TANZANITEONE ANNUAL REPORT 2005

BE BORN TO **TANZANITE™**

TANZANITEONE – the world's tanzanite supplier

A VERTICALLY INTEGRATED GROUP that explores, mines, beneficiates and markets tanzanite

A MINING COMPANY that holds extensive mining and prospecting licenses over a large portion of the world's only known tanzanite resource, with an increasing production capacity

A MARKETING COMPANY that through progressive strategies based on true partnership, sells tanzanite into a market it is simultaneously developing and expanding, and is pioneering positive change in the tanzanite industry

TANZANITEONE

Financial
- Net profit after tax US$9.8 million
- Gross margin of 61% achieved on US$41.1 million revenue
- Attributable earnings per share of US13.8 cents
- US6 cents per share dividend for the year
- Cash and cash equivalents of US$8.3 million

	2004* $ million	**2005 $ million**
Revenue	16.2	**41.1**
Gross profit	8.9	**24.9**
Net profit after tax	3.4	**9.8**

* 7 months of operations

Operational
- Grade up 12% to 55 carats per tonne
- New optical sorting equipment installed, improving recoveries and processing efficiencies
- X-Scann body scanner installed at mine for improved security
- Drilling indicates the presence of extensive mineralisation at greater depths

Strategic
- Ian Harebottle, former COO, appointed CEO
- BE BORN TO TANZANITE™ marketing strategy developed and launched internationally
- Sightholder Preferred Supplier strategy fully functional with five external Sightholders appointed

IAN HAREBOTTLE
Incoming Chief Executive Officer
Tanzanite One Limited

MIKE NUNN
Outgoing Chief Executive Officer
Tanzanite One Limited

With 19 months of operations under our belt, Tanzanite One Limited (TanzaniteOne or the Group) remains firmly on track for continued growth and development. Our first set of full-year results since Admission to London's AIM Market in August 2004 confirms our belief in our business and its unique product.

2005 was a sound building block for the Group. On the positive side, solid results were delivered for the full year, reasonably in line with our internal targets. We were able to complete a number of key projects on time and within budget, which supported improved grades and overall recoveries. Retail awareness continued to grow resulting in strong demand for our product. However, we also saw some fluctuations in the quality of the tanzanite recovered.

In the first half of 2005, while the overall grades (carats per tonne of gem quality tanzanite mined) were somewhat lower than projected, the quality of the material recovered was high, resulting in three successful Sights (sales to selected customers). During the second half we experienced a pleasing improvement in grade, but a corresponding reduction in the quality of the tanzanite mined. The Sight planned for August was postponed to October, with only two Sights held in the second half of the year. This trend towards lower quality tanzanite produced continued into the early part of 2006, but encouragingly the quality of the material has been improving and the grades have remained high.

Fluctuations in the grade and quality of mined material are common for gemstone mining and while their occurences are not always pleasing, we are confident that the various measures we are putting in place will deliver strong results and should thus help to smooth things out somewhat, over time.

Sales, driven by increased consumer and supply chain demand, remained strong throughout the year supporting revenue of US$41 million (against an annualised revenue of US$27.8 million for 2004). Prices of US$11 per carat were achieved across all grades of mined rough tanzanite, up 22% on 2004's prices of US$9 per carat, supporting improved gross margins of 61% (2004: 55%). Ongoing cost control and enhanced economies of scale contributed to a net profit before tax of US$13 million. The income tax expense for the Group increased on account of the Group now being in a full tax paying position in Tanzania.

The result was an earnings per share of US13.8 cents. Given the solid position of the Group, the Board declared a final dividend of US5 cents (2004: US1 cent) per share. This brings the total dividend payable for the year ended 31 December 2005 to US6 cents.

MINING

A focus on the development of skills in key areas and our ongoing commitment to increasing efficiency across all levels of operations continues to pay off. This supported improved grades and accelerated underground development. Costs were well contained while tonnes processed, production volumes and underground development all increased in line with our

on-mine targets. Further opportunities to escalate the scope of operations are now being explored and the discovery of the Mawenzi in 2005, the world's largest recorded single piece of rough tanzanite, was cause for celebration.

Various technological advances implemented over the past year supported improved recoveries. These include the MicroSort optical sorting unit, a world first in this sector and X-Scann, an x-ray body scanning unit which can identify down to 0.25 of a carat of tanzanite on or inside the human body.

EXPLORATION PROGRAMME

Early results from the ongoing exploration and drilling programme have shown that the economic mineralisation of the lower horizon, on which mining activities are currently focused, has been intersected at depths twice those previously known. This increases the ore body and suggests that the life of the mine, at current production rates, may be significantly increased.

Plans are at an early stage to expand the necessary infrastructure so as to facilitate possible future mining to new depths in excess of 800 metres below surface on true dip, and additional exploration work on TanzaniteOne's surrounding prospecting areas is also in progress.

ROUGH TANZANITE BUYING

TanzaniteOne Trading, the Group's 75%-owned rough tanzanite trading operation based in Arusha, enjoyed increased buying activity during 2005. It has established itself as a reputable trading business with a meaningful market share in a competitive market. Much of this success can be attributed to the solid working relations that have been developed with many of the local stakeholders.

The demand for good quality tanzanite remained strong throughout the year with steady production coming from TanzaniteOne's neighbours in blocks B and D. The Group has renewed its efforts to support the growth and development of these smaller scale miners and is now providing a significant level of technical, geological and other forms of support by way of its Small Mines Assistance Programme (SMAP).

ROUGH TANZANITE SALES

TanzaniteOne Marketing received a positive response to its Preferred Supplier Strategy which seeks to support the growth of the global tanzanite market through collaborative relationships with selected rough tanzanite customers (Sightholders). These Sightholders are offered regular parcels of rough tanzanite specifically packaged to meet and support their individual business models. This strategy was introduced to the market in February 2005 with the appointment of six initial Sightholders.

Sales of cut and polished tanzanite at all major gem shows increased and the industry outlook remains positive with strong demand predicted across most quality grades in the year ahead. Total rough tanzanite sales for the Group amounted to US$33.6 million. On account of a high level of expected growth in demand for quality rough tanzanite driven by increased consumer uptake and an anticipated rise in mined production, the possibility of appointing additional Sightholders is being considered.

POLISHED TANZANITE SALES

Polished and set tanzanite sales in the USA and UK contributed US$7.5 million in revenue. Demand for tanzanite in the UK has grown in line with an increase in product awareness and is a direct result of market building efforts.

The introduction of the Preferred Supplier Strategy has yielded significant returns for the Group and for the industry as a whole. TanzaniteOne initially appointed The Tanzanite Company as one of its Sightholders. It has since become apparent that this arrangement may be perceived to present a conflict of interest, accordingly the possibility of divesting The Tanzanite Company is being considered. TanzaniteOne will look to retain its flagship brand Tanzanite Blue™ and will continue to lease this brand to The Tanzanite Company or its successor.

BE BORN TO TANZANITE™

The Tanzanite Foundation™, the non-profit organisation established to guard and champion the tanzanite industry, announced its unique marketing strategy at the Tucson Gem Fair in February 2006. The BE BORN TO TANZANITE™ campaign positions tanzanite as the birthstone, the gift given upon the birth of a child. The tag-line "BE BORN TO TANZANITE™ " creates a specific call to purchase tanzanite coupled with a strong emotional draw, providing ongoing commercial opportunities for retailers to increase their tanzanite sales. The campaign will be rolled out at retail stores throughout this year and will be supported by a global print campaign.

APPOINTMENT OF IAN HAREBOTTLE AS CHIEF EXECUTIVE OFFICER

The change in leadership represents a significant milestone for the Group. A clear strategy has been laid out and over the coming months the board and management of TanzaniteOne will focus on building on the Group's current position. The benefit of the changes in leadership and business orientation are expected to become evident towards the later part of 2006.

CONDOLENCES

Non-executive director Bruce Sutherland was fatally injured in a motor vehicle accident in October 2005. Bruce, who also served as Chairman of TanzaniteOne's Mining and Geology Committee, was a well regarded and respected mining engineer in South Africa. In a separate incident Mr Thomas Mnisi, one of our dedicated miners, was fatally injured in an unexpected rock fall at our Merelani mine. Our deepest sympathies go to the families of the deceased.

OUTLOOK

While the ever increasing levels of knowledge and production outputs have delivered significant year-on-year growth within the Group, various challenges remain. Chief among these being the pocket nature of tanzanite mineralisation, and the Group's ability to build demand across a broad spectrum of the global markets. Requisite resources have been allocated to overcoming these challenges and management are confident that growth targets will be achieved over the longer term.

The drilling update announced on 7 February 2006 supports a favourable production outlook and the year ahead should see increased production at the mine. This, coupled with additional exploration and strengthened relationships with small scale miners, should result in increased tanzanite supply, while innovative marketing strategies, developed by the Tanzanite Foundation™ are expected to encourage sustained demand.

Thus, at the end of its first full AIM listed year of operations, the Group is positioned for continued and managed growth. Our vision is to create an environment which will support and facilitate the continued growth of the Group and to securing long-term success for our investors and fellow stakeholders.

We thank the board, management and staff of TanzaniteOne for their guidance and support over the past two years. It is our people who make our business great and provide us with the confidence we have in its future. They are the power of our business and their energy, efforts and commitment are recognised and appreciated.

IAN HAREBOTTLE
Incoming
Chief Executive Officer
Tanzanite One Limited

MIKE NUNN
Outgoing
Chief Executive Officer
Tanzanite One Limited

SIGHTHOLDER TANZANITEONE

TanzaniteOne introduces the **Preferred Supplier Strategy**, pioneering change in the coloured gemstone industry. Contracts are entered into with Sightholders whereby TanzaniteOne will supply 18 parcels of rough tanzanite over a 36 month period.

FEBRUARY 2005

JULY 2005

The discovery of the Mawenzi at TanzaniteOne's Merelani mine in Northern Tanzania. Weighing in at 16,839 carats (well over 3kgs) and measuring 220mm x 80mm x 70mm the impressive stone is, according to known records, the largest single piece of tanzanite yet discovered.

JULY 2005

BE BORN TO TANZANITE™ is conceptualised and developed into a powerful marketing strategy, promoting tanzanite as the gift to give on the birth of a child.

The world's first **optical gem sorting system** becomes fully operational at TanzaniteOne's Merelani mine, resulting in improved efficiencies and recoveries whilst reducing processing time and costs.

AUGUST 2005

SEPTEMBER 2005

TanzaniteOne creates a unique tiara with approximately 42,3 carats of tanzanite for the **crowning of Miss Tanzania 2005**, Nancy Sumari, who later went on to be nominated as Miss World Africa 2005.

OCTOBER 2005

The X-Scann body scanner is pioneered and installed at the Group's Merelani mine. This highly advanced proactive security system was officially launched on 10 October 2005 recovering over US$22,000 worth of tanzanite in its first week of operation.

FEBRUARY 2006

TanzaniteOne releases drilling update. The drilling programme shows that the Lower Horizon has been intersected at depths twice those previously known; suggesting that the inferrred resource and therefore the life of the mine at current production rates may be significantly increased.

SEPTEMBER 2005

On 7 September 2005, the Talisman Gallery of London's upmarket **Harvey Nichols** department store hosted a tanzanite jewellery viewing; showcasing the flawless designs of leading British jewellers who drew on the beauty of tanzanite as inspiration for their one-of-a-kind creations.

DECEMBER 2005

Tanzania celebrated 44 years of independence as well as **electing a new president** His Excellency Jakwaya Kikwete. President Kikwete replaces president Mkapa, also of the CCM party, as Tanzania's fourth president. since independence.

ZANE SWANEPOEL
General Manager
Tanzanite One Limited

TanzaniteOne Mining Limited, Mining and Exploration

OVERVIEW

Our mine plan, initiated in early 2004, has provided the foundation from which the business has grown and will continue to grow. The plan focused on increasing the scale of mining activities across strike and down dip of our known mineralisation, whilst aiming to reduce costs and increase efficiencies.

The year saw the successful installation and commissioning of a number of projects, all of which have delivered positive results.

These include:

– the exploration and drilling programme intersected the JW zone which hosts the economic mineralisation at depths twice those previously known, suggesting that the inferred resource and therefore the life of mine at current production rates may be significantly increased;

– the commissioning of the new winder installed at Main Shaft, to facilitate the shaft being extended from its current 300m to over 700m on dip. The new winder has increased the load carrying capacity of the skip and the speed at which the skip travels allowing for an increase in tonnes hauled;

– the commissioning of the MicroSort optical scanning unit to replace hand sorting. The fully automated system has helped improve recovery efficiencies and reduced processing times, whilst enhancing security within the sort house; and

– the commissioning of the X-Scann, x-ray body scanning unit, acting as a major deterrent to theft and is set to support improved recoveries and grade.

TanzaniteOne Mining currently employs approximately 600 people, 95% of whom are Tanzanian nationals. Increased focus on staff training has resulted in No. 2 Shaft, located on the Upper Horizon, being re-commissioned as a training and learning centre. Improvements in safety and operational outputs have been notable.

MANAGEMENT

The past year saw Joe Kimble, our General Manager of four years, resigning. Joe leaves behind a mine that has been developed from a greenfield site to fully operational status. The management and board of TanzaniteOne extend our heartfelt thanks to Joe for the part he has played in initiating our world-class mining operation and wish him well in his future endeavours.

Zane Swanepoel was recruited as General Manager during the year and was joined by Jacques Fouché as Mining Manager. Zane, with over 18 years of senior mine management experience, has supervised mining operations in Armenia, Zimbabwe and the United Kingdom. Jacques, a Mining Engineer formerly of Impala Platinum, African Explosives and De Beers, adds invaluable experience to this strengthened management team. The joint competence and experience of these two individuals promises to support the TanzaniteOne Mining's growth objectives well into the future.

The new mine management team has shifted the mining call from that of tonnes hauled to metres mined in all open faces, except for those which are highly mineralised. Here the focus is on maximum carats recovered, with two production teams having been established to achieve this. The teams will specialise in mining productive areas with the remainder of the underground workforce focused on development of tanzanite bearing ore.

After conducting a complete investigation into the incident, the Tanzanian Inspector of Mines concluded that safety standards at the mine were of a very high standard and that the cause of the rock fall was due to a change in the geological conditions which we can now better predict. This unfortunate accident has renewed TanzaniteOne Mining's ongoing focus on safety.

EXPLORATION

Extensive exploration efforts, both within TanzaniteOne Mining's licence area and on neighbouring target areas, were initiated in 2005, and will continue in the foreseeable future.

– The drilling of four additional long holes within the Block C licence area, to prove the extension of tanzanite mineralisation at greater depths and to improve our understanding of this mineralisation, has been completed. The provisional results indicate a potential doubling of the known down dip extent of the JW zone which hosts the economic mineralisation and thus the inferred resource.

– Additional work has started on identified areas, both within the current mining licence and neighbouring prospecting licences areas. This work includes geophysics, core drilling and geochemistry.

MINING

The nature of tanzanite mineralisation requires relatively high levels of associated development to support continuous production. A total underground development of 3,780 metres was achieved in 2005 from the five operational and two exploration shafts. The current recovery of 55 carats per tonne (cpt) for the reporting period reflects a 12% increase over the previous period.

An increase in the quality profile of tanzanite produced during the year, with more "A" quality material mined as well as increased grades achieved supported overall revenue growth. However, the majority of this improvement in the quality of material was experienced in the first half of the year while the second half of the year resulted in improved grades but a relative decline in the quality of tanzanite mined.

Bravo Shaft, on the mining licence area's southernmost border of TanzaniteOne, intersected a highly mineralised zone from which the Mawenzi was recovered. Weighing in at 16,839 carats (well over 3 kilograms) and measuring 220 millimetres (mm) x 80mm x 70mm, the rough tanzanite piece is impressive in both size and structure. According to known records, it is the world's largest single piece of tanzanite to have been recovered.

Test work on the vacumation system in Main Shaft is proceeding with positive results. Dependent upon the development work being done by both TanzaniteOne Mining and the manufacturer to ensure maximum operational performance, this method of extraction may be considered for adoption at all key producing areas.

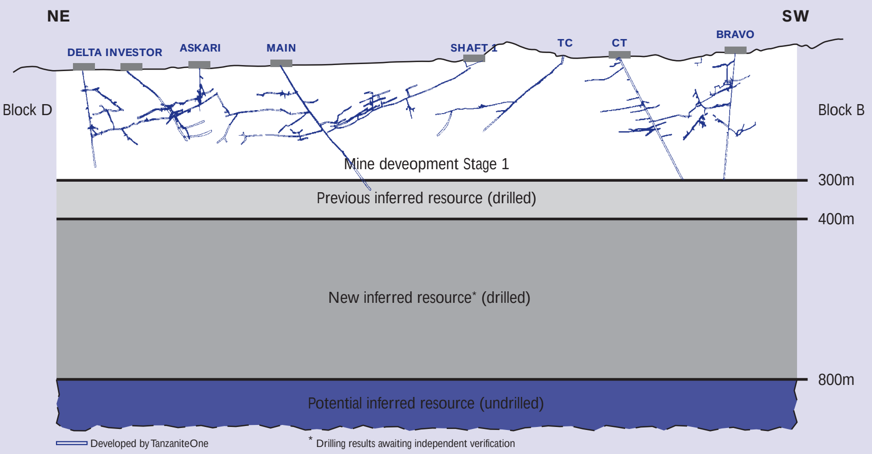
The increased use of small underground diamond drills to locate the boundaries and positions of mineralised target zones is being evaluated, with the plan for 2006 to have up to five potential mineralised zones exposed and ready for production at any given time.

PROCESSING

While the level of material fed through the processing plant increased during the year, output remained well below capacity. An increase in the number of producing faces being mined at any given time, has resulted in higher grades and higher volumes processed. In the early part of 2006 the trend to higher grade achieved and increased tonnes being mined continued, yet the overall quality of the tanzanite mined fell in the second half.

The historic records would show these quality levels to be unusual and early signs are that the quality of materials being produced is beginning to improve.

LONGITUDINAL SECTION



RECOVERIES AND BENEFICIATION

The MicroSort optical sorting unit, completing the implementation of HOSGARS (Hands Off Sorting Grading and Recovery System), has been commissioned and it is delivering gem quality tanzanite recoveries of 98%. The sort house is running close to capacity and plans for a possible expansion of the facilities are being reviewed.

In support of the Tanzanian government's objective to increase employment opportunities in Tanzania by increasing the level of beneficiation of tanzanite within the country, the company will continue to develop its plan for expanding the size of its on-site lapidary during the coming year. However, as these plans are linked to those of the government to establish the Merelani area as a Special Economic Zone (providing incentives to support the establishment of new businesses in the area), the exact timing of these plans are as yet unknown.

SECURITY

The successful introduction of the mobile X-Scann unit has proved its worth by recovering over US$22,000 worth of rough tanzanite in its first week of operation and has highlighted the need to increase the number of units deployed. An associated review is underway.

The installation of a fully integrated electronic surveillance and access/egress system which links and co-ordinates the movement of all personnel has been approved by the board and is to be installed during 2006. This system will improve existing controls at all key sites.

APPRECIATION

Outgoing CEO Mike Nunn has been integral to the establishment and growth of the Group and industry. He is highly regarded and well respected by staff and stakeholders alike, and while his day-to-day involvement in our business will be missed, we are grateful that he has committted to remaining available to provide ongoing input, advice and direction.

ADRIAN BANKS
Managing Director
TanzaniteOne Trading Limited

TanzaniteOne Trading Limited, Outside Buying

TanzaniteOne Trading is the Group's 75%-owned Arusha-based rough tanzanite trading operation. The remaining 25% is held by Abdullakim Mulla, an established gemstone trader and TanzaniteOne Trading's Tanzanian partner.

TanzaniteOne Trading's position as a buyer of rough tanzanite from the primary market in Arusha, some 60 kilometres from the tanzanite producing area of Merelani, allows the Group to maintain an up-to-date perspective and understanding of the rough tanzanite market dynamics; providing the Group with the necessary information to manage distribution effectively.

The first quarter of 2005 saw a limited supply of higher quality rough tanzanite available in the Arusha market on account of reduced volumes of tanzanite being mined from neighbouring smaller scale miners, but improving from April 2005 onwards. Despite sporadic production of tanzanite throughout the year, tanzanite was still able to be sourced fairly regularly through established miners, gem brokers and dealers, with demand for good colour tanzanite remaining strong throughout the year. TanzaniteOne Trading's commitment to providing a fair, consistent price for the material procured, in an otherwise volatile market, has been well received by gemstone brokers and has helped build lasting relationships, which in turn helped grow this business. TanzaniteOne Trading increased its sales volumes significantly in 2005 primarily due to the increased number of miners, brokers and dealers supporting the company on a regular and often near exclusive basis. However, this increase came at the cost of slightly

reduced gross and net margins partly attributable to the increase in export royalties on rough tanzanite payable to the Tanzanian Government to 5%, late in 2004.

Production from TanzaniteOne's neighbours, Blocks B and D, whilst at somewhat lower levels than experienced in the late 1990's and early 2000's, was stable in 2005. Production from these blocks is likely to diminish, however, in the short to medium term as these miners begin to find accessing the deeper mineralised areas more difficult, requiring additional capital investment and more stringent safety requirements. TanzaniteOne has put steps in place to reduce the potential impact on supply through continued support to the small miners.

TanzaniteOne Trading has increased its market share of rough tanzanite trade during 2005, establishing itself as a reputable trading business in a highly competitive market. Whilst data to support this view is difficult to collate, it is believed that this success is primarily due to the strengthening of relationships with new brokers and dealers and building on existing business relationships which was a key focus for 2005. TanzaniteOne Trading's buying process involves cobbing (preparation and grading of rough tanzanite) of material bought for onward sale. This service enhances the brokers' understanding of the value of grading and improves TanzaniteOne Trading's competitive offering to these brokers. Initiatives have also been undertaken to educate brokers as to the minimum standards of size and grade that TanzaniteOne Trading is prepared to purchase.

This process ensures that a higher grade of purchase is maintained and improves the brokers' likelihood of maximising their profit.

The royalty on the export of cut stones has recently been waived. This waiver was introduced to promote the cutting and polishing industry in Tanzania.

With the establishment of a small lapidary at TanzaniteOne Trading's Arusha office in 2005, it was possible to purchase low-priced, locally cut gems and recut them to an excellent standard prior to export. TanzaniteOne Trading is currently training further cutters at this facility, who will ultimately be relocated to the much larger, state-of-the-art facility at the Group's Merelani mine.

CANDICE NUNN
Managing Director
Tanzanite One Marketing Limited

TanzaniteOne Marketing Limited, Rough Sales

TanzaniteOne Marketing, the Group's marketing arm for rough tanzanite, received a positive response to its Preferred Supplier Strategy which was introduced to the market in 2005. The strategy seeks to grow the global market for tanzanite through collaborative relationships with selected rough tanzanite customers called Sightholders. These Sightholders exclusively attend viewings and sales of rough tanzanite parcels called Sights. Five independent Sightholders and one internal Sightholder, were initially appointed but this number is expected to increase in the medium term as both the production profile and demand are forecast to increase. Current Sightholders are mainly large Indian cutting houses, with offices and distribution capabilities in the United States and Japan – tanzanite's biggest markets. We would look to appoint further Sightholders operating in new markets such as China, Russia, Dubai and Australia as we expand. Sights are planned to occur approximately six times per annum.

This strategy of ensuring regular access to consistently graded rough tanzanite, allows Sightholders to develop their tanzanite businesses based on an assured supply at stable prices. Sightholders, alongside TanzaniteOne, have committed to financially support the Tanzanite Foundation's™ marketing efforts, thereby ensuring industry collaboration on this important issue. This focused marketing message and an increase in marketing spend is expected to grow tanzanite's market share of the coloured gem industry.

Cut and polished tanzanite sales at all major gem shows increased throughout the year and the industry outlook is positive with strong demand for most qualities.

TanzaniteOne Marketing's total external rough tanzanite sales amounted to US$33.6 million for the year. Revenue from tanzanite sales was stronger in the first half of the year due to a higher proportion of larger, high quality tanzanite mined during this period. Lower sales achieved in the second half of the financial year was due to a decrease in the percentage of high quality tanzanite recovered. As a consequence, the Sight scheduled for August 2005 was deferred to October 2005. A final successful Sight, the fifth for the year, was held in December 2005. Despite holding one less Sight than planned during the year, sales increased more than proportionately over the previous period with 16% of our rough sales for the year attributed to "A" grade tanzanite. During the year lower grade material proved to be more popular than in previous years due to a stronger demand for beads, cabochons and briolette cuts.

Additional Sightholders may be appointed in due course as a result of the high level of interest shown in the Preferred Supplier Strategy and the anticipated increase in production and demand.

The Tanzanite Foundation's™ BE BORN TO TANZANITE™ campaign received major support from the market and the Group's Sightholders, two of whom will be able to leverage off this strategy at their various retail outlets.

Tanzanite Foundation

TanzaniteOne believes the sustainability of the Group's business is directly linked to its relationship with its stakeholders within its business environment on both a micro and macro level. Passionate about tanzanite and committed to Tanzania, TanzaniteOne has dedicated its efforts to making a meaningful and sustainable difference to the quality of life of the communities in which tanzanite mining and beneficiation operations are conducted.

TanzaniteOne is the founding member of the Tanzanite Foundation™ and as such most of its social investment initiatives are channelled through the Tanzanite Foundation™.

New projects were initiated in 2005 by the Tanzanite Foundation™ along with continued support being given to other long standing initiatives. The Tanzanite Foundation's™ approach has always been to develop projects in partnership with the local communities; an approach that generates a sense of ownership among the local community and is delivering encouraging results. Some of the numerous projects supported by the Tanzanite Foundation™ include:

- Grading and repairs to the secondary road to Merelani village. This upgrade was carried out at the specific request of local leaders and facilitated visits by all political candidates during their electioneering for the December 2005 presidential elections;
- Financial support was provided to Kitwai village where the community matched the Tanzanite Foundation's™ contribution to procure a water tank and cattle trough for the area;

- A financial donation was made to repair a water pump at a well situated in Nasinyai, a village bordering the tanzanite mining area;
- In support of the call to provide assistance to those communities worst affected by the extensive draught experienced in the first quarter of 2006, TanzaniteOne lended considerable support to the Presidential Famine Fund.
- 64% of the cost of constructing the local government ward offices in Nasinyai was provided by the Tanzanite Foundation™ with the balance being funded by the community itself;
- Training, technical, administrative and financial support was provided to the Tanzanian Women Miners Association and the Merelani branch of the Arusha Regional Miners Association;
- The Tanzanite Foundation™ embarked on a joint venture with three local partners, namely TanzaniteOne, World Vision and the Nasinyai community, to build the Nasinyai Secondary School. The Tanzanite Foundation™ contributed building material and financial support, with TanzaniteOne providing technical and engineering know-how and the local community the labour;
- Financial aid was provided to the Tanzanian Woman's Orphanage Support Group in Arusha. This organisation houses, clothes and schools orphaned children from the surrounding community and with the Tanzanite Foundation's™ support has increased the number of children it cares for from 30 to 50.

Ongoing support has been given to the following projects:

- Continuous maintenance work on the road between Kilimanjaro International Airport and the Merelani mine. This road is used daily by dealers, miners and local villagers alike and provides a safer, reliable and more direct route for all compared with the rural paths that existed previously;
- Increased efforts in supplying water daily to over 2 000 local villagers and 4 500 head of cattle;
- Ongoing maintenance work and support to the Nasinyai Primary School, which continues to experience dramatic increase in school attendance on an annual basis;
- Upgrading and repairs to the local Nasinyai village community hall;
- The expansion of SMAP which provides geological, mining, survey, safety, logistical, operational and other guidance and support to small mines, to include more than 20 small miners. The aim of this programme is to develop and maintain good relations with all stakeholders and to advance the tanzanite mining industry as a whole.

HEALTH AND SAFETY

The TanzaniteOne mine is considered to be an effective, low cost and technically advanced operation with an exemplary safety record. Through to the end of 2004 the mine achieved 4.4 million accident free hours. Regrettably, a rock fall in May 2005 Main Shaft resulted in the Merelani mine's first fatality with the loss of one of our miners.

After conducting a complete investigation into the incident, the Tanzanian Inspector of Mines concluded that safety standards at the mine were of a very high standard and that the cause of the rock fall was due to a change in the geological conditions which we can now better predict.

This unfortunate incident has further renewed the Group's focus on employee health and safety and has resulted in the re-opening of No.2 Shaft as a training centre. All mine employees are required to complete a training programme in this shaft on a rotational basis. The measured results of the programme over the last five months of 2005 were most encouraging, reporting not only a significant reduction in minor injuries, but also a marked improvement in operational performance.

An on-site medi-clinic is fully operational and is used to facilitate regular medical examinations of all staff to fight against infectious diseases such as malaria which is prevalent in the area.

The potential impact of HIV/AIDS has spurred TanzaniteOne, in partnership with employee representatives, the local community and World Vision, to develop a comprehensive HIV/AIDS and Life Threatening Diseases Policy which comprises prevention training, voluntary counselling, testing and access to antiretroviral treatments.

ENVIRONMENTAL ISSUES

TanzaniteOne has always placed a high level of importance on the need to protect the environment in which it operates and is proud to say that it is fully compliant with all Tanzanian environmental regulations. More importantly, as a Group it has been able to continue in its efforts to improve the density and diversity of the animal and plant life which it inherited on the Merelani mine property.

Environmental projects underway include the revegetation of areas around the mine; regular monitoring of water quality and the donation of tailings to the local community. The latter project encourages entrepreneurial activity as the tailings, which are uneconomical for the Group to process, are given to the community which extracts small fragments of tanzanite for sale to TanzaniteOne Trading. The discarded matter from this process is then used by the local community as construction material.

TanzaniteOne is committed to operating as a profitable business, a responsible employer, a considerate neighbour and an exemplary corporate citizen recognising the importance of harmonious and sustainable relationships with the community and within the environment in which it operates.

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

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

TanzaniteOne was incorporated on 20 February 2003 and acquired the tanzanite assets from Afgem Limited ("Afgem") with effect from 1 June 2004. Results for the year ended 31 December 2004 reflect seven months' tanzanite operations as the Group only commenced operations in June 2004 following the acquisition of its tanzanite assets. These consolidated financial statements represent the results of the tanzanite operations for the year ended 31 December 2005. Direct comparisons with the previous period are thus not appropriate.

For the year ended 31 December 2005, the Group achieved a profit attributable to common shareholders of US$9.8 million or 13.89 US cents a share. A gross profit margin of 61% was achieved on total revenue of US$41.1 million. After operating expenses of US$12.0 million and net financing income of US$0.04 million, a net profit before tax of US$12.9 million was reported.

These results are analysed as follows:

REVENUE

Revenue from tanzanite sales was strong in the first half of the year (US$22.4 million) due to a high proportion of larger, high quality tanzanite recovered during this period. Lower sales (US$18.7 million) achieved in the second half of the financial year was due to a decrease in the proportion of high quality tanzanite recovered. As a consequence, the Sight scheduled for August 2005 was deferred to October 2005. A final successful Sight was held in December 2005. Five Sights were thus held during the year under review instead of the planned six.

For the entire period however, prices achieved for mined rough tanzanite of US$11 per carat (2004: US$9 per carat) reflected an overall improvement in the quality of grade of tanzanite produced from mining operations compared to the seven months ended 31 December 2004. Production for the year was 1.4 million carats of tanzanite. Overall grade recovered increased by 12% to 55 carats per tonne (2004: 49 carats per tonne) partly reflecting improved mining controls.

COST OF SALES

Cost of sales, which consists of mining costs in Tanzania, purchases of rough tanzanite in our Arusha, Tanzania trading operation and purchases of manufactured jewellery settings, amounted to US$16.2 million. Results show an improved gross margin of 61% for the Group, up from 55% for the year ended 31 December 2004. A variance in the quality of tanzanite produced impacted on the gross margin achieved across the first and second half of the year which was higher at 66% in the first six months, decreasing to 54% in the second half of the year.

On-mine cash costs per carat were well controlled, down 50% to US$1 per carat (2004: US$2 per carat).

OPERATING EXPENSES

Operating expenses of US$12.0 million include royalties paid to the Government of Tanzania on export of rough tanzanite sales (US$1.4 million) and other commissions (US$0.9 million), salaries, wages and consulting fees (US$4.0 million), depreciation and amortisation (US$1.5 million) and advertising and promotional expenses (US$1.1 million). On an annualised basis administration and other operating expenses are up 4% compared to 2004 and royalties are up in line with increased sales. Depreciation and amortisation increased in line with the increase in units of production. Foreign exchange losses and gains reflect the revaluation of net monetary assets and are dependent on movements in various exchange rates to which the Group is exposed. No significant change, other than the potential of further foreign exchange gains or losses, is expected in total operating expenses as cost-cutting initiatives and economies of scale come into play.

TAXATION

The effective tax rate of the Group for the year under review was 23.8% (2004: 13.3%). The increase is due to the utilisation of all assessed losses in the Group's subsidiary companies.

INVENTORY

Total inventory levels increased to US$14.5 million (2004: US$12.6 million); with rough tanzanite accounting for 44% (2004: 39%) and cut and polished tanzanite and set tanzanite jewellery for 51% (2004: 56%). This relative increase in rough stock on hand is attributable to the reduction in the number of Sights held in 2005 and is not expected to trend upwards in the medium term.

CASH BALANCES AND BORROWINGS

Cash and cash equivalent balances were US$8.3 million (2004: US$6.9 million). Interest-bearing borrowings reduced from US$2.6 million to US$0.8 million at 31 December 2005. The remaining interest-bearing borrowings are in respect of certain plant and machinery acquired in Tanzania.

CAPITAL EXPENDITURE

The Group's total capital expenditure during the year amounted to US$2.6 million, the major components being mine development expenditure of US$1.0 million, optical sorting equipment of US$0.6 million, mining equipment of US$0.3 million, earthmoving equipment of US$0.2 million, buildings and infrastructure of US$0.2 million and body scanning equipment of US$0.2 million.

TRANSLATION OF FOREIGN SUBSIDIARIES

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

	ZAR: USD	GBP: USD
Exchange rate at year end	6.38	1.74
Average exchange rate for the year	6.37	1.82

MARK SUMMERS
Chief Financial Officer
Tanzanite One Limited
20 June 2006

Statement of the directors' responsibility

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

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

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

Directors' declaration

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

a) the financial statements and notes of the consolidated entity:
   i. give a true and fair view of the financial position as at 31 December 2005 and the performance for the year ended on that date of the consolidated entity; and
   ii. comply with IFRS; and

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

On behalf of the board

IAN HAREBOTTLE
Director
Tanzanite One Limited
20 June 2006

Report of the independent auditors

TO THE MEMBERS OF TANZANITE ONE LIMITED

We have audited the consolidated annual financial statements set out on pages 25 to 67 for the year ended 31 December 2005. These financial statements are the responsibility of the Company's directors. 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 plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion these financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Inc

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
20 June 2006

The directors present this report, together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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

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 2005 and the consolidated balance sheet at that date are set out on pages 36 and 37 of this report respectively. The Group recorded a profit of US$9.8 million for the financial year. Taking into account this profit, shareholders' equity at 31 December 2005 is US$49.3 million. The directors have, after year end, declared a final dividend of US5 cents per share to be paid on 26 May 2006. This brings the total dividend in respect of the year ended 31 December 2005 to US6 cents per share. A detailed review of operations and activities appears in the Chief Executive's message, the Operational review and the Chief Financial Officer's reports that form part of the annual report.

A CLASS SHARE CAPITAL

At the time of TanzaniteOne acquiring the tanzanite assets from Afgem, a mechanism was put into place to accommodate any of Afgem's South African shareholders' desire to maintain their investment in the tanzanite assets. The mechanism involved the creation of TanzaniteOne SA Limited ("TanzaniteOne SA"), a South African domiciled wholly-owned subsidiary of TanzaniteOne. TanzaniteOne SA has on issue A class shares, the value of which is directly linked to the value of the TanzaniteOne shares traded on the AIM Market of London Stock Exchange plc ("AIM") and therefore denominated in British Pound Sterling. Consequently, all South African shareholders of Afgem that elected to remain invested received TanzaniteOne SA A class shares, the rights of which are set out in the share capital note of the consolidated financial statements.

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

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

a) Share Acceptance, the disposing A class shareholder shall have the election to implement the purchase of their shares by exchanging one TanzaniteOne share for each A class share disposed of;

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

SIGNIFICANT SHAREHOLDINGS

As at 31 December 2005, the following interests in the common shares of Tanzanite One Limited (the Company) represented more than 3% of the issued share capital:

Shareholder	Number of shares	% Holding
Wilbro Nominees Limited	35,325,948	49.41
Euroclear Nominees Limited	7,549,221	10.56
HSBC Global Custody Nominees (UK) Limited	5,104,202	7.14
Mellon Nominees (UK) Limited	3,621,501	5.07
Tomori Enterprises Limited	3,288,007	4.60
S.N.C. Nominees Limited	2,680,867	3.75

DIRECTORS

It was with great sadness that the board of TanzaniteOne learnt of the death of Mr Bruce Sutherland (70), a non-executive director of the Company, in Johannesburg on 27 October 2005. Mr Sutherland joined the board of TanzaniteOne in July 2004, and contributed the extensive experience he had gained from a career in mining of over 40 years. The expertise and guidance that Mr Sutherland provided to the Company will be sorely missed.

Mr Georg von Opel resigned as a non-executive director on 7 December 2005 and Mr Gustav Stenbolt was appointed as a non-executive director on the same date. Mr Philipp LiebundGut was appointed as an alternate to Mr Stenbolt on 7 December 2005.

Michael Adams (57), Non-executive Chairman

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

Ami Mpungwe (55), 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 with numerous companies, including Illovo Sugar (South Africa), National Bank of Commerce (ABSA, Tanzania), Tanzanian Breweries (Tanzania), Multichoice (Tanzania) Limited and Air Tanzania (Tanzania).

Mike Nunn (46), Chief Executive Officer (until 30 April 2006)

Mr Nunn founded the business in 1998 and has been involved in the gemstone industry since 1993. He has extensive experience in mining operations and management, beneficiation, grading and marketing of high value gemstones. He was a founding member of the Diamond Merchants Association of South Africa and is the International Colored Stone Association's Ambassador to South Africa. Mr Nunn has resigned as CEO with effect from 30 April 2006. In future he will act as consultant to the business.

Ian Harebottle (43), President and Chief Executive Officer (from 1 May 2006)

Mr Harebottle joined the business as Operations director of its tanzanite business in September 2001, after consulting to the business on strategic and operational issues prior to that. He has vast experience in consulting to the mining industry. Mr Harebottle graduated from the Witwatersrand Technical College in 1985 and received his Graduate Diploma in Management from Henley Management College in 1992.

Mark Summers (36), Chief Financial Officer

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

Edward Nealon (55), Non-executive director
Mr Nealon is a geologist with 30 years' experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practised in most of the world's major mining centres. Mr Nealon was responsible for Aquarius' introduction into the platinum industry and served on its board for a number of years. He holds a Masters degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

Nicholas Sibley (67), 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.

Robert Bruce Sutherland, Non-executive director – deceased 27 October 2005
Mr Sutherland had 46 years' experience in the mining industry including 20 years with the Johannesburg Consolidated Investment Group (JCI) during which time Mr Sutherland worked in a variety of senior engineering, technical and management positions in JCI's base metal and platinum divisions prior to retiring as an executive director of JCI in 1994. Mr Sutherland provided consultancy services to the mining industry and was a director of Aquarius Platinum (South Africa). Mr Sutherland held a Masters degree in Engineering and was a member of the Engineering Council of South Africa.

Georg von Opel (40), Non-executive director – resigned 7 December 2005
Mr Von Opel is the owner and a member of the board of directors of Hansa Aktiengesellschaft, Basel, a Swiss holding group. He is also non-executive member of the board of Jelmoli Holdings, Zurich and TD Esop Holdings, Cayman Islands. Hansa owns a majority stake in Pelham Investments, Geneva and a minority stake in ENR Russia Invest, Geneva. Mr Von Opel has studied at the University of Rhode Island and at the American Inter Continental University, London.

Gustav Oivind Stenbolt (49), Non-executive director – appointed 7 December 2005
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 who has retired from the board, 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.

Phillip LeibundGut (32), Alternate director to Gustav Stenbolt – appointed 7 December 2005
Mr LeibundGut holds directorships in Pelham Investments SA, Geneva, Switzerland; MCT Asset Management, Geneva, Switzerland; Eastern Property Holdings Limited, Tortola, BVI; CONNECTA Beratungsgesellschaft im Ost-West-Wirtschaftsverkehr mbH & Co., Berlin, Germany; OZ Holding AG, Pfaffikon, Switzerland.

Meetings of directors
The number of meetings of the board of directors of the Company held during the year ended 31 December 2005 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 and Succession Planning	Audit and Risk Management	Nomination	Board	Remuneration and Succession Planning	Audit and Risk Management	Nomination
Michael Adams	4	2	3	1	4	2	3	1
Ami Mpungwe	4	2	–	1	4	2	–	1
Mike Nunn	4	–	–	1	4	–	–	1
Ian Harebottle	4	–	–	1	4	–	–	1
Mark Summers	4	–	–	1	3	–	–	1
Edward Nealon	4	2	–	1	4	2	–	1
Nicholas Sibley	0	–	3	1	0	–	3	1
Georg von Opel	3	–	–	–	–	–	–	–
Bruce Sutherland	2	–	–	–	2	–	–	–
Gustav Stenbolt	3	–	3	–	2	–	3	–
Philip LeibundGut	1	–	–	–	1	–	–	–

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:

Director	Common shares	A class shares	Options
Michael Adams	8 612 230	–	–
Ami Mpungwe	2 945 002	4 546	90 925(1)
Mike Nunn		14 617 727	1 160 629(2)
Ian Harebottle		367 912	472 128(3)
Mark Summers		217 333	472 128(4)
Edward Nealon	–	–	–
Nicholas Sibley	1 632 778	–	–
Georg von Opel	6 792 747	–	–
Bruce Sutherland	–	–	–
Gustav Stenbolt	111 996	–	–
Philip LeibundGut		–	–

Option strike prices are denominated in South African cents. Strike prices listed below are calculated at an exchange rate of ZAR 11.1 to the British Pound Sterling as at 31 December 2005.

(1) Includes options exercisable at £0.541 per share from 30 November 2005.
(2) Includes 533,317 options exercisable at £0.295 per share up to 30 November 2007, 227,312 options exercisable at £0.338 per share up to 30 November 2006 and 400,000 options exercisable at £0.684 per share up to 30 November 2007. This includes options awarded to Mrs C Nunn, a related party to Mike Nunn.
(3) Includes 266,666 options exercisable at £0.295 per share up to 30 November 2007, 45,462 options exercisable at £0.338 per share up to 30 November 2006 and 160,000 options exercisable at £0.684 per share up to 30 November 2007.
(4) Includes 266,666 options exercisable at £0.295 per share up to 30 November 2007, 45,462 options exercisable at £0.338 per share up to 30 November 2006 and 160,000 options exercisable at £0.684 per share up to 30 November 2007.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

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

Details of the nature and amount of each element of the emolument of each director of the Group during the financial year are shown in the table below. Refer also Note 18 - Employee Entitlements for participation by the directors in the Company's Option Plan.

Director	Base salary $	Bonus $	Share options $	Consulting fees $	Other $	Total $
Michael Adams	23 825	–	–	–	100 000(1)	123 825
Ami Mpungwe	13 614	–	–	–	16 173(2)	29 787
Mike Nunn	45 689	50 865	–	233 157(3)	–	329 711
Ian Harebottle	141 783	34 086	335 447(4)	–	–	511 316
Mark Summers	26 524	29 506	167 724 (4)	135 640(3)	–	359 394
Edward Nealon	10 211	–	–	–	–	10 211
Nicholas Sibley	13 614	–	–	–	–	13 614
Georg von Opel	10 211	–	–	–	–	10 211
Bruce Sutherland	15 000	–	–	–	–	15 000
Gustav Stenbolt	–	–	–	–	–	–
Philip LeibundGut	–	–	–	–	–	–

(1) A payment of US$100,000 was made to MAA Securities Limited, a company in which Michael Adams has an interest. This payment was made in respect of advisory and consultancy services for the period to 31 May 2005 in relation to structuring, investor relations and business development opportunities.

(2) Salaries received for services as directors of the subsidiaries.

(3) A consultancy services agreement, dated 30 July 2004, was entered into between Amari Management Services (Proprietary) Limited ("Amari") and TanzaniteOne SA, wherein Amari agreed to provide the services of Mike Nunn as Chief Executive Officer to TanzaniteOne SA, the services being terminable on six months written notice and which are provided at an estimated annual fee (exclusive of VAT) of ZAR 1,379,647. Similarly a consultancy services agreement, dated 30 July 2004, between Amari and TanzaniteOne SA was entered into wherein Amari agreed to provide the services of Mark Summers as Chief Financial Officer to TanzaniteOne SA, the services being terminable on six months written notice and which are provided at an estimated annual fee (exclusive of VAT) of ZAR 802,567.

(4) Profit on share options exercised.

DIRECTORS' AND OFFICERS' INSURANCE

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

CORPORATE GOVERNANCE

The following Statement sets out the governance practices of TanzaniteOne.

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

Board of directors

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

In order to retain full and effective control over the Company and monitor the executive management team, the board meets regularly and at least on a quarterly basis. Details of directors' attendance at these meetings are set out on page 27. In consultation with the Chief Executive Officer 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 26-27. 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	Non-executive	Yes
Ian Harebottle	1 August 2004	Executive	N/A
Mark Summers	1 August 2004	Executive	N/A
Edward Nealon	1 August 2004	Non-executive	Yes
Nicholas Sibley	1 August 2004	Non-executive	Yes
Gustav Stenbolt	7 December 2005	Non-executive	No
Philip LeibundGut	7 December 2005	Non-executive	No

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 seven directors, five of whom are non-executive directors.

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

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

Independence of non-executive directors

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

The board has accepted the guidelines outlined on page 31 in determining the independence of non-executive directors. In accordance with these, guidelines, Messrs Mpungwe, Nealon and Sibley, are deemed independent.

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

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

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

Company Secretary

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

Succession planning

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

Induction training and continuing professional development

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

Performance review

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

Directors' retirement and re-election

TanzaniteOne's 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. Non-executive directors are appointed for a three-year term and may be invited to seek reappointment. A director appointed during the year is subject for election at the forthcoming Annual General Meeting. Pursuant to the bye-laws of the Company, the Chief Executive Officer is not subject to retirement by rotation.

Securities trading policy

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

A director and relevant employees must comply with the Model Code on directors' dealings in securities, as set out in the annexure to Chapter 9 of the Listing Rules of the 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.

Committees of the board

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

In line with best practice, each of the committees operates under a charter approved by the board detailing their role, structure, responsibilities and membership requirements. Each of these charters is reviewed annually by the board and the respective committee. Summaries of the Remuneration and Succession Planning, Nomination Committee charters and a complete Audit/Risk Committee charter can be found on the TanzaniteOne website at www.tanzaniteone.com.

Audit and Risk Management Committee

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

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

The members of the Committee at the date of this report are as follows:
- Mr Nicholas Sibley (Chairman)
- Mr Michael Adams
- Mr Gustav Stenbolt

Qualifications of Audit and Risk Management Committee members:

Mr Sibley is a chartered accountant, a director of 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 Stenbolt who has been on the board of the Company in the capacity of alternate director to Mr Georg von Opel and replaced Mr Georg von Opel who has retired from the board 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.

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 and Succession Planning Committee

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

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

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

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

In carrying out its responsibilities, the Committee is authorised by the board to secure the attendance of any person with relevant experience and expertise at Committee meetings, if it considers their attendance to be appropriate and to engage, at the Company's expense, outside legal or other professional advice or assistance on any matters within its charter or terms of reference.
The Committee reviews succession planning for key executive positions (other than executive directors) to maintain an appropriate balance of skills, experience and expertise in the management of the Group. The Committee does not allow for retirement benefits of Non-executive directors and Non-executive directors are remunerated by way of an annual fee in the form of cash and do not receive options or bonus payments.

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

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

Nomination Committee

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

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

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

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

Continuous disclosure

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

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

Communications with shareholders

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

Meetings
TanzaniteOne Notice of Meeting materials are distributed to shareholders with an accompanying explanatory memorandum. These documents present the business of the meeting clearly and concisely and are presented in a manner that will not mislead shareholders or the market as a whole. The Notice is despatched 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 was 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.

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

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

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

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

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

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

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

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

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

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

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

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

EVENTS SUBSEQUENT TO BALANCE SHEET DATE
Subsequent to the conclusion of the financial year, the decision was made to put The Tanzanite Company, the Group's polished and set tanzanite jewellery business, up for sale as a going concern. This aside, 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.

IAN HAREBOTTLE
Director
Tanzanite One Limited
20 June 2006

	Note	US$'000 12 months to 31 Dec 2005	US$'000 7 months to 31 Dec 2004
Revenue	4	41 090	16 168
Cost of sales		(16 206)	(7 273)
Gross profit		24 884	8 895
Distribution expenses		(270)	(207)
Administrative expenses		(671)	(314)
Other operating expenses		(11 058)	(5 349)
Operating profit before net financing income	5	12 885	3 025
Interest income	6	373	213
Finance cost	6	(334)	(97)
Profit before tax		12 924	3 141
Income tax expense	7	(3 077)	(220)
Profit for the year/period		9 847	2 921
Attributable to:			
Equity holders of the parent		9 774	2 915
Minority interest	20	73	6
Profit for the year/period		9 847	2 921
Basic earnings per share (US cents/share)	21.1	13.89	5.68
Diluted earnings per share (US cents/share)	21.2	13.00	5.51

	Note	US$'000 2005	US$'000 2004
Assets			
Property, plant and equipment	8	19 910	21 107
Intangible assets	9	1 824	2 000
Inventories	12	205	–
Long-term loans receivable	10	2	164
Deferred tax assets	11	1 226	202
Total non-current assets		23 167	23 473
Inventories	12	14 266	12 622
Income tax receivable	13	278	663
Trade and other receivables	14	10 861	4 384
Cash and cash equivalents	15	8 298	6 909
Total current assets		33 703	24 578
Total assets		56 870	48 051
Equity			
Issued share capital	16	22	22
Share premium	17	36 883	35 675
Share options outstanding	18	504	139
Foreign currency translation reserve	19	648	1 871
Retained earnings		11 247	2 915
Total equity attributable to equity holders of the parent		49 304	40 622
Minority interest	20	182	198
Total equity		49 486	40 820
Liabilities			
Interest-bearing borrowings	22	670	2 149
Provision for environmental rehabilitation	23	82	82
Deferred tax liabilities	11	4 145	2 391
Total non-current liabilities		4 897	4 622
Interest-bearing borrowings	22	107	459
Income tax payable	13	167	273
Trade and other payables	24	2 213	1 877
Total current liabilities		2 487	2 609
Total liabilities		7 384	7 231
Total equity and liabilities		56 870	48 051

	Note	Common share capital US$'000	A class share capital US$'000	Total share capital US$'000	Share premium US$'000	Share options out-standing US$'000	Foreign currency translation reserve US$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total equity US$'000
Balance at 1 June 2004	–	–	–	–	–	–	–	–	–	–	–
Issue of share capital											
– Common share capital	16.1	21	–	21	25 373	–	–	–	25 394	–	25 394
– A class share capital	16.2	–	1	1	13 064	–	–	–	13 065	–	13 065
Share issue expenses charged against share premium	17	–	–	–	(2 762)	–	–	–	(2 762)	–	(2 762)
Minority interest acquired		–	–	–	–	–	–	–	–	192	192
Profit for the period		–	–	–	–	–	–	4 411	4 411	6	4 417
Balance at 31 December 2004		21	1	22	35 675	–	–	4 411	40 108	198	40 306
Restatement due to adoption of IAS 21 (Revised)	32.1	–	–	–	–	–	1 871	(1 357)	514	–	514
Restatement due to adoption of IFRS 2	32.2	–	–	–	–	139	–	(139)	–	–	–
Restated balance at 31 December 2004		21	1	22	35 675	139	1 871	2 915	40 622	198	40 820
Balance at 1 January 2005		21	1	22	35 675	139	1 871	2 915	40 622	198	40 820
Issue of share capital											
– Common share capital	16.1	–*	–	– *	911	–	–	–	911	–	911
– A class share capital	16.2	–	–*	– *	287	–	–	–	287	–	287
Profit for the year		–	–	–	–	–	–	9 774	9 774	73	9 847
Share based payments		–	–	–	10	365	–	–	375	–	375
Foreign currency translation differences		–	–	–	–	–	(1 223)	–	(1 223)	–	(1 223)
Dividends declared and paid		–	–	–	–	–	–	(1 442)	(1 442)	(89)	(1 531)
Balance at 31 December 2005		21	1	22	36 883	504	648	11 247	49 304	182	49 486

* Less than US$1 000.

	Note	US$'000 12 months to 31 Dec 2005	US$'000 7 months to 31 Dec 2004
Cash flows from operating activities			
Cash generated from/(utilised in) operations	25.1	6 172	(1 554)
Interest income received		373	213
Financing cost paid		(334)	(97)
Taxation paid	25.2	(1 904)	(146)
Dividends paid		(1 531)	–
Net cash from operating activities		2 776	(1 584)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2 671)	(3 119)
Proceeds on disposal of property, plant and equipment		1 809	7
Acquisition of subsidiaries, net of cash acquired	3	–	4 635
Net cash from investing activities		(862)	1 523
Cash flows from financing activities			
Net proceeds from the issue of share capital	25.3	1 208	12 296
Decrease/(increase) in long-term loans receivable		162	(164)
(Decrease)/increase in interest-bearing borrowings		(1 831)	206
Repayment of loans from Afgem Limited		–	(5 368)
Net cash from financing activities		(461)	6 970
Net increase in cash and cash equivalents		1 453	6 909
Translation difference in opening cash balances		(64)	–
Cash and cash equivalents at beginning of the year/period		6 909	–
Cash and cash equivalents at end of the year/period	15	8 298	6 909

1. ACCOUNTING POLICIES

Tanzanite One Limited (the Company) is a company domiciled in Bermuda. The consolidated financial statements for the year ended 31 December 2005 comprise of the Company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the directors on 20 June 2006.

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").

The Group has elected not to early adopt the following standards which are effective for periods commencing as indicated below:

	Period of commencement
• IFRS 6 Exploration for and evaluation of mineral resources	1 January 2006
• IFRS 7 Financial instruments disclosure	1 January 2007
• IFRIC 4 Determining an arrangement contains a lease	1 January 2006

An explanation of how the adoption of the following standards in the current year has affected the reported financial position, financial performance and cash flows of the Group is provided in note 32:

- IAS 21 (Revised) The effects of foreign exchange rates; and
- IFRS 2 Share based payments.

1.2 Basis of preparation

The consolidated financial statements are presented in United States Dollar ("US$"), rounded to the nearest thousand, and are prepared on the historical cost basis.

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.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

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

1.3 Basis of consolidation

1.3.1 Subsidiaries

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

1.3.2 Transactions eliminated on consolidation

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

1. ACCOUNTING POLICIES (continued)

1.4 Foreign currency

1.4.1 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US$ 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 Foreign statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to US$ at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to US$ at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

1.4.3 Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to a foreign currency translation reserve. They are released into the income statement upon disposal.

1.5 Derivative financial instruments

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

1.6 Property, plant and equipment

1.6.1 Owned assets

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

Where parts of an item of property, plant and equipment have 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 are stated at an amount equal to the lower of their 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 1.18.2.

1.6.3 Subsequent costs

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

1.6.4 Depreciation

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

The useful lives are as follows:

• aircraft	7 – 18 years
• computer and other equipment	3 years
• cutting and gemmological equipment	4 years
• development costs	18 years
• earthmoving equipment	4 years
• furniture, fittings and improvements to leased premises	6 years
• infrastructure and surface buildings	12 years
• plant, machinery and mining equipment	4 years
• motor vehicles	5 years
• office equipment	6 years
• mining licences	18 years
• pre-production expenditure	18 years
• research and development costs capitalised	5 years

1. ACCOUNTING POLICIES (continued)

1.6 Property, plant and equipment (continued)

1.6.4 Depreciation

Aircraft

Depreciation is provided for over the estimated life of the aircraft's three major components: the engine, airframe and undercarriage, based on the current usage of the aircraft. The engine and undercarriage are depreciated over the remaining hours prior to a major overhaul being required. The airframe is depreciated over the anticipated life of the airframe, currently 14.8 years.

Development costs, mining licence and pre-production expenditure

Feasibility, development, exploration and all other costs relating to the development of a shaft are capitalised until technical feasibility has been achieved. Directly attributable overheads incurred in the holding company have also been capitalised to pre-production expenditure. When commercial production commences, these costs will be amortised over the life of the shaft on the unit of production method or over the period of the mining licence, whichever is shorter.

Mining licence

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

Assets under construction

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

Residual value

The residual value is reassessed annually.

1.7 Intangible assets

1.7.1 Brands

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

1.7.2 Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the intangible assets unless such lives are indefinite. Intangible assets are amortised from the date they are available for use.
The estimated useful life is as follows:

- brands 18 years

1.7.3 Subsequent expenditure

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

1.8 Inventories

Inventories are carried 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 gemstones 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 average weighted purchase prices.

The cost of inventory 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.

Non-current inventory comprises specimen stock 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. ACCOUNTING POLICIES (continued)

1.9 Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

1.10 Cash and cash equivalents

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

1.11 Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. 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.

1.11.1 Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, 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. Receivables with a short duration are not discounted.

1.11.2 Reversal of impairment

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

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

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

1.12 Long-term loans receivable

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

1.13 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 with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

1. ACCOUNTING POLICIES (continued)

1.14 Employee benefits

1.14.1 Share-based payment transactions

The Group share option plan allows Group employees and consultants to acquire shares in the Company. The fair value of options granted is recognised as an employee cost 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.

1.15 Provisions

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

1.15.1 Environmental rehabilitation

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

1.16 Trade and other payables

Trade and other payables are stated at amortised cost.

1.17 Revenue

1.17.1 Goods sold

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and also continuing management involvement with the goods.

1.17.2 Marketing fund income

Marketing fund income represents receipts from rough customers in respect of marketing. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs.

1.18 Expenses

1.18.1 Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

1.18.2 Finance lease payments

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

1.18.3 Net financing income

Net financing income comprises interest payable on borrowings calculated using the effective interest rate method and interest received comprises interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

1. ACCOUNTING POLICIES (continued)

1.19 Income tax

Income tax on the profit or loss for the year 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 substantially 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 substantially enacted at the balance sheet date.

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

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

1.20 Segment reporting

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

2. 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; and
- 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 company generating the revenue. Segment assets are based on the geographical location of the assets.

	Rough US$'000	Cut and polished and jewellery US$'000	Total US$'000
2. SEGMENT REPORTING (continued)			
Business segments			
12 months to 31 December 2005			
Total revenue	62 324	10 783	73 107
Intra-group revenue elimination	(28 784)	(3 233)	(32 017)
Revenue from external customers	33 540	7 550	41 090
Segment result	12 878	7	12 885
Net financing income			39
Income tax expense			(3 077)
Minority interest			(73)
Net profit for the year attributable to equity holders of the parent			9 774
Segment assets	48 530	8 340	56 870
Segment liabilities	6 183	1 201	7 384
Capital expenditure	2 490	11	2 501
Unallocated capital expenditure			170
Impairment losses reversed			23
Impairment losses			(1)
Cashflow from operating activities	6 748	(3 972)	2 776
Cashflow from investing activities	(2 479)	1 617	(862)
Cashflow from financing activities	628	(1 089)	(461)
7 months to 31 December 2004			
Total revenue	23 359	4 642	28 001
Intra-group revenue elimination	(11 153)	(680)	(11 833)
Revenue from external customers	12 206	3 962	16 168
Segment result	2 226	799	3 025
Net financing income			116
Income tax expense			(220)
Minority interest			(6)
Net profit for the period attributable to equity holders of the parent			2 915
Segment assets	33 170	14 881	48 051
Segment liabilities	5 644	1 587	7 231
Capital expenditure	19 145	599	19 744
Unallocated capital expenditure			1 765
Impairment losses			(233)
Cashflow from operating activities	804	(2 388)	(1 584)
Cashflow from investing activities	(1 713)	3 236	1 523
Cashflow from financing activities	(100)	7 070	6 970

	Tanzania US$'000	United Kingdom US$'000	Mauritius US$'000	South Africa US$'000	Total US$'000
2. SEGMENT REPORTING (continued)					
Geographical segments					
12 months to 31 December 2005					
Total revenue	28 582	1 841	33 064	9 620	73 107
Intra-group revenue elimination					(32 017)
Revenue from external customers					41 090
Segment assets	24 678	3 942	16 580	9 596	54 796
Unallocated assets					2 074
					56 870
Segment liabilities	5 778	51	75	1 433	7 337
Unallocated liabilities					47
					7 384
Capital expenditure	2 489	5	–	135	2 629
Unallocated capital expenditure					42
Impairment losses	–	–	–	(1)	(1)
Impairment losses reversed	–	–	–	23	23
Cashflow from operating activities	9 788	(3 326)	(3 040)	(646)	2 776
Cashflow from investing activities	(2 479)	(4)	–	1 621	(862)
Cashflow from financing activities	628	–	–	(1 089)	(461)
7 months to 31 December 2004					
Total revenue	11 011	–	13 375	3 615	28 001
Intra-group revenue elimination					(11 833)
Revenue from external customers					16 168
Segment assets	16 765	–	6 833	19 876	43 474
Unallocated assets					4 577
					48 051
Segment liabilities	1 687	–	829	4 656	7 172
Unallocated liabilities					59
					7 231
Capital expenditure	15 392	–	2	5 868	21 262
Unallocated capital expenditure					247
Impairment losses				(233)	(233)
Cashflow from operating activities	2 424	–	(1 620)	(2 388)	(1 584)
Cashflow from investing activities	(1 711)	(12)	(2)	3 248	1 523
Cashflow from financing activities	(100)	–	–	7 070	6 970

3. ACQUISITION OF SUBSIDIARIES

On 1 June 2004, the Company, through its subsidiary undertaking TanzaniteOne (SA) Limited, acquired the whole of the issued share capital of:

- TanzaniteOne Mining Limited (including 75% interest in TanzaniteOne Trading Limited);
- The Tanzanite Company (Proprietary) Limited (including 100% interest in Afgem Logistics (Proprietary) Limited); and
- Afgem International Limited (including 100% interest in TanzaniteOne Marketing Limited).

In addition the Company acquired certain assets, liabilities and commitments from Afgem Limited.

During the period 1 June 2004 to 31 December 2004 the acquired subsidiaries contributed net profit of US$4,430,327 to the consolidated profit for the period.

The acquisition was accounted for using the purchase method of accounting.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Acquisition 1 June 2004 US$'000
Property, plant and equipment	18 391
Intangible assets	2 000
Deferred tax assets	487
Inventories	8 151
Income tax receivable	431
Trade and other receivables	1 991
Cash and cash equivalents	4 635
Minority interest	(192)
Interest-bearing borrowings	(2 402)
Long-term loans	(5 368)
Provisions	(82)
Deferred tax liabilities	(2 338)
Trade and other payables	(2 303)
Net assets and liabilities acquired	23 401
Consideration settlement	(23 401)
• Issue of Tanzanite One Limited common shares	(23 400)
• Issue of TanzaniteOne (SA) Limited A class shares	(1)
Cash and cash equivalents acquired	(4 635)
Net cash acquired	(4 635)

		US$'000 12 months to 31 Dec 2005	US$'000 7 months to 31 Dec 2004
4.	REVENUE		
	Sale of goods	40 257	16 168
	Marketing fund income	833	–
		41 090	16 168
5.	OPERATING PROFIT		
	Operating profit includes:		
	Auditors' remuneration		
	– audit fees	111	86
	– other services	32	28
	Royalties	1 435	442
	Depreciation of property, plant and equipment	1 281	986
	Amortisation of brand	176	–
	Impairment loss on property, plant and equipment	1	233
	Reversal of impairment loss on property, plant and equipment	(23)	–
	Profit on disposal of property, plant and equipment	(9)	(5)
	Net foreign exchange difference	627	(317)
	Directors' emoluments and consulting fees	1 303	345
	Operating leases	245	118
	Donations to Tanzanian political party	325	–
	Salaries and wages	4 417	1 485
	Share-based payments	365	139
6.	NET FINANCING INCOME		
	Interest income	373	213
	Finance cost	(334)	(97)
		39	116
7.	INCOME TAX EXPENSE		
	Current tax expense		
	Current year	2 147	187
	Prior year overprovision	(24)	–
	Secondary tax on companies	60	–
		2 183	187
	Deferred tax expense		
	Origination and reversal of temporary differences	894	33
		894	33
	Total income tax expense in the income statement	3 077	220

		% 12 months to 31 Dec 2005	% 7 months to 31 Dec 2004
7.	INCOME TAX EXPENSE (continued)		
	Reconciliation of effective tax rate		
	Tax rate applicable to the Group's primary operating location	30.0	30.0
	Profit before tax (US$'000)	12 924	3 141
	Current year's charge as % of profit before tax	23.8	7.0
	Non-deductible expenses	9.6	(21.7)
	Effect of tax rates in foreign jurisdictions	5.4	23.6
	Deferred tax assets not recognised	(2.4)	(2.4)
	Effect of tax losses utilised	23.0	–
	Overprovision in prior year	0.4	–
	Effect of secondary tax on companies	(0.5)	–
	Other allowances	(29.3)	23.5
	Group's primary operating tax rate	30.0	30.0

		Cost US$'000	Accumulated depreciation and impairment losses US$'000	Foreign exchange movement US$'000	Carrying amount US$'000
8.	PROPERTY, PLANT AND EQUIPMENT				
	31 December 2005				
	Owned				
	Computer and other equipment	127	(54)	–	73
	Cutting and gemmological equipment	174	(77)	3	100
	Development costs	7 188	(334)	–	6 854
	Earthmoving equipment	161	(14)	–	147
	Furniture, fittings and improvements to leased premises	135	(46)	2	91
	Infrastructure and surface buildings	1 751	(289)	–	1 462
	Plant, machinery and mining equipment	4 550	(525)	1	4 026
	Motor vehicles	117	(49)	–	68
	Office equipment	102	(28)	1	75
	Mining licence	3 985	(421)	2	3 566
	Pre-production expenditure	3 444	(166)	–	3 278
	Development costs capitalised	9	(6)	–	3
	Assets under construction	126	–	–	126
	Total owned	21 869	(2 009)	9	19 869
	Leased				
	Computer and other equipment	33	(11)	–	22
	Motor vehicles	19	(5)	1	15
	Office equipment	10	(6)	–	4
	Total leased	62	(22)	1	41
	Total property, plant and equipment	21 931	(2 031)	10	19 910

		Cost US$'000	Accumulated depreciation and impairment losses US$'000	Foreign exchange movement US$'000	Carrying amount US$'000
8.	PROPERTY, PLANT AND EQUIPMENT (continued)				
	31 December 2004				
	Owned				
	Computer and other equipment	85	(24)	2	63
	Cutting and gemmological equipment	167	(33)	18	152
	Development costs	5 342	(62)	–	5 280
	Earthmoving equipment	4	(4)	–	–
	Furniture, fittings and improvements to leased premises	102	(16)	11	97
	Infrastructure and surface buildings	1 561	(124)	–	1 437
	Plant, machinery and mining equipment	3 447	(354)	5	3 098
	Motor vehicles	109	(30)	1	80
	Office equipment	78	(10)	8	76
	Mining licence	3 985	(99)	504	4 390
	Pre-production expenditure	3 444	(63)	–	3 381
	Development costs capitalised	9	(2)	1	8
	Assets under construction	955	–	–	955
	Total owned	19 288	(821)	550	19 017
	Leased				
	Aircraft	2 190	(395)	265	2 060
	Motor vehicles	19	(1)	3	21
	Office equipment	10	(2)	1	9
	Total leased	2 219	(398)	269	2 090
	Total property, plant and equipment	21 507	(1 219)	819	21 107

	US$'000 31 Dec 2005	US$'000 31 Dec 2004
Balance at beginning of the year	21 107	–
Acquisitions	2 671	21 509
– Acquisition of subsidiaries	–	18 390
– Acquisitions subsequent to acquisition of subsidiaries	2 671	3 119
Disposals	(1 800)	(2)
Depreciation charge for the year	(1 281)	(986)
Effect of movements in foreign exchange	(809)	819
Impairment loss (see note below)	(1)	(233)
Reversal of impairment loss (see note below)	23	–
Balance at end of the year/period	19 910	21 107

Impairment loss and subsequent reversal

During the prior year, an impairment loss was recognised against the Group's aircraft as the aircraft was at that stage to be sold subsequent to 31 December 2004 for an amount lower than the carrying value at that time.

The Group's aircraft was sold later than anticipated, resulting in additional depreciation for one month being charged to the income statement and the subsequent reversal of a portion of the impairment loss recognised in the prior period.

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 2005, the carrying amount of leased equipment was US$41,188 (2004: US$1,802,084). The leased equipment secures the lease obligations (refer note 22).

Security

Except for the leased equipment, there are no restrictions on title and no property, plant and equipment has been pledged as security for liabilities.

		Cost US$'000	Amortisation US$'000	Carrying value US$'000
9.	INTANGIBLE ASSETS			
	31 December 2005			
	Brands	2 000	(176)	1 824
	31 December 2004			
	Brands	2 000	–	2 000

		US$'000 2005	US$'000 2004
	Brands		
	Balance at beginning of the year	2 000	–
	Acquisitions through business combination	–	2 000
	Amortisation for the year	(176)	–
	Balance at end of the year	1 824	2 000
	Management reassessed the various brand names to have a finite life of 18 years, compared to an indefinite life assessed in the prior year.		
10.	LONG-TERM LOANS RECEIVABLE		
	Loan to Afgem Limited	2	99
	Loan to Abdulakim Mulla (minority shareholder in Tanzanite One Trading Limited)	–	65
		2	164
	The loans are unsecured, interest free and have no fixed terms of repayment.		

	US$'000 2005	US$'000 2004
11. DEFERRED TAX ASSETS AND LIABILITIES		
Recognised deferred tax assets and liabilities		
Deferred tax assets comprise the following temporary differences:		
Provisions	26	16
Inventories	212	–
Prepayments	(8)	(5)
Property, plant and equipment	222	13
Foreign exchange differences	245	(153)
Assessed losses	529	331
Deferred tax assets	1 226	202
Deferred tax liabilities comprise the following temporary differences:		
Property, plant and equipment	(4 154)	(3 409)
Provisions	9	10
Inventories	–	498
Assessed losses	–	867
Foreign exchange differences	–	(324)
Prepayments	–	(33)
Deferred tax liabilities	(4 145)	(2 391)
Net deferred tax liability	(2 919)	(2 189)
Unrecognised deferred tax assets		
Tax losses	2 220	4 126

Deferred tax assets have not been recognised in respect of the tax losses in Afgem Logistics (Proprietary) 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.

	Balance at 1 January 2005 US$'000	Recognised in income US$'000	Foreign exchange movement US$'000	Balance at 31 December 2005 US$'000
Movement in temporary differences				
Inventories	498	(286)	–	212
Provisions	26	9	–	35
Foreign exchange differences	(477)	722	–	245
Assessed losses	1 198	(669)	–	529
Property, plant and equipment	(3 396)	(700)	164	(3 932)
Prepayments	(38)	30	–	(8)
	(2 189)	(894)	164	(2 919)

		Acquired at 1 June 2004 US$'000	Recognised in income US$'000	Foreign exchange movement US$'000	Balance at 31 December 2004 US$'000
11.	DEFERRED TAX ASSETS AND LIABILITIES (continued)				
	Movement in temporary differences (continued)				
	Inventories	–	498	–	498
	Provisions	–	26	–	26
	Foreign exchange differences	3	(480)	–	(477)
	Assessed losses	1 654	(456)	–	1 198
	Translation differences	–	305	(305)	–
	Property, plant and equipment	(3 508)	112	–	(3 396)
	Prepayments	–	(38)	–	(38)
		(1 851)	(33)	(305)	(2 189)

		US$'000 2005	US$'000 2004
12.	INVENTORIES		
	Non-current		
	Rough gemstone specimens	135	–
	Show jewellery	70	–
		205	–
	Current		
	Rough gemstones	6 194	4 875
	Cut and polished gemstones	2 844	4 827
	Jewellery	4 531	2 244
	Consumables	697	676
		14 266	12 622
	Inventories consist of inventories held in the following currencies:		
	United States Dollars	6 095	4 352
	South African Rand	5 133	7 220
	Tanzanian Shillings	1 177	1 050
	British Pounds Sterling	2 066	–
	No inventories have been pledged as security for liabilities.		
13.	INCOME TAX RECEIVABLE AND PAYABLE		
	Income tax receivable	278	663
	Income tax payable	(167)	(273)
		111	390
	The net income tax receivable represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments.		
14.	TRADE AND OTHER RECEIVABLES		
	Trade and other receivables	10 861	4 384
	Trade and other receivables consist of balances receivable in the following currencies:		
	United States Dollars	6 693	1 934
	South African Rand	2 095	1 705
	Tanzanian Shillings	884	211
	British Pounds Sterling	1 189	534

		US$'000 2005	US$'000 2004
15.	CASH AND CASH EQUIVALENTS		
	Bank balances	2 801	2 403
	Call deposits	5 497	4 506
	Cash and cash equivalents	8 298	6 909
	ABSA Bank Limited has provided guarantees to Sentinel Mining Industry Retirement Fund for US$18,496 in respect of the rental agreement for the Melrose Arch premises and US$440 to the South African Customs and Excise Authority in respect of the Tanzanite Company (Proprietary) Limited's bond store.		
	Cash and cash equivalents consist of balances receivable in the following currencies:		
	United States Dollars	5 322	5 204
	South African Rand	2 327	1 451
	Tanzanian Shillings	43	153
	British Pounds Sterling	606	101
16.	CAPITAL AND RESERVES		
16.1	Common share capital		
	Authorised		
	166 666 667 common shares of US$0.0003	50 000	50 000
	Issued		
	71 588 397 (2004: 70 149 113) common shares of US$0.0003	21	21
	Reconciliation of number of common shares in issue	Number of shares 2005	Number of shares 2004
	Shares in issue at beginning of the year/period	70 149 113	120 000 000
	Shares issued in terms of warrants exercised	699 880	–
	Shares issued for professional fees	196 597	–
	3 for 1 consolidation of common shares	–	(80 000 000)
	Repurchase of shares	–	(40 000 000)
	Shares issued pursuant to acquisition of tanzanite business	–	57 609 839
	Shares issued pursuant to advisory agreement relating to the admission to AIM	–	473 333
	Shares issued pursuant to placing	–	11 904 761
	Shares issued pursuant to share option plan	542 807	161 180
	Shares in issue at end of the year/period	71 588 397	70 149 113

		US$'000 2005	US$'000 2004
16.	CAPITAL AND RESERVES (continued)		
16.2	A class share capital		
	Authorised		
	66 666 667 A class shares of ZAR0.0003	3	3
	Issued		
	20 122 304 (2004: 26 010 934) A class shares of ZAR0.0003	1	1
	0 (2004: 2 820 938) A class shares held by TanzaniteOne following acceptance by South African shareholders of the TanzaniteOne offer	–	–
		1	1

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

	Number of shares 2005	Number of shares 2004
Reconciliation of A class share capital		
Shares in issue at beginning of the year/period	26 010 934	–
Issued to South African residents upon acquisition of the tanzanite business	–	25 849 754
Shares issued pursuant to share option plan	542 807	161 180
Share buy back	(6 431 437)	–
Shares in issue at end of the year/period	20 122 304	26 010 934

Rights attaching to A class shares

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

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

1. if the TanzaniteOne common shares are consolidated or subdivided, the same will apply, *mutatis mutandis*, to the TanzaniteOne SA A class shares;
2. if any rights issue is implemented by TanzaniteOne, TanzaniteOne SA will automatically have a rights issue in respect of the TanzaniteOne SA A class shares on identical terms to the rights issue implemented by TanzaniteOne, which will include but not be limited to the price per rights issue share and ratio of rights shares to existing 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 A class shares as equals their existing number of TanzaniteOne SA A class shares, multiplied by the common 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.

16. CAPITAL AND RESERVES (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.

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

16. CAPITAL AND RESERVES (continued)

Rights attaching to A class shares (continued)

At every meeting of the holders of the TanzaniteOne SA A class shares the provisions of the articles of TanzaniteOne SA relating to general meetings of holders of ordinary shares shall apply *mutatis mutandis* except that a quorum at any such general meeting of the holders of the A shares shall be a person or persons holding or representing by proxy at least 25% 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 arrear) 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 effected 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 shareholders 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 arrear) 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. 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.

	US$'000 2005	US$'000 2004
17. SHARE PREMIUM		
Balance at beginning of the year/period	35 675	–
Arising on acquisition of tanzanite business		
– common shares	–	16 329
– A class shares	–	13 064
Arising on issue of shares in terms of the fundraising prior to admission to the AIM	–	9 044
Arising on issue of shares pursuant to share option plan	297	–
Arising on issue of shares in terms of the placing agreement	911	–
Share issue expenses charged against share premium	–	(2 762)
Balance at end of the year/period	36 883	35 675

18. SHARE OPTIONS OUTSTANDING

Share-based payments

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

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

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

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

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

	2005 Weighted average exercise price (pence/share)	2005 Number of options	2004 Weighted average exercise price (pence/share)	2004 Number of options
Outstanding at the beginning of the year/period	44	4 559 611	–	–
Forfeited during the year/period	(27)	(142 819)	(26)	(67 435)
Exercised during the year/period	(31)	(542 807)	(27)	(161 180)
Granted during the year/period	69	585 000	43	4 788 226
Outstanding at the end of the year/period	59	4 458 985	44	4 559 611
Exercisable at the end of the year/period		1 354 239		435 717

The options outstanding at 31 December 2005 have an exercise price in the range of ZAR3.27 to ZAR7.59 (2004: ZAR2.94 to ZAR7.59) and a weighted average contractual life of 5.56 years (2004: 9.71 years). The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

Fair value of share options and assumptions	2005 Senior employees	2004 Senior employees
Fair value at measurement 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	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.

Share options are granted under a three-year service condition.

		US$'000 2005	US$'000 2004
19.	FOREIGN CURRENCY TRANSLATION RESERVE		
	Balance at beginning of the year/period	1 871	–
	Translation of foreign operations	(1 223)	1 871
	Balance at end of the year/period	648	1 871
	The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations.		
20.	MINORITY INTEREST		
	25% interest in the equity of TanzaniteOne Trading Limited	182	198
	25% interest in the profit for the year/period of TanzaniteOne Trading Limited	73	6

21. EARNINGS PER SHARE

21.1 Basic earnings per share

The calculation of basic earnings per common share at 31 December 2005 was based on the profit attributable to common shareholders of US$9,774,000 (2004: US$2,915,000) and a weighted average number of common shares outstanding during the year ended 31 December 2005 of 70,373,129 (2004: 51,335,308) calculated as follows:

	US$'000 2005	US$'000 2004
Profits attributable to common shareholders	9 774	2 915
Weighted average number of common shares	Number shares	Number of shares
Effect of common shares on 1 January 2005	70 149 113	–
Effect of common shares on 1 June 2004	–	23 561 644
Effect of common shares issued on 4 August 2004	–	23 295 782
Effect of common shares issued at listing on 21 August 2004	–	4 464 231
Effect of common shares issued per share option plan on 30 November 2004	8 423	13 651
Effect of common shares issued on 24 June 2005	116 966	–
Effect of common shares issued on 3 November 2005	66 030	–
Effect of common shares issued on 14 December 2005	32 597	–
Weighted average number of common shares	70 373 129	51 335 308
Basic earnings per common share (US cents/share)	13.89	5.68

21.2 Diluted earnings per common share

The calculation of diluted earnings per share at 31 December 2005 was based on the profit attributable to common shareholders of US$9,774,000 (2004: US$2,915,000) and a weighted average number of common shares outstanding during the year ended 31 December 2005 of 70,373,129 (2004: 51,335,308), a weighted average number of share options outstanding during the year ended 31 December 2005 of 4,467,711 (2004: 1,574,591) and a weighted average number of share warrants outstanding during the year ended 31 December 2005 of 317,343 (2004: Nil) calculated as follows:

	2005 Number of shares	2004 Number of shares
Weighted average number of common shares		
Effect of common shares on 1 January 2005	70 149 113	–
Effect of common shares on 1 June 2004	–	23 561 644
Effect of common shares issued on 4 August 2004	–	23 295 782
Effect of common shares issued at listing on 21 August 2004	–	4 464 231
Effect of common shares issued per share option plan on 30 November 2004	8 423	13 651
Effect of common shares issued on 24 June 2005	116 966	–
Effect of common shares issued on 3 November 2005	66 030	–
Effect of common shares issued on 14 December 2005	32 597	–
Weighted average number of common shares	70 373 129	51 335 308

		Number of options 2005	Number of options 2004
21.	EARNINGS PER SHARE (continued)		
21.2	Diluted earnings per common share continued		
	Weighted average number of common shares options		
	Effect of options issued on 1 January 2004	4 559 611	–
	Effect of options issued on 1 June 2004	–	1 023 953
	Effect of options issued at listing on 21 August 2004	–	516 204
	Effect of options issued on 23 December 2004	–	34 434
	Effect of options issued on 16 December 2005	24 041	–
	Effect of options exercised	(115 941)	–
	Weighted average number of share options	4 467 711	1 574 591
		Number of warrants	Number of warrants
	Effect of warrants issued	333 642	–
	Effect of options exercised	(16 299)	–
	Weighted average number of share warrants	317 343	–
	Total weighted average number of common shares, share option and share warrants for purposes of diluted earnings per share calculation	75 158 183	52 909 899
	Diluted earnings per common share (US cents/share)	13.00	5.51
21.3	Dividends per share		
	Total dividends paid during the year (US cents/share)	2	–
	On 6 April 2006, the following dividends were declared by the directors. The dividends have not been provided for. 5 US cents (2004: 1 US cent) per common share	3 579	701
21.4	Net asset value per common share		
	Net assets	49 486	40 820
	Net asset value per common share (US cents/share)	69.13	58.19

		US'000 2005	US$'000 2004
22.	INTEREST-BEARING BORROWINGS		
22.1	African Development Bank and the Eastern and Southern African Trade and Development Bank	–	100
	Less: Current portion transferred to current liabilities	–	(100)
		–	–
	The loan is payable to the above financial institution pursuant to an agreement between the financial institution and the Company's subsidiary, TanzaniteOne Mining Limited, and will be settled out of the annual gross profit, defined in the agreement, at 5% per annum for five years subject to a minimum payment of US$100,000 per annum. Tanzanite One Limited guaranteed the loan. Interest at 15% per annum will only be charged on the loan, should the repayment terms not be met. The loan is unsecured.		
22.2	Stannic instalment sale agreement	49	33
	Less: Current portion transferred to current liabilities	(11)	(4)
	Balance payable between one and five years	38	29
	The Stannic instalment sale agreement is secured over certain property, plant and equipment with a carrying amount of US$41,188 (2004: US$7,605), bearing interest at varying rates and is repayable over a period of five years to 2006.		

		US$ '000 2005	US$ '000 2004
22.	INTEREST-BEARING BORROWINGS (continued)		
22.3	Stannic loan agreement	–	2 475
	Less: Current portion transferred to current liabilities	–	(355)
	Balance payable between one and five years	–	2 120
	The Stannic loan agreement is secured over the aircraft with a book value of US$1,794,479, bearing interest at the prime overdraft rate less 3.3% and is currently repayable over a period of five years to 2006. The loan was repaid in February 2005 after the sale of the aircraft.		
22.4	NBC Bank loan agreement	728	–
	Less: Current portion transferred to current liabilities	(96)	–
	Balance payable between one and five years	632	–
	The NBC Bank loan agreement is secured over plant and equipment with a book value of $785,283, bearing interest at 6% per annum for the first year and thereafter the rate shall be based on the 1 year Libor rate plus 1.5% with a floor of 6% and is currently repayable in annual instalments of $14,065 commencing 1 April 2006.		
	Total interest-bearing borrowings – non-current	670	2 149
	Non-current interest-bearing – current	107	459
23.	PROVISION FOR ENVIRONMENTAL REHABILITATION		
	Balance at beginning of year/period	82	–
	Environmental rehabilitation provision acquired	–	82
	Balance at end of the year/period	82	82
	Estimated liability on closure	82	82
	An Environmental Impact Assessment was conducted by an independent party during the 2003 financial year of TanzaniteOne Mining Limited and a management plan based on the findings was generated.		
24.	TRADE AND OTHER PAYABLES		
	Trade and other payables	2 213	1 877
	Trade and other payables consist of balances payable in the following currencies:		
	United States Dollars	82	893
	South African Rand	1 351	460
	Tanzanian Shillings	775	512
	British Pounds Sterling	5	12
25.	NOTES TO THE CASH FLOW STATEMENT		
25.1	Cash generated from/(utilised) in operations		
	Operating profit	12 885	3 025
	Adjusted for:		
	• Depreciation of property, plant and equipment	1 281	986
	• Amortisation of brand	176	–
	• Impairment of property, plant and equipment	1	233
	• Reversal of impairment of property, plant and equipment	(23)	–
	• Profit on disposal of property, plant and equipment	(9)	(5)
	• Equity settled share-based payment expenses	365	139
	• Net foreign exchange difference	(514)	1 357
	Operating income before working capital changes	14 162	5 735
	Inventories	(1 849)	(4 471)
	Trade and other receivables	(6 477)	(2 393)
	Trade and other payables	336	(425)
		6 172	(1 554)

		US$ '000 2005	US$ '000 2004
25.	NOTES TO THE CASH FLOW STATEMENT (continued)		
25.2	Taxation paid		
	Income tax receivable at 1 January	663	–
	Income tax payable at 1 January	(273)	–
	Income tax receivable acquired	–	431
	Current taxation charge	(2 183)	(187)
	Income tax receivable at 31 December	(278)	(663)
	Income tax payable at 31 December	167	273
		(1 904)	(146)
25.3	Net proceeds from the issue of share capital		
	Issue of common share capital	911	25 394
	Issue of A class share capital	297	13 065
	Paid for the acquisition of the tanzanite business	–	(23 401)
	Share issue expenses paid	–	(2 762)
		1 208	12 296

26. FINANCIAL INSTRUMENTS

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

26.1 Concentration of credit risk

The Group's financial instruments do not represent a concentration of credit risk as the Group deals with a number of reputable banks. Credit risk related to trade receivables is not significant. Trade receivables are regularly monitored and assessed and where necessary an adequate level of provision is maintained.

26.2 Foreign currency and commodity price risk

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

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

26.3 Interest rate and liquidity risk

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

Interest rates used for determining fair value

The interest rates used are as follows:	2005	2004
Long-term loans receivable	0%	0%
Trade and other receivables	2.0%	2.0%
Interest-bearing borrowings	6.0 – 9.0%	6.0 – 9.0%
Trade and other payables	0%	0%

26.4 Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

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

	Note	Carrying amount US$'000 2004	Fair value US$'000 2004
Long-term loans receivable	10	164	164
Trade and other receivables	14	4 384	4 384
Cash and cash equivalents	15	6 909	6 909
Interest-bearing borrowings	22	2 608	2 608
Trade and other payables	24	1 877	1 877

26. FINANCIAL INSTRUMENTS (continued)

Trade and other receivables/payables

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

Interest-bearing borrowings

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

27. COMMITMENTS

27.1 Capital commitments

No capital commitments existed at balance sheet date (2004: US$ nil).

27.2 Finance lease commitments

Finance lease liabilities are payable as follows:

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

	Minimum lease payments US$'000 2004	Interest US$'000 2004	Principal US$'000 2004
Less than one year	649	(190)	459
Between two and five years	2 225	(76)	2 149
More than five years	–	–	–
	2 874	(266)	2 608

27.3 Operating lease commitments

All operating lease rentals are cancellable.

28. SUBSEQUENT EVENTS

The Group initially appointed The Tanzanite Company as one of its Sightholders. It has since become apparent that this arrangement may be perceived to present a conflict of interest, hence the Group is considering divesting the Company.

29. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 30), directors and executive officers.

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 immediate relatives control 49% of the voting shares of Tanzanite One Limited.

	US$ 12 months to 31 Dec 2005	US$ 7 months to 31 Dec 2004
Sales commission paid to C Nunn (spouse of former Chief Executive Officer)	471 324	314 872
Directors' emoluments for the year/period		
Services as directors of the Company		
– *Non-executive directors*		
Fees		
C Curtis (resigned)	–	27 000
Michael Adams	23 825	7 292
Ami Mpungwe	13 614	4 167
Nicholas Sibley	13 614	4 167
Edward Nealon	10 211	3 125
Gustav Von Opel (resigned)	10 211	3 125
Bruce Sutherland (deceased)	15 000	7 500
	86 475	56 376

		US$ 12 months to 31 Dec 2005	US$ 7 months to 31 Dec 2004
29.	RELATED PARTIES (continued)		
	Directors' emoluments for the year (continued)		
	Services as directors of the Company		
	– *Executive directors*		
	Mike Nunn	45 689	24 267
	Ian Harebottle	30 643	16 275
	Mark Summers	26 524	14 088
		102 856	54 630
	Services as directors of the subsidiaries		
	– *Non-executive directors*		
	Ami Mpungwe	16 173	17 500
	– *Executive directors*		
	Ian Harebottle		
	– Salary	111 140	64 983
	– Bonus	34 086	–
	– Share options	335 447	–
		480 673	64 983
	Consulting fees paid to Amari Management Services (Proprietary) Limited in respect of:		
	– Mike Nunn	233 157	96 019
	– Mark Summers	135 640	55 634
		368 797	151 653
	Payments received in respect of bonus:		
	– Mike Nunn	50 865	–
	– Mark Summers	29 506	–
		80 371	–
	Payments received in respect of share options for Mark Summers	167 724	–
	Professional fees paid to MAA Securities Limited, a company of which Michael Adams is a director	100 000	–

30. GROUP ENTITIES

Significant subsidiaries	Country of incorporation	Products/ Services	Functional currency	2005 Share holding %	2004 Share holding %
The Tanzanite Company (UK) Limited	Great Britain	Polished gemstone and jewellery sales	GBP	100%	100%
TanzaniteOne (SA) Limited	Republic of South Africa	Management services	ZAR	100%	100%
The Tanzanite Company (Proprietary) Limited	Republic of South Africa	Polished gemstone and jewellery sales	ZAR	100%	100%
Afgem Logistics (Proprietary) Limited	Republic of South Africa	Logistical support/ Aircraft owner	ZAR	100%	100%
Afgem International Limited	Republic of Mauritius	Holding company	US$	100%	100%
TanzaniteOne Mauritius Limited (previously TanzaniteOne Marketing Limited)	Republic of Mauritius	Rough and polished tanzanite sales	US$	100%	100%
TanzaniteOne Mining Limited	United Republic of Tanzania	Tanzanite mining	US$	100%	100%
TanzaniteOne Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	US$	75%	75%
Tanzanite Foundation Limited	Nevis	Tanzanite marketing	US$	100%	–

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

31. CONTINGENT LIABILITIES

No contingent liabilities existed at year-end (2004: US$ nil).

32. EXPLANATION OF ADOPTION OF IFRS STANDARDS EFFECTIVE 2005 AND OTHER ADJUSTMENTS

As stated in note 1, the Group elected in 2004 not to early adopt the following standards:

- IAS 21 (Revised) The effects of foreign exchange rates; and
- IFRS 2 Share-based payments.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005 and the comparative information presented in these financial statements for the year ended 31 December 2004.

In preparing its balance sheet as at 31 December 2004, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with its previous accounting policies. An explanation of how the adoption of the above standards has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of balance sheet at 31 December 2004

	Note	As previously reported US$'000	Impact of adoption US$'000	Restated US$'000
Assets				
Non-current assets				
Property, plant and equipment	32.1	20 288	819	21 107
Intangible assets		2 000	–	2 000
Long-term loans		164	–	164
Deferred tax assets	32.1	274	(72)	202
Total non-current assets		22 726	747	23 473
Current assets				
Inventories		12 622	–	12 622
Income tax receivable		663	–	663
Trade and other receivables		4 384	–	4 384
Cash and cash equivalents		6 909	–	6 909
Total current assets		24 578	–	24 578
Total assets		47 304	747	48 051
Equity				
Issued share capital		22	–	22
Share premium		35 675	–	35 675
Share options outstanding	32.2	–	139	139
Foreign currency translation reserve	32.1	–	1 871	1 871
Retained earnings	32.1	4 411	(1 496)	2 915
Total equity attributable to equity holders of the parent	32.3	40 108	514	40 622
Minority interest		198	–	198
Total equity		40 306	514	40 820
Non-current liabilities				
Interest-bearing borrowings		2 149	–	2 149
Provisions		82	–	82
Deferred tax liabilities	32.1	2 158	233	2 391
Total non-current liabilities		4 389	233	4 622
Current liabilities				
Interest-bearing borrowings		459	–	459
Income tax payable		273	–	273
Trade and other payables		1 877	–	1 877
Total current liabilities		2 609	–	2 609
Total equity and liabilities		47 304	747	48 051

32. EXPLANATION OF ADOPTION OF IFRS STANDARDS EFFECTIVE 2005 AND OTHER ADJUSTMENTS (continued)

32.1 Foreign currency translation reserve

Translation differences that arose prior to the date of adoption of IAS 21 (Revised) in respect of all foreign entities have been presented as a separate component of equity.

32.2 Share-based payments

The Group applied IFRS 2 to its active share-based payment arrangements at 31 December 2004. The Group granted equity settled share-based payments in 2004.

The Group accounted for these share-based payment arrangements at intrinsic value under the previous accounting policy. This has been adjusted to fair value to be consistent with Group policies.

The effect of accounting for equity settled share-based payment transactions at fair value is to increase operating expenses by US$138,784 for the period ended 31 December 2004. The adoption of IFRS 2 is equity-neutral for equity settled transactions. The expense recognised for the consumption of employee services received as consideration for share obligations granted will be deductible for tax purposes when the share options are exercised.

32.3 Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Note	31 Dec 2004 US$ '000
Equity settled share-based transactions	32.2	(139)
Foreign currency translation reserve	32.1	(1 357)
Total adjustments to retained earnings		(1 496)
Attributable to:		
Equity holders of the parent		(1 496)
Minority interest		–
		(1 496)

Reconciliation of profit for the period ended 31 December 2004

	Note	As previously reported US$ '000	Impact of adoption US$ '000	Restated US$ '000
Revenue		16 168	–	16 168
Cost of sales		(7 273)	–	(7 273)
Gross profit		8 895	–	8 895
Operating expenses	32.1 and 32.2	(4 374)	(1 496)	(5 870)
Operating profit before net financing income		4 521	(1 496)	3 025
Net financing income		116	–	116
Profit before tax		4 637	(1 496)	3 141
Income tax expense	32.1	(220)	–	(220)
Profit for the year		4 417	(1 496)	2 921
Attributable to:				
Equity holders of the parent		4 411	(1 496)	2 915
Minority interest		6	–	6
Profit for the year		4 417	(1 496)	2 921
Basic earnings per share (US cents/share)		8.59		5.68
Diluted earnings per share (US cents/share)		8.34		5.51

Explanation of material adjustments to the cash flow statement for 2004

There are no material differences between the cash flow statement presented under IFRS and the cash flow statement prior to the adoption of the abovementioned standards.

33. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

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

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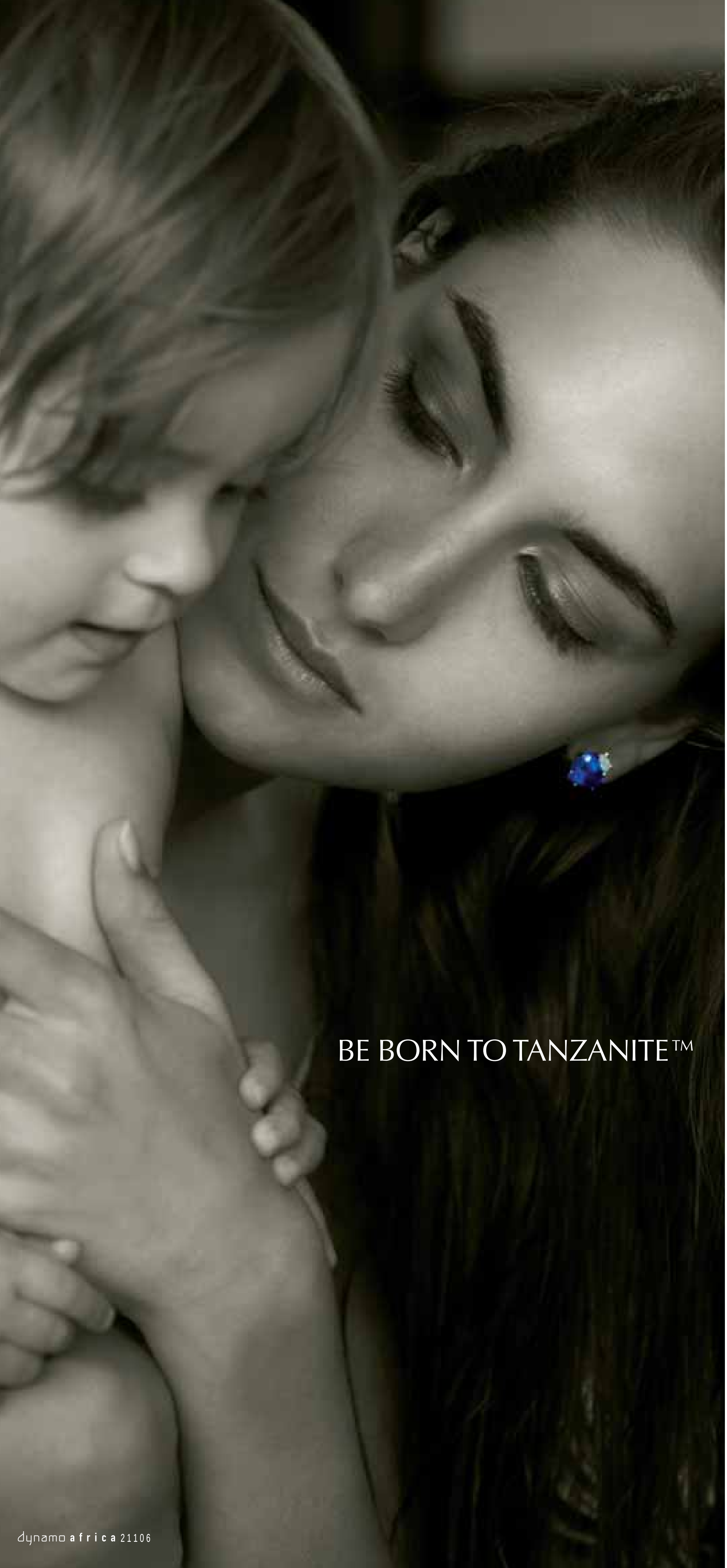

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