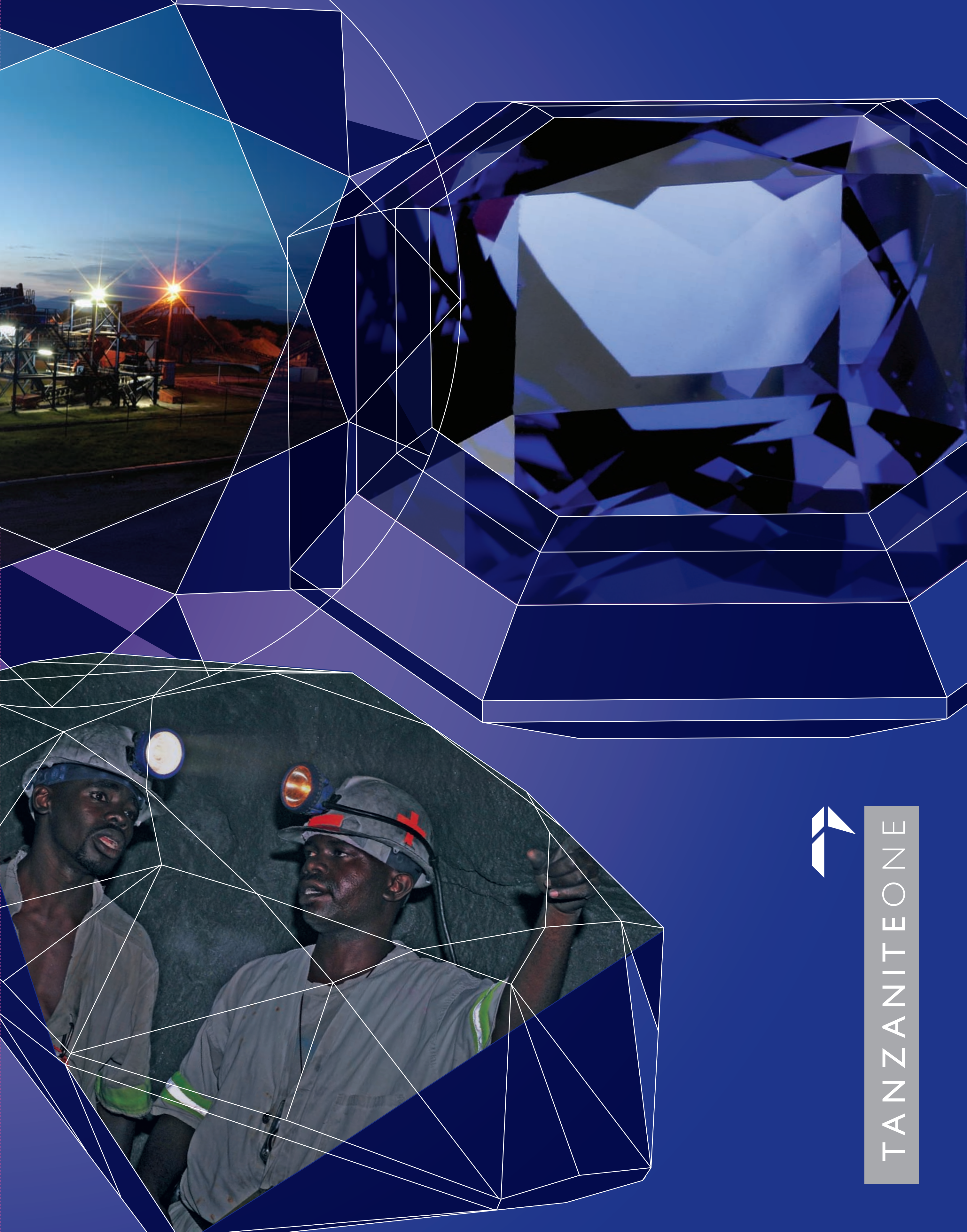
ANNUAL REPORT 2009



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CHAIRMAN'S LETTER

The 2009 financial year was an exceptionally challenging period for global business and in particular for the luxury goods market. Gemstone producers like TanzaniteOne were hit extremely hard by the economic crisis. Consumer demand for gemstones, including tanzanite, fell significantly in the final quarter of 2008 and remained depressed throughout the first half of 2009. The second quarter of 2009 saw consumer demand stabilising with a recovery in the Tanzanite price beginning in the second half of the year.

As consumer demand decreased and tanzanite prices fell during the fourth quarter of 2008 and the first quarter of 2009, TanzaniteOne implemented a major Company-wide, cost reduction and operating efficiency strategy. Our expansion and production ramp-up programme was revised with a new production target of 1.6 million carats set for 2009. While the 1.6 million carat target represented a 27% carat decrease from our 2008 production figure of 2.2 million carats, significant cost savings were realised in 2009 through this reduction. With new technologies and processes installed at our tanzanite mine, significant advances in efficiency of recovery came into effect that allowed for an increase in our gross margin from 40% (FY2008) to 48% (FY2009). As the global financial markets started to recover in the second half of 2009 we gradually increased our production levels and ended the year on 1.9 million carats. This was achieved from 38,154 tonnes of processed material, resulting in an average grade of 50 carats per tonne.

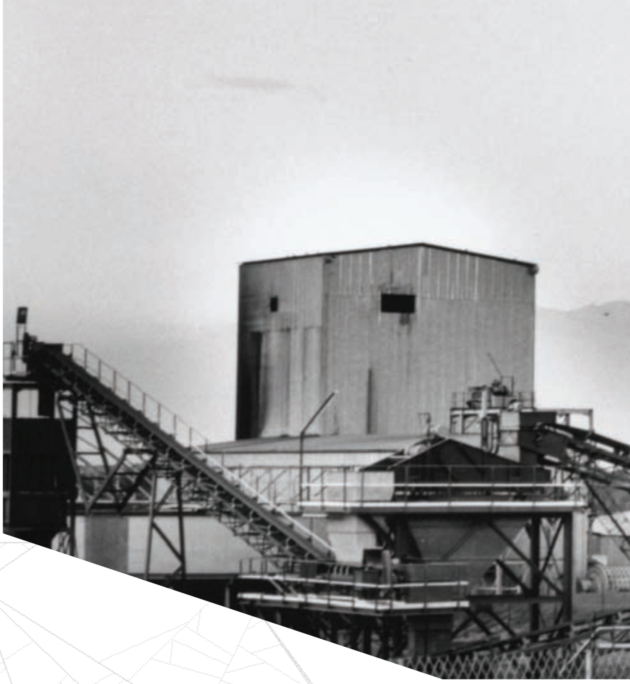
Total sales in 2009 of US$12.5 million were significantly below 2008 of US$26.9 million. However, despite the drop in revenue our Earnings Before Interest, Taxes, Depreciation and Amortisation ('EBITDA')improved from a loss of US$5.7 million in 2008 to a loss of US$1.2 million in 2009. This is clear testimony to the success of our restructuring, cost reduction and maximizing of operating efficiency programmes.

TanzaniteOne's operational strength was also supported by various corporate and financial initiatives aimed at producing the resilience required during a period of high risk. In April 2009, we successfully passed amendments to our bye-laws with a 79.71% in favour vote. The amendments now afford shareholders equivalent takeover protection in line with standard UK practice and ensures that all shareholders are treated equally. In May 2009, TanzaniteOne raised £3.49 million (approximately US$5.3 million) through a private placement of 23,270,469 common shares at 15p per placing share. The proceeds of the private placement enabled us to continue acquiring gem quality tanzanite in the local market, to fund the tsavorite exploration programme, fund further development work on the tanzanite mine and provide general working capital for the group.

I would like to thank our employees and Board of Directors for their excellent work throughout the year and would also like to thank all our shareholders for their continued loyalty during this challenging period.

Ami Mpungwe
Chairman

With new technologies and processes installed at our tanzanite mine, significant advances in efficiency of recovery came into effect



MANAGING DIRECTOR'S REVIEW

The Annual Report gives me the chance to review the successes and challenges TanzaniteOne faced during a very difficult 2009.

2009 was initially characterised by lower prices and demand due to the impact of the global financial crisis. However, during the second half of the year, signs of recovery became evident. With the commitment and dedication of the strong management team, and the continued encouragement and vision of the Board, I believe we have turned the corner and are now on the road to restoring TanzaniteOne to its position of being the world's leading producer and supplier of ethically mined tanzanite.

We experienced no fatalities during the year and only three Lost Workday Cases were reported. The Lost Time Injury Frequency Rate ("LTIFR") for the year ended at 0.44, comparable with the average diamond operation in South Africa, which averages between 1.00 and 1.50.

A product that maintains its rarity and beauty has been achieved by the introduction of new cuts which enhance the brilliance of the stone across a broader spectrum.

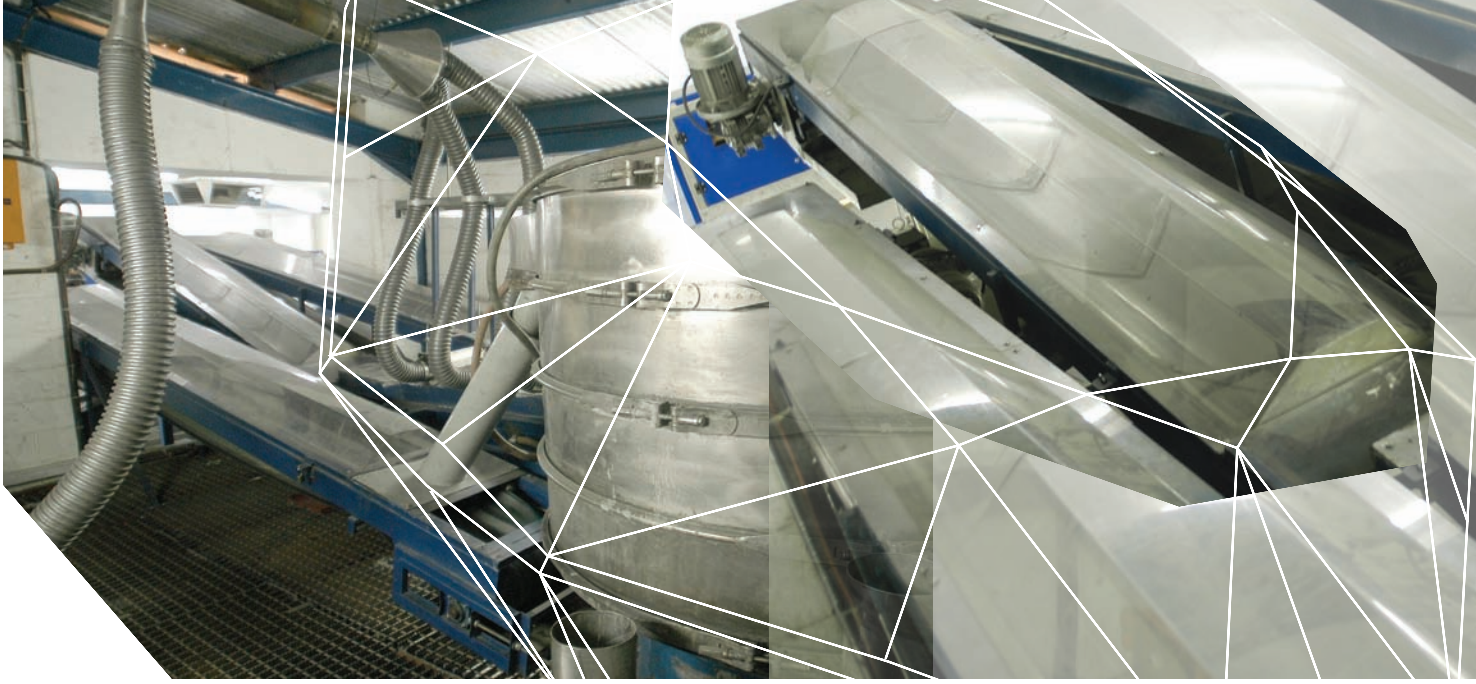
YESTERDAY, TODAY AND TOMORROW

In 2009 the change in the Company's sales and marketing strategy progressed well and has successfully repositioned tanzanite from being a predominantly dark blue, eye clean product, only afforded by people with high disposable income, to a product that maintains its rarity and beauty even if purchased in lighter shades. This has been achieved by changing the categories of the finished rough product and the introduction of new cuts (introduced into the diamond industry) which enhance the brilliance of the stone across a broader spectrum. A goal we set ourselves in 2008, to enhance the value of the 73% of lighter coloured tanzanite mined, is now being realised. I would like to thank Gavin Pearce, General Manager of Group Sales and Marketing, and his team for the efforts they have put into initiating this change and we look forward to seeing continued progress in 2010.

We continue to work economically and within cost-effective budgets, having curtailed capital expenditure and reduced labour in non-essential areas. Management also scaled down the South African office and relocated the sights and sales of rough tanzanite to a new office in Dubai. The net effect of these measures has seen a reduction in overall group expenditure of 51% compared to 2008.

In 2010, our focus will be to increase the sale of lighter coloured cut calibrated stones to jewellery manufacturing companies around the world, as well as recommencing capital development to open up potential new reserves at depth.

Management will also continue to evaluate the acquisition of new operations as well as completing the Lemshuku Tsavorite bulk sampling exercise, which will lead to the production of a Joint Ore Reserve Committee ("JORC") compliant inferred resource statement. Tsavorite possesses a range of exquisite and vivid green hues and makes for a perfect sister stone to Tanzanite. Tsavorite also benefits from a current quality-for-quality market-price per carat of approximately two to four times that of tanzanite.



2009 OPERATIONAL AND FINANCIAL SUMMARY

The operational target for 2009, of 1.6 million carats, was exceeded by 20%, a testament to the commitment and focus of the mining crews. However, despite this, production was down by 13% compared to 2008. A system of "ramping structures" was identified by the geologists between levels 40 and 46 in CT shaft, resulting in increased mining activity employing more development crews than previously planned.

The total tonnes processed in 2009 decreased by 10% to just over 38,000 tonnes. This was a result of the reduction of selective stoping areas employed in both CT and Main shafts. Mining emphasis was concentrated on the development of fold noses and boudins associated with the ramp structures. The overall mining grade dropped by 4% from 2008 to 50 carats per tonne.

Cash costs for the period remained at the 2008 level of $3.69 per carat (despite inflationary pressures) highlighting the commitment to cost management by all at the mine. The labour re-structuring exercise carried out in February 2009 resulted in the senior management complement being reduced by 33% and the staff compliment reducing by 13%. The mine now runs as a "lean and mean" operation but we will consider hiring more mining staff in 2010 once the economic situation has improved.

Group sales for the year were down 54% on 2008 to $12.5 million. Revenue from four sight sales contributed $9.7 million, The Tanzanite Experience contributed $1.2 million and the remainder coming from the sale of specimens and low grade material. Depressed prices following the global financial crisis in 2008 have shown a steady (plus 5%) increase between sights with effect from July 2009. Towards the end of the year, non sight holders were being invited to bid on parcels not being taken by sight holders. This has also had the effect of boosting the prices for the rough.

Various operational measures introduced during the previous two years, have now started to improve production rates and mining efficiencies. These include:

- improved security measures, with the introduction of three body scan machines placed at the top of Investor and CT shafts, and the plant/sorthouse to minimise the risk of theft;
- introduction of ore passes in the shafts at all major production levels;
- continual better understanding of the orebody as witnessed with the identification of ramping structures;
- continued commissioning of additional CCTV cameras allowing high-risk areas to be viewed and recorded from the central control room; and
- commissioning of a mining training facility to bring all mine workers up to international recognised competence levels.

The mine now runs as a "lean and mean" operation but we will consider hiring more mining staff in 2010 once the economic situation has improved.

2010 AND BEYOND

As our new mining, training, cost control, and sales strategies continue to develop, continual improvements in operational performance are anticipated. In the 2010 financial year, we are targeting production of 2.20 million carats. Geological data suggests this is achievable, although the quality mix of the material remains uncertain due to the inferred classification of the resource. The continuous increase in demand for rough and polished tanzanite is forecast to improve, as the financial crisis appears to stabilise. The prices being realised for traditionally lighter material are expected to rise due to the marketing initiatives being implemented by the sales team and the Tanzanite Foundation.

CONCLUSION

The opportunities for our tanzanite business to grow, coupled with our ability as an adaptable and forward thinking company, has laid the foundation for what we believe is an exciting business. We will continue working towards the acquisition and establishment of new businesses within the coloured gemstone arena in order to secure the future of the company.

Zane Swanepoel


TANZANITEONE
ACETYLENE
FULL
OXYGEN
FULL

REVIEW OF COMPANY ACTIVITIES

The Merelani Tanzanite mining area is situated in the Simanjiro district of Tanzania, 70 kilometers south-east of Arusha and 16 kilometers south of Kilimanjaro International Airport. The tanzanite resource strikes along a length of 7 kilometers and is divided into five blocks. TanzaniteOne has the license to mine within the central Block C which has 2 kilometers of strike. Block C is bordered on the south-west and north-east by Blocks B and D, which are mined by small scale miners. This poses a challenge for TanzaniteOne, notably in terms of undermining, whereby, the artisanal miners continue mining into TanzaniteOne's designated license area.

PRODUCTION STATISTICS

	Unit	FY2009	FY2008	FY2007	FY2006	FY2005
On Mine Cash Costs	$/carat	**3.69**	3.60	3.72	2.90	1.41
Development	metres	**2,519**	3,877	3,935	4,671	3,700
Plant Feed	tonnes	**38,154**	42,318	25,367	15,896	20,931
Grade	c/tonne	**50**	52	67	77	70

2009 Production

Due to the suppressed levels of demand and subsequent prices of tanzanite stones, driven by the effects of the global financial crisis, a decline in production compared to 2008 was experienced. With the economic situation in mind, the Company undertook necessary cutbacks, namely in the number of mining crews, through a retrenchment exercise and the suspension of certain planned capital development areas.

Foldstack No 2 in Main/Delta shaft a source of high-grade material was mined out during the year, causing the level of high-grade material to decrease as a proportion of overall production. Geologists and mining personnel continue mining known fold stacks and intermediate boudin and ramp structures in an effort to locate another stack to yield the high quality material.

Processed tonnes decreased by 10% from 2008 to 38,154 tonnes. This was due to the reduction in mining crew following the retrenched staff and workers in March 2009. Stoping using scrapers was suspended and mining was focused on the development of potential high producing fold noses and limb boudins located in raises linking fold areas.

The mine has now been effectively split into North and South, with the recently commissioned Investor shaft being the main hoisting shaft in the North, and CT shaft becoming the main hoisting shaft in the South. All main producing levels have ore passes into the shafts to allow increased hoisting potential and greatly improved hoist utilisation.

Shaft sinking at Main Shaft to intersect Fold Stack 3 continued and the sinking of a new shaft to explore the potential of the upper horizon ore body commenced in the last quarter of the year.

Safety

The mine ended the year with the LTIFR of 0.44, down from 0.79 at the end of 2008. This achievement is due to a concerted effort by all concerned to be aware of their surroundings as well as conducting "mini" risk assessments before undertaking any tasks. Regular audits of all departments are carried out both for safety and good housekeeping purposes.

Only three lost workdays were reported from the underground section during the year. All were investigated and extensive training of the workforce was carried out to prevent reoccurrences.

TANZANITE PRODUCTION
(carats)

FY2009	FY2008	FY2007	FY2006	FY2005
1 915 440	2 203 162	1 700 134	1 230 600	1 460 075

TRAINING AND ASSESSMENT

In 2009 the Company placed an emphasis on training. Courses in supervisory development, new employee development and continued retraining were initiated and a continued process of result assessment will be maintained.

Practical evaluation and assessments on explosives handling and charging up are carried out at all the shafts on an ongoing basis to improve both efficiencies and safety. As a result of this we have seen a marked improvement in advance per blast, tunnel profiles and increased tonnes per blast.

On Mine Cash Costs

On mine cash costs of $3.69 per carat remained in line with 2008 cash costs of $3.60 per carat. This is testament to the concerted effort by the Company to control costs. Initiatives such as local sourcing of material and consumables, with comparable quality and comparative prices, has become a priority to reduce imported goods. Mechanical stoping was suspended to increase the head grade into the plant, thus reducing plant throughput and achieving cost savings.

Security

TanzaniteOne Mining Limited continues to face intrusions on its mining license with incursions into underground workings becoming increasingly hostile and aggressive. The Group continues to work closely with Government agencies to minimise risk to staff and production areas but with limited success. All incidents are reported in writing to the relevant authorities.

Undermining into the Company's Block C Licence from both Blocks B and D continues to be a problem.

One mobile and two fixed X Scann units are installed on site. However there has been an instruction issued in June 2009 by the Ministry of Energy and Minerals that these units are not to be used due to concerns regarding the effects of the radiation on staff. The machines however were approved and licensed by the Tanzanian Atomic Energy Commission and are well within limits set by the World Health Organisation.

A medical committee has been appointed to determine what effects if any, these units have on the health and safety of employees. There is a direct correlation between the decline in value of recoveries and the cessation of X Scann operations. The Group continues to work with the authorities in resolving the operation of the X Scann units.

TanzaniteOne completed all required construction work in the neighbouring Block B to ensure no repeat of the 2008 flood tragedy which claimed the lives of 79 small-scale miners and the flooding of the Company's Bravo and CT shaft workings via the illegal small-scale workings.

Tsavorite

TsavoriteOne Mining Limited focused on the Lemshuku – Shamberai Tsavorite project which was put on hold in 2008 due to the global financial crisis. The Project comprises 12 prospecting licenses and covers an area of 100 square kilometres.

Lemshuku

The main aim during 2009 has been the upgrading of the Lemshuku alluvial resource from an "inferred" to an "indicated" JORC compliant category. The emphasis being on the Stage 2 Bulk Sampling program, which re-commenced during the third quarter of 2009.

Drilling and pitting at 50 metre intervals along lines spaced 200 metres apart has been used to identify the Tsavorite-bearing gravel horizons, where bulk sampling will take place.

Exploration activities:

- 13 Drill lines (19 kilometres) were cleared and surveyed.
- 41 Holes drilled to bedrock or a maximum depth of 26 metres.
- 818 metres of rotary air blast ("RAB") drilling completed.
- 9 Pits, spaced at 50 metre intervals, were dug along Line A2 to an average depth of 10 metres.
- 2 Bulk Samples (40 bank cubic metres) were treated by the on site bulk treatment plant before the end of year shutdown, results pending.

Initial Results:

Initial results are encouraging, with Tsavorite grains having been recovered from a number of the gravel bands that have been identified to date.

The heavy mineral samples (62) taken from the pits on Line A2, yielded a number of coarse Tsavorite grains over a 300 metre wide (700mN – 1000mN) zone, in 2 metre thick gravel horizons, to a depth of 6 metres. This effectively extends the previous resource a further 2.5 kilometres downstream, supporting the alluvial fan model extending north-west out onto the Shamberai Plain.

Final results of the Tsavorite Alluvial Exploration program, together with a JORC compliant indicated Resource statement are expected early in the third quarter of 2010, on completion of the drilling and bulk sample treatment program.

Shamberai

Field mapping of the hardrock targets over the Shamberai prospecting license areas has been ongoing.

Sales and Marketing

Last year proved to be an extremely challenging period for the luxury goods and gemstone market. Most of the world's jewelers suspended their designs and discretionary purchases, and large-scale polishers and wholesalers were left holding inventory from 2008.

Prices continued to drop during the first half of 2009 as the market experienced a continued decline and excess inventory was expended out of the polishing centers during the second half of the year. Demand for replacement stock has become evident in the last months of the year, primarily for commercial projects.

The slowdown in the market allowed for a significant evaluation of the sales and marketing processes and strategies. Sorting and valuation process improvements have resulted in the extraction of greater valuation from previously lower contributing categories.

New marketing initiatives targeting growth of the lighter and included material were launched with a target of opening up in new markets, thus expanding the tanzanite distribution. Cutting and polishing technologies have been implemented to realize the maximum value that these categories are able to deliver. As economies begin to pick up and retail restocking occurs, this is expected to feed through into sales.

A number of Memoranda of Understanding ('MoUs') were signed with high technology processing partners to lead the value-addition process and movement of goods into markets less targeted to date.

The Tanzanite Experience

The Tanzanite Experience retail showcase expanded during 2009 to three locations, including a Mine Visitor Center. The product mix was improved with retail experience, and good linkages made with the Tanzanian tourism industry provided a regular stream of clients.

Cash contribution to the group operations was a welcome addition to sales income during the market upheaval.

The introduction phase of this business is now complete and consolidation for the following growth phase to take place in 2010. Product alignment will take place with other group initiatives, and operating structures for expansion opportunities to leverage off the established image and reputation. A strong Tanzanian identity will be maintained and enhanced, as the group looks for the appropriate expansion opportunities.

The Tanzanite Experience's cash contribution to group operations was a welcome addition to the sales income during the market upheaval.

Trading Review

TanzaniteOne re-entering the tanzanite gemstone market in March 2009 has brought confidence and support to the market, and continued buying, and stabilisation has driven the increase in rough stone prices.

Rough tanzanite was purchased from 2.5 carats upwards of medium to high saturation and clarity to supplement mine production. Sizes below 2.5 carats form the larger percentage of the profile of the mine production.

A total of 1,170 carats of A quality and 10,460 carats of B quality, were purchased at a cost of US$604,523. On average we have seen a 17% increase in prices from January to June.

During the third quarter sizes 4 to 7B (0.3 to 1.99 grams) remained consistent, with size 8 to 14B (2 grams and above) increasing by 10%.

The stabilising of prices in Arusha came about in the second quarter once Tanzanite Trading resumed operations.

On average, the prices have increased by 20% from April to September in 2009.

During the third quarter sizes 4 to 7B (0.3 to 1.99 grams) remained consistent with size 8 to 14B (2 grams and above) increasing by 5%.

Rough stones to the value of $93,246 (2,090 carats) were purchased during October 2009, which were sold together with the mine production at the third and final sight for the year.

A total of 56,520 carats were purchased for the year for a value of US$2,037,893.

Our strategy for the year was to continue growing our footprint on the local market through consistent purchasing, re-establishing our relationships with prominent brokers. Continuing the purchase of 2.5 carats and above, and targeting the A quality tanzanite allows the company to supplement its own production, leading to improved product available for sale at sites. The focus is to increase TanzaniteOne Trading's activity going forward.

Tanzanite Foundation

The Tanzanite Foundation ('TF') continues to actively promote, stimulate and grow the tanzanite industry to trade and consumers in the US, and other potential and emerging markets.

Throughout 2009, The Tanzanite Foundation worked with their members on partnerships with several international jewellery designers and brands. Television and online sales was a priority, stimulating the sales of smaller goods and lighter colours.

The Tanzanite Foundation was involved with various training programmes and in store point of sale materials to further educate and improve the knowledge levels of tanzanite. This includes a substantial on-board training programme for the cruise ship market and the Caribbean.

The Tanzanite Foundation participated in, and had a presence at various trade shows in 2009, namely; Tucson, Basel, New York, Las Vegas and Hong Kong. Celebrity endorsements and 'product placement' continued to be a strong focus to promote tanzanite as an 'aspirational' gemstone.

The Tanzanite Quality Scale™ ("TQS"), under license from The Tanzanite Foundation is the primary tanzanite grading tool amongst leading international gemological laboratories. IGI (International Gemological Institute), AGL (American Gemological laboratories), IDL (International Diamond Laboratory) and German Foundation, are all actively promoting the grading of tanzanite under the guidance of the TQS.

Tanzanite Foundation affiliated Designers and Jewellery companies have made substantial contributions to the Community Projects supported by TF. A jewellery making and craft workshop, as well as donations of sports, school and stationary supplies were gratefully received by the Nasinyai Primary and Secondary Schools in the tanzanite mining district.

The Tanzanite Foundation also raised money to fund the building and completion of a trough that will prevent future flooding in neighbouring tanzanite mines.

The depth of colour ranges from Vivid to Pale with a "B" or "V" preceeding to indicate predominance of blue or violet hues.

Board and Management (post reporting period)

In March 2010 the Company appointed Dr Bernard Olivier, aged 34, as Chief Executive Officer ("CEO"), having served the Company since 2008 as a Director. In addition to being an expert on Tanzanite geology, Dr Olivier has worked with a series of mining companies helping to develop value from their core assets. His appointment to the CEO role aims to leverage more extensively this commerciality combined with in-depth knowledge of coloured gemstones.

As part of the Company's strategic restructuring Mr Zane Swanepoel, aged 50, becomes Chief Operating Officer - Tanzania. Mr Swanepoel, based in Tanzania, will devote himself fully to operational mining and development work in Tanzania.

FINANCIAL STATEMENTS

Statement of directors' responsibility

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

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

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

Directors' declaration

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

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

  i) give a true and fair view of the financial position as at 31 December 2009, performance and cash flow for the year ended on that date of the consolidated entity; and

  ii) comply with IFRS; and

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

On behalf of the board

Bernard Olivier
Chief Executive Officer
TanzaniteOne Limited

22 June 2010

Directors' report

The directors present this report, together with the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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

GOING CONCERN

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

RESULTS

The consolidated statement of comprehensive income for the year ended 31 December 2009 and the consolidated statement of financial position at that date are set out on pages 29 and 30 of this report respectively. The Group recorded a loss of US$2.4 million (2008: US$8.4 million) for the financial year after non-controlling interest. Taking into account this loss, shareholders' equity at 31 December 2009 is US$36.5 million (2008: US$32.2 million). The directors have not declared a final dividend as the Board feel it prudent to defer further dividends until the market conditions strengthen and the Group returns to profitability. Thus the dividend in respect of the year ended 31 December 2009 is nil US cents (2008: US4 cents) per share.

A CLASS SHARE CAPITAL

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

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

In order to facilitate an exit for 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 will become effective between the disposing A class shareholder and TanzaniteOne. The disposing shareholder has a choice of making a Cash Acceptance or a Share Acceptance in respect of their A class shares. If the acceptance is a:

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

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

DIRECTORS

Ami Mpungwe (59), Executive Chairman

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

Edward Nealon (59), Non-executive Deputy Chairman

Mr Nealon is a geologist with 32 years' experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practiced in most of the world's major mining centres. Mr Nealon was responsible for Aquarius' introduction into the platinum industry and served on its board for a number of years. He holds a Masters degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

Zane Swanepoel (50), Chief Operating Officer

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

Bernard Olivier (34), Chief Executive Officer

Dr Olivier was appointed Chief Executive Officer of TanzaniteOne Limited on 5 March 2010. Dr Olivier is a geologist and has a PhD in Economic Geology. He is also a Member of the Australasian Institute of Mining and Metallurgy. His dissertation covered all aspects of the Merelani Tanzanite deposit and formed the foundations of the development of the current mining operations. He has been closely associated with the gemstone tanzanite since 1999 and prior to joining the board he acted as a consultant to TanzaniteOne. Dr Olivier has been working as a geologist since 1998 and has worked throughout several of sub-Saharan African countries and parts of Asia, among them Tanzania, South Africa, Zambia, Burundi, Malawi, Namibia, Cambodia and the Philippines. He is technical director of Bezant Resources Plc (AIM: BZT) and non-executive director of Great Australian Resources (ASX: GAU). Dr Olivier will focus on developing the commercial aspects of the business, notably the Group's sales, growth and investor strategy.

Nicholas Sibley (72), 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.

Meetings of directors

The number of meetings of the board of directors of the Company held during the year ended 31 December 2009 and the number of meetings attended by each director is 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
Zane Swanepoel	4	-	-	-	4	-	-	-
Ami Mpungwe	4	1	-	-	4	1	-	-
Edward Nealon	4	1	2	-	4	1	2	-
Nicholas Sibley	4	-	2	-	4	-	2	-
Bernard Olivier	4	-	-	-	4	-	-	-

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

	TanzaniteOne Limited Common shares	TanzaniteOne SA Limited Options over A class shares
Ami Mpungwe	3,284,373	-
Zane Swanepoel	230,675	900,000(1)
Bernard Olivier	453,048	900,000(1)
Edward Nealon	3,095,745	-
Nicholas Sibley	4,692,907	-

(1) Includes options exercisable at £0.160327 per share up to 28 September 2019.

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 Note 16 – Share options reserve for participation by the directors in the Company's Group Share Option Plan.

Director	Base salary	Consulting fees	Other	Total
	$	$	$	$
Ami Mpungwe	73,925	120,000(1)	-	193,925
Edward Nealon	71,300	-	-	71,300
Zane Swanepoel	73,333	-	255,063(2)	328,396
Nicholas Sibley	52,875	-	-	52,875
Bernard Olivier	86,667	-	-	86,667

(1) The payment was for advisory and consultancy services for the financial year
(2) The payment was for duties as executive director of subsidiaries

DIRECTORS' AND OFFICERS' INSURANCE

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

Companies within the Group are required, on cessation of mining operations, to rehabilitate the relevant mining area on which mining operations have been conducted. Zane Swanepoel, Chief Operating 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 19. 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 page 19. 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
Ami Mpungwe	1 August 2004	Executive	No
Zane Swanepoel	29 February 2008	Executive	No
Bernard Olivier	5 November 2008	Executive	No
Edward Nealon	1 August 2004	Non-executive	Yes
Nicholas Sibley	1 August 2004	Non-executive	Yes

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 five directors, two 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 Ami Mpungwe, is responsible for leadership of the board ensuring they receive accurate, timely and clear information in order to facilitate effectiveness of its role.
- Dr Bernard Olivier, 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 Limited. The Chief Executive Officer is assisted in managing the business of the Group by an executive team that comprises of the Management Committee. The Chairman of the management Committee is Ami Mpungwe.

Independence of non-executive directors

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

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

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

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

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

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

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

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

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

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

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

Company Secretary

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

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. 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 re-election at the forthcoming Annual General Meeting.

Securities trading policy

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

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

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

The Committee consists of:

- three members;
- mainly non-executive directors; and
- 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 Edward Nealon
- Mr Ami Mpungwe

Qualifications of Audit and Risk Management Committee members

Mr Sibley is a chartered accountant, a director of TanzaniteOne and Corney and 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 Nealon is a geologist with 32 years' experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practiced in most of the world's major mining centres. Mr Nealon was responsible for Aquarius' introduction into the platinum industry and served on its board for a number of years. He holds a Masters degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

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

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

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

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

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

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

Remuneration Committee

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

- Mr Ami Mpungwe (Chairman)
- Mr Edward Nealon
- Mr Nicholas Sibley

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 non-executive directors.

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

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

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

For details of remuneration of directors and executives please refer to page 20.

The Committee meets as necessary; but must meet at least once a year. The Company Secretary acts as secretary of the meetings and distributes minutes to all Board members. Details of attendance at Committee meetings are set out on page 19.

Nomination Committee

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

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

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

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

Continuous disclosure

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

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

Communications with shareholders

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

Meetings

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

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

RISK FACTORS AND MANAGEMENT

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

Special Mining Licence ("SML")

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

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

Risks of development, construction, mining operations and uninsured risks

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

Currency risk

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

Tanzanite price volatility

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

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

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

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

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 senior employees. This has proven to be effective through all levels of management. The Group's human resources department has identified succession planning as a key imperative for the forthcoming year and will look for ways to reduce this potential exposure.

Additional financing

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

Events subsequent to year end date

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

Signed in accordance with a resolution of the directors.

Bernard Olivier
Chief Executive Officer
TanzaniteOne Limited

22 June 2010

Independent auditor’s report

TO THE MEMBERS OF TANZANITEONE LIMITED

We have audited the consolidated annual financial statements of TanzaniteOne Limited, which comprise the statement of financial position at 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 29 to 70.

Directors’ Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Basis for Qualified Opinion

To date we have not been provided with sufficient appropriate audit evidence to confirm or dispel whether there is an additional tax liability of US$1.6 million that should be provided for in these financial statements. The directors are of the opinion that there is no such additional liability.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the consolidated financial position of TanzaniteOne Limited at 31 December 2009, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Inc.
Registered Auditor

Per Riaan Davel
Chartered Accountant (SA)
Registered Auditor

Director

KPMG Cresent
85 Empire Road
Parktown
Johannesburg
South Africa

22 June 2010

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	US$ '000 2009	Restated US$ '000 2008
Revenue	4	12,459	26,895
Cost of sales		(6,471)	(16,191)
Gross profit		5,988	10,704
Selling and distribution expenses		(1,700)	(4,241)
Administrative expenses		(5,275)	(6,762)
Other operating expenses		(2,943)	(6,523)
Operating loss	5	(3,930)	(6,822)
Finance income	6	17	72
Finance costs	6	(138)	(81)
Loss before tax		(4,051)	(6,831)
Income tax	7	1,629	(1,529)
Loss for the year		(2,422)	(8,360)
Attributable to:			
Equity owners of the parent		(2,376)	(8,308)
Non-controlling interest	18	(46)	(52)
Loss for the year		(2,422)	(8,360)
Other comprehensive income			
Foreign exchange (loss)/gain on translation of foreign operations		(664)	207
Total comprehensive income for the year		(3,086)	(8,153)
Attributable to:			
Equity owners of the parent		(3,040)	(8,101)
Non-controlling interest	18	(46)	(52)
Total comprehensive income for the year		(3,086)	(8,153)
Basic loss per share (US cents/share)	19.1	(2.50)	(11.16)
Diluted loss per share (US cents/share)	19.2	(2.50)	(11.16)

Consolidated statement of financial position

AS AT 31 DECEMBER 2009

	Note	US$ '000 2009	Restated US$ '000 2008	Restated US$ '000 2007
Assets				
Property, plant and equipment	8	30,619	28,656	25,232
Deferred tax assets	9	1,748	193	2,376
Inventories	10	129	327	500
Total non-current assets		32,496	29,176	28,108
Inventories	10	3,979	4,756	3,774
Income tax receivable	11	1,980	1,916	2,757
Trade and other receivables	12	3,184	2,647	10,227
Cash and cash equivalents	13	2,193	1,491	12,935
Total current assets		11,336	10,810	29,693
Total assets		43,832	39,986	57,801
Equity				
Total issued share capital	14	32	22	22
Share premium	15	46,020	38,709	38,709
Share option reserve	16	706	706	706
Foreign currency translation reserve	17	(684)	(20)	(227)
Retained (loss)/earnings		(9,560)	(7,184)	8,857
Total equity attributable to equity owners of the parent		36,514	32,233	48,067
Non-controlling interest	18	(42)	4	56
Total equity		36,472	32,237	48,123
Liabilities				
Interest-bearing borrowings	20	804	378	654
Provision for environmental rehabilitation	21	107	100	94
Deferred tax liabilities	9	5,038	4,769	5,094
Total non-current liabilities		5,949	5,247	5,842
Bank overdraft	13	570	697	-
Interest-bearing borrowings	20	196	6	256
Income tax payable	11	-	28	2,309
Trade and other payables	22	645	1,771	1,271
Total current liabilities		1,411	2,502	3,836
Total liabilities		7,360	7,749	9,678
Total equity and liabilities		43,832	39,986	57,801

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Common share capital US$ '000	A class share capital US$ '000	Total issued share capital US$ '000	Share premium US$ '000	Share option reserve[1] US$ '000	Foreign currency translation reserve US$ '000	Retained (loss)/ earnings US$ '000	Total equity attributable to shareholders US$ '000	Non-controlling interest US$ '000	Total equity US$ '000
Balance at 1 January 2008		21	1	22	38,709	706	(227)	6,287	45,497	56	45,553
Prior year adjustment for change in accounting policy	2							2,570	2,570	-	2,570
Balance at 1 January 2008 restated		21	1	22	38,709	706	(227)	8,857	48,067	56	48,123
Total comprehensive income for the year							207	(8,308)	(8,101)	(52)	(8,153)
Loss for the year						-		(8,308)	(8,308)	(52)	(8,360)
Foreign exchange gain on translation	17						207		207		207
Dividends declared and paid								(7,733)	(7,733)		(7,733)
Balance at 31 December 2008		21	1	22	38,709	706	(20)	(7,184)	32,233	4	32,237
Balance at 1 January 2009		21	1	22	38,709	706	(20)	(7,184)	32,233	4	32,237
Issue of share capital											
- Common share capital	14.1	10		10	7,311				7,321		7,321
Total comprehensive income for the year							(664)	(2,376)	(3,040)	(46)	(3,086)
Loss for the year								(2,376)	(2,376)	(46)	(2,422)
Foreign exchange loss on translation	17						(664)		(664)		(664)
Balance at 31 December 2009		31	1	32	46,020	706	(684)	(9,560)	36,514	(42)	36,472

* - Less than US $1000.

(1) - Refer note 16 on share-based payments

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	US$ '000 2009	Restated US$ '000 2008
Cash flows from operating activities			
Cash (utilised in)/generated from operations	23.1	(2,513)	3,189
Finance income received		17	72
Finance cost paid		(131)	(75)
Taxation paid	23.2	251	(1,666)
Net cash (to)/from operating activities		(2,376)	1,520
Cash flows from investing activities			
Acquisition of property, plant and equipment (1)		(2,752)	(5,536)
Proceeds on disposal of property, plant and equipment		-	103
Net cash used in investing activities		(2,752)	(5,433)
Cash flows from financing activities			
Proceeds from the issue of shares	23.3	5,341	-
Dividends paid		-	(7,733)
Increase/(decrease) in interest-bearing borrowings		616	(526)
Net cash from/(to) financing activities		5,957	(8,259)
Net increase/(decrease) in cash and cash equivalents		829	(12,172)
Translation difference in opening cash balance		-	31
Cash and cash equivalents at beginning of year		794	12,935
Cash and cash equivalents at end of year	13	1,623	794
(1) Investing cash flow relating to exploration asset		(305)	-

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

1. Accounting policies

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

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

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

The financial statements were authorised for issue by the directors on 20 June 2010.

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").

New accounting policies adopted

Accounting standards and amendments to accounting standards adopted impacting the annual financial statements

The following new and revised accounting standards have been adopted or early adopted in the current year and have impacted the amounts or disclosures reported in these annual financial statements.

- The Group applies revised IAS 1 *Presentation of Financial Statements (2007),* which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- *IFRS 7 (Amendment) Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments.* The amendments to IFRS 7 Financial Instruments: Disclosures enhance the disclosures required in respect of fair value measurements and the liquidity risk. It introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the reliability of fair value measurements. These disclosures should assist in improving the comparability between entities about the effects of fair value measurements. In addition, the amendments in respect of the disclosure of liquidity risks are intended to enable users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial statements and how the entity manages that risk.
- *IFRS 8 Operating Segments:* The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. The adoption of IFRS 8 did not have any effect on the financial position and performance of the Group as it is a disclosure standard which has resulted in a change to the Group's reportable segments. IFRS 8 requires a change in the disclosure of segment information based on the internal reports regularly reviewed by the Group chief operating decision maker (CODM) in order to assess each segment's performance and to allocate resources to the segments.

  Under the previous Standard (IAS 14 Segment Reporting), an entity was required to identify two sets of segments (business and geographical), using a risks and rewards approach. This approach involved using the Group's organisational structure and internal financial reporting systems to identify the business and geographical systems.

  As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. In prior years, segment information reported externally was analysed on the basis of business and geographical segments. However, information reported to the Group's Executive Committee for the purposes of resource allocation and assessment of segment performance is based on the Group's rough and cut business operations. Therefore, the Group's reportable segments under IFRS 8 are included in note 3.

  Net sales revenue reported in each segment represents revenue generated from external customers. Intersegment revenue is eliminated. The accounting policies of the reportable segments are consistent with the Group's accounting policies. Segment result represent the operating profit earned without allocation of other costs, other net income or expenditure, investment revenue and finance costs, income tax expense and non-controlling interests. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and assessment of segment performance.

1. Accounting policies (continued)

Accounting standards, amendments to accounting standards and interpretations adopted having no impact on the annual financial statements

The Group also adopted the following new and revised accounting standards and interpretations which did not have any impact on the financial results of the Group for the year:

- *IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – (Amendment) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.* The Group adopted this amendment which deals with the measurement of the cost of subsidiaries, jointly controlled entities and associates when IFRS is adopted for the first time. It also clarifies the accounting treatment for the recognition of dividends received from subsidiaries in the parent's separate financial statements.
- *IFRS 1 First-time adoption of International Financial Reporting Standards – (Amendment) First-time adopters.* The Group early adopted the amendments to IFRS 1 which address the retrospective application of IFRSs to particular situations.
- *IAS 32 Financial Instruments: Presentation: Classification of Rights Issues – (Amendment).* The Group early adopted the amendment which states that if rights issues offered for fixed amounts of foreign currencies are issued pro rata to an entity's existing shareholders in the same class for a fixed amount of currency, then they should be classified as equity irrespective of which currency the exercise is denominated in.
- IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 (Reassessment of Embedded Derivatives) – (Amendments) Embedded derivatives. The Group adopted this amendment which clarifies the accounting for embedded derivatives where the financial instruments are reclassified out of the "fair value through profit or loss" category as permitted in the October 2008 amendments to IAS 39.
- IFRIC 15 Agreements for the Construction of Real Estate. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognised.
- IFRIC 16 Hedges of a net investment in a foreign operation. This interpretation provides detailed guidance on the accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements.
- IFRIC 17 Distribution of Non-cash Assets to Owners. This interpretation provides guidance on the appropriate accounting treatment for non-cash distributions to owners.
- IFRIC 18 Transfers of assets from customers. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to supply of goods and services. In some instances , the entity receives cash from customers that must be used only to acquire or construct the items of property, plant and equipment in order to connect the customers to a network or provide the customers with ongoing access to a supply of goods and services (or to both).
- Improvements to IFRSs. The Group adopted all the amendments to accounting standards and interpretations arising from the annual improvements to IFRSs published in May 2008 and April 2009.

1. Accounting policies (continued)

Impact of Standards and Interpretations not yet adopted.

At the date of authorisation of these financial statements, the following accounting standards, issued but not yet effective, were not early adopted by the Group:

- IFRS 3 Business Combinations (revised) – effective 1 July 2009
- IFRS 9 Financial Instruments – effective 1 January 2013
- IAS 24 Related-party Disclosures (amendment) – effective 1 January 2011
- IAS 27 Consolidated and Separate Financial Statements (amendment) – effective 1 July 2009
- IAS 39 Eligible Hedged Items (amendment) – effective 1 July 2009
- IAS 28 (Amendment) Investment in Associate – effective 1 July 2009
- IAS 31 (Amendment) Investments in Joint Ventures – effective 1 July 2009
- IFRS 5 (Amendment) Non-current Assets Held for Sale and Discontinued Operations – effective 1 July 2009
- Annual improvements project 2010 – various effective dates
- IFRS 7 Limited Exemption for Comparative IFRS 7 Disclosures for First-time Adopter (Amendment) – effective 1 July 2010

The Group is in the process of assessing the impact of these amendments and the new standards and the impact (if applicable) is not known or reasonably estimable.

At the date of authorisation of these financial statements, the following accounting interpretations were in issue but note yet effective:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - effective 1 July 2010
- IFRIC 14 Prepayments of Minimum Funding Requirement (amendment) - effective 1 January 2011

These interpretations are not expected to have any impact on the financial results for the Group.

1.2 Basis of preparation

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

- Share options measured at fair value at grant date

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.

1. Accounting policies (continued)

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

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

Trade receivables and other receivables

The company assesses its trade receivables and other receivables for impairment at each reporting date. In determining whether an impairment loss should be recognised in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

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

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each class of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time (refer note 8).

Provisions

An environmental rehabilitation provision was raised and management determined an estimate based on the information available. Changes in legislation and other information may have a material impact on this estimate.

Income tax

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

Deferred taxation assets

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

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

1. Accounting policies (continued)

1.3 Basis of consolidation

1.3.1 Subsidiaries

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

1.3.2 Transactions eliminated on consolidation

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

1.4 Foreign currency

1.4.1 Foreign currency transactions

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

1.4.2 Financial statements of foreign operations

The assets and liabilities of foreign operations and fair value adjustments arising on consolidation, are translated to US$ at foreign exchange rates ruling at the reporting 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. Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss. Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future are considered to form part of a net investment in a foreign operation.

1.4.3 Net investment in foreign operations

Foreign exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and are presented within equity in the FCTR. They are transferred into the statement of comprehensive income upon disposal.

1.5 Financial instruments

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

1. Accounting policies (continued)

1.5.1 Non-derivative financial instruments

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

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

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

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

1.5.2 Derivative financial instruments

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

1.5.3 Share capital

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

1.6 Property, plant and equipment

1.6.1 Owned assets

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

1.6.2 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in accounting policy 1.13.1.

1.6.3 Subsequent costs

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

1. Accounting policies (continued)

1.6.4 Depreciation

Depreciation is recognised in profit or loss 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 estimated useful lives for the current and comparative periods are as follows:

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

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

1.6.5 Development costs

Subsequent to determining the technical feasibility and commercial viability of a mineral reserve, all directly attributable mine development costs are capitalised until commercial production commences, that is when the mine is capable of operating in the manner intended by management. Development expenditure is only capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. When commercial production commences, these costs are depreciated on the units of production method.

Development costs incurred during commercial production are recognised as part of the development cost asset to the extent that they have a future economic benefit beyond the current reporting period. These costs are depreciated on the units of production method. Where development costs benefit only the current reporting period, they are a component of the cost of inventory produced in the current period and are accounted for in accordance with IAS 2 Inventories (refer accounting policy 1.8).

1.6.6 Assets under construction

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

1.7 Exploration and evaluation expenditure

Exploration and evaluation expenditure is capitalised provided the rights (prospecting licence) to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploration of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing

When the technical feasibility and commercial viability of extracting a mineral resource has been demonstrated, then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

1. Accounting policies (continued)

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever specific facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

1.8 Inventories

1.8.1 Current inventories

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

Cost is determined as follows:

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

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories. In the case of manufactured inventories, costs include an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1.8.2 Non-current inventories

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

1.9 Impairment

Non-financial assets

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

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

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

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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. 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. An impairment loss in respect of goodwill is not reversed.

1. Accounting policies (continued)

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant receivables are tested for impairment on an individual basis. All individually significant receivables found not to be specifically impaired are then collectively assessed for impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together with similar risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss in respect of the Group's receivables carried at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. An impairment loss is reversed only to the extent that the carrying amount does not exceed what the amortised cost would have been if no impairment loss had been recognised.

1.10 Employee benefits

1.10.1 Share-based payment transactions

The Group's share option plan allows certain senior employees of the Group to acquire shares in TanzaniteOne Limited over a prescribed period. The fair value of options granted is recognised as an employee cost in profit or loss 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.

1.10.2 Short-term employee benefits

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

1.10.3 Defined contribution plans

Contributions to defined contribution retirement benefit plans are recognised in profit or loss in the periods during which services are rendered by employees.

1.11 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of discontinuing 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.

1.11.1 Environmental rehabilitation

The Group has recorded a provision for environmental rehabilitation liabilities based on management's estimates of these costs. Such estimates are subject to adjustments based on changes in laws and regulations and as additional more reliable information become available.

1. Accounting policies (continued)

1.12 Revenue

1.12.1 Sale of tanzanite

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

1.13 Expenses

1.13.1 Finance lease payments

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

1.13.2 Finance income and costs

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

Finance income is recognised in profit or loss, as it accrues, using the effective interest method.

1.14 Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

Deferred tax is recognised in respect of 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; and
- the initial recognition of assets and liabilities in a transaction that is not a business combination.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rate enacted or substantively enacted at the reporting 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. Accounting policies (continued)

1.15 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it can earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Chief Operating Decision Maker ("CODM") to make decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

1.16 Earnings per share

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

2. Prior year adjustments

There was a change in accounting policy with respect to development costs incurred during commercial production, which are now recognised as part of the development cost asset to the extent that they have a future economic benefit beyond the current accounting period. Further, the use of metres mined as the basis for capitalisation was deemed a more appropriate basis than the number of staff which was previously used. These costs will be depreciated on the units of production method. The adjustment relating to the revised property, plant and equipment calculations has been effected retrospectively as required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

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

	US$ '000
Retained earnings	
Balance at 1 January 2008 as previously reported	6,287
	2,570
Increase in deferred taxation liability as a result of the change in development costs accounting policy	(1,102)
Increase in property , plant and equipment on the change in development costs accounting policy for TanzaniteOne Mining Limited	3,672
Balance at 1 January 2008 restated	**8,857**

2. Prior year adjustments (continued)

	US$ '000 2009	US$ '000 2008	US$ '000 2007
Property, plant and equipment			
Development costs - cost			
Balance at 31 December before adjustment	11,861	11,115	9,627
Increase in development costs	6,184	5,071	3,592
Balance at 31 December restated	**18,045**	**16,186**	**13,219**
Development costs - accumulated depreciation			
Balance at 31 December before adjustment	(2,473)	(1,632)	(946)
(Increase)/decrease in accumulated depreciation	(55)	173	80
Balance at 31 December restated	**(2,528)**	**(1,459)**	**(866)**
Deferred tax liabilities			
Property, plant and equipment temporary difference			
Balance at 31 December before adjustment	(3,199)	(3,196)	(3,406)
Increase in deferred tax liability	(1,839)	(1,573)	(1,101)
Balance at 31 December restated	**(5,038)**	**(4,769)**	**(4,507)**
Retained earnings			
Cost of sales			
Balance for the year ended 31 December before adjustment	(7,347)	(17,321)	(21,319)
Decrease in cost of sales	876	1,130	592
Balance for the year ended 31 December restated	**(6,471)**	**(16,191)**	**(20,727)**
Depreciation			
Balance for the year ended 31 December before adjustment	(2,541)	(2,217)	(1,858)
(Increase)/Decrease in depreciation	(228)	93	(89)
Balance for the year ended 31 December restated	**(2,769)**	**(2,124)**	**(1,947)**
Deferred Tax Expense			
Balance for the year ended 31 December before adjustment	(1,020)	(831)	369
Increase in deferred tax	(266)	(472)	(66)
Balance for the year ended 31 December restated	**(1,286)**	**(1,303)**	**303**
Earning per share			
The effect of the change in development costs for TanzaniteOne Mining Limited on basic earnings per share (US cents/share)	0.65	1.48	0.21

3. Segment reporting

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

Segment 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 Operating segments

The Group has five reportable segments, as described below which are the Group's strategic business units. The strategic business units offer different focus areas for the Group. The Group comprises the following reportable segments:

- Mining: The extraction of rough tanzanite
- Trading: The purchase and sale of rough tanzanite
- Exploration: The exploration of other coloured gemstones
- Marketing: The sale of rough tanzanite
- Cut and polished: The purchase and sale of cut and polished tanzanite.

There are varying levels of integration between the Mining and Trading, and Marketing reportable segments. This integration includes the transfers of rough tanzanite. The accounting policies of the reportable segments are the same as described in note 1.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/loss before income tax, as included in the internal management reports that are reviewed by the Executive Committee. Segment profit/loss is used to measure performance as management believes that such information in the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing in determined on an arm's length basis.

3. Segment reporting (continued)

Information about reportable segments	Mining		Trading		Exploration		Marketing Operations		Cut and Polished		Total	
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
External revenues	4,300	12,237	2,127	11,724	-	-	11,543	25,203	1,195	628	19,165	49,792
Inter-segment revenue	3,707	11,173	2,128	11,724	-	-	871	-	-	-	6,706	22,897
Finance income	-	-	-	1	-	-	11	-	-	-	11	1
Finance costs	(134)	(75)	-	-	-	-	(1)	(6)	-	-	(135)	(81)
Depreciation of property, plant and equipment	(2,676)	(2,084)	(38)	(16)	-	-	(33)	(1)	(7)	(8)	(2,754)	(2,109)
Reportable segment (loss)/profit before income tax	(3,820)	674	(423)	(314)	(20)	(23)	1,896	(3,164)	176	11	(2,191)	(2,816)
Reportable segment assets	32,711	29,154	616	539	3,384	882	4,831	6,082	594	513	42,136	37,170
Capital expenditure	1,032	4,119	52	163	2,450	820	85	552	-	-	3,619	5,654
Reportable segment liabilities	6,842	5,414	80	63	9	3	14	-	-	-	6,945	5,480

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities	2009	2008
Revenues		
Total revenue for reportable segments	19, 165	49,792
Elimination of inter-segment revenue	(6,706)	(22,897)
Consolidated revenue	12,459	26,895
Profit or loss		
Total loss for reportable segments	(2,191)	(2,816)
Unallocated amounts - corporate	(1,860)	(4,015)
Consolidated loss before tax	(4,051)	(6,831)
Assets		
Total assets for reportable segments	42,136	37,170
Other unallocated amounts	1,696	2,816
Consolidated total assets	43,832	39,986
Liabilities		
Total liabilities for reportable segments	6,945	5,480
Other unallocated amounts	415	2,269
Consolidated total liabilities	7,360	7,749

3. Segment reporting (continued)

Geographical segments

The Mining, Trading and Exploration segments operate mining facilities and sales offices in Tanzania. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Revenues US$ '000	Non-current assets US$ '000
Geographical information 31 December 2009		
Tanzania	1,767	31,891
India	9,678	-
Dubai	-	605
Other countries	1,014	-
	12,459	32,496
Geographical information 31 December 2008		
Tanzania	24,959	28,626
India	28	-
Dubai	-	550
Other countries	1,908	-
	26,895	29,176

Major customer

Revenue from six sightholders of the Group's marketing operations represents approximately US$9.7 million : (2008:US$25.0 million) of the Group's total revenue.

		US$ '000 2009	Restated US$ '000 2008
4.	**Revenue**		
	Sale of tanzanite	12,459	26,895
5.	**Operating loss**		
	Operating loss includes the following:		
	Auditors' remuneration	(332)	(276)
	Royalties	(337)	(1,226)
	Depreciation of property, plant and equipment	(2,769)	(2,124)
	Inventory write-off	(963)	-
	Inventory write-down to net realisable value	-	(2,648)
	Impairment of trade receivables	(151)	(90)
	Net foreign exchange gain/(loss)	1,126	(1,826)
	Directors' emoluments and consulting fees	(1,083)	(3,356)
	Operating leases instalments	(113)	(162)
	Salaries and wages	(5,809)	(5,891)
6.	**Net finance cost**		
	Finance income	17	72
	Finance costs	(131)	(75)
	Unwinding of discount	(7)	(6)
		(121)	(9)
7.	**Income tax**		
	Recognised in profit or loss		
	Current tax expense		
	Current year	86	(60)
	Prior Periods	257	-
	Secondary tax on companies	-	(166)
		343	(226)
	Deferred tax expense		
	Origination and reversal of temporary differences	1,286	(1,303)
	Total income tax income/(expense)	1,629	(1,529)

7. Income tax (continued)

	% 2009	Restated % 2008
Reconciliation of effective tax rate		
Tax rate applicable to the Group's primary operating location	30.0	30.0
Loss before tax (US$ '000)	(4,051)	(6,831)
Current year's charge as % of profit before tax	40.20	(22.4)
Non-deductible expenses	(0.3)	9.6
Effect of tax rates in foreign jurisdictions	(13.6)	(14.9)
Deferred tax assets not derecognised	-	17.6
Deferred tax assets not recognised	14.1	28.3
Under provision in prior year	(2.1)	-
Effect of secondary tax on companies	-	2.4
Other allowances	(8.3)	9.4
Group's primary operating tax rate	30.0	30.0

8. Property, plant and equipment

31 December 2009	**Cost US$ '000**	**Accumulated depreciation and impairment losses US$ '000**	**Carrying amount US$ '000**
Computer and other equipment	270	(158)	112
Cutting and gemmological equipment	2	-	2
Development costs	18,045	(2,528)	15,517
Earthmoving equipment	292	(246)	46
Furniture, fittings and improvements to leased premises	370	(73)	297
Infrastructure and surface buildings	3,724	(1,375)	2,349
Plant, machinery and mining equipment	5,926	(2,022)	3,904
Motor vehicles	610	(309)	301
Office equipment	85	(10)	75
Mining licence	3,992	(2,664)	1,328
Prospecting licence	2,031	-	2,031
Exploration expenditure	1,194	-	1,194
Pre-production expenditure	3,445	(251)	3,194
Assets under construction	274	(5)	269
	40,260	(9,641)	30,619

8. Property, plant and equipment (continued)

31 December 2008 (restated)	Cost US$ '000	Accumulated depreciation and impairment losses US$ '000	Foreign exchange movement US$ '000	Carrying amount US$ '000
Computer and other equipment	255	(83)	1	173
Cutting and gemmological equipment	–	–	–	–
Development costs	16,186	(1,459)	–	14,727
Earthmoving equipment	292	(184)	–	108
Furniture, fittings and improvements to leased premises	341	(7)	–	334
Infrastructure and surface buildings	3,603	(1,019)	–	2,584
Plant, machinery and mining equipment	5,675	(1,558)	–	4,117
Motor vehicles	610	(200)	–	410
Office equipment	80	–	–	80
Mining licence	3,992	(2,107)	–	1,885
Exploration expenditure	775	-	–	775
Pre-production expenditure	3,445	(251)	–	3,194
Assets under construction	274	–	(5)	269
	35,528	(6,868)	(4)	28,656

Reconciliation of property, plant and equipment
31 December 2009

	Opening balance US$ '000	Acquisitions US$ '000	Transfers in/ (out) US$ '000	Depre-ciation US$ '000	Total US$ '000
Computer and other equipment	173	15	-	(76)	112
Cutting and gemmological equipment	-	2	-	-	2
Development costs	14,727	1,859	-	(1,069)	15,517
Earthmoving equipment	108	-	-	(62)	46
Furniture, fittings and improvements to leased premises	334	59	(30)	(66)	297
Infrastructure and surface buildings	2,584	91	30	(356)	2,349
Plant, machinery and mining equipment	4,117	251	-	(464)	3,904
Motor vehicles	410	-	-	(109)	301
Office equipment	80	5	-	(10)	75
Mining licence	1,885	-	-	(557)	1,328
Prospecting licence	-	2,031	-	-	2,031
Exploration expenditure	775	419	-	-	1,194
Pre-production expenditure	3,194	-	-	-	3,194
Assets under construction	269	-	-	-	269
	28,656	4,732	-	(2,769)	30,619

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment
31 December 2008 (restated)

	Opening balance US$ '000	Acqui-sitions US$ '000	Transfers in/ (out) US$ '000	Disposals US$ '000	Depre-ciation US$ '000	Movement in foreign exchange US$ '000	Total US$ '000
Computer and other equipment	136	69	30	(14)	(48)	-	173
Cutting and gemmological equipment	18	5	-	(15)	(8)	-	-
Development costs	12,353	2,972	-	(1)	(597)	-	14,727
Earthmoving equipment	180	-	-	-	(72)	-	108
Furniture, fittings and improvements to leased premises	148	250	-	(40)	(24)	-	334
Infrastructure and surface buildings	1,653	932	272	-	(273)	-	2,584
Plant, machinery and mining equipment	4,032	323	208	-	(446)	-	4,117
Motor vehicles	248	249	-	(13)	(74)	-	410
Office equipment	41	73	-	(20)	(11)	(3)	80
Mining licence	2,450	6	-	-	(571)	-	1,885
Exploration expenditure	-	775	-	-	-	-	775
Pre-production expenditure	3,194	-	-	-	-	-	3,194
Assets under construction	779	-	(510)	-	-	-	269
	25,232	5,654	-	(103)	(2,124)	(3)	28,656

Security

Except for the equipment acquired through NBC bank loan (refer note 20.2), there are no restrictions on title and no property, plant and equipment has been pledged as security for liabilities.

Impairment and key assumptions

The recoverable amounts of cash generating units have been determined based on the higher of value in use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimates and may then require a material adjustment to the carrying value of assets. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

The value in use has been generated by a forecast model of the tanzanite operation, which is based on the assumption of a graduated increase in tanzanite price for the mined stones and traded stones over a 10 year period up to 2020. For mined stones, this changes from an average of $6 per carat to a long term forecast of $8 per carat, this being conservative given the past prices achieved of $12 per carat. For traded stones, a similar ratio of price increases is applied, and this averages at least $43 per carat. Annual tanzanite production by the mine has been forecast from 2 million carats to a long term average of 3 million carats from 2013. The quality mix of the tanzanite production remains uncertain due to the inferred classification of the reserve.

Cash operating costs for the mine are based on a gradual increase from $3.90 per carat (2010) to a long term average of $5.40 in the next 10 years.

Thus the tanzanite operation has been valued at a net present value of $47 million based on a discount rate of 10%. The valuation excludes any future value that can be generated by the tsavorite operation and the value that could be generated from recent marketing initiatives established. Once the reserve estimate and feasibility study for the tsavorite project are released in future, these will be integrated into the forecast production and financials and increase the multiple applied to net present value.

9. Deferred tax assets and liabilities

	US$ '000 2009	Restated US$ '000 2008
Recognised deferred tax assets and liabilities		
Deferred tax assets comprise of the following temporary differences:		
Assessed losses	1,748	193
Deferred tax assets	1,748	193

The above deferred tax asset relating to assessed losses has been recognised as management believes that the business will return to profitability and create taxable profit in the period in which unused tax losses and tax credits can be utilised.

	US$ '000 2009	Restated US$ '000 2008
Deferred tax liabilities comprise of the following temporary differences:		
Property, plant and equipment	(5,038)	(4,769)
Deferred tax liabilities	(5,038)	(4,769)
Net deferred tax liability	(3,290)	(4,576)
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Tax losses	3,391	3,608

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

	Restated balance at 31 December 2008 US$ '000	Recognised in profit or loss US$ '000	Balance at 31 December 2009 US$ '000
Assessed losses	193	1,555	1,748
Property, plant and equipment	(4,769)	(269)	(5,038)
	(4,576)	1,286	(3,290)

	Restated balance at 31 December 2007 US$ '000	Recognised in profit or loss US$ '000	Recognised in other comprehensive income US$ '000	Restated balance at 31 December 2008 US$ '000
Inventories	35	(35)	-	-
Foreign exchange differences	207	(142)	(65)	-
Assessed losses	1,561	(875)	(493)	193
Property, plant and equipment	(4,507)	(260)	(2)	(4,769)
Prepayments	(13)	9	4	-
	(2,717)	(1,303)	(556)	(4,576)

	US$ '000 2009	US$ '000 2008

10. Inventories

	US$ '000 2009	US$ '000 2008
Non-current		
Show jewellery	129	327
	129	327
Current		
Rough gemstones	3,209	3,931
Consumables	770	825
	3,979	4,756
	4,108	5,083
Inventories stated at net realisable values	-	2,546

No inventories have been pledged as security for liabilities.

11. Income tax receivable and payable

	US$ '000 2009	US$ '000 2008
Income tax receivable	1,980	1,916
Income tax payable	-	(28)
	1,980	1,888

	US$ '000 2009	US$ '000 2008

12. Trade and other receivables

	2009	2008
Trade receivables from customers	2,465	1,810
Other receivables	1,268	1,235
Provision for impairment of trade receivables	(549)	(398)
	3,184	2,647

Trade receivables that are less than two months past due are not considered impaired. As of 31 December 2009, trade receivables of US$453,000 (2008: US$568,000) were past due but not impaired. These relate to some independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2009	2008
Past due 61 – 120 days	-	18
More than one year	453	550
	453	568

As at 31 December 2009, trade receivables of US$549,000 (2008: US$398,000) were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. It was assessed that no amount is recoverable from the identified impaired receivables. These receivables are outstanding for more than a year.

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

	2009	2008
At 1 January 2009	398	308
Impairment of trade receivables	151	90
At 31 December	549	398

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

	2009	2008
United States Dollars	2,763	2,124
South African Rands	306	400
Tanzanian Shillings	115	118
Pound Sterling	-	5
	3,184	2,647

Translated into United States Dollars at foreign exchange rates applicable at the reporting date.

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

13. Cash and cash equivalents

	US$ '000 2009	US$ '000 2008
Cash at bank and on hand	2,193	868
Call deposits	-	623
Cash and cash equivalents	2,193	1,491
Bank overdraft	(570)	(697)
Cash and cash equivalents in the statement of cash flows	1,623	794

Cash and cash equivalents consists of balances receivable in the following currencies:

	US$ '000 2009	US$ '000 2008
United States Dollars	462	560
South African Rands	424	129
Tanzanian Shillings	47	15
Arab Emirates Dirham	643	76
Pound Sterling	47	14
	1,623	794

Translated into United States Dollars at foreign exchange rates applicable at the reporting date.
The group's exposure to interest rate risk and sensitivity analysis for financial instruments is disclosed in note 24.

	US$ '000 2009	US$ '000 2008
14. Capital and reserves		
14.1 Common share capital		
Authorised		
166,666,667 common shares of US$0.0003 each	50	50
Issued		
106,332,159 (2008: 74,476,691) ordinary shares of US$0.0003 each	31	21

Reconciliation of number of common shares in issue

	Number of shares 2009	Number of shares 2008
Shares in issue at beginning of the year	74,476,691	74,476,691
Shares issued pursuant to Tsavorite acquisition	7,450,000	-
Shares issued pursuant to private placement	23,270,000	-
Shares issued to directors in settlement of accrued fees	1,135,468	-
Shares in issue at end of the year	106,332,159	74,476,691

Rights of common shares

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the company. All shares rank equally.

14.2 A class share capital

	US$ '000 2009	US$ '000 2008
Authorised		
66,666,667 A class shares of ZAR0.0003 each	3	3
Issued		
10,844,290 (2008: 17,303,088) A class shares of ZAR0.0003 each issued by the Company's wholly-owned subsidiary, TanzaniteOne SA Limited.	1	1
	1	1

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

Total issued share capital	32	22

Reconciliation of A class share capital

	2009	2008
Shares in issue at beginning of the year	17,303,088	17,303,088
A class shares cancelled	(6,458,798)	-
Shares in issue at end of the year	10,844,290	17,303,088

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

14. Capital and reserves (continued)

Rights attaching to A class shares

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

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

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

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

$D = A \times F$

where

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

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

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.

14. Capital and reserves (continued)

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

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

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

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

Upon the date of redemption of any TanzaniteOne SA A class shares, there shall be paid on any TanzaniteOne SA A class shares redeemed, all preference dividends (including any which are in 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 affected by TanzaniteOne SA. The holders of the TanzaniteOne SA A class shares shall deliver the certificate/s representing those TanzaniteOne SA A class shares which are to be redeemed to TanzaniteOne SA at its registered office. Upon such delivery of the share certificate/s TanzaniteOne SA shall pay to the holders of the TanzaniteOne SA A class shares the amount due in respect of the redemption and shall then be entitled to cancel the relevant TanzaniteOne SA A class shares.

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

Any dividends payable in respect of TanzaniteOne SA A class shares (including any which are in 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. Notwithstanding the provisions of this clause, a holder of the TanzaniteOne SA A class shares shall be entitled to transfer the relevant TanzaniteOne SA A class shares to a family entity or a family member provided that they pay any and all costs relating to the transfer.

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

	US$ '000 2009	US$ '000 2008

15. Share premium

Balance at beginning of the year	38,709	38,709
Arising on issue common shares during the year	7,311	-
Balance at end of the year	46,020	38,709

16. Share option reserve

Balance at beginning of the year	706	706
Balance at end of the year	706	706

Share-based payments

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

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

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

Grant date	Number of share options	Vesting conditions	Contractual life
3 August 2004	3 391 726	Three years of service	10 years
23 December 2004	1 396 500	Three years of service	10 years
16 December 2005	585 000	Three years of service	10 years
28 September 2009	7,275,000	Three years of service	10 years
Total share options	12,648,226		

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

	2009		2008	
	Weighted average exercise price (pence/share)	Number of options	Weighted average exercise price (pence/share)	Number of options
Outstanding at the beginning of the year	144	657,500	177	871,000
Granted during the year	26	7,275,000	-	-
Forfeited during the year		-	(92)	(213,500)
Outstanding at the end of the year	36	7,932,500	144	657,500
Exercisable at the end of the year	51	3,082,500	144	657,500

The 657,500 options outstanding at 31 December 2009 have an exercise price in the range of ZAR7.59 to ZAR16.14 (2008: ZAR7.59 to ZAR16.14) and a weighted average contractual life of 4.15 years (2008: 5.15 years). The 7,275,000 options outstanding at 31 December 2009 have an exercise price of 16.237 pence and a weighted average contractual life of 9.75 years. The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

16. Share option reserve (continued)

Fair value of share options and assumptions	2009 Senior employees	2008 Senior employees
Fair value at grant date	**£0.05 – £0.23**	**£0.05 – £0.23**
Share price	£0.42 - £0.72	£0.42 - £0.72
Exercise price	£0.26 - £0.68	£0.26 - £0.68
Expected volatility	35%	35%
Expected dividends	0%	0%
Risk-free interest rate (based on South African government bonds)	7.5%	7.5%
Option life	0.9 years – 2.9 years	0.9 years – 2.9 years

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

17. Foreign currency translation reserve

	US$ '000 2009	US$ '000 2008
Balance at beginning of the year	(20)	(227)
Translation of foreign operations	(664)	207
Balance at end of the year	(684)	(20)

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

18. Non-controlling interest

	US$ '000 2009	US$ '000 2008
25% interest in the equity of TanzaniteOne Trading Limited	(10)	31
25% interest in the equity of TsavoriteOne Mining Limited	(32)	(27)
	(42)	4
25% interest in the loss for the year of TanzaniteOne Trading Limited	(41)	(46)
25% interest in the loss for the year of TsavoriteOne Mining Limited	(5)	(6)
	(46)	(52)

19. Earnings per share

19.1 Basic loss per share

The calculation of basic loss per share at 31 December 2009 was based on the loss attributable to common shareholders of US$2,376,000 (2008: US$8,308,000) and a weighted average number of common shares outstanding during the year ended 31 December 2009 of 94,991,990 (2008: 74,476,691) calculated as follows:

	US$ '000 2009	US$ '000 2008
Loss attributable to common shareholders	(2,376)	(8,308)

Weighted average number of common shares	**Number of shares 2009**	**Number of shares 2008**
Effect of common shares on 1 January	74,476,691	74,476,691
Effect of common shares issued on 18 March 2009	5,878,356	-
Effect of common shares issued on 20 May 2009	14,344,521	-
Effect of common shares issued on 28 September 2009	292,422	-
Weighted average number of common shares	94,991,990	74,476,691
Basic loss per common share (US cents/share)	(2.50)	(11.16)

19.2 Diluted loss per share

The calculation of diluted loss per share at 31 December 2009 was based on the loss attributable to common shareholders of US$2,376,000 (2008: US$8,308,000) and a weighted average number of common shares outstanding during the year ended 31 December 2009 of 94,991,990 (2008: 74,476,691) calculated as follows:

Weighted average number of common shares	**Number of shares 2009**	**Number of shares 2008**
Effect of common shares on 1 January	74,476,691	74,476,691
Effect of common shares issued on 18 March 2009	5,878,356	-
Effect of common shares issued on 20 May 2009	14,344,521	-
Effect of common shares issued on 28 September 2009	292,422	-
Weighted average number of common shares	94,991,990	74,476,691
Diluted loss per common share (US cents/share)	(2.50)	(11.16)

19. Earnings per share (continued)

	US$ '000 2009	US$ '000 2008
19.3 Dividends per share		
No final dividend was declared.		
Nil US cents (2008: 7 US cent) per common share	-	-
Total dividends paid during the year (US cents/share)	-	11
19.4 Net asset value per common share		
Net assets (US$ '000)	36,472	32,237
Net asset value per common share (US cents/share)	34.30	43.28

20. Interest-bearing borrowings

	US$ '000 2009	US$ '000 2008
20.1 Stannic instalment sale agreement	-	6
Less: Current portion transferred to current liabilities	-	(6)
Balance payable between one and five years	-	-

The Stannic instalment sale agreement was fully paid during the year.

	US$ '000 2009	US$ '000 2008
20.2 NBC Bank loan agreement	1,000	378
Less: Current portion transferred to current liabilities	(196)	-
Balance payable between one and five years	804	378

The loan from prior year was repaid during the year and a new loan was obtained. The NBC Bank loan agreement is secured over plant and equipment with a carrying value of US$1,000,000 (2008: US$378,000), bearing interest at NBC base rate of 7% per annum.

Total Interest-bearing borrowings

	US$ '000 2009	US$ '000 2008
Non-current	804	378
Current	196	6
	1,000	384

21. Provision for environmental rehabilitation

	US$ '000 2009	US$ '000 2008
Balance at beginning of the year	100	94
Unwinding of discount	7	6
Balance at end of the year	107	100

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

22. Trade and other payables

	US$ '000 2009	US$ '000 2008
Trade and other payables	645	1,771

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

	US$ '000 2009	US$ '000 2008
United States Dollars	341	1,756
South African Rands	307	(26)
Tanzanian Shillings	(3)	40
Pound Sterling	-	1
	645	1,771

Translated into United States Dollars at foreign exchange rates applicable at reporting date. The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

23. Notes to the statement of cash flows

23.1 Cash (utilised in)/generated from operations

	US$ '000 2009	US$ '000 2008
Loss before tax	(4,051)	(6,831)
Adjusted for:		
• Depreciation of property, plant and equipment	2,769	2,124
• Inventory write-off	963	-
• Finance income	(17)	(72)
• Finance cost	131	75
• Unwinding of discount	7	6
• Inventory write-down to net realisable value	-	2,648
• Impairment of trade receivables	151	90
• Net foreign exchange difference	(664)	616
Cash from operations before working capital changes	(711)	(1,344)
Change in inventories	12	(3,457)
Change in trade and other receivables	(688)	7,490
Change in trade and other payables	(1,126)	500
	(2,513)	3,189

23. Notes to the cash flow statement (continued)

23.2 Taxation paid

	US$ '000 2009	US$ '000 2008
Income tax receivable at 1 January	1,916	2,757
Income tax payable at 1 January	(28)	(2,309)
Current taxation charge	343	(226)
Income tax receivable at 31 December	(1,980)	(1,916)
Income tax payable at 31 December	-	28
	251	(1,666)

23.3 Net proceeds from the issue of share capital

	US$ '000 2009	US$ '000 2008
Issue of common share capital by TanzaniteOne Limited	5,341	-
	5,341	-

24. Financial risk management

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

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

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

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

24.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash deposits and cash equivalents. Those balances reflect the maximum exposure to credit risk. The carrying amount of financial assets with renegotiated terms is US$631,065.

The company deposits cash only with major banks with high quality credit standing and limits exposure to any one counter-party.

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

24. Financial risk management (continued)

24.2 Liquidity risk

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

The Group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and borrowing facilities are monitored on a monthly basis. At present, no liquidity risk is foreseen.

Financial Liabilities

Financial liabilities are payable as follows:

	Interest bearing borrowings US$ '000	Bank overdraft US$ '000	Trade and other payables US$ '000
	2009	**2009**	**2009**
Less than one year	260	570	645
Between two and five years	909	-	-
	1,169	570	645

24.3 Market risk

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

Interest rate risk

The Group is not exposed to significant interest rate risks as interest bearing borrowings and investments are mainly of a short to medium term nature.

Foreign currency risk

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

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

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

24. Financial risk management (continued)

Sensitivity analysis

A 10 per cent strengthening of the United States Dollar against the following currencies at 31 December would have increased/ (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	US$ '000 2009	US$ '000 2008
Profit and loss		
South African Rands	(263)	(218)
Tanzanian Shillings	1	14
Great British Pounds	(175)	(160)
	(437)	(364)

Equity would have increased in 2009 by US$569,000 (2008: decreased by US$1,170,000).

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

Operational price risk

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

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

24.4 Fair value of financial instruments

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

Trade and other receivables/payables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For receivables/payables with a remaining life of less than one year, the carrying amount is deemed to reflect fair value. All other receivables/payables are discounted at LIBOR + 2 % to determine the fair value.

Interest-bearing borrowings

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principle and interest cash flows, discounted at the market rate of interest at the reporting date. The fair values of finance lease liabilities are estimated as the present value of future flows, discounted at market interest rates for homogeneous lease arrangements.

24. Financial risk management (continued)

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

2009	Note	Carrying amount US$ '000	Fair value US$ '000
Trade and other receivables	12	3,184	3,184
Cash and cash equivalents	13	1,623	1,623
Loans and receivables		4,807	4,807
Interest-bearing borrowings	20	1,000	1,000
Trade and other payables	22	645	645
Financial liabilities measured at amortised cost		1,645	1,645
2008			
Trade and other receivables	12	2,647	2,647
Cash and cash equivalents	13	794	794
Loans and receivables		3,441	3,441
Interest-bearing borrowings	20	384	384
Trade and other payables	22	1,771	1,771
Financial liabilities measured at amortised cost		2,155	2,155

24.5 Capital management

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

The Group's target is to achieve a return on capital of between 12 and 16 percent. The Group's achieved a negative return on capital of 7 percent in 2009 (2008: 26 percent). The decrease in return on capital is a result of the decreased net operating income.

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

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

25. Commitments

25.1 Capital commitments

No capital commitments existed at year end (2008: US$ nil).

25.2 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2009 US$ '000	2008 US$ '000
Less than one year	162	271
Between two and five years	126	201
More than five years	–	–
	288	472

These leases relate to the rental of business premises in locations where the Group operates.

26. Subsequent events

No material subsequent events occurred after year end.

27. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries, directors and key management personnel.

Related party transactions

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

Directors of the holding company and their close family members control 11% (2008: 10%) of the voting shares of TanzaniteOne Limited.

	US$	US$
Short-term benefits	**2009**	**2008**
Key management personnel		
Sales commission paid to C Nunn (spouse of former Chief Executive Officer and significant shareholder)	137,272	347,882
Directors' emoluments for the year		
Services as directors of the Company		
Non-executive directors		
Salary	124,175	214,825
Executive directors		
Salary	233,925	229,550
Termination payments	-	851,324
	233,925	1,080,874
Services as directors of the subsidiaries		
Non-executive directors		
Salary	-	24,388
Executive directors		
Salary	255,063	57,346
Consulting fees paid to Strategic Works Consulting Ltd in respect of Ami Mpungwe	120,000	
Consulting fees paid to Amari Services (Pty) Ltd in respect of M Summers	-	86,287
	120,000	86,287

27. Related parties (continued)

Group entities			Net amounts owing by/(to) subsidiaries			
Significant subsidiaries	**Country of incorporation**	**Products/ Services**	**US$ '000 2009**	**US$ '000 2008**	**Functional currency**	**Share holding %**
The Tanzanite Company (UK) Limited	Great Britain	Polished gemstone and jewellery sales	(1,754)	(1,595)	GBP	100%
TanzaniteOne (SA) Limited	Republic of South Africa	Management services	(18,554)	(17,170)	ZAR	100%
TanzaniteOne Polished Sales (Proprietary) Limited	Republic of South Africa	Polished gemstone and jewellery sales	4,186	3,291	ZAR	100%
Afgem International Limited	Republic of Mauritius	Holding company	(50)	(38)	US$	100%
TanzaniteOne Mauritius Limited	Republic of Mauritius	Rough and polished tanzanite sales	13,351	9,706	US$	100%
TanzaniteOne Marketing DMCC	Dubai	Rough and polished tanzanite sales	(974)	(578)	US$	100%
TanzaniteOne Mining Limited	United Republic of Tanzania	Tanzanite mining	6,095	9,545	US$	100%
TanzaniteOne Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	(1,147)	(902)	US$	75%
The Tanzanite Laboratory Limited	United Republic of Tanzania	Certification of tanzanite	(158)	(153)	US$	100%
TsavoriteOne Mining Ltd	United Republic of Tanzania	Tsavorite exploration	(3,505)	(988)	US$	75%
Tanzanite Foundation Limited	Nevis	Tanzanite marketing	(4,356)	(3,988)	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.

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