TANZANITEONE

Annual Report 2008

Index

Dear Shareholder

The past year has been one of great contrasts for TanzaniteOne: as strong fundamentals and growing efficiencies continued to boost production to unprecedented levels in the first half of the year, the onset of global economic meltdown and financial crisis which picked up high speed in the second half, set in huge challenges at the market place and operational levels, largely driven by depressed demand and downward pressures on prices for most commodities, particularly diamonds and gemstones, including tanzanite. I am however, pleased to report that although the year under review yielded negative results, the Group successfully re-structured the operations in response to the negative market conditions and implemented a whole range of technological and operational initiatives that, for the first time, paved the way for full exploitation of our core Tanzanite asset. We also accelerated the acquisition of Lemshuku-Shamberai Tsavorite project to a near conclusion phase.

The result for the year, at a net loss of $9.5 million, was heavily influenced by a significant reduction in price and sales revenue experienced in the second half of 2008, which saw sales decrease by 72% compared to the first half of the year and the price of tanzanite fell approximately 45% due to the sudden drop in demand at the two sight sales held in the second half of 2008. The concomitant reaction by your company was to defer non essential capital programmes and exploration expenditure and, as a last resort, undertake significant restructuring measures, pending improvements in the market conditions. The combination of the reduction in capital expenditure and cost management initiatives, at current price levels, are expected to usher the company into a new era of recovery and remain in a position to meet its future capital expansion programs, in the quest for more shareholder value through growth and expansion into a wider range of gemstone business.

Although cost reduction and improved efficiencies remains the primary focus, on-mine cash costs for the period increased by 35% to $4.59 per carat, largely due to a significant increase in labour costs, which was brought upon by a government increase in minimum wages by 268% as well as high fuel cost at the beginning of the year under review.

Production for the year totalled 2.2 million carats, a significant 29% increase over 2007

The mine operations have undergone significant enhancement and optimisation under the new Managing Director. Production for the year totalled 2.2 million carats, a significant 29% increase over 2007, recovered from 42.3 thousand tonnes (compared to 25.4 thousand tonnes in 2007). This was a result of a combination of improved mining methods ranging from introduction of selective stoping, mining of multiple development faces, and increased security presence through the upgrading of security systems. Additionally, production has now been revised to a more selective form of stoping and targeted high grade mining. The company’s ability to increase production to 3 million carats per annum remains unchanged and it will be fully exploited once the markets return to normality.

Our resolve to maintain TanzaniteOne as the premier company in the global coloured gemstone markets remains undiminished. In this regard, the Board has completed the acquisition of the Tsavorite Project by 18 March 2009. We anticipate that the proximity of the Tsavorite Project to our existing tanzanite operations will enable us to leverage off our existing mine-to-market infrastructure and complete the project in a rapid and low-cost manner, very much consistent with our overall strategy. We note that tsavorite enjoys a current quality-for-quality market price per carat of approximately two to four times that of tanzanite.

Our new Dubai marketing office commenced operations in the second quarter of 2009, marking the consolidation of our new marketing strategy that seeks to expand our outreach and respond to the changed market conditions.

As our record speaks for itself, TanzaniteOne has a strong history of rewarding shareholders with regular dividends. However, due to the current uncertainty and volatility in the global economy, the Board has decided not to declare a final dividend for year 2008. The Board feels it prudent to defer further dividends until market conditions significantly improve and the company returns to profitability.

... the company's long term growth strategy that is geared to conduct business cost effectively and competitively ...

Notwithstanding the current uncertainty in the diamond and gemstone mining sector, the company's long term growth strategy that is geared to conduct business cost effectively and competitively; to commence and expand production of tsavorite and tanzanite respectively, and; to diversify and develop the markets significantly, remain very firm and sound. In this regard, management will continue to monitor production parameters against global sectoral and market developments and will institute revised production levels when appropriate. Our re-focused business is well positioned to take on and deal with the on-going challenging economic realities and this makes me extremely positive about TanzaniteOne's future.

I would, therefore, like to take this opportunity to thank my fellow board members for their dedication and wise counsel during this very difficult past year. I express my profound gratitude to management, employees and contractors for their solid efforts in the face of a tough operating environment. My special thanks go to Michael Adams and Mark Summers who left the Board in October 2008, having been members of the board since 2004. As a non-executive Chairman of the Board, Michael contributed immensely with his proven leadership qualities and skills. I am pleased to welcome Dr Bernard Olivier who joined the Board in November 2008 as an additional non-executive director. His strong professional skills and business experience will surely benefit TanzaniteOne and we look forward to the contributions that he will make to the growth of our company. Last but by no means least, my personal gratitude and that of my fellow directors are due to you, the shareholder, without whom none of the above achievements would have been possible.

As we all look ahead into the future, let me assure you that we will continue to build on the current achievements and fully exploit new profitable opportunities, with a great deal of zeal and determination.

Yours sincerely

AMI MPUNGWE
Chairman
24 June 2009

I am once again delighted to write this review on the successes and challenges TanzaniteOne faced during the year and to provide some details about how we, as a company, plan to achieve the strategies that the board has approved going forward into 2009 and beyond.

2008 was certainly a "baptism of fire" for me, taking over when the world economic situation was on a high, and ending the year amidst the worst financial collapse witnessed since the Great Depression of the 1930's. The last quarter of 2008 saw a huge changing of the tides within the worlds economic and mining sectors. However, I am happy to report that working with a strong management team, a forward thinking board of directors and a dedicated workforce, we have pulled through what we believe is the worst period, and look forward to continue growing the company.

TanzaniteOne remains a proud Tanzanian company, successfully mining the world's only known source of the premium coloured gemstone, tanzanite. We set ourselves tough production goals in 2008 and we achieved them.

YESTERDAY, TODAY AND TOMORROW

I view the year gone by as having laid the foundation from which the TanzaniteOne mine can now grow to achieve its maximum sustainable production levels. Refocused business fundamentals, in particular, improving mining and processing efficiencies were successfully tried and tested and the process of moving the key business functions to Tanzania is well under way. We recorded a very successful first half of the year which was followed by a difficult and frustrating second half. The hostile takeover attempt by Gemfields compounded a difficult economic situation which forced the team to unite and implement decisions which, although not always popular, ensured that the best interests of the company and all its shareholders were upheld. We are now set up to develop new platforms from which to source alternative markets outside the current sight-holder system and to grow the company into other premium coloured gemstones. This follows the successful acquisition of the Lemshuku-Shamberai tsavorite deposit. Tsavorite possesses a range of exquisite and vivid green hues and makes for a perfect sister stone to tanzanite. Tsavorite also enjoys a current quality-for-quality market-price per carat of approximately two to four times that of tanzanite.

THE TANZANITE EXPERIENCE

In August 2008, TanzaniteOne opened The Tanzanite Experience (TTE), a 'museum' in Arusha that showcases the history of tanzanite through a series of visual and interactive exhibitions whilst affording visitors the unique opportunity to purchase cut and polished tanzanite directly from the world's only known source. The driving force behind TTE came from a large number of requests received from many local and international tour operators asking if we, as the leading producer and supplier of tanzanite, could promote the history, beauty and rarity of the gemstone to the many tourists who pass through Tanzania.

TTE targets approximately 600,000 tourists who pass through the town annually. Marketing is geared towards safari companies and tour operators in an effort to include a visit to this facility on their itineraries. TTE is proving to be a huge success with approximately 150 people per week passing through. We have noted that the prices of cut stone sold through TTE have remained constant during the global downturn. This is testament to the high standard of the décor and presentations on offer in the museum.

SALES AND MARKETING STRATEGIES

We continue selling our high quality rough through the sight-holder system, but it became clear to us during the economic slowdown that a review of the system to remove the company from being totally reliant on sight-holders is required. We will continue to maintain the current sales system but are increasingly looking at securing alternative markets around the world. We are also looking at positioning tanzanite within internationally recognised brands in an effort to increase the desirability of the stone to include lighter coloured material. 73% of the mines production is the lighter coloured and included material that is not sold at sights. By creating a demand for this perceived lower quality material, we believe that the demand for tanzanite will be enhanced.

2008 OPERATIONAL AND FINANCIAL REVIEW

For the second year running, significant increases in production rates were achieved following the continued management of the improvements detailed in the 2007 annual report.

For the year as a whole, tonnes processed increased 67% to over 42.3 thousand tonnes

For the year as a whole, tonnes processed increased 67% to over 42.3 thousand tonnes. This is monument to the success of the selective stoping method employed in both CT and Main shafts. We expected a significant drop in grade due to the stoping but a 22% drop from 2007 was very acceptable. The carat increase of 29% gives us the confidence to plan for >3 million carats in 2012. Cash costs for the period increased by 35% to $4.59 per carat, this was largely due to a significant increase in labour costs brought upon by the Tanzanian government (an increase of the minimum wage by 268%, effective January 2008). Staff labour costs increased by an overall 190%. Revised crew arrangements were put in place to secure increased efficiencies against these higher wage rates, and as a result, increased efficiencies of 15% were achieved with less people in the crews and revised work schedules.

The global financial crisis negatively affected the financial performance for the year under review. The second half of the year saw a significant reduction in revenue which saw sales decrease by 72% compared to the first half of the year. During this period, the price of tanzanite fell approximately 45% due to the sudden drop in demand at two sight sales held in the second half of 2008.

The last half of the year saw a concerted effort in reducing costs with all capital projects being suspended, the non replacement of both expatriate and local employees who were either terminated or resigned, and the recycling of old and used equipment on the mine. Group cash balances dwindled but the management steered the company though, what we believe, has been the worst of the crisis. Having said this, we are by no means complacent and will continue to ensure the cost cutting measures put in place remain to a point where efficiencies and production are not affected.

2009 AND BEYOND

2009 will be a tight year with the mining concentrating on maximising production from potential high grade producing areas and continuing to develop areas that will ensure the mining life is not compromised. The search for the next fold stacks will continue with shaft sinking in CT and Main shaft whilst required exploration development ahead of the producing faces in the current production areas will ensure the opening up of new production faces. Our production target will reduce by 27% from 2008 to 1,6 million carats. However, we will be in a position to increase production as soon as the global economic situation improves, thanks to the mining methods tried and tested during 2008.

The group will also be looking at developing new sales markets especially in the East, Middle East and Australasia. The sight-holder system will remain but un-sold sights will be offered to non-sight holders in an effort to maintain a positive cash flow. The introduction of The Tanzanite Experience in Arusha as a base for selling quality cut gems will continue to increase public knowledge and awareness of the product world wide.

Our ability as an adaptable and forward thinking outfit to change when required at the drop of a hat has brought us to where we are today and will ensure that we will move into other gemstone fields and develop new projects to ensure our growth and sustainability.

ZANE SWANEPOEL
Managing Director, TanzaniteOne
24 June 2009

2008 FINANCIAL REVIEW

TanzaniteOne incurred a consolidated loss for the year ended 31 December 2008 of $9.4 million (US 12.63 cents per share), down from the previous year during which a profit of $6.6 million (US 8.96 cents per share) was recorded. Revenue from ordinary activities for the period decreased 37% to $26.9 million from $42.6 million in FY2007, due to the impact of the global economic downturn in the last three months of the year.

The result for the year was heavily influenced by a significant reduction in sales revenue experienced in the second half of 2008, which saw sales decrease by 72% compared to the first half of the year. During this period, the price of tanzanite fell approximately 45% due to the sudden drop in demand at two sight sales held in the second half of 2008.

The result was also adversely affected by the following: a write down in tanzanite inventory values of $2.6 million as a direct result of the decrease in the price of tanzanite; $1.7 million in advisory fees incurred in relation with Gemfields tender offer; $0.6 million bad debts written off mainly due to a debtor, Reho Diamonds of South Africa, being placed into liquidation; $0.9 million in termination payments; $1.8 million foreign exchange loss mainly due to the weakening of the Rand against the US dollar and de-recognition of a deferred tax asset of $1.2 million in TanzaniteOne (SA) Limited.

The total dividend in respect of the year ended 31 December 2008 was US4 cents, a decrease of 60% from the previous year. This related to an interim dividend as no final dividend was declared as it was felt prudent to defer further dividends until market conditions strengthen and the company returns to profitability.

The Group achieved a gross margin for the year of 36% compared to 50% in FY2007. The reduced gross margin was due a combination of lower prices and increased costs caused by inflationary pressures and the write-down of tanzanite inventory as a consequence of the decrease in the price of tanzanite in the last quarter of the year.

Inventory increased 19% to $5.1 million on account of reduced sales in the second half of the year.

Capital expenditure for the year of $4.2 million included purchase of security equipment, stoping machinery, development and exploration expenditure, plant and other required mining machinery.

Cash balances at 31 December 2008 were $0.8 million compared to $12.9 million at 31 December 2007. Cash balances during the second half were impacted by weak net cash generated from operating activities due to the rapid decline in sales from October 2008 through to the end of the financial year. The impact of the global financial crisis has been sudden and has had an immediate negative effect on cash flows.

OPERATIONAL REVIEW

The tanzanite resource strikes along a length of seven kilometers and is divided into five blocks. TanzaniteOne in Block C undertakes larger scale mining, medium scale mining is undertaken by Kilimanjaro Mining in Block A and Tanzanite Africa in Block D-extension. The company's neighboring Blocks B and D are mined largely by artisanal and 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.

2008 PRODUCTION

A significant improvement in production rates over 2008 was achieved due to the introduction of selective stoping in limb boudin areas between developed fold systems and the continued practice of concurrently mining multiple producing faces. CT Shaft produced the majority of the material, although the overall grade was disappointingly low. The higher grade material was recovered from Main and Delta shafts. Whilst overall production has increased significantly, the level of high quality tanzanite remains low at 28%.

Processed tonnes increased significantly to 42,318 tonnes from 25,367 tonnes in 2007. During the first half of the year the mine produced 1,101,905 carats from 20,380 tonnes processed, averaging 54 c/t recovery. Production remained constant during the second half, recovering 1,101,257 carats from 21,938 tonnes processed, averaging 50 c/t recovery. Scrapers are being used to clean stope faces, leading to reduced numbers of men at the face and improved efficiencies. Tests carried out revealed that the tanzanite is not damaged by the scraper hoe.

Production remained constant during the second half, recovering 1,101,257 carats from 21,938 tonnes processed, averaging 50 c/t recovery

PRODUCTION STATISTICS

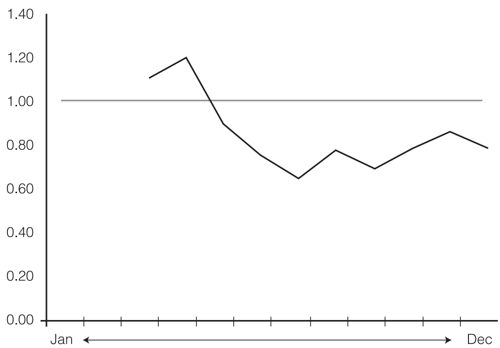
	Unit	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
On Mine Cash Costs	$/carat	4.59	3.39	4.47	1.25	4.21
Development	metres	3,877	3,935	4,671	3,700	2,350
Plant Feed (metric tonnes)	MT	42,318	25,367	15,896	20,931	29,976
Grade	c/tonne	52	67	77	70	33
Tanzanite Production	**Carats**	**2,203,162**	**1,700,134**	**1,230,600**	**1,460,075**	**984,058**
% High Quality (1)	%	28%	29%	31%	20% (2)	20%
% "C" Quality	%	72%	71%	69%	80%	80%

(1) Includes "A", "B" and "BL" Quality Material
(2) "BL" Quality material introduced in 2005.

SAFETY

Operations experienced a very disappointing year with two on mine fatalities being reported. One man died in a hoisting accident in CT shaft whilst the second man drowned when excess water came into Delta shaft through illegal workings from Block "D". However, a notable reduction in lost time and dressing case accidents was noted, resulting in the lost time injury frequency severity rate for the year falling to below 1.00 mine wide. TanzaniteOne has hired a dedicated safety and training officer to help improve skills and motivation amongst the miners. Regular safety audits are carried out with remedial actions being enforced to reduce the risk of accidents and property loss.

TOTAL MINE LT IFR 2008



LT IFR	0.00	0.00	1.11	1.2	0.90	0.75	0.65	0.78	0.70	0.79	0.86	0.79
TARGET	1	1	1	1	1	1	1	1	1	1	1	1

UNDERMINING

This continues to be a major challenge to the operation with ongoing illegal mining activities continuing to take place from both Blocks B and D. Constant communication with officials from the Zonal Mines Office and the Ministry of Energy and Minerals yields results from time to time, but the problem continues.

In March 2008, a major flooding of the neighbouring Block B workings occurred in which 79 small scale miners lost their lives. TanzaniteOne, with assistance from Barrick Mines, co-ordinated the de-watering of the operations to allow the rescue effort and removal of bodies to be conducted. Although water entered into Bravo and CT shafts from the illegal holings from Block B, no TanzaniteOne employees were injured, but production was affected for six weeks.

TanzaniteOne has since co-ordinated and paid for the reclamation of a drainage canal and the filling of a large open cast working in Block B through which most of the water entered the small workings. This should ensure no further repeat of such a tragedy.

ON MINE CASH COSTS

Recognising the difficult economic environment, the strategy for 2009 is to focus on developing areas that the geologists believe have the highest possibility of yielding production

Cash costs for the period increased by 35% to $4.59 per carat, from $3.39 in 2007. This was largely due to a significant increase in labour costs brought upon by the government increase in the minimum wage by 268% with effect from January 2008. On mine cash costs include operating costs, mine administration costs and royalty charges incurred at the Merelani mine.

The introduction of a minimum wage by the Government with effect from January 2008 has increased staff labour costs by an overall 190%. Revised crew arrangements were put in place to secure increased efficiencies against these higher wage rates. As a result, increased efficiencies of 15% were achieved with less people in the crews and revised work schedules.

Recognising the difficult economic environment, the strategy for 2009 is to focus on developing areas that the geologists believe have the highest possibility of yielding production. Stoping will be suspended in an effort to increase the head grade from the shafts to reduce plant throughput and thus save costs.

As the Group's mine procurement division is now managed from Tanzania, increased efforts are being made to source equipment and supplies out of China at lower prices in preference to traditional suppliers in South Africa.

SECURITY

The commissioning of the CCTV system being controlled from a central control room and the introduction of two static x-scan units at the plant and CT shaft has greatly assisted in securing our production and reducing shrinkage from high risk areas.

The use of scrapers in stoping areas greatly increased the tonnage moved per man from the mine

The use of scrapers in stoping areas greatly increased the tonnage moved per man from the mine, thus reducing the potential for would-be thieves to source material at the production faces. This enabled added senior security personnel to be made available to secure high grade producing development ends.

The focus is for management to secure as much as possible of the material from a production face before it is moved to the plant through face picking and collecting tanzanite from the muck-pile during cleaning operations. We believe that we now remove >70% of production in bags from a production face, and hand deliver it to the sort-house.

HUMAN RESOURCES

The government announced a 268% increase in minimum wages for the mining sector which came into effect on 1st January 2008. Following successful negotiations between the company and the union representatives and government, non-core employees are paid sector rates as opposed to mining sector rates.

The global economic situation has required that management look at re-structuring the operation with a view to reducing labour and contracting out non-core services where possible to cut costs. Since September, vacated positions have been filled by internal promotions and personnel restructuring. A retrenchment exercise is currently being considered to bring the workforce numbers in line with 2007 numbers, prior to implementation of the production ramp-up strategy in late 2007.

We are involved with a water supply project in Merelani as well as assisting the Charitable Eye-care Mission to once again hold its successful Eye Care Day

TanzaniteOne continues to support the local community with school fund raising efforts, the supply to date of 50 beds to the secondary school and participation in Aids awareness seminars. A committee has been set up with members of the local community, Merelani town representatives and TanzaniteOne in an effort to broaden assistance given to the needy projects. We are involved with a water supply project in Merelani as well as assisting the Charitable Eye-care Mission to once again hold its successful Eye Care Day, which saw a further approximately 300 people getting treatment.

TanzaniteOne continues to maintain and repair the dirt road from KIA airport to the mine, a total of 17 kilometres. This is the main road into Merelani town.

EXPLORATION

Activities in 2008 centred on the exploration drilling in areas surrounding the tanzanite controlled area.

During 2008 the tanzanite exploration programme focused on diamond core drilling of various exploration targets, comprising of:

- Drilling of potential anomalies identified through ground geophysical surveys;
- Further investigation of the down-dip extent of the main tanzanite bearing unit at depth;
- Drilling of the Block C Upper-Horizon, believed to potentially represent a duplication of the main tanzanite bearing Lower-Horizon;

Two diamond core boreholes were drilled on PL 2148, located directly next to the NE termination of current known extent of the tanzanite bearing deposit. Graphitic gneisses and a boudin structure were intersected at a depth of 223 metres. The core has been sampled and send for geochemical testing for comparison with the company's extensive geochemical database.

The continuation of the main tanzanite-bearing layer at depth was tested by drill hole KIB1 located on the projected down-dip extent of the Block C mining area. The hole was drilled to a vertical depth of 750 metres. The main tanzanite-bearing unit (locally termed the JW unit) is believed to have been intersected at a down dip extent of 1,118 metres. The potential tanzanite-bearing unit has been sampled and submitted for geochemical analyses.

Three diamond core boreholes were drilled within the company's Block C tenement to investigate the Upper Horizon along a line of the planned Upper Horizon exploration shaft. The Upper Horizon is believed to potentially represent a duplication of the main tanzanite bearing Lower Horizon. All three drill holes intersected tanzanite-bearing structures (termed boudins). Although preparation work for the sinking of the shaft has began the physical sinking of the shaft has been postponed as part of the companies streamlining of activities and capital project reduction measurements.

Other exploration projects
TanzaniteOne has been actively investigating and evaluation various coloured gemstone projects during 2008 as part of its diversification strategy. The company investigated coloured gemstones including, tsavorite, emerald, sapphire, ruby, spinel and tourmaline.

Significant strides have also been made in preparing for the bulk sampling of the Lemshuku and Shamberia Tsavorite projects once the transaction has been completed. Bulk sampling will commence on 5 planned lines with the Lemshuku area as part of the mining feasibility studies. The lines will be approximately 2000 metres long and gravel samples will be taken every 50 metres.

TSAVORITE

Due to the current global financial crisis all non-essential capital projects, including the tsavorite bulk sampling project, have temporarily been put on hold

The acquisition of the Lemshuku-Shamberai Tsavorite Project through its 75% owned Tanzanian subsidiary; TsavoriteOne Mining Limited has been completed. The project:

- Comprises 12 prospecting licenses covering 100 square kilometres.
- Is located approximately 20 kilometres to the south-west of TanzaniteOne's existing tanzanite operations.

Tsavorite enjoys a current quality-for-quality market-price per carat of approximately two to four times that of tanzanite.

During the year, a small test plant was commissioned on site and the bulk sampling commenced along the first of five trench lines, each measuring about two kilometres long. Test pits are being dug through the gravel layers to bed-rock at 50 metre intervals along the lines.

Due to the current global financial crisis all non-essential capital projects, including the tsavorite bulk sampling project, have temporarily been put on hold. Bulk sampling will resume during early second half of FY2009.

TRADING

TanzaniteOne Trading (T1T) cemented its position as one of if not the strongest tanzanite buying operation in Tanzania. Relationships have been developed with all the prominent brokers and 2008 purchases are testament to that.

The first quarter of 2008 has been the most successful first quarter in TanzaniteOne Trading's history. The first three months of the year have historically been the slowest, but this year purchases exceeded target. In comparison, the first quarter's purchases surpassed purchases for the entire first half of 2007 by both volume and value.

A-quality was extremely sought after in the market especially just prior to the JCK show in Las Vegas and T1T managed to procure a total of 3,654 carats at an average of US$ 128/ct. This was a 4% price increase from the first quarter but some exceptional, larger pieces were procured thus justifying the higher price.

Early October saw a sharp decline in prices as the market starting to feel the true effects of the recession. The downturn in demand had a significant effect on prices as rough was being pushed onto the market in large quantities. By December prices fell to what was approximately 50% less than the July's prices in the smaller sizes and 35% less in the larger sizes (10ct+).

During 2008 a total of 243,808 carats were purchased for a total of US$ 10,827,161 of which US$ 1,411,313 was large size "A" quality rough weighing 11,225 carats. These purchases exceeded 2007's purchases in A and B quality with a better quality mix. The focus was on purchasing medium to fine –quality rough of 2.5 carats and above.

THE TANZANITE EXPERIENCE

In August 2008, TanzaniteOne opened The Tanzanite Experience (TTE), a "museum" in Arusha that showcases the history of tanzanite through a series of visual and interactive exhibitions whilst affording visitors the unique opportunity to purchase tanzanite directly from the world's only known source.

TTE targets approximately 600,000 tourists who pass through the town annually. Marketing is geared towards safari companies and tour operators in an effort to include a visit to this facility on their itineraries. TTE is proving to be a huge success with approximately 150 people per week passing through. We have noted that the prices of cut stone sold through TTE have remained constant during the global downturn. This is testament to the high standard of the décor and presentations on offer in the museum.

THE TANZANITE FOUNDATION

The Tanzanite Foundation (TF) has been working actively throughout the year to further grow the market for tanzanite worldwide through initiating collaborations with designers, brands and retailers in existing markets as well as in new markets, including India, Dubai, Japan, Australia, Tanzania and Europe. A few highlights of collaborations include; UK brand Jooal who launched a tanzanite jewellery concession in Mumbai at a high-end designer concept store, Muse. Together we have garnered extensive press coverage and awareness of tanzanite, with Bollywood stars and the Indian elite wearing Jooal jewels. US 'Jeweller to the Stars', Erica Courtney created a one of a kind tanzanite jewellery collection that was showcased during the Oscars. International brand, Stephen Webster launched a tanzanite 'Killer Man Jaro' collection that was launched to the European market in Basel (March 2008) and to the US market at the Las Vegas Show (May 2008). Dhamani, an established brand in Dubai has embraced tanzanite, selling and marketing the gem in the Middle East.

The TF conducted consumer market research on tanzanite and tanzanite jewellery in the US market, gaining a better understanding of how tanzanite is perceived and how to better position the gem in the US market, a model that we are now using in new markets.

TF continued to promote tanzanite through working with the international trade and consumer media to keep tanzanite in the consumers' mind and to further educate the market place. We continuously work on celebrity endorsements, with Cate Blanchett to be the latest to adorn a Chopard tanzanite necklace to a premiere at the Cannes Film Festival 2008. We have participated at tradeshows worldwide, such as Tucson, Basel, Las Vegas, Hong Kong and Jaipur, showcasing independent designers tanzanite jewellery.

Several jewellers and jewellery companies have made donations towards the TF community development projects, as well as participating in workshops with the school children of Naisinyai Primary and Secondary schools. Tanzanite International, a large tanzanite jewellery company also funded the Charitable Eyecare Mission in Arusha providing eyecare treatment to over 2000 patients.

The Tanzanite Foundation continues to promote the Tanzanite Quality Scale™ and has partnered with two new gemmological laboratories this year - International Diamond Laboratories and the German Foundation adding to the International Gemmological Institute and American Gem Trade Association as licensed laboratories.

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 2008, performance and cash flow for the year ended on that date of the consolidated entity; and
   ii) comply with IFRS; and

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

On behalf of the board

ZANE SWANEPOEL
Director
TanzaniteOne Limited
24 June 2009

DIRECTORS' REPORT

The directors present this report, together with the audited financial statements for the year ended 31 December 2008.

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 income statement for the year ended 31 December 2008 and the consolidated balance sheet at that date are set out on pages 40 and 41 of this report respectively. The Group recorded a loss of US$ 9.5 million (2007: US$ 6.5 million profit) for the financial year after minority interest. Taking into account this loss, shareholders' equity at 31 December 2008 is US$ 28.6 million (2007: US$ 45.5 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 2008 is US 4 cents (2007: US 10 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 (58), 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. Mr Mpungwe has been non-executive deputy chairman of the Group until his appointment to executive chairman position effective 24 October 2008, following the resignation of Mr Michael Adams.

Edward Nealon (58), 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. Mr Nealon was appointed deputy chairman of the Group on 24 October 2008.

Michael Adams (60), Non-executive Chairman - resigned 24 October 2008
Mr Adams graduated from Cambridge University in 1969. He has 36 years' experience in the financial services sector including 33 years in senior management. During this time, he has been directly involved in a broad spectrum of industries since his private investment group, the MAA Group, began to focus on direct investment activities in 1982.The MAA Group has interests in mining, heavy industry and information technology. He has been the Chairman, Vice Chairman, President and director of a wide range of public and private companies. Mr Adams resigned as a director effective 24 October 2008.

Zane Swanepoel (49), Managing Director
Mr. Swanepoel was appointed Managing Director of TanzaniteOne Limited on 29 February 2008. He has 25 years experience in mining of which 18 years has been at senior mine management level. Mr. Swanepoel has been instrumental in coordinating and developing the Group's operational growth to date and will continue to be based at the mine in Merelani. He will drive the operational performance and growth of the tanzanite operations and the tsavorite project. Mr. Swanepoel joined the Company in September 2005 as General Manager – Mining.

Bernard Olivier (33), Non-executive director - appointed 5 November 2008
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 was appointed to the Board effective 5 November 2008. Subsequent to year end, Dr Olivier was appointed to the new executive position of Head of Development, with effect from 5 May 2009, to focus on developing the commercial aspects of the business, notably the Group's sales, growth and investor strategy.

Nicholas Sibley (71), 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.

Mark Summers (39), Non-executive director - removed 31 October 2008
Mr Summers is a Chartered Accountant and a Chartered Management Accountant. After completing his articles at Coopers and Lybrand, he joined Anglo American's Corporate and International Finance Department. From 1999 to 2002, he was an associate director in the Mining Corporate Finance division at HSBC, where his corporate clients included Afgem, De Beers, Kroondal Platinum and the Industrial Development Corporation of South Africa. In April 2002, Mr Summers joined the business as Chief Financial Officer. Mr Summers was removed on 31 October 2008.

MEETINGS OF DIRECTORS

The number of meetings of the board of directors of the company held during the year ended 31 December 2008 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
Michael Adams (3)	4	1	2	1	4	1	2	1
Zane Swanepoel	6	-	-	2	6	-	-	2
Ami Mpungwe	6	1	-	2	5	1	-	2
Edward Nealon	6	1	2	2	6	1	2	2
Nicholas Sibley	6	-	2	2	6	-	2	2
Bernard Olivier(1)	1	-	-	-	1	-	-	-
Mark Summers(2)	4	-	-	1	4	-	-	1

(1) Mr Olivier was appointed on 5 November 2008.
(2) Mr Summers was removed on 31 October 2008.
(3) Mr Adams resigned on 24 October 2008.

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	2,972,045	-
Zane Swanepoel	66,050	75,000(1)
Bernard Olivier	301,087	-
Edward Nealon	2,779,855	-
Nicholas Sibley	4,402,243	-

(1) Includes options exercisable at £0.46 per share up to 31 January 2018.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

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

Details of the nature and amount of each element of the emolument of each director of the Group during the financial year are shown in the table below. Refer also note 15 – Share options outstanding for participation by the directors in the Company's Group Share Option Plan.

Director	Base salary	Consulting fees	Other	Total
	$	$	$	$
Michael Adams	55,650	-	-	55,650
Ami Mpungwe	53,650	-	55,000(1)	108,650
Edward Nealon	39,900	-	-	39,900
Ian Harebottle	49,354	-	851,324(3)	900,678
Mark Summers	36,867	86,287(2)	-	123,154
Nicholas Sibley	36,750	-	-	36,750
Bernard Olivier	-	-	-	-

(1) The payment was for advisory and consultancy services for the financial year.
(2) A consultancy services agreement, dated 30 July 2004, was entered into between Amari Management Services (Proprietary) Limited ("Amari") and TanzaniteOne SA Limited, wherein Amari agreed to provide the services of Mark Summers as Chief Financial Officer to TanzaniteOne (SA) Limited, the services being terminable on six months written notice and which are provided at an estimated annual fee of ZAR 800,000.
(3) The payment was for termination benefits.

DIRECTORS' AND OFFICERS' INSURANCE

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

CORPORATE GOVERNANCE

The following statement sets out the governance practices of TanzaniteOne.

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

BOARD OF DIRECTORS

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

In order to retain full and effective control over the Company and monitor the executive management team, the board meets regularly and at least on a quarterly basis. Details of directors' attendance at these meetings are set out on page 25. In consultation with the Managing Director and the Company Secretary, the Chairman sets the agenda for these meetings. All directors may add to the agenda. Key executives of the Group contribute to board papers and are from time to time invited to attend board meetings.

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

The names of the directors in office at the time of this report and their relevant qualifications and experience are set out below. 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 Managing Director 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.

- Mr Zane Swanepoel, Managing Director, leads executive management. He has been delegated responsibility by the board for the day-to-day operation and administration of the Company's tanzanite assets via its subsidiary company TanzaniteOne SA Limited. The Managing Director is assisted in managing the business of the Group by an executive team that comprises of the Management Committee. Chairman of the Management Committee is Ami Mpungwe.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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

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

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

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

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

Company Secretary

The Company Secretary, Mr Willi Boehm, is responsible for supporting the effectiveness of the board by monitoring that board policy and procedures are complied with, coordinating the flow of information within the Company and the completion and dispatch of items for the board and briefing materials. The Company Secretary is accountable to the board on all governance matters. All directors have access to the services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board 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 Managing Director, which includes meetings with the executive team and visits to the operating sites of the Company in Tanzania and South Africa. The programme enables the new appointees to gain an understanding of the Group's financial, strategic, operational and risk management position. Full access to all documentation pertaining to the Company is provided. It ensures new directors and key executives are aware of their rights, duties and responsibilities.

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

Directors' retirement and re-election
TanzaniteOne's bye-laws determine that at each Annual General Meeting, at least one third of the board are retired by rotation, therefore holding their positions for no longer than three years. This period of time provides sufficient continuity. Non-executive directors are appointed for a three-year term and may be invited to seek reappointment. A director appointed during the year is subject for 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/Risk Committee has been established to assist the board of TanzaniteOne in fulfilling its corporate governance and oversight responsibilities in relation to the Group's financial reports and financial reporting process, internal control structure, risk management systems (financial and non-financial) and the external audit process. The Committee is governed by a charter approved by the board.

The Committee consists of:

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

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

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

Qualifications of Audit and Risk Management Committee members:

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

Mr 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 Nealon was appointed non-executive deputy chairman of the Group on 24 October 2008.

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

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

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

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

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

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

Remuneration Committee

The members of the Remuneration 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 majority of members of the Committee 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 27.

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 25.

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

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

Events subsequent to balance sheet date are set out in note 25.

Signed in accordance with a resolution of the directors.

ZANE SWANEPOEL
Managing Director
TanzaniteOne Limited
24 June 2009

TO THE MEMBERS OF TANZANITEONE LIMITED

We have audited the consolidated annual financial statements of TanzaniteOne Limited, which comprise the balance sheet at 31 December 2008, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 93.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated financial position of TanzaniteOne Limited at 31 December 2008, 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

24 June 2009

Consolidated income statement
for the year ended 31 December 2008

	Note	US$ '000 2008	US$ '000 2007
Revenue	3	**26,895**	42,635
Cost of sales		**(17,321)**	(21,319)
Gross profit		**9,574**	21,316
Selling and distribution expenses		**(4,241)**	(3,257)
Administrative expenses		**(6,762)**	(6,444)
Other operating expenses		**(6,966)**	(2,947)
Operating (loss)/profit	4	**(8,395)**	8,668
Finance income	5	**72**	399
Finance cost	5	**(81)**	(80)
(Loss)/profit before tax		**(8,404)**	8,987
Income tax expense	6	**(1,057)**	(2,503)
(Loss)/profit for the year		**(9,461)**	6,484
Attributable to:			
Equity holders		**(9,409)**	6,575
Minority interest	17	**(52)**	(91)
(Loss)/profit for the year		**(9,461)**	6,484
Earnings per share			
Basic (loss)/earnings per share (US cents/share)	18.1	**(12.63)**	8.96
Diluted (loss)/earnings per share (US cents/share)	18.2	**(12.63)**	8.74

Consolidated balance sheet
at 31 December 2008

	Note	US$ '000 2008	US$ '000 2007
Assets			
Property, plant and equipment	7	**23,412**	21,560
Deferred tax assets	8	**193**	2,376
Inventories	9	**327**	500
Total non-current assets		**23,932**	24,436
Inventories	9	**4,756**	3,774
Income tax receivable	10	**1,916**	2,757
Trade and other receivables	11	**2,647**	10,227
Cash and cash equivalents	12	**1,491**	12,935
Total current assets		**10,810**	29,693
Total assets		**34,742**	54,129
Equity			
Issued share capital	13	**22**	22
Share premium	14	**38,709**	38,709
Share option reserve	15	**706**	706
Foreign currency translation reserve	16	**(20)**	(227)
Retained earnings		**(10,855)**	6,287
Total equity attributable to equity holders of the parent		**28,562**	45,497
Minority interest	17	**4**	56
Total equity		**28,566**	45,553
Liabilities			
Interest-bearing borrowings	19	**378**	654
Provision for environmental rehabilitation	20	**100**	94
Deferred tax liabilities	8	**3,196**	3,992
Total non-current liabilities		**3,674**	4,740
Bank overdraft	12	**697**	-
Interest-bearing borrowings	19	**6**	256
Income tax payable	10	**28**	2,309
Trade and other payables	21	**1,771**	1,271
Total current liabilities		**2,502**	3,836
Total liabilities		**6,176**	8,576
Total equity and liabilities		**34,742**	54,129

Consolidated statement of changes in equity
for the year ended 31 December 2008

	Note	**Common share capital**	**A class share capital**	**Total issued share capital**	**Share premium**	**Share option reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Total equity attributable to shareholders**	**Minority interest**	**Total equity**
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2007		**21**	**1**	**22**	**37,671**	**739**	**(27)**	**6,377**	**44,782**	**156**	**44,938**
Issue of share capital											
- Common share capital	*13.1*										
- A class share capital	*13.2, 14*		*	*	1,038				1,038		1,038
Profit for the year								6,575	6,575	(91)	6,484
Share options outstanding	*15*					(33)			(33)		(33)
Foreign currency translation differences	*16*						(200)		(200)		(200)
Dividends declared and paid								(6,665)	(6,665)	(9)	(6,674)
Balance at 31 December 2007		**21**	**1**	**22**	**38,709**	**706**	**(227)**	**6,287**	**45,497**	**56**	**45,553**
Balance at 1 January 2008		**21**	**1**	**22**	**38,709**	**706**	**(227)**	**6,287**	**45,497**	**56**	**45,553**
Loss for the year								(9,409)	(9,409)	(52)	(9,461)
Foreign currency translation differences	*16*						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)**	**(10,855)**	**28,562**	**4**	**28,566**

* - Less than US$1 000.

Consolidated cash flow statement
for the year ended 31 December 2008

	Note	US$ '000 2008	US$ '000 2007
Cash flows from operating activities			
Cash generated from operations	22.1	1,828	17,680
Finance income received		72	399
Finance cost paid		(75)	(68)
Taxation paid	22.2	(1,666)	(3,591)
Net cash from operating activities		159	14,420
Cash flows from investing activities			
Acquisition of property, plant and equipment		(4,175)	(2,600)
Proceeds on disposal of property, plant and equipment		103	42
Net cash used in investing activities		(4,072)	(2,558)
Cash flows from financing activities			
Proceeds from issue of shares	22.3	-	1,038
Dividends paid		(7,733)	(6,674)
Decrease in interest-bearing borrowings		(526)	(266)
Net cash used in financing activities		(8,259)	(5,902)
Net (decrease)/increase in cash and cash equivalents		(12,172)	5,960
Translation difference in opening cash balance		31	(30)
Cash and cash equivalents at beginning of year		12,935	7,005
Cash and cash equivalents at end of year	12	794	12,935

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies

Tanzanite One 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 24 June 2009.

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 standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 2).

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.The revised IAS 23 will become mandatory for the Group’s 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.Therefore there will be no impact on prior periods in the Group’s 2009 consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any impact on the consolidated financial statements.

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have an impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

- Revised IFRS 3 Business Combinations (2008) incorporates the following changes:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

- Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

1.2 Basis of preparation

These consolidated financial statements are presented in United States Dollar ("US$") which is the Group's presentation currency, rounded to the nearest thousand, and are prepared on the historical cost basis except for the following:
- Share options measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Available-for-sale financial assets are measured at fair value.

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

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

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

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may be impaired. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each class of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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 estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

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

1.3 Basis of consolidation

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

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

1.4 Foreign currency

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

1.4.2 Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to US$ at foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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 equity. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the income statement. 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 and are recognised directly in equity.

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 equity in a foreign currency translation reserve. They are transferred into the income statement upon disposal.

1.5 Financial instruments

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

1.5.1 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

1.5.2 Derivative financial instruments

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

1.5.3 Share capital

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

1.6.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis, 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 balance sheet date.

Research costs
Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement when incurred.

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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 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 exploitation 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.

Impairment
The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount and sufficient data exists to determine technical feasibility and commercial viability.

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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 balance sheet date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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.

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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk circumstances. All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

1.9.1 Calculation of recoverable amount
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 value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted using the effective interest rate computed at initial recognition of the receivables.

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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

1.10.2 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 charged to the income statement as incurred.

1.11 Provisions

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

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 becomes available.

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 in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, associated costs or the possible return of goods can be estimated reliably, 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.
Interest income is recognised in the income statement as it accrues, using the effective interest method.

1.14 Income tax expense

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1. Accounting Policies (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for:

- initial recognition of assets or liabilities that affect neither accounting nor taxable profit;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future; and
- initial recognition of assets or 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 balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

1.15 Segment reporting

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

1.16 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.

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2. Segment reporting

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

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

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

Business segments
The Group comprises the following main business segments:

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

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

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

Notes to the consolidated financial statements
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2. Segment reporting (continued)

Business segments	Rough tanzanite	Cut and polished tanzanite and jewellery	Total
31 December 2008	**US$ '000**	**US$ '000**	**US$ '000**
Total revenue	**49,594**	**198**	**49,792**
Intra-segment revenue elimination	**(22,897)**	**-**	**(22,897)**
Revenue from external customers	**26,697**	**198**	**26,895**
Segment result	**(11,080)**	**2,685**	**(8,395)**
Net financing income			**(9)**
Income tax expense			**(1,057)**
Minority interest			**52**
Net loss for the year			**9,409**
Segment assets	**33,831**	**911**	**34,742**
Segment liabilities	**6,175**	**1**	**6,176**
Capital expenditure	**4,175**	**-**	**4,175**
Cashflow from operating activities	**978**	**(819)**	**159**
Cashflow from investing activities	**(4,072)**	**-**	**(4,072)**
Cashflow from financing activities	**(8,259)**	**-**	**(8,259)**
31 December 2007			
Total revenue	66,492	1,731	68,223
Intra-segment revenue elimination	(25,588)		(25,588)
Revenue from external customers	40,904	1,731	42,635
Segment result	8,830	(162)	8,668
Net financing income			319
Income tax expense			(2,503)
Minority interest			91
Net profit for the year			6,575
Segment assets	51,763	2,366	54,129
Segment liabilities	8,571	5	8,576
Capital expenditure	2,599	-	2,599
Cash flow from operating activities	12,372	2,048	14,420
Cash flow from investing activities	(2,558)	-	(2,558)
Cash flow from financing activities	(5,902)	-	(5,902)

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2. Segment reporting (continued)

	Tanzania US$ '000	United Kingdom US$ '000	Dubai US$ '000	Mauritius US$ '000	South Africa US$ '000	Total US$ '000
Geographical segments						
31 December 2008						
Total revenue	**24,588**	**–**	**–**	**25,203**	**–**	**49,792**
Intra-group revenue elimination						**(22,897)**
Revenue from external customers						**26,895**
Segment assets	**27,662**	**26**	**626**	**5,459**	**887**	**34,660**
Unallocated assets						**82**
Total assets						**34,742**
Segment liabilities	**4,381**	**1**	**–**	**–**	**4**	**4,386**
Unallocated liabilities						**1,790**
Total liabilities						**6,176**
Capital expenditure	**3,623**	**–**	**550**	**2**	**–**	**4,175**
Cash flow from operating activities	**9,165**	**(442)**	**626**	**(9,713)**	**523**	**159**
Cash flow from investing activities	**(3,617)**	**–**	**(550)**	**(2)**	**97**	**(4,072)**
Cash flow from financing activities	**(6,608)**	**–**	**–**	**–**	**(1,651)**	**(8,259)**
31 December 2007						
Total revenue	27,955	1,098		38,536	634	68,223
Intra-group revenue elimination						(25,588)
Revenue from external customers						42,635
Segment assets	28,823	1,467		18,589	4,898	53,777
Unallocated assets						352
Total assets						54,129
Segment liabilities	8,022	29		11	292	8,354
Unallocated liabilities						222
Total liabilities						8,576
Capital expenditure	2,539	9		2	49	2,599
Cash flow from operating activities	2,567	1,243		11,617	(1,007)	14,420
Cash flow from investing activities	(2,509)	–		–	(49)	(2,558)
Cash flow from financing activities	774	–		(2)	(6,674)	(5,902)

Notes to the consolidated financial statements
for the year ended 31 December 2008

		US$ '000 2008	US$ '000 2007
3.	**Revenue**		
	Sale of tanzanite	**26,895**	42,635
4.	**Operating (loss)/profit**		
	Operating profit is arrived at after taking the following into account:		
	Auditors' remuneration		
	- audit fees	**276**	225
	Royalties	**1,226**	1,401
	Depreciation of property, plant and equipment	**2,217**	1,858
	Inventory write-down to net realisable value	**2,648**	-
	Impairment of trade receivables	**90**	308
	Profit on disposal of property, plant and equipment	**-**	(31)
	Net foreign exchange difference	**1,826**	(79)
	Directors' emoluments and consulting fees	**3,356**	845
	Operating leases instalments	**162**	341
	Salaries and wages	**5,891**	4,065
	Share-based payment expense	**-**	(33)
5.	**Net financing income/expenses**		
	Interest income	**72**	399
	Finance cost	**(75)**	(68)
	Unwinding of discount	**(6)**	(12)
		(9)	319
6.	**Income tax expense**		
	Recognised in the income statement		
	Current tax expense		
	Current year	**60**	2,559
	Prior year under provision	**-**	71
	Secondary tax on companies	**166**	242
		226	2,872
	Deferred tax expense		
	Origination and reversal of temporary differences	**831**	(369)
	Total income tax expense in the income statement	**1,057**	2,503

Notes to the consolidated financial statements
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6. Income tax expense (continued)

	% 2008	% 2007
Reconciliation of effective tax rate		
Tax rate applicable to the Group's primary operating location	**30.0**	**30.0**
(Loss) /profit before tax (US$'000)	**(8,404)**	**8,987**
Current year's charge as % of (loss)/profit before tax	**(12.6)**	**27.8**
Non-deductible expenses	**7.8**	**1.0**
Effect of tax rates in foreign jurisdictions	**(12.1)**	**16.8**
Deferred tax assets derecognised	**14.3**	**-**
Deferred tax assets not recognised	**23.0**	**(10.4)**
Overprovision in prior year	**0.0**	**0.7**
Effect of secondary tax on companies	**2.0**	**(2.9)**
Other allowances	**7.6**	**(3.0)**
Group's primary operating tax rate	**30.0**	**30.0**

7. Property, plant and equipment

	Cost	Accumulated depreciation and impairment losses	Foreign exchange movement	Carrying amount
31 December 2008	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Owned				
Computer and other equipment	**255**	**(83)**	**1**	**173**
Cutting and gemmological equipment	**–**	**–**	**–**	**-**
Development costs	**11,115**	**(1,632)**	**–**	**9,483**
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**
Total property, plant and equipment	**30,457**	**(7,041)**	**(4)**	**23,412**

Notes to the consolidated financial statements
for the year ended 31 December 2008

7. Property, plant and equipment (continued)

31 December 2007	Cost US$ '000	Accumulated depreciation and impairment losses US$ '000	Foreign exchange movement US$ '000	Carrying amount US$ '000
Owned				
Computer and other equipment	253	(118)	1	136
Cutting and gemmological equipment	135	(117)	–	18
Development costs	9,627	(946)	–	8,681
Earthmoving equipment	292	(112)	–	180
Furniture, fittings and improvements to leased premises	265	(117)	–	148
Infrastructure and surface buildings	2,399	(746)	–	1,653
Plant, machinery and mining equipment	5,186	(1,154)	–	4,032
Motor vehicles	391	(150)	–	241
Office equipment	83	(43)	1	41
Mining licence	3,986	(1,536)	–	2,450
Pre-production expenditure	3,445	(251)	–	3,194
Assets under construction	784	–	(5)	779
Total owned	26,846	(5,290)	(3)	21,553
Leased				
Computer and other equipment	27	(27)	–	–
Motor vehicles	20	(13)	–	7
Office equipment	22	(22)	–	–
Total leased	69	(62)	–	7
Total property, plant and equipment	26,915	(5,352)	(3)	21,560

Notes to the consolidated financial statements

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7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – 2008 (US$ '000)

	Opening balance	Acquis-tions	Transfers in/out	Disposals	Deprecia-tion	Movement in foreign exchange	Total
Computer and other equipment	**136**	**69**	**30**	**(14)**	**(48)**	**-**	**173**
Cutting & gemmological equipment	**18**	**5**	**-**	**(15)**	**(8)**	**-**	**-**
Development costs	**8,681**	**1,493**	**-**	**(1)**	**(690)**	**-**	**9,483**
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 & 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**
Total	**21,560**	**4,175**	**-**	**(103)**	**(2,217)**	**(3)**	**23,412**

Reconciliation of property, plant and equipment – 2007 (US$ '000)

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

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7. Property, plant and equipment (continued)

Security
Except for the leased equipment and equipment acquired through NBC bank loan (refer note 19.2), there are no restrictions on title and no property, plant and equipment has been pledged as security for liabilities.

8. Deferred tax assets and liabilities

	US$ '000 2008	US$ '000 2007
Recognised deferred tax assets and liabilities		
Deferred tax assets comprise of the following temporary differences:		
Inventories	**-**	35
Prepayments	**-**	(13)
Property, plant and equipment	**-**	586
Foreign exchange differences	**-**	207
Assessed losses	**193**	1,561
Deferred tax assets	**193**	2,376

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

	US$ '000 2008	US$ '000 2007
Deferred tax liabilities comprise of the following temporary differences:		
Property, plant and equipment	**(3,196)**	(3,992)
Foreign exchange differences	**-**	-
Deferred tax liabilities	**(3,196)**	(3,992)
Net deferred tax liability	**(3,003)**	(1,616)

Unrecognised deferred tax assets

	US$ '000 2008	US$ '000 2007
Deferred tax assets have not been recognised in respect of the following items: Tax losses	**3,608**	1,984

Deferred tax assets have not been recognised in respect of the tax losses in The Tanzanite Company (UK) Limited, The Tanzanite Company (Pty) 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 therefrom. These losses do not expire.

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8. Deferred tax assets and liabilities (continued)
Movement in temporary differences

	Balance at 31 December 2007 US$ '000	Recognised in income statement US$ '000	Recognised in equity US$ '000	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	(3,406)	212	(2)	(3,196)
Prepayments	(13)	9	4	-
	(1,616)	(831)	(556)	(3,003)

9. Inventories

	US$ '000 2008	US$ '000 2007
Non-current		
Rough gemstone specimens	-	8
Show jewellery	327	492
	327	500
Current		
Rough gemstones	3,931	2,848
Consumables	825	926
	4,756	3,774
	5,083	4,274
Inventories stated at net realisable values	2,546	-

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

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10. Income tax receivable and payable

	US$ '000 2008	US$ '000 2007
Income tax receivable	**1,916**	2,757
Income tax payable	**(28)**	(2,309)
	1,888	448

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

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11. Trade and other receivables

	US$ '000 2008	US$ '000 2007
Trade and other receivables from customers	**3,045**	10,535
Provision for impairment of trade receivables	**(398)**	(308)
	2,647	10,227

Trade receivables that are less than two months past due are not considered impaired. As of 31 December 2007, trade receivables of US$ 568,000 (2007: US$ 2,896,000) 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:

	US$ '000 2008	US$ '000 2007
Past due 61 – 120 days	**18**	2,419
More than one year	**550**	477
	568	2,896

As at 31 December 2008, trade receivables of US$ 398,000 (2007: US$ 308,000) 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:

	US$ '000 2008	US$ '000 2007
At 1 January 2008	**308**	-
Provision for receivables impairment	**90**	308
At 31 December 2008	**398**	308

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

	US$ '000 2008	US$ '000 2007
United States Dollars	**2,124**	6,908
South African Rands	**400**	1,399
Tanzanian Shillings	**118**	1,772
Pound Sterling	**5**	148
	2,647	10,227

Translated into United States Dollars at foreign exchange rates applicable at balance sheet date. The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in note 23.1.

Notes to the consolidated financial statements
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12. Cash and cash equivalents

	US$ '000 2008	US$ '000 2007
Cash at bank and on hand	**868**	12,418
Call deposits	**623**	517
Cash and cash equivalents	**1,491**	12,935
Bank overdraft	**(697)**	-
Cash and cash equivalents in the statement of cash flows	**794**	12,935
Cash and cash equivalents consists of balances receivable in the following currencies:		
United States Dollars	**560**	11,327
South African Rands	**129**	1,120
Tanzanian Shillings	**15**	45
AED (Dubai)	**76**	-
Pound Sterling	**14**	443
	794	12,935

Translated into United States Dollars at foreign exchange rates applicable at balance sheet date.The Group's exposure to interest rate risk and sensitivity analysis for financial instruments are disclosed in note 23.

13. Capital and reserves

13.1 Common share capital

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

Reconciliation of number of common shares in issue

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

Notes to the consolidated financial statements
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	US$ '000 2008	US$ '000 2007
13. Capital and reserves (continued)		
13.2 A class share capital		
Authorised		
66,666,667 A class shares of ZAR0.0003 each	**3**	3
Issued		
17,303,088 (2007: 17,303,088) A class shares of ZAR0.0003 each issued by the Company's wholly-owned subsidiary, TanzaniteOne SA Limited.	**1**	1

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

Total issued share capital	**22**	22

Reconciliation of A class share capital

	Number of shares	Number of shares
Shares in issue at beginning of the year	**17,303,088**	19,992,038
Shares issued pursuant to share option plan	**-**	1,636,072
Share buy back	**-**	(4,325,022)
Shares in issue at end of the year	**17,303,088**	17,303,088

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

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13. Capital and Reserves (continued)

Rights attaching to A class shares
The following rights, privileges and conditions attach to the Tanzanite One 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 Tanzanite One 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 Tanzanite One, 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 Tanzanite One 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 Tanzanite One 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.

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13. Capital and Reserves (continued)

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

With respect to voting rights in TanzaniteOne SA, each Tanzanite One 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.

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13. 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 monies 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.

Notes to the consolidated financial statements
for the year ended 31 December 2008

13. Capital and Reserves (continued)

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

13. Capital and Reserves (continued)

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 Tanzanite One SA A class shares to a family entity or a family member provided that they pay any and all costs relating to the transfer.

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

14. Share premium

	US$ '000 2008	US$ '000 2007
Balance at beginning of the year	**38,709**	37,671
Arising on issue of A class shares pursuant to share option plan	**-**	1,038
Balance at end of the year	**38,709**	38,709

15. Share option reserve

	US$ '000 2008	US$ '000 2007
Balance at beginning of the year	**706**	739
Arising on issue of shares pursuant to share option plan	**-**	(33)
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.

Notes to the consolidated financial statements
for the year ended 31 December 2008

15. Share option reserve (continued)

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

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

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

	2008 Weighted average exercise price (pence/share)	Number of options	2007 Weighted average exercise price (pence/share)	Number of options
Outstanding at the beginning of the year	177	871,000	99	3,208,231
Granted during the year	-	-	-	-
Forfeited during the year	(92)	(213,500)	(78)	(701,159)
Exercised during the year	-	-	(63)	(1,636,072)
Outstanding at the end of the year	144	657,500	177	871,000
Exercisable at the end of the year	144	657,500	157	618,500

The options outstanding at 31 December 2008 have an exercise price in the range of ZAR7.59 to ZAR16.14 (2007: ZAR7.59 to ZAR16.14) and a weighted average contractual life of 5.15 years (2007: 5.56 years). The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

Notes to the consolidated financial statements
for the year ended 31 December 2008

15. Share option reserve (continued)

Fair value of share options and assumptions	**2008 Senior employees**	2007 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.

	US$ '000 2008	US$ '000 2007
16. Foreign currency translation reserve		
Balance at beginning of the year	**(227)**	(27)
Translation of foreign operations	**207**	(200)
Balance at end of the year	**(20)**	(227)

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

		US$ '000 2008	US$ '000 2007
17.	**Minority interest**		
	25% interest in the equity of TanzaniteOne Trading Limited	31	77
	25% interest in the equity of TsavoriteOne Mining Limited	(27)	(21)
		4	56
	25% interest in the loss for the year of TanzaniteOne Trading Limited	(46)	(67)
	25% interest in the loss for the year of TsavoriteOne Mining Limited	(6)	(24)
		(52)	(91)

18. Earnings per share

18.1 Basic (loss)/earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the loss attributable to common shareholders of US$9,409,000 (2007: Profit of US$6,575,000) and a weighted average number of common shares outstanding during the year ended 31 December 2008 of 74,476,691 (2007: 73,397,545) calculated as follows:

	US$ '000 2008	US$ '000 2007
(Loss)/profit attributable to common shareholders	**(9,409)**	6,575

Weighted average number of common shares	**Number of shares**	Number of shares
Effect of common shares on 1 January	**74,476,691**	72,673,952
Effect of common shares issued on 31 March 2007	**-**	630,195
Effect of common shares issued on 20 August 2007	**-**	36,438
Effect of common shares issued on 5 December 2007	**-**	56,960
Weighted average number of common shares	**74,476,691**	73,397,545
Basic (loss)/earnings per common share (US cents/share)	**(12.63)**	8.96

Notes to the consolidated financial statements
for the year ended 31 December 2008

18 Earnings per share (continued)

18.2 Diluted (loss)/earnings per share

The calculation of diluted earnings per share at 31 December 2008 was based on the loss attributable to common shareholders of US$9,409,000 (2007: Profit of US$6,575,000) and a weighted average number of common shares outstanding during the year ended 31 December 2008 of 74,476,691 (2007: 73,397,545), a weighted average number of share options outstanding during the year ended 31 December 2008 of nil (2007: 1,819,917) calcutated as follows:

	2008	2007
Weighted average number of common shares	**Number of shares**	Number of shares
Effect of common shares on 1 January	**74,476,691**	72 673 952
Effect of common shares issued on 31 March 2007	**-**	630 195
Effect of common shares issued on 20 August 2007	**-**	36,438
Effect of common shares issued on 5 December 2007	**-**	56 960
Weighted average number of common shares	**74,476,691**	73 397 545
Weighted average number of share options		
Effect of options issued on 1 January	**-**	3 208 231
Effect of options forfeited	**-**	(1 388 314)
Weighted average number of share options	**-**	1 819 917
Total weighted average number of common shares, share options and share warrants for purposes of diluted earnings per share calculation	**74,476,691**	75 217 462
Diluted earnings per common share (US cents/share)	**(12.63)**	8.74

18.3 Dividends per share

	US$ 000	US$ 000
	2008	2007
Final dividend		
Nil US cents (2007: 7 US cent) per common share	-	5,202
Total dividends paid during the year (US cents/share)	11	9

18.4 *Net asset value per common share*

Net assets (US$'000)	**28,566**	45,553
Net asset value per common share (US cents/share)	**38.36**	61.16

Notes to the consolidated financial statements
for the year ended 31 December 2008

		US$ '000 2008	US$ '000 2007
19.	**Interest-bearing borrowings**		
19.1	***Stannic instalment sale agreement***	**6**	25
	Less: Current portion transferred to current liabilities	**(6)**	(25)
	Balance payable between one and five years	**-**	-

The Stannic instalment sale agreement is secured over certain property, plant and equipment assets with a carrying amount of nil (2007: US$ 6,689), bearing interest at the prime overdraft rate of South Africa minus 1,8 % and is fully repayable in 2009.

19.2	***NBC Bank loan agreement***	**378**	885
	Less: Current portion transferred to current liabilities	**-**	(231)
	Balance payable between one and five years	**378**	654

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$ 378,000 (2007: US$ 615,586), bearing interest at NBC Base rate plus 7% per annum and the annual instalments will be determined on expiry of the moratorium period, expected to be September 2009.

Total interest-bearing borrowings – non-current	**378**	654
Total interest-bearing borrowings – current	**6**	256

Notes to the consolidated financial statements
for the year ended 31 December 2008

20. Provision for environmental rehabilitation

	US$ '000 2008	US$ '000 2007
Balance at beginning of the year	**94**	82
Unwinding of discount	**6**	12
Balance at end of the year	**100**	94
Estimated liability on closure	**100**	94

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

21. Trade and other payables

	US$ '000 2008	US$ '000 2007
Trade and other payables	**1,771**	1,271
Trade and other payables consists of balances payable in the following currencies:		
United States Dollars	**1,756**	456
South African Rands	**(26)**	148
Tanzanian Shillings	**40**	664
Pound Sterling	**1**	3
	1,771	1,271

Translated into United States Dollars at foreign exchange rates applicable at balance sheet date. The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

Notes to the consolidated financial statements
for the year ended 31 December 2008

		US$ '000 2008	US$ '000 2007
22.	**Notes to the cash flow statement**		
22.1	***Cash generated from operations***		
	(Loss)/profit before income tax	**(8,404)**	8,987
	Adjusted for:		
	Depreciation of assets	**2,217**	1,858
	Finance income	**(72)**	(399)
	Finance cost	**75**	68
	Unwinding of discount	**6**	12
	Inventory write-down to net realisable value	**2,648**	-
	Impairment of trade receivables	**90**	308
	Equity settled share-based payment expenses	**-**	(33)
	Profit on disposal of property, plant & equipment	**-**	(31)
	Unrealised foreign exchange difference	**735**	(244)
	Operating income before working capital changes	**(2,705)**	10,526
	Change in inventories	**(3,457)**	6,211
	Change in trade and other receivables	**7,490**	962
	Change in trade and other payables	**500**	(19)
		1,828	17,680

		US$ '000 2008	US$ '000 2007
22.2	***Taxation paid***		
	Income tax receivable at 1 January	**2,757**	2,125
	Income tax payable at 1 January	**(2,309)**	(2,396)
	Current taxation charge	**(226)**	(2,872)
	Income tax receivable at 31 December	**(1,916)**	(2,757)
	Income tax payable at 31 December	**28**	2,309
		(1,666)	(3,591)

Notes to the consolidated financial statements
for the year ended 31 December 2008

Notes to the cash flow statement (continued)

22.3 Net proceeds from the issue of share capital

Issue of A class share capital by TanzaniteOne SA Limited	-	1,038
	-	1,038

23. Financial instruments

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.

23.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash deposits and cash equivalent.

The company 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,

Notes to the consolidated financial statements
for the year ended 31 December 2008

23. Financial instruments (continued)

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.

23.2 Liquidity risk

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

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

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.

23.3 Market risk

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

Foreign currency risk

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

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.

Notes to the consolidated financial statements
for the year ended 31 December 2008

23. Financial instruments (continued)

The company's strategy for managing its foreign currency exposure is through transacting mainly using its functional currency.

Sensitivity analysis
A 10 per cent strengthening of the United States Dollar against the following currencies at 31 December 2008 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 2007.

	US$ '000	US$ '000
Profit and loss	**2008**	2007
South African Rands	**(218)**	(341)
Tanzanian Shillings	**14**	(11)
Great British Pounds	**(160)**	(252)
	(364)	(604)

Equity would have increased in 2008 by US$ 316,000 (2007: decreased by US$1,170,000).

A 10 percent weakening of the United States Dollar against the above currencies at 31 December 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

23. Financial instruments (continued)

23.4 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.

23.5 Trade and other receivables

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

23.6 Non-derivative financial liabilities

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

Trade and other receivables/payables

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

23. Financial Instruments (continued)

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

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

		Carrying amount	Fair value
2008	**Note**	**US$ '000**	**US$ '000**
Trade and other receivables	11	**2,647**	**2,647**
Cash and cash equivalents	12	**794**	**794**
Interest-bearing borrowings	19	**384**	**384**
Trade and other payables	21	**1,771**	**1,771**
2007			
Trade and other receivables	11	10,227	10,227
Cash and cash equivalents	12	12,935	12,935
Interest-bearing borrowings	19	910	910
Trade and other payables	21	1,271	1,271

23.7 Capital management

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

The Group's target is to achieve a return on capital of between 12 and 16 percent. The Group's achieved a negative return on capital of 33.1 percent in 2008 (2007: positive 14.3 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.

Notes to the consolidated financial statements
for the year ended 31 December 2008

24. Commitments

24.1 Capital commitments
No capital commitments existed at balance sheet date (2007: US$ nil).

24.2 Finance lease commitments
Finance lease liabilities are payable as follows:

	Minimum lease payments	**Interest**	**Principal**
	US$ '000	**US$ '000**	**US$ '000**
	2008	**2008**	**2008**
Less than one year	**6**	**-**	**6**
Between two and five years	**378**	**-**	**378**
More than five years	**384**	**-**	**384**

	Minimum lease payments	Interest	Principal
	US$ '000	US$ '000	US$ '000
	2007	2007	2007
Less than one year	313	(57)	256
Between two and five years	721	(67)	654
More than five years	–	–	–
	1,034	(124)	910

24.3 Operating leases

	2008	2007
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	**271**	280
Between one and five years	**201**	105
More than five years	**-**	-
	472	385

Notes to the consolidated financial statements
for the year ended 31 December 2008

25. Subsequent events

The following non-adjusting events occurred subsequent to 31 December 2008:

Completion of Tsavorite Project transaction
On 18 March 2009, the acquisition of Tsavorite Project, located in North East Tanzania, was completed. The Project was acquired from Green Hill Mining Ltd and Kirkwood Resources Ltd for an aggregate consideration of 7,450,000 fully paid TanzaniteOne common shares and US$ 350,000 cash. TanzaniteOne will further define the resource and develop a mine plan taking into account prioritisation of high value extraction. The licence area covers a 100 square kilometre area located approximately 20 to 40km southwest of TanzaniteOne's existing tanzanite operations.

£3.49 Million private placing
On 20 May 2009, the company raised approximately £3.49 million gross of expenses through a private placing of 23,270,469 common shares of US$ 0.0003 each at 15p per Placing Share. The net proceeds of the Placing will be used to provide funds for the acquisition of gem quality tanzanite in the local market, fund the bulk sampling of the company's tsavorite assets, fund further development work on the company's tanzanite assets and provide general working capital for the group. Following Admission the company will have 105,197,160 Common Shares in issue.

26. Related parties

Identity of related parties
The Group has a related party relationship with its subsidiaries, 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 10% (2007: 17%) of the voting shares of TanzaniteOne Limited.

Notes to the consolidated financial statements
for the year ended 31 December 2008

26. Related parties (continued)

Short-term benefits

Key management personnel	**US$ 2008**	US$ 2007
Sales commission paid to C Nunn (spouse of former Chief Executive Officer and significant shareholder)	**347,882**	458,496

Directors' emoluments for the year

Services as directors of the company

Non-executive directors		
Salary	**214,825**	239,939
Executive directors		
Salary	**229,550**	34,013
Termination payments	**851,324**	-
	1,080,874	34,013

Services as directors of the subsidiaries

Non-executive directors		
Salary	**24,388**	44,848
Executive directors		
Salary	**57,346**	337,020

Notes to the consolidated financial statements
for the year ended 31 December 2008

	US$ 2008	US$ 2007
26. Related parties (continued)		
Consulting fees paid to Amari Services (Pty) Ltd in respect of M Summers	**86,287**	172,309
Payments received in respect of share options for Mark Summers	**-**	319,219
Payments received in respect of share options for Ian Harebottle	**-**	147,451
Payments received in respect of share options for A Mpungwe	**-**	77,164
Payments received in respect of share options for Mike Nunn (a significant shareholder)	**-**	285,578

Notes to the consolidated financial statements
for the year ended 31 December 2008

26. Related parties (continued)

Group entities

Significant subsidiaries	Country of incorporation	Products/ Services	Net amounts owing by/(to) subsidiaries 2008 US$ '000	2007 US$ '000	Functional currency	Share holding %
The Tanzanite Company (UK) Limited	Great Britain	Polished gemstone and jewellery sales	**(1,595)**	(2,520)	GBP	100%
Tanzanite One (SA) Limited	Republic of South Africa	Management services	**(17,170)**	(14,439)	ZAR	100%
Tanzanite One Polished Sales (Proprietary) Limited	Republic of South Africa	Polished gemstone and jewellery sales	**3,291**	(752)	ZAR	100%
Afgem International Limited	Republic of Mauritius	Holding company	**(38)**	(27)		
Tanzanite One Mauritius Limited	Republic of Mauritius	Rough and polished tanzanite sales	**9,706**	(182)	US$	100%
Tanzanite One Marketing DMCC	Dubai	Rough and polished tanzanite sales	**(578)**	-	US$	100%
Tanzanite One Mining Limited	United Republic of Tanzania	Tanzanite mining	**9,545**	11,330	US$	100%
Tanzanite One Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	**(902)**	(434)	US$	75%
The Tanzanite Laboratory Limited	United Republic of Tanzania	Certification of tanzanite	**(153)**	(178)	US$	100%
TsavoriteOne Mining Ltd	United Republic of Tanzania	Tsavorite exploration	**(988)**	(90)	US$	75%
Tanzanite Foundation Ltd	Nevis	Tanzanite marketing	**(3,988)**	(3,205)	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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