

Tanzanite One

Assets

The Government demarcated the tanzanite mining area of 5km by 2km into four blocks: A, B, C, D. Tanzanite One owns the mining licence to the largest, Block C, at the centre of the producing area. The deposits, known as 'boudins', are found in a complex geological environment. Differential isoclinal folding created fold stacks, leaving voids for supersaturated fluids to enter and crystallise at a specific combination of temperature, pressure and cooling rate. It is claimed that it would be virtually impossible to replicate Tanzanite synthetically. A conventional compliant resource is not an option with these deposits as they cannot be defined by grid drilling. However, a high degree of confidence can be gained from statistical analysis derived from geological and ongoing production records. In addition to the high grade boudin deposits it should also be possible to extract lower grade panels by conventional stoping methods. This will lower the average grade but increase the overall output of tanzanite.

Strategy

The initial strategy was to create a vertically integrated mining/marketing company. In early 2006 it was decided to close down wholesale marketing and to target a sustainable production growth rate, supported by a significant inventory which would give a credible supply flow of rough stones to sight-holders supplying expanding wholesale and retail markets. The mine is labour intensive, but there is scope for limited mechanisation to move broken ore and waste more efficiently from production and development areas. The operations on the 2km by 1km Block 'C' are accessed to a depth of around 500m via 6 shafts along strike. Underground development tracks mineralised boudins (sausage shaped structures) located within fold stacks, which in turn are found within a thin tabular ore zone, which dips into the ground at around 45 degrees. Access to the planned ultimate depth of 1200m along the incline will be done through 3 large incline shafts currently being developed.

The five year target is to achieve an annual production rate of 5mn carats (Table 1). Current operations are running at 1.4Mct pa and the head grade is in the 65%-75% range. Cost breakdown is 45% labour, 20% power, 25% consumables and 10% other. There has been an encouraging increase in grades, partly offset by lower margins, the latter reflecting write offs, lower throughput which, together with short term power shortages, caused a sharp rise in costs.

Table 1: Production and profit record 2005/2006.

	1H05	2005	1H06	2006
Ore Treated (t)	12,161	26,500	*7,605	15,896
Rough (ct)	576,933	1.40m	570,405	1.23m
Grade (ct/t)	47	55	75	77
Costs (US\$/t)	2.00	1.25	2.32	2.54
Revenue (US\$/ct)	13.00	11.00	9.63	12.00
Revenue (US\$mn)	22.4	41.1	16.3	36.0
Gross margin (%)	66%	61%	31%	44%
PAT (US\$mn)	7.20	9.85	**(0.15)	**1.8
EPS (US\$ cents)	9.6	13.03	(0.26)	2.35
DPS (US\$ cents)	1.0	5.0	2.0	8.0

Source: Tanzanite One

**After a US\$2.81mn provision for withdrawal from wholesale jewellery sales and a write down of US\$1.82mn on intangible assets.

*Lower production in 1H06 from drought and associated power reduction requiring installation of back-up generators.

Markets

The current demand for cut and polished Tanzanite stones is largely a result of marketing in the US/Caribbean region (75%) and South Africa (5%). There has recently been interest from sight-holders in Dubai and Europe to develop markets in these regions. A branding concept named "Be Born to Tanzanite" is to identify the stone as a gift item to celebrate birth and new beginning events as having a degree of



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success which could gather momentum. The Company is also building a significant inventory to smooth out dips in production and surges in demand.

Tanzanite One Trading

The Company has established a local retail outlet which purchases quality rough Tanzanite stones from small scale miners on the other Blocks. It has developed strong relationships with prominent brokers and carries out cutting and polishing for the local and tourist demand. The operation serves to stabilise the local pricing mechanism. Currently cut stones command prices in the US\$200/ct to US\$2,000/ct range depending on the quality of colour, clarity and cut.

Risks/Rewards

Production – uneven tanzanite production rates are being addressed by mining efficiencies and building an inventory. Production rates are being steadily expanded.

Costs – labour costs and power costs will rise but overall escalation will be mitigated by efficiencies and increasing production.

Management – there appears to be a pragmatic approach to the challenges created by the complex geology in order to define more clearly the potential resource and the promotion and marketing of the product.

Political – the international consensus opinion is that international mining companies will continue to be encouraged by the government and local communities to increase their level of local beneficiation. There is a 5% revenue royalty and a 30% corporate tax rate. Tanzanite One is also a significant employer and there is active support for community development projects.

Markets – Tanzanite is a unique product and requires consistent marketing and development programme. It is gaining from increased promotion success and wider distribution.

Profit growth – The downturn in 2006 can be regarded as a one-off due to the lack of back-up power generation and write-offs. Factors point to good profits growth potential.

Expansion – There may be opportunities to acquire and develop adjoining blocks which can be accessed from existing development in Block C. The Company will look at coloured gemstone sites in Tanzania and elsewhere.



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Julian has a wealth of experience of the natural resources sector globally and of the AIM. Trained as a mining engineer, Julian developed his extensive career in the analysis and research of mining companies with Selection Trust, Societe Generale, T.C.Coombs, Joseph Sebag, DWA and VSA Resources. He is a Fellow of the Securities Institute, an Associate of the Society of Investment Professionals and a past president of the Association of Mining Analysts.

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Brock has over 8 years of international commercial and academic work experience as both a geologist and management consultant. Following a period as a mine geologist, Brock completed a geology PhD with distinction at the University of Western Australia, focused on gold mineralisation systems. His previous experience includes periods with Rio Tinto, Placer Dome and Great Central Mines covering diamond, nickel, uranium and gold projects. Most recently, Brock was a strategy and business consultant in London with Accenture and Credo Group.

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Company: Tanzanite One

Disclosure: 9

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