

Ambrian Partners Limited
8 Angel Court, London EC2R 7HP
Tel: +44 870 703 6025
Fax: +44 870 703 6115

Mining and exploration

TanzaniteOne Mining Limited
Block C Merelani,
Simanjiro District, Tanzania
Tel: +255 754 600 991
Fax: +255 754 793 097

Rough tanzanite buying

TanzaniteOne Trading Limited
Plot 35E India Street,
Arusha, Tanzania
Tel: +255 27 254 4465
Fax: +255 27 254 8239

Rough tanzanite sales

TanzaniteOne Marketing Limited
Felix House,
24 Dr Joseph Riviere Street,
Port Louis, Mauritius
Tel: +230 216 8800
Fax: +230 216 9800

www.tanzaniteone.com

Grateful thanks to the following for the jewellery images included in this report: Tanzanite Blue cufflinks (page b); Anthony Nak award-winning tanzanite cuff (page 4); AG Color AGTA Spectrum award-winning briolettes (page 6); Hans Brumann tanzanite, tsavorite and diamond ring (page 10); Stephen Webster's award-winning tanzanite ring at the 'Celebration of Life Jewellery Design Awards' (page 11); Hans Brumann tanzanite, tsavorite and diamond necklace (page 13); Talento Joias' award-winning tanzanite and tanzanite-beaded necklace at the 'Celebration of Life Jewellery Design Awards' (bottom, page 14); and Charles Greig's The Heart of Africa (opposite).