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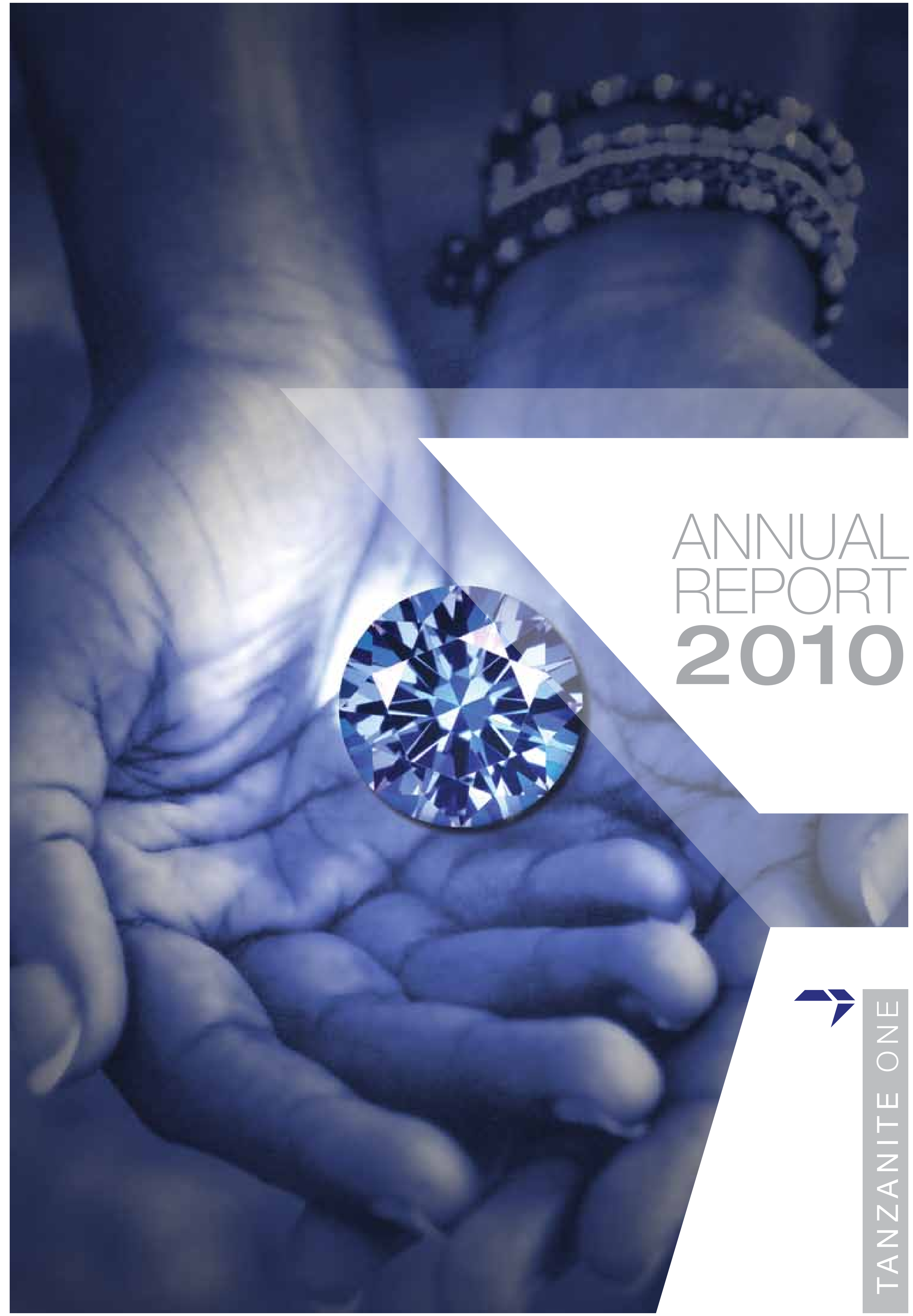
TANZANITEONE ANNUAL REPORT 2010



ANNUAL REPORT 2010

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Chairman's **Statement**

The 2010 financial year was a year of consolidation and recovery, not only for the global economy but also for the luxury goods market and gemstone producers such as TanzaniteOne. The Company's restructuring, cost containment efforts and enhancement of operating efficiency strategies initiated in 2009 were sustained in 2010. As a result, Company made significant economical and production progress compared to 2009.

The Company managed to increase production by 15% from 1.9 million carats in 2009 to 2.2 million carats in 2010. The production increase was supported by the partial recovery in the demand and price for Tanzanite observed in 2010. The increase in production, demand and Tanzanite prices, enabled the Company to achieve total sales of US$15.9 million in 2010, representing a 28% increase from our total sales US$12.56 million that was achieved in 2009. The average grade in 2010 also increased by 18% from 50 carats per tonne in 2009 to 59 per tonne in 2010.

The 2010 financial figures are, therefore a clear testimony to the success of our restructuring, cost reduction and operating efficiency optimisation programmes. However, despite the significant improvement from the 2009 figures, the Company believes that there is still a long period of recovery ahead and will continue its efforts to return and exceed the profit levels previously achieved.

TanzaniteOne is proud to contribute significant tax revenues to the Tanzanian Government. It also provides direct employment to over 650 people and strives to improve the lives of the people in the surrounding local communities in which the Company operates in. TanzaniteOne, as the largest and most scientifically advanced miner and supplier of Tanzanite in the world, also continues to support the formalisation and growth of the gemstone mining industry in Tanzania. In this regard, the Company also commissioned a new cutting and polishing facility located at the mine in 2010 and will continue to expand our in house cutting operations over the next 12 months.

As a significant player in the mining and marketing of coloured gemstones, TanzaniteOne is also using its mine to market knowledge of the coloured gemstone industry to actively diversify into other coloured gemstone mining and marketing projects in order to consolidate its position as the world's leading premium coloured gemstone mining company. The Company is currently pilot sampling its Tsavorite deposit, located approximately 20 km from our Tanzanite mine and has already established a JORC compliant inferred and indicated resource for the deposit. We sincerely believe that there is a unique growth opportunity in the coloured gemstone industry for a diversified coloured gemstone miner to emerge with a diversified portfolio as there are currently only a handful of listed coloured gemstone mining companies in the world. We are therefore actively seeking and evaluating other coloured gemstone mining opportunities that will slot into our mine to market business model.

Looking forward to the 2011 financial year, I believe TanzaniteOne is in a strong position to further develop its status as a world leader in the coloured gemstone mining and marketing industry. In this regard, would like to thank our employees and the Board of Directors for their excellent work and dedication throughout the year. I would also like to thank all our shareholders and other industry stakeholders for their continued loyalty and support during the period of change and restructuring.

Ami Mpungwe
Chairman

Operation and Financial **Review**

TanzaniteOne is the largest and most scientifically advanced miner and supplier of Tanzanite in the world. This unique position allows the opportunity to support and influence the entire mine to market process, ensuring that maximum stakeholder value is achieved at each stage of the process. As a world leader in the mining and marketing of coloured gemstones, TanzaniteOne is also using its mine-to-market knowledge of the coloured gemstone industry to actively diversify into other coloured gemstone mining and marketing projects in order to become the world's leading premium coloured gemstone mining company. Growing in demand, not just for its exquisite beauty, but also because of its inherent scarcity, in that Tanzanite is only found in one place on earth - in Tanzania - specifically in the foothills of Mount Kilimanjaro.

The Tanzanite resource 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 neighbouring Blocks B and D are mined largely by artisanal miners. This poses a challenge for TanzaniteOne, notably in terms of undermining, whereby, the artisanal miners are mining into TanzaniteOne's designated license area. The Company's mining operation is considered a modern, low-cost operation and boasts an exemplary safety record. It applies international best practice in the design and implementation of its employment, social and environmental policies.

Key Statistics 2010	FY2010	FY2009	Movement
EBITDA profit / (loss; excluding provision for missing inventory)	**$2.8 m**	($0.3 m)	-
Net profit/(loss)	**$0.6 m**	($2.4 m)	-
Revenue	**$15.9 m**	$12.5 m	27%
Gross margin	**64%**	48%	33%
Depreciation and amortisation	**($2.6 m)**	($2.8 m)	7%
Corporate administration and other operating costs	**($3.5 m)**	($2.8 m)	(25%)
Mine administration	**($2.1 m)**	($2.4 m)	13%
Tanzanite inventory stock	**$4.4 m**	$3.2 m	38%
Cash and cash equivalents excluding overdraft	**$2.4 m**	$2.2 m	9%
Carats recovered	**2.2 million**	1.9 million	16%
Carats per tonne	**59**	50	18%
On mine cash costs per carat	**$3.69**	$3.63	(2%)

Financial Performance

With earnings before interest, taxes, depreciation and amortisation (EBITDA) of $2.8 million, TanzaniteOne showed a significant improvement on the previous corresponding period turning the 2009 loss after tax of $2.4 million (negative $2.5 cents per share) to a profit after tax of $0.6 million ($0.6 cents per share) for the year ended 31 December 2010.

The result for the year was heavily driven by cost and efficient management in group-wide operational activities, recovery of Tanzanite prices and strategic sales and marketing program mix. Sales grew by 27% despite the market being heavily impacted in the second half by reactions to new legal requirements in Tanzania promoting beneficiation through the banning of export of one gram and above. However, despite these adverse effects, the Group achieved a gross margin for the year of 64% compared to 48% in 2009.

Corporate administration and other operating costs reflect costs incurred in administering the Company's stock exchange listing, corporate compliance, investor relations activity, financial and legal consulting. These costs are expected to increase in 2011 in line with the Group's continued pursuit of various value enhancing strategic options that ensure the company retains and improves on it's unique strategic position.

Operating costs were maintained at $9.9 million, influenced by management's cost and control efforts that minimised the effects of any inflationary pressures on various process inputs, including mining efficiencies in material transport, loading and hoisting activities. Thus the Group achieved a 16% increase in carats produced to 2.2 million.

Inventory of Tanzanite increased by 38% to $4.4 million as a result of the negative impact that the export ban had on the market in the second half of the year.

Capital expenditure for the year of $1.5 million included development and exploration expenditure, infrastructure and surface buildings and other mining equipment.

During the year, TanzaniteOne generated cash of $1.6 million from operations against $2.4 million cash utilized during the previous period. Although a significant portion of cash generated in operations was applied to investing activities in the form of capital expenditure, the group maintained a net cash position of $1.4 million as at year end ($1.6 million in 2009).

Mining

The Company achieved its record equalling annual production target of 2.2 million carats of Tanzanite, from the processing of 37,092 tonnes. The average recovered grade of 59 carats per tonne is 18% higher than the average grade of 50 carats per tonne achieved in 2009.

The production levels increased by 300,000 carats in 2010, up 16% from the 1.9 million carats produced in 2009. The increase in production was guided by the increase in demand experienced in the international Tanzanite industry.

Significant "off-reef" mine development took place during 2010 to ensure shafts and infrastructure is constantly being developed to intersect new Tanzanite bearing fold structures. As a result of the ongoing shaft and off-reef development the Company intersected a projected fold structure located at a vertical depth of 450m in Main Shaft, located in the centre of the Company's licence area. The newly intersected fold structure confirms the accuracy of the Company's geological models and projections and initial indications suggest an exceptionally high potential grade and quality yield profile can be expected from the fold structure.

Material transport, loading and hoisting efficiencies were significantly improved during the year by enhancing the mine's underground surge capacities through the construction and installation of secure underground bins. The new bins were installed at CT shaft in levels 25, 35 and 46 as well as at level 80 in Main Shaft.

"With earnings before interest, taxes, depreciation and amortisation (EBITDA) of $2.8 million, TanzaniteOne showed a significant improvement on the previous corresponding period"

The development of new cutting techniques and additional cut designs continued throughout the year.

Production Statistics

	Unit	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005
On Mine Cash Costs	$/carat	**$3.69**	3.63	3.60	3.72	2.90	1.41
Development	metres	**2504**	2 519	3 877	3 935	4 671	3 700
Plant Feed	tonnes	**37 092**	38 154	42 318	25 367	15 896	20 931
Grade	c/tonne	**59**	50	52	67	77	70
Tanzanite Production	carats	**2 203 818**	1 915 440	2 203 162	1 700 134	1 230 600	1 460 075

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

On Mine Cash Costs

On mine cash costs for the period increased by only 2% to $3.69 per carat from $3.63 in 2009, despite a significant increase in production. This was mainly as a result of ongoing strict cash and cost management efforts at the mine and the aggressive cost reduction strategy implemented by the Company during 2009 and 2010. Cost reduction remains a primary focus for the Company and is being supported by increased attention on improved efficiencies by way of selective stopping, restructured mine procurement policies and the recycling of used equipment. On mine cash costs include operating costs, mine administration costs and royalty charges incurred at the Merelani mine.

Processing

Processing and sorting take place on site within purpose-built infrastructure and facilities. The ore treatment plant, which includes a Dense Media Separator (DMS), has a current capacity estimated at approximately 10,000 tonnes per month, on a single shift. The DMS concentrate passes through a fully automated optical sorting system, where after the “super concentrate” is then hand sorted and graded. Rough Tanzanite is sorted both manually and using a fully automated rough Tanzanite optical sorting and primary grading system, a world first in the coloured gemstone industry.

The processing and crushing plant continues to operate on a single shift basis. There is sufficient capacity to increase production through the introduction of a second shift at the plant if required.

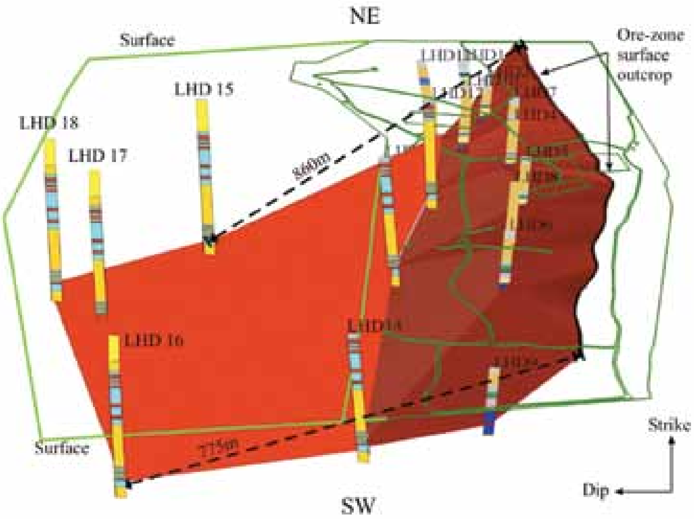
Significant improvements were also made during the year to the processing plant. A large tonnage storage area was created at the plant and is secured with an outer razor fence and inner electric fence to create additional surge capacity at the plant. New bin liners have been installed, new conveyors were fitted and the primary jaw crusher has been fitted with new jaws.

Life of Mine and Geology

TanzaniteOne currently has an estimated life of mine of up to 20 years at the current mining rate of approximately 2.2 million carats per annum. Tanzanite mining is occurring at ever increasing depths and TanzaniteOne has recently intercepted a large Tanzanite bearing structure at a down-dip depth of 800m.

Due to the structurally unique and complex nature of the orebody, a firm geological understanding forms a critical and integral component of the successful mining of Tanzanite. The Geology and Survey department comprise of 11 qualified professionals who are world experts in the Tanzanite industry. All underground mining areas are visited, monitored and mapped on a daily basis by a geologist and the structural interpretations are communicated to the mining department.

“TanzaniteOne currently has an estimated life of mine of up to 20 years at the current mining rate of approximately 2.2 million carats per annum.”



Life of Mine and Geology (continued)

Mining operations are currently concentrating in the following structures:

- Askari Shaft – Mining within Fold Stack 1 (FS1)
- Delta Shaft – Selective Mining and stoping along fold limb structures
- Main Shaft – Mining within Fold Stack 2 (FS2); Sinking of the Main Haulage Shaft that is now down to a declined depth of 800m. Developing the newly intersected Fold Stack 3 (FS3).
- CT Shaft – Mining Fold Stack 3 (FS3), Level 25 Ramp-Structures, Level 41 and Fold Stack 4 (FS4).
- Bravo Shaft – Exploration to intersect Fold Stack 4

Safety, Training and Environmental Management

The Company experienced no fatalities during the year and achieved a Lost Time Injury Frequency Rating ("LTIFR") of 0.67 for 2010, which is significantly below the industry average. This is a testimony of the Company's focuson safety and the success of the Safety and Training Department's safety, awareness and training initiatives. The Company's safety standards are based on the International Occupational Health and Safety Standards. All Company employees have been inducted and receive regular training to meet the required Safety Standards.

Training emphasis focused on skills enhancement and exposure to outcomes based training and assessment and consists of both theory and practical assignments. Practical evaluation was achieved through planned task observations, interviews, random inspections and verbal assessments.

The following certificates of excellence have been issued after the successful completion of training courses:

Strata Control Training Course	**27**
Environmental Waste Management	**12**
Explosive Handling/Support/Safety	**38**
Supervisory Skills	**10**
Team Leader Training	**14**
Jack Hammer Operators	**6**
Blasting Ticket Refresher Course	**12**

Environmental management has improved significantly with a new Environmental Management System having been initiated ensuring compliance and management of all aspects. Environmental monitoring, auditing and inspections continue and have drastically improved the Environmental performance. Environmental raining and awareness has been implemented and has empowered employees to identify and reduce associated environmental risks. A final Environment Audit report has been submitted to National Environmental Management Council (NEMC) for the approval of a new Environmental Certificate.

Security

A comprehensive security review was undertaken at the mine and at the retail outlets in Arusha at the beginning of the year. A significant restructuring of the security department has taken place and additional Nepalese Ghurkha's have been employed as part of the security reinforcement restructuring process.

A clear delineation of roles within the security department has been achieved, allowing for an internal investigation capacity, crime intelligence gathering and proactive search teams, which have significantly enhanced the capacity and efficiency of the security department. A retired senior Tanzanian police officer has been appointed as full time police liaison officer, responsible for liaising with the Tanzanian Police Force at both local and national level and follow through on criminal prosecutions.

A significant upgrade of the CCTV operation has been completed acting as a further deterrence and allowing for quality-recorded material being available for criminal prosecutions and providing for greater redundancy in the event of power failures.

The use of X-Scann, (non-invasive personnel search facility) remains the subject of discussions with the government after a ban was imposed on the use of this technology due to concerns on the health of employees. It needs to be noted that the machines were approved and licensed for use by the Tanzanian Atomic Energy Commission, the statutory body responsible for the licensing of such equipment, and these machines are also in use at other institutions within the mining industry around the world.

A structure has been put in place for continual review of security policies and procedures by management/ peers throughout the operation. A comprehensive audit was carried out by our insurers/underwriters at the mine and at the retail outlets in Arusha and no major concerns impacting on our insurance policies were noted.

Undermining remains a critical issue and TanzaniteOne together with the relevant governmental agencies continue to address this issue at both local and national level.

TanzaniteOne has also engaged artisanal miners in neighbouring properties with regards to safe mining operations and other health and safety issues in order to create awareness on the consequences of unsafe mining practices.

Social Responsibility

TanzaniteOne is committed to supporting the local community not only within its designated mining area but also within the entire Simanjiro District.

In 2010 the Company initiated several new initiatives and continue to support all it's long-term community projects. New and existing projects undertaken to date include:

- Granting of an additional ten bursaries in 2010 to secondary school students from disadvantaged backgrounds within the Simanjiro District
- Providing HIV/AIDS awareness workshops in 2010 to all its employees and voluntary testing was also conducted. TanzaniteOne is currently expanding this service in conjunction with the District Health Office to provide awareness to the local community
- Maintaining the 14km road that links the Merelani village and Tanzanite mining area to the Arusha and Moshi road network
- The ongoing provision of water to over 2,000 villagers and 4,500 head of cattle on a daily basis
- Ongoing donation of our processing plant tailings to the local communities, which also serves as a community uplift project. The tailings contain Tanzanite that is uneconomical for TanzaniteOne to extract
- Construction of the Nasinyai Secondary School in partnership with the Nasinyai community and World Vision. The Secondary School is the largest and most advanced of its kind in the area
- Construction of a 400m^2 Community Centre for the residents of the Nasinyai

Social Responsibility (continued)

- Renovation of the Nasinyai Med-Clinic Dispensary and installation of electricity
- Expansion of the Nasinyai Primary School
- Ongoing geological, mining, survey, safety, logistical, operational and other guidance to small-scale Tanzanite miners in the area through our Small Miners Assistance Programme (SMAP). The aim of the programme is to develop and advance the entire Tanzanite mining industry
- Provision of employment opportunities, not only to the local Naisinyai Village, but the entire region
- Supplying bunk beds and mattresses to 180 pupils at the Nasinyai Secondary School boarding school; and
- Ongoing provision of water to the primary school for their daily needs.

In addition to these projects, the Company has also set up several other initiatives to broaden assistance within Simanjiro District. Through establishment of a Committee involving TanzaniteOne, Nasinyai Village Council and Merelani Town Council, the Company is working to broaden the scope of our community support. The Company has also contributed to other national projects in Tanzania, like the proposed Students' Centre for the University of Dar es Salaam.

Sales and Marketing

2010 marked a recovery year for Tanzanite sales and the integration of value-add projects into the TanzaniteOne sales and marketing mix.

Annual sales for the group were $15.9 million, with contributions from rough Tanzanite sales, opaque Tanzanite sales, and the Tanzanite Experience retail outlets in Tanzania. After 2009 lows, price growth in all categories occurred during the year, with the scene set for further increases in 2011. Sight holder and Industry inventory levels decreased significantly during the first half of the year.

The economic fundamentals of the retail jewellery industry steadily improved during the year, adding to the confidence levels, which reflected in demand. Recovery in the price point low to mid price markets was evidenced during the year, with large material starting to see movement late in the year that should reflect in 2011. Chinese and Asian market interest began to emerge in the fourth quarter and is likely to be a key trend in 2011.

The market was impacted in the second half by reactions to new legal requirements in Tanzania promoting beneficiation through the banning of export of one gram and above sizes. This caused some disruption and fluctuation at a key market time of the year.

At the beginning of 2010, restructuring of the grading of rough Tanzanite into a clarity system of eye clean, Slightly Included (SI), and Included (I) material, unlocked value that was restricted in the previous eye clean and included system. Price growth in the SI and Included material was a significant contributor.

The new system more closely represented the production profile and smoothed the sales cycle. Sight holders found value in being able to offer, in the style of diamonds, an in-between product range that was more closely suited to retail price points, especially in the US market. This market had existed for a few companies but with wider access the sector was able to grow and realise the rough price potential.

The sales cycle was further modified to eight sales in the year, up from a previous four. This enabled mine production to be brought to market quicker and access ready customer cash.

> "TanzaniteOne is committed to supporting the local community not only within its designated mining area but also within the entire Simanjiro District."

Sales and Marketing (continued)

The product mix was heavily in favour of mine production with traded material not being a large contributor during this year. Inventory levels of mid-sized included material were worked down through the increased sales cycle during the year.

The development of new cutting techniques and additional cut designs continued throughout the year. The new styles concentrate on bringing out the sparkle and colour contrast of the mid to light material, and provide jewellery manufacturers with new perspectives on making jewellery with Tanzanite that is less bottom heavy than traditional gemstone cuts. Precision cutting development continued with the achievement of hearts and arrow excellent level of angles and proportion. Small size colour definition and contrast brilliance ("sparkle") development work continued with promising results.

The Company continues to focus on innovative ways to market and sell both rough and cut and polished Tanzanite.

The specimen market recovered well during 2010 and new customers were brought on board that were able to reflect higher valuations at closer to a retail level. Development of this channel will continue in 2011, with an anticipated increase of specimen material in new areas of mining. Existing stocks of quality specimens mined during 2008 and 2009 were sold during 2010 into the higher valuation market.

Opaque material sales through the trading operation saw growth in 2010, with price improvements and the establishment of new customers for this material in further downstream markets. This material is often fashioned into beads and carvings, both sectors that started to see growth in their final markets in the second half of the year.

TanzaniteOne Trading

During 2010, 20,826 carats of rough Tanzanite were purchased for a total $543,038. Due to the export ban, trading in Arusha was confined to cut material and rough material smaller than 5 carats.

Cutting and Polishing in Tanzania

The ban on the export of rough Tanzanite of 5 carats (1 gram) and above was announced and implemented in July 2010 by the Tanzanian Government, with limited consultation with the various industry stakeholders.

The Company submitted a comprehensive compliance programme and proposal to the Tanzania Government and have urged the Government to consult will all industry stakeholders.

The Company and other stakeholders are still in ongoing discussions with the Government of the United Republic of Tanzania to research and initiate development of economically sustainable domestic cutting operations and agreements, pursuant to ban on the export of rough Tanzanite larger than 5 carats (1 gram).

As a result of the discussions with the Government by various stakeholders a moratorium was called by the Government of Tanzania allowing the export of rough Tanzanite of all sizes until 31 December 2010.

Since the Government announced the implementation of the export ban the Company immediately accelerated the construction and establishment of a precision cutting facility at the mine sorting facility in Merelani, Tanzania, which has been part of the Company's long term strategy. A dedicated facility with full indexing benches was brought online in the fourth quarter.

Cutting and Polishing in Tanzania (continued)

Existing cutters and polishers were able to use the potential of the facility immediately, and the training of further local polishers started. The facility is expected to reach full utilisation in mid 2011. Sight holders were able to use the facility and TanzaniteOne polishing staff to polish their large rough purchases from December 2010, and are excited to be able to continue to polish their material in Tanzania in 2011. Indexing, as opposed to free-hand polishing, allows for defined tolerances and repeatability, which is essential for the new technology cuts developed in-house. The introduction in early 2011 of advanced polishing trainers will speed up the technical abilities of the local TanzaniteOne polishers and skill them to be able to produce the more advanced designs. The capacity to meet legal requirements for local beneficiation has been established, and further capacity and technical development will enable value-add polished projects to be established.

The Tanzanite Experience (TTE)

The Tanzanite Experience retail operations were consolidated in the first half of 2010 with focus on lower inventory levels, greater stock turn, and delivering higher profitability and group contribution. Another outlet was added in the third quarter with positive contribution in the fourth quarter. TTE sales were 26% higher in 2010 compared to 2009, at $1.45 million. Opportunities for further expansion in 2011 exist in the Dar es Salaam and Zanzibar markets, coinciding with further production capacity with the established polishing facility. A franchise model has been developed for entry into markets and sub-markets where it is not feasible to enter as a wholly owned entity but instead leverage off existing operations.

The operation focus will remain on high stock turnover and timely replacement from the Company polishing operations, generating cash contribution and retail polished margins.

The TanzaniteOne Jewellery Collection was established during the year to highlight the design opportunities for the new technical cuts in mid to light contrast colours. Market testing of the designs and stone appeal occurred in Australia, and market development progressed into Asia in the fourth quarter. The market reaction has been pleasing, and order based commercial channels are under development.

Tanzanite Foundation

Since 2003, the Tanzanite Foundation has promoted Tanzanite and stimulated the growth and development of the Tanzanite market. The main objective has been to build and maintain the desirability of this exceptional gemstone, while entrenching our core values for all participants operating in an ethically and socially conscious industry. The focus is on empowering the market through education and exposure, pioneering social development and skills transfer, encouraging environmental objectives and engaging the communities at source.

Mindful of these objectives, 2010 was a highly successful and productive year. With exposure of Tanzanite and demand growing, the Tanzanite Foundation collaborated with numerous international designers and jewellery manufacturers to add value and entrench credibility thereby ensuring sightholder sell-through.

Tanzanite Foundation (continued)

A sales incentive-based competition by a major American Caribbean retailer was held, whereby top Tanzanite performers were rewarded with a once-in-a lifetime experience to visit the TanzaniteOne mining operation. This was the third such educational experience co-ordinated by the Tanzanite Foundation, once again instilling further passion in each and every delegate, ensuring even higher Tanzanite sales and memories that last a lifetime.

A strong below the line campaign has been consistently pursued, ensuring constant communication with editorial decision makers in the fashion, economic and trade press. Results showed Tanzanite-focused stories and product placements in numerous publications. An ongoing and consistent impactful presence at most Gem and Jewellery Trade Shows helped disseminate information and build trust. This in turn ensures Tanzanites' top of mind presence and secures confidence in the Tanzanite Foundation brand, which our members choose to include in their advertising.

Jewellery designers and consumers at large are intrigued with Tanzanite and it's ability to evoke emotion.

Tsavorite Exploration

Tsavorite is a brilliant green gemstone variety of grossular garnet and the Project is located 20km from the Company's producing Tanzanite mine.

The Tsavorite exploration programme focuses on locating and defining alluvial, paleo-alluvial and hardrock sources of green garnet (Tsavorite) and other associated minerals of gem quality.

The resource study activities conducted total of 164 drill holes (with a combined depth of 3,180m) and comprised 6 inch rotary air blast ("RAB") and down hole hammer drilling to determine the volume of gravels. The average depth of the holes was 19m. The drill profiles were logged and supported by heavy mineral sampling at 1.5 metre intervals resulting in 2,100 heavy mineral samples. A 32 tonne excavator with a 6-metre reach was used to conduct a bulk sampling exercise. The material was loaded into a 10 tonne tipper with 1 sample of 5 cubic metres per truckload for individual treatment. The treatment plant consists of a primary dry screening module with screened product between -12mm and +2mm being fed to a wet Bushman jig capable of treating two 5 cubic metre batch samples per day. A total of 26 samples were taken and processed resulting in a total sample size of approximately 312 tonnes.

As a result of the 2010 Tsavorite work programme, a Maiden JORC compliant Inferred Resource of 7.6 to 10.4 million bank cubic metres ("bcm") or approximately 18.2 to 24.9 million tonnes and a Maiden JORC compliant Indicated Resource of 0.89 to 2.17 million bcm or approximately 2.1 to 5.2 million tonnes located within Inferred esource, was established and announced on the 10th of January 2011.

Hardrock exploration has included prospective mapping and pitting of most areas of the project tenement package. About 245 location points were visited and documented during the mapping program with best geological signatures identified and a follow-up by pitting conducted.

Board and Management

In March 2010 the Company appointed Dr Bernard Olivier, aged 35, as Chief Executive Officer ("CEO"), having served the Company since 2008 as a Director. In addition to be an expert on Tanzanite geology and mining, Dr Olivier has worked for a series of mining companies helping to develop value from their core assets.

A comprehensive succession planning process has also been put in place with the view to empowering more Tanzanians to occupy senior management positions in the Company.

2011 Outlook

Total production in the first quarter of 2011 is up 8.3% to 609,737 carats compared to 562,992 carats in the first quarter of 2010. Total sales for the fist quarter of 2011 are up 48% to \$3.96 million from \$2.68 million in the first quarter of 2010. Average grade for the first quarter of 2011 is up 29% from 55 carats per tonne in the first quarter of 2010 to 71 carats per tonne in the first quarter of 2011. In the first half of 2011, the Company also recovered a 12,100 carat gemstone, the third largest ever mined in the Company's history. In the first half of 2011 the Company also established it's maiden JORC compliant Inferred Resource for its Tsavorite project of 7.6 to 10.4 million bank cubic metres ("bcm") or approximately 18.2 to 24.9 million tonnes and a Maiden JORC compliant Indicated Resource of 0.89 to 2.17 million bcm or approximately 2.1 to 5.2 million tonnes located within Inferred Resource.

Bernard Olivier
Chief Executive Officer

FINANCIAL STATEMENTS

Statement of Directors’ **Responsibility**

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations. The directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The financial statements are required to give a true and fair view of the state of affairs of the group and the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group. 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 misstatements 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 Group’s financial statements and its related notes

   i) give a true and fair view of the financial position as at 31 December 2010, and its performance and cash flows for the year ended on that date of the Group; and

   ii) comply with IFRS.

b) There are reasonable grounds to believe that the Group will be able to pay its debts when they become due and payable in the foreseeable future (at least 12 months from the date of this report).

On behalf of the board

Dr Bernard Olivier
Chief Executive Officer

TanzaniteOne Limited

24 June 2011

Directors' **Report**

The directors present this report, together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

TanzaniteOne Limited 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 proportion of the world's only known tanzanite resource. 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 each of the Group's entities 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, capital expenditure requirements and debt repayments.

RESULTS

The consolidated statement of comprehensive income for the year ended 31 December 2010 and the consolidated statement of financial position at that date are set out on pages 30 and 31 of this report respectively. The Group recorded a profit of US $0.6 million (2009: loss of US $2.4 million) for the financial year after non-controlling interest. Taking into account this profit, shareholders' equity at 31 December 2010 is US $37.1 million (2009: US $36.5 million). The directors have not declared a dividend (2009: Nil) as the Board feel it prudent to defer further dividends until the market conditions strengthen and the Group returns to relative stable profitability.

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

At the date of this report, the directors of the company who have held office since 1 January 2010, unless otherwise stated are:

Ami Mpungwe (60), 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 assumed Chairmanship of the Group on 24 October 2008 after serving as Deputy Chairman at its inception in August 2004. Mr Mpungwe 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 ILLOVO Sugar Ltd, National Bank of Commerce Ltd, Tanzania Breweries Ltd, Kilombero Sugar Co Ltd, MultiChoice Tanzania Ltd, Niko Insurance Co (Tanzania) Ltd and has also been the Chairman of the Tanzania Chamber of Minerals and Energy since 2007.

Edward Nealon (60), Non-executive Deputy Chairman

Mr Nealon is a geologist with 33 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.

Dr Bernard Olivier (35), Chief Executive Officer

Dr Olivier was appointed Chief Executive Officer of TanzaniteOne Limited on 5 March 2010. Dr Olivier is a geologist and has a PhD in Economic Geology. He is also a Member of the Australian 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 LP Hill Plc (AIM: LPH).

Nicholas Sibley (73), 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.

Zane Swanepoel (51), Chief Operating Officer - Tanzania

Mr Swanepoel has 26 years experience in mining of which 19 years has been at senior mine management level. Mr Swanepoel joined the Company in September 2005 as General Manager – Mining. He has been instrumental in coordinating and developing the Group's operational growth. Mr Swanepoel resigned on 28 February 2011.

MEETINGS OF DIRECTORS

The number of meetings of the board of directors of the Company held during the year ended 31 December 2010 and the number of meetings attended by each director is tabled below:

Director	Number of meetings held whilst in office			
	Board	Remuneration and Succession Planning	Audit and Risk Management	Nomination
Ami Mpungwe	4	1	2	-
Edward Nealon	4	1	2	-
Dr Bernard Olivier	4	-	-	-
Nicholas Sibley	4	1	2	-
Zane Swanepoel	4	-	-	-

Director	Number of meetings attended			
	Board	Remuneration and Succession Planning	Audit and Risk Management	Nomination
Ami Mpungwe	4	1	-	-
Edward Nealon	4	1	2	-
Dr Bernard Olivier	4	-	-	-
Nicholas Sibley	4	-	2	-
Zane Swanepoel	3	-	-	-

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

	TanzaniteOne Limited Common shares	TanzaniteOne SA Limited Options over A class shares
Ami Mpungwe	3,626,730	-
Zane Swanepoel	328,584	900,000(1)
Dr Bernard Olivier	665,362	900,000(1)
Edward Nealon	3,427,486	-
Nicholas Sibley	6,000,000	-

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

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

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

Details of the nature and amount of each element of the emolument of each director of the Group during the financial year are shown in the table below. Refer also Note 17 – Share options reserve for participation by the directors in the Company's Group Share Option Plan.

Director	Base salary/fees US $	Consulting fees US $	Other US $	Total US $
Ami Mpungwe	60,500	120,000(1)	-	180,500
Edward Nealon	52,500	-	-	52,500
Zane Swanepoel	40,000	-	209,700(2)	249,700
Nicholas Sibley	47,500	-	-	47,500
Bernard Olivier	40,000	-	96,000(3)	136,000

(1) The payment was for advisory and consultancy services for the financial year.

(2) The payment was for duties as executive director of subsidiaries

(3) The payment was for duties as executive director

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

CORPORATE GOVERNANCE

The following statement sets out the governance practices of TanzaniteOne:

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

Board of directors

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

In order to retain full and effective control over the Company and monitor the executive management team, the board meets regularly and at least on a quarterly basis. Details of directors' attendance at these meetings are set out on page 20. In consultation with the Chief Executive Officer and the Company Secretary, the Chairman sets the agenda for these meetings. All directors may add to the agenda. Key executives of the Group contribute to board papers and are from time to time invited to attend board meetings.

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

The names of the directors in office at the time of this report and their relevant qualifications and experience are set out on page 19. Their status as non-executive, executive or independent directors and tenure on the board is set out in the table on the following page.

CORPORATE GOVERNANCE (CONTINUED)

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
Dr Bernard Olivier	5 November 2008	Executive	No
Edward Nealon	1 August 2004	Non-executive	Yes
Nicholas Sibley	1 August 2004	Non-executive	Yes
Zane Swanepoel(1)	29 February 2008	Executive	No

(1) Resigned on 28 February 2011.

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

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

- The Chairman, Mr Ami Mpungwe, is responsible for leadership of the board ensuring they receive accurate, timely and clear information in order to facilitate effectiveness of its role; and
- Dr Bernard Olivier, Chief Executive Officer, leads the executive management. He has been delegated responsibility by the board for the day-to-day operation and administration of the Company's tanzanite assets via its subsidiary company TanzaniteOne SA Limited. The Chief Executive Officer is assisted in managing the business of the Group by an executive team that comprises of the Management Committee. The Chairman of the Management Committee is Mr 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 relationships 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, co-ordinating the flow of information within the Company and the completion and dispatch of items for the board and briefing materials. The Company Secretary is accountable to the board on all governance matters. All directors have access to the services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board as a whole to determine.

Succession planning

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

Induction training and continuing professional development

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

Performance review

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

Directors' retirement and re-election

TanzaniteOne's bye-laws determine that at each Annual General Meeting, at least one third of the board are retired by rotation, therefore holding their positions for no longer than three years. This period of time provides sufficient continuity. Non-executive directors are appointed for a three-year term and may be invited to seek re-appointment. 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.

All directors 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, all directors 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.

CORPORATE GOVERNANCE (CONTINUED)

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; and
- an independent chairperson, who shall be nominated by the board from time to time but who shall not be the chairperson of the board.

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

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

Qualifications of Audit and Risk Management Committee members:

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

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

Mr Mpungwe has been chairman of the Group's Tanzanian subsidiary since March 2000 and has been integral to its establishment and development. He assumed Chairmanship of the Group in 24 October 2008 after serving as Deputy Chairman at its inception in August 2004. Mr Mpungwe has 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 ILLOVO Sugar Ltd, National Bank of Commerce Ltd, Tanzania Breweries Ltd, Kilombero Sugar Co Ltd, MultiChoice Tanzania Ltd, Niko Insurance Co (Tanzania) Ltd and has also been the Chairman of the Tanzania Chamber of Minerals and Energy since 2007.

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.

Qualifications of Audit and Risk Management Committee members: (Continued)

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 and operating effectiveness 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 members of the Committee are Non-executive directors, the majority of whom are independent non-executive directors.

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

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

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

For details of remuneration of directors and executives please refer to page 21.

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 Committee members. Details of attendance at Committee meetings are set out on page 20.

CORPORATE GOVERNANCE (CONTINUED)

Nomination Committee

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

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

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

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

Continuous disclosure

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

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

Communications with shareholders

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

Meetings

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

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

RISK FACTORS AND MANAGEMENT

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

Special Mining Licence ("SML")

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

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

Risks of development, construction, mining operations and uninsured risks

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

Currency risk

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

Tanzanite price volatility

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

Through the introduction of the Preferred Supply Strategy, supply irregularity and concomitant price instability are being addressed and should be alleviated. The new grading system for rough tanzanite, initiated during 2009, is affording the Group better marketing opportunities.

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 undermining 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.

RISK FACTORS AND MANAGEMENT (CONTINUED)

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 these risks.

Dependence on key personnel

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

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

Additional financing

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

Events subsequent to year end date

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

Signed in accordance with a resolution of the directors.

Dr Bernard Olivier
Chief Executive Officer

TanzaniteOne Limited

24 June 2011

Independent Auditor's **Report**

TO THE MEMBERS OF TANZANITEONE LIMITED

Report on the financial statements

We have audited the group financial statements of TanzaniteOne Limited for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is Section 90 of the Bermuda Companies Act, 1981 and International Financial Reporting Standards (IFRS).

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the Group financial statements in accordance with International Financial Reporting Standards and for being satisfied that they give a true and fair view and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that 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 the directors, 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 the Group financial statements give a true and fair view of the state of the Group's financial affairs at 31 December 2010 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the requirements of the Bermuda Companies Act, 1981

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of the Bermuda Companies Act, 1981, and for no other purpose.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam, Tanzania

Signed by Nelson E Msuya

24 June 2011

Consolidated Statement of **Comprehensive Income**

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	US $ '000 2010	US $ '000 2009
Revenue	*4*	**15,940**	12,459
Cost of sales		**(5,688)**	(6,471)
Gross profit		**10,252**	5,988
Selling and distribution expenses	*5*	**(1,604)**	(1,700)
Administrative expenses	*5*	**(5,630)**	(5,275)
Other operating expenses	*5*	**(2,636)**	(2,943)
Operating profit/(loss)		**382**	(3,930)
Finance income	*6*	**1**	17
Finance costs	*6*	**(175)**	(138)
Profit/(loss) before income tax		**208**	(4,051)
Income tax credit	*7*	**441**	1,629
Profit/(loss) for the year		**649**	(2,422)
Attributable to:			
Equity owners of the parent		**652**	(2,376)
Non-controlling interest	*19*	**(3)**	(46)
Profit/(loss) for the year		**649**	(2,422)
Other comprehensive income			
Foreign exchange loss on translation of foreign operations		**(367)**	(664)
Total comprehensive income/(loss) for the year		**282**	(3,086)
Attributable to:			
Equity owners of the parent		**285**	(3,040)
Non-controlling interest	*19*	**(3)**	(46)
Total comprehensive income/(loss) for the year		**282**	(3,086)
Basic earnings/(loss) per share (US cents/share)	*20.1*	**0.57**	(2.50)
Diluted earnings/(loss) per share (US cents/share)	*20.2*	**0.57**	(2.50)

Consolidated Statement of **Financial Position**

AS AT 31 DECEMBER 2010

	Note	US $ '000 2010	US $ '000 2009
Assets			
Property, plant and equipment	*8*	**23,918**	25,197
Intangible assets	*9*	**5,627**	5,422
Deferred income tax assets	*10*	**1,816**	1,748
Inventories	*11*	**62**	129
Total non-current assets		**31,423**	32,496
Inventories	*11*	**5,472**	3,979
Income tax receivable	*12*	**2,279**	1,980
Trade and other receivables	*13*	**3,828**	3,184
Cash and cash equivalents	*14*	**2,368**	2,193
Total current assets		**13,947**	11,336
Total assets		**45,370**	43,832
Equity			
Share capital	*15*	**35**	35
Share premium	*16*	**46,399**	46,017
Share option reserve	*17*	**706**	706
Foreign currency translation reserve	*18*	**(1,051)**	(684)
Accumulated losses		**(8,908)**	(9,560)
Total equity attributable to equity owners of the parent		**37,181**	36,514
Non-controlling interest	*19*	**(45)**	(42)
Total equity		**37,136**	36,472
Liabilities			
Borrowings	*21*	**631**	804
Provision for environmental rehabilitation	*22*	**115**	107
Deferred income tax liabilities	*10*	**4,583**	5,038
Total non-current liabilities		**5,329**	5,949
Borrowings	*21*	**1,166**	766
Trade and other payables	*23*	**1,739**	645
Total current liabilities		**2,905**	1,411
Total liabilities		**8,234**	7,360
		45,370	43,832

The financial statements on pages 30 to 68 were authorized for issue by the Board of Directors on **24 June 2011** and were signed on its behalf by:

Director - Dr Bernard Olivier

Director - Ami Mpungwe

Consolidated Statement of **Changes in Equity**

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Common share capital US $ '000	A class share capital US $ '000	Total issued share capital US $ '000	Share premium US $ '000	Share option reserve (1) US $ '000	Foreign currency translation reserve US $ '000	Accumulated losses US $ '000	Total equity attributable to shareholders US $ '000	Non-controlling interest US $ '000	Total equity US $ '000
Balance at 1 January 2009		24	1	25	38,706	706	(20)	(7,184)	32,233	4	32,237
Issue of share capital											
- Common share capital	*15.1 &16*	10	-	10	7,311	-	-	-	7,321	-	7,321
Total comprehensive income for the year		-	-	-	-	-	(664)	(2,376)	(3,040)	(46)	(3,086)
Loss for the year		-	-	-	-	-	-	(2,376)	(2,376)	(46)	(2,422)
Foreign exchange loss on translation	*18*	-	-	-	-	-	(664)	-	(664)	-	(664)
Balance at 31 December 2009		34	1	35	46,017	706	(684)	(9,560)	36,514	(42)	36,472
Balance at 1 January 2010		34	1	35	46,017	706	(684)	(9,560)	36,514	(42)	36,472
Issue of share capital											
- Common share capital	*15.1 &16*	*	-	-	382	-	-	-	382	-	382
Total comprehensive income for the year		-	-	-	-	-	(367)	652	285	(3)	282
Profit for the year		-	-	-	-	-	-	652	652	(3)	649
Foreign exchange loss on translation	*18*	-	-	-	-	-	(367)	-	(367)	-	(367)
Balance at 31 December 2010		34	1	35	46,399	706	(1,051)	(8,908)	37,181	(45)	37,136

* - Less than US $1 000.

(1) - Refer note 15 on share-based payments

Consolidated Statement of **Cash Flows**

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	US $ '000 2010	US $ '000 2009
Cash flows from operating activities			
Cash generated from/(utilised in) operations	*24.1*	2,174	(2,513)
Interest income received		1	17
Interest cost paid		(167)	(131)
Taxation (paid)/refund	*24.2*	(381)	251
Net cash from/(to) operating activities		1,627	(2,376)
Cash flows from investing activities			
Acquisition of property, plant and equipment(1)		(1,529)	(2,752)
Net cash used in investing activities		(1,529)	(2,752)
Cash flows from financing activities			
Proceeds from the issue of shares	*24.3*	-	5,341
Proceeds from borrowings		-	616
Repayment of borrowings		(311)	-
Net cash from/(to) financing activities		(311)	5,957
Net (decrease)/increase in cash and cash equivalents		(213)	829
Movement in cash and cash equivalents			
At the beginning of the year		1,623	794
(Decrease)/increase		(213)	829
At the end of the year	*14*	1,410	1,623
(1) Investing cash flow relating to exploration asset		(428)	(419)

Notes to the Consolidated **Financial Statements**

FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL INFORMATION

TanzaniteOne Limited ("the company") and its subsidiaries (together "the group") mines, distributes and sells tanzanite, a precious stone found in Tanzania. The group is also involved in 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 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Bermuda Companies Act 1981. The consolidated financial statements have been prepared under the historical cost convention, as modified by share options measured at fair value.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised. As the estimation process is inherently uncertain, actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the financial statements.

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 reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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 asset's fair value less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Impairment testing (Continued)

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

Provisions

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

Income tax

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group's entities recognise 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.

Deferred taxation assets

Deferred tax assets are recognised to the extent it is probable that the taxable income will be available in future against which they can be utilised. Future taxable profits are estimates based on business plans which include estimates and assumptions regarding quantities of indicated and measured resources for tanzanite, 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.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition -related costs are expensed.

- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) New and amended standards adopted by the group (Continued)

- AS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non -current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events) (Continued)

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

The group entity's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.
- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The group is currently putting systems in place to capture the necessary information and will apply the amended standard from 1 January 2011.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The group will apply the amended standard from 1 January 2011.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the interpretation from 1 January 2011.

2.1.1 Changes in accounting policy and disclosures (Continued)

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted (Continued)

- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The group will apply these amendments for the financial reporting period commencing on 1 January 2011.

2.2 BASIS OF CONSOLIDATION

2.2.1 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 generally accompanying a shareholding of more than one half of the voting rights. 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.

2.2.2 Transactions eliminated on consolidation

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

2.3 FOREIGN CURRENCY

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollars (US $) rounded to the nearest thousand, which is the company's functional and the group's presentation currency.

2.3.2 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. 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.

2.3.3 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 reporting date. The revenues and expenses of foreign operations are translated to US $ at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised directly in equity 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 statement of comprehensive income. 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.

2.4 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.

2.4.1 Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

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.

2.4.2 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.

2.4.3 Share capital

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

2.5 PROPERTY, PLANT AND EQUIPMENT

2.5.1 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. 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.

2.5.2 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in accounting policy 2.12.1.

2.5.3 Subsequent costs

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

2.5.4 Depreciation

Depreciation on assets is charged to the statement of comprehensive income and is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives 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	12 years
• pre-production expenditure	life of mine

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

2.5.5 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 on the units of production method.

Development costs incurred during commercial production are recognised as part of the legal rights asset to the extent that they have a future economic benefit beyond the current reporting period. These costs will be depreciated over the estimated life of mine on the units of production method. Where development costs benefit only the current reporting period, they are a component of the cost of inventory produced in the current period and are accounted for in accordance with IAS 2 Inventories.

2.5.6 Assets under construction

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

2.6 INTANGIBLE ASSETS

(i) Exploration and evaluation expenditure

Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current or reasonably expected to be renewed and either:

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

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

The carrying value of capitalised exploration and evaluation expenditure and capitalised mining development costs 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 feasibility.

(ii) Mineral Licence

Mineral licence represents the cost incurred in respect of the tanzanite special mning licence for Block C, Merelani Mine, Tanzania. The cost is amortised over the period of licence which is 12 years and 4 months.

2.7 INVENTORIES

2.7.1 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 cost is determined using the weighted average method

The cost of consumable 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 for gemstones and consumables is the estimated selling price in the ordinary course of business and open market basis, respectively, less the estimated costs of completion and selling expenses.

2.7.2 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.

2.8 IMPAIRMENT

2.8.1 Non-financial assets

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

The impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment losses are recognised in the statement of comprehensive income.

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

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined , net of depreciation or amortisation , if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2.8.2 Financial assets

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

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

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

2.9 EMPLOYEE BENEFITS

2.9.1 Share-based payment transactions

The group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2.9.1 Share-based payment transactions (Continued)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2.9.2 Short-term employee benefits

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

2.9.3 Defined contribution plans

Contributions to defined contribution retirement benefit plans are recognised in profit or loss in the periods during which services are rendered by employees. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.10 PROVISIONS

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.
The increase in the provision due to passage of time is recognised as interest expense.

2.10.1 Environmental rehabilitation

The Group has recorded a provision for environmental rehabilitation liabilities based on management's estimates of these costs. Such estimates are subject to adjustments based on changes in laws and regulations and as additional more reliable information become available. The estimated fair value of liabilities for asset retirement obligations is recognised in the period, which they are incurred. Over time, the liability is increased to reflect the interest element (accretion expense) considered in the initial measurement at fair value and the change in fair value over the course of year is expensed. The estimates are based principally on legal and regulatory requirements. It is possible that management's estimates of its ultimate reclamation and closure liabilities could change as a result of change in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

2.11 REVENUE

2.11.1 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 tanzanite is recognised in the statement of comprehensive income 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 tanzanite can be estimated reliably, there is no continuing management involvement with the tanzanite and the amount of revenue can be measured reliably.

2.12 EXPENSES

2.12.1 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.

2.12.2 Finance income and costs

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

Finance income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

2.13 INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income 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 reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rate enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends to A Class shareholders in South Africa are recognised at the same time as the liability to pay the related dividend.

2.14 EARNINGS PER SHARE

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

2.15 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

3. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it can earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Chief Operating Decision Maker ("CODM") to make decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Management has determined the operating segments based on reports reviewed by the Executive Committee that are used to make strategic decisions.

Segment information is presented in respect of the Group's business segment. The primary format, business segments, is based on the Group's management and internal reporting structures.

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.

3.1 Business operating segments

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

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

There are varying levels of integration between the Mining and Trading, and Marketing reportable segments. The integration includes the transfers of rough tanzanite. The accounting policies of the reportable segments are the same as described in note 2.

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

3. SEGMENT REPORTING (CONTINUED)

Information about reportable segments

	Mining US $'000 2010	Mining US $'000 2009	Trading US $ '000 2010	Trading US $ '000 2009	Exploration US $ '000 2010	Exploration US $ '000 2009	Marketing US $'000 2010	Marketing US $ '000 2009	Cut and Polished US $ '000 2010	Cut and Polished US $ '000 2009	Total US $ '000 2010	Total US $ '000 2009
External Revenues	7,397	4,300	1,340	2,127	-	-	12,640	11,543	1,454	1,195	22,831	19,165
Inter-segment revenue											6,891	6,706
Finance income	-		-	-	-	-	1	17	-	-	1	17
Finance costs	(175)	(137)	-	-	-	-	-	(1)	-	-	(175)	(138)
Depreciation of property, plant and equipment	(2,473)	(2,691)	(36)	(38)	-	-	(65)	(33)	(4)	(7)	(2,578)	(2,769)
Reportable segment profit/(loss) before income tax	(1,922)	(3,820)	(345)	(423)	(29)	(20)	4,955	1,896	(93)	176	2,752	(2,191)
Reportable segment assets	34,370	32,711	719	616	3,865	3,384	4,460	4,831	914	594	44,328	42,136
Capital expenditure	1,098	2,145	1	52	428	2,450	2	85	-	-	1,529	4,732
Reportable segment liabilities	7,509	6,842	71	80	5	9	424	14	77	-	8,086	6,945

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	US $'000 2010	US $'000 2009
Revenues		
Total revenue for reportable segments	22,831	19,165
Elimination of intersegment revenue	(6,891)	(6,706)
Consolidated revenue	15,940	12,459

3. SEGMENT REPORTING (CONTINUED)

	US $ '000 2010	US $ '000 2009
Profit or loss		
Total loss for reportable segments	2,752	(2,191)
Unallocated amounts-corporate	(2,544)	(1,860)
Consolidated profit/(loss) before tax	208	(4,051)
Assets		
Total assets for reportable segments	44,328	42,136
Other unallocated amounts	1,042	1,696
Consolidated total assets	45,370	43,832
Liabilities		
Total liabilities for reportable segments	8,086	6,945
Other unallocated amounts	148	415
Consolidated total liabilities	8,234	7,360

Geographical segments

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

	Revenues US $ '000	Non-current assets US $ '000
Geographical information		
31 December 2010		
Tanzania	3,300	30,808
India	12,620	-
Dubai	-	548
Other countries	20	67
	15,940	31,423
Geographical information		
31 December 2009		
Tanzania	1,767	31,891
India	9,678	-
Dubai	-	605
Other countries	1,014	-
	12,459	32,496

Major customer

Revenue from seven sight holders of the Group's marketing operations represents approximately US $12.6 million (2009: US $9.7 million) of the Group's total revenue.

		US $ '000 2010	US $ '000 2009
4.	**REVENUE**		
	Sale of tanzanite	15,940	12,459
5(A)	**EXPENSES BY NATURE**		
	Raw materials and consumables used	(2,595)	(2,604)
	Auditors' remuneration	(375)	(332)
	Royalties	(400)	(337)
	Depreciation of property, plant and equipment	(2,578)	(2,769)
	Inventory write-off	(108)	(963)
	Impairment of trade receivables	(33)	(151)
	Net foreign exchange gain	342	1,126
	Directors' emoluments and consulting fees	(1,013)	(1,083)
	Operating leases instalments	(157)	(113)
	Royalties	(400)	(337)
	Employment benefit expense (Note 5(a))	(6,100)	(5,864)
	Other expenses	(2,141)	(2,962)
	Total of cost of sales, selling and distribution, administration and other operating expenses	(15,558)	(16,389)
	Classified as follows:		
	Cost of sales	(5,688)	(6,471)
	Selling and distribution expenses	(1,604)	(1,700)
	Administrative expenses	(5,630)	(5,275)
	Other operating expenses	(2,636)	(2,943)
		(15,558)	(16,389)
5(B)	**EMPLOYEE BENEFITS EXPENSE**		
	Wages and salaries	(5,757)	(5,547)
	Social security contribution	(272)	(262)
	Other employment benefits	(71)	(45)
		(6,100)	(5,864)
6.	**NET FINANCE COST**		
	Finance income	1	17
	Finance costs	(167)	(131)
	Unwinding of discount	(8)	(7)
		(174)	(121)
7.	**INCOME TAX CREDIT**		
	Recognised in the statement of comprehensive income		
	Current tax credit		
	Current year (expense)/credit	(82)	86
	Prior periods	-	257
		(82)	343
	Deferred tax credit	523	1,286
	Total income tax credit	441	1,629

7. INCOME TAX CREDIT (CONTINUED)

	% 2010	% 2009
Reconciliation of effective tax rate		
Tax rate applicable to the Group's primary operating location	**30.0**	30.0
Profit/(loss) before tax (US $'000)	**208**	(4,051)
Current year's charge as % of profit before tax	**(212)**	40.2
Non-deductible expenses	**(9)**	(0.3)
Effect of tax rates in foreign jurisdictions	**774**	(13.6)
Deferred tax assets not recognised	**(464)**	14.1
Under provision in prior year	**(25)**	(2.1)
Effect of secondary tax on companies	**-**	-
Other allowances	**(34)**	(8.3)
Group's primary operating tax rate	**30.0**	30.0

8. PROPERTY, PLANT AND EQUIPMENT

	Cost US $ '000	Accumulated depreciation and impairment losses US $ '000	Carrying amount US $ '000
31 December 2010			
Computer and other equipment	255	(144)	111
Cutting and gemmological equipment	31	(12)	19
Development costs	18,852	(3,484)	15,368
Earthmoving equipment	292	(276)	16
Furniture, fittings and improvements to leased premises	378	(171)	207
Infrastructure and surface buildings	3,775	(1,741)	2,034
Plant, machinery and mining equipment	5,917	(2,378)	3,539
Motor vehicles	596	(395)	201
Office equipment	85	(14)	71
Pre-production expenditure	3,445	(1,467)	1,978
Assets under construction	374	-	374
	34,000	(10,082)	23,918

Reconciliation of property, plant and equipment	Opening balance US $'000	Acquisitions US $'000	Transfers in/(out) US $'000	Write-offs US $'000	Depreciation US $'000	Total US $'000
31 December 2010						
Computer and other equipment	112	24	-	-	(25)	111
Cutting and gemmological equipment	2	-	20	-	(3)	19
Development costs	15,517	807	-	-	(956)	15,368
Earthmoving equipment	46	-	-	-	(30)	16
Furniture, fittings and improvements to leased premises	297	53	(20)	(25)	(98)	207
Infrastructure and surface buildings	2,349	102	-	-	(417)	2,034
Plant, machinery and mining equipment	3,904	4	-	-	(369)	3,539
Motor vehicles	301	6	-	-	(106)	201
Office equipment	75	-	-	-	(4)	71
Pre-production expenditure	2,325	-	-	-	(347)	1,978
Assets under construction	269	105	-	-	-	374
	25,197	1,101	-	(25)	(2,355)	23,918

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost US $ '000	Accumulated depreciation and impairment losses US $ '000	Carrying amount US $ '000
31 December 2009			
Computer and other equipment	270	(158)	112
Cutting and gemmological equipment	2	-	2
Development costs	18,045	(2,528)	15,517
Earthmoving equipment	292	(246)	46
Furniture, fittings and improvements to leased premises	370	(73)	297
Infrastructure and surface buildings	3,724	(1,375)	2,349
Plant, machinery and mining equipment	5,926	(2,022)	3,904
Motor vehicles	610	(309)	301
Office equipment	85	(10)	75
Pre-production expenditure	3,445	(1,120)	2,325
Assets under construction	269	-	269
	33,038	(7,841)	25,197

Reconciliation of property, plant and equipment

	Opening balance US $'000	Acquisitions US $'000	Transfers in/(out) US $'000	Depreciation US $'000	Total US $'000
31 December 2009					
Computer and other equipment	173	15	-	(76)	112
Computer and other equipment	-	2	-	-	2
Development costs	14,727	1,859	-	(1,069)	15,517
Earthmoving equipment	108	-	-	(62)	46
Furniture, fittings and improvements to leased premises	334	59	(30)	(66)	297
Infrastructure and surface buildings	2,584	91	30	(356)	2,349
Plant, machinery and mining equipment	4,117	251	-	(464)	3,904
Motor vehicles	410	-	-	(109)	301
Office equipment	80	5	-	(10)	75
Pre-production expenditure	2,642	-	-	(317)	2,325
Assets under construction	269	-	-	-	269
	25,444	2,282	-	(2,529)	25,197

Security

Except for the equipment acquired through National Bank of Commerce (NBC) bank loan (refer note 21) with a carrying amount of $828,000 as 31 December 2010 (2009: 933,000), there are no other restrictions on title and no other property, plant and equipment has been pledged as security for liabilities.

9. INTANGIBLE ASSETS

	US $ '000 2010	US $ '000 2009
At 1 January	7,217	4,767
Prospecting licence	2,031	-
Exploration expenditure	1,194	775
Mining licence	3,992	3,992
Additions	428	2,450
Prospecting licence	-	2,031
Exploration expenditure	428	419
Accumulated amortisation - Mining licence	(2,018)	(1,795)
At start	(1,795)	(1,555)
Amortisation	(223)	(240)
At 31 December	5,627	5,422
Prospecting licence	2,031	2,031
Exploration expenditure	1,622	1,194
Mining licence	1,974	2,197

10. DEFERRED INCOME TAX ASSETS AND LIABILITIES

	US $'000 2010	US $'000 2009
Recognised deferred tax assets and liabilities		
Deferred tax assets comprise the following temporary differences:		
Estimated income tax losses	1,816	1,748
Deferred income tax assets	1,816	1,748

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

	US $'000 2010	US $'000 2009
Deferred tax liabilities comprise the following temporary differences:		
Property, plant and equipment	(4,583)	(5,038)
Deferred income tax liabilities	(4,583)	(5,038)
Net deferred income tax liability	(2,767)	(3,290)
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Tax losses	4,094	3,391

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

	Balance at 31 December 2009 US $ '000	Recognised in statement of comprehensive income US $ '000	Balance at 31 December 2010 US $ '000
Estimated income tax losses	1,748	68	1,816
Property, plant and equipment	(5,038)	455	(4,583)
	(3,290)	523	(2,767)

11. INVENTORIES

	US $ '000 2010	US $ '000 2009
Non-current		
Show jewellery	62	129
	62	129
Current		
Rough gemstones	4,366	3,209
Consumables	1,106	770
	5,472	3,979
	5,534	4,108

No inventories have been pledged as security for liabilities.

12. INCOME TAX RECEIVABLE

	US $ '000 2010	US $ '000 2009
Income tax receivable	2,279	1,980
	2,279	1,980

The current income tax receivable represents the amount of income taxes overpaid in various jurisdictions in respect of current and prior periods.

13. TRADE AND OTHER RECEIVABLES

	US $ '000 2010	US $ '000 2009
Trade receivables from customers	1,057	2,465
Other receivables	2,942	1,268
Provision for impairment of trade receivables	(171)	(549)
	3,828	3,184

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2010, trade receivables of US $ 7,000 (2009: US $ 453,000) 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 2010	US $ '000 2009
Past due 61 – 120 days	-	-
More than one year	7	453
	7	453

As at 31 December 2010, trade receivables of US $ 171,000 (2009: US $ 549,000) 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 2010	US $ '000 2009
At 1 January	549	398
(Write back)/Impairment of trade receivables	(378)	151
At 31 December	171	549
Trade and other receivables consists of balances receivable in the following currencies:		
United States Dollars	2,460	2,763
South African Rands	51	306
Tanzanian Shillings	1,317	115
	3,828	3,184

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

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in note 25.1.

14. CASH AND CASH EQUIVALENTS

	US $ '000 2010	US $ '000 2009
Cash at bank and on hand	2,368	2,193
Bank overdraft (Note 21)	(958)	(570)
Cash and cash equivalents in the statement of cash flows	1,410	1,623
Cash and cash equivalents consists of balances receivable in the following currencies:		
United States Dollar	1,073	462
South African Rand	108	424
Tanzanian Shilling	124	47
UAE Dirham	14	643
UK Pound Sterling	91	47
	1,410	1,623

Translated into United States Dollars at foreign exchange rates applicable at reporting date. The group's exposure to interest rate risk and sensitivity analysis for financial instruments is disclosed in note 25.

15. CAPITAL AND RESERVES

15.1 Common share capital

	US $'000 2010	US $'000 2009
Authorised		
166,666,667 common shares of US $0.0003 each	50	50
Issued		
115,639,781 (2009: 113,607,159) ordinary shares of US $0.0003 each	31	31
Share Capital		
Balance at the beginning of the financial year	34	24
Shares issued pursuant to acquisition of Tsavorite project	-	3
Shares issued pursuant to private placement	-	7
Shares issued pursuant to directors' dealings	*	*
Balance at the end of the financial year	34	34

* - Less than US $1,000

Reconciliation of number of common shares in issue	Number of shares 2010	Number of shares 2009
Shares in issue at beginning of the year	113,607,159	74,476,691
Shares issued pursuant to Tsavorite acquisition	-	7,450,000
Shares issued pursuant to private placement	-	23,270,000
Shares issued pursuant to share options	-	7,275,000
Shares issued pursuant to directors' dealings	2,032,622	1,135,468
Shares in issue at end of the year (1)	115,639,781	113,607,159

(1) includes 7,275,000 common shares acquired and held in trust for participating employees and the executive directors, through an employee share plan. The shares are subject to a vesting period with one third of the shares vesting annually, commencing 31 December 2009.

15. CAPITAL AND RESERVES (CONTINUED)

15.2 A class share capital

	US $ '000 2010	US $ '000 2009
Authorised		
66,666,667 A class shares of ZAR0.0003 each	3	3
Issued		
3,076,109 (2009: 9,916,846) A class shares of ZAR0.0003 each issued by the Company's wholly-owned subsidiary, TanzaniteOne SA Limited.	1	1
	1	1
A class shares have been converted at the historical rate at 1 June 2004 of ZAR6.52 to the US Dollar.		
Total issued share capital (Common shares and A class shares)	35	35

	Number of shares 2010	Number of shares 2009
Reconciliation of A class share capital		
Shares in issue at beginning of the year	9,916,846	16,375,644
Share buy back	(6,840,737)	(6,458,798)
Shares in issue at end of the year	3,076,109	9,916,846

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

Rights attaching to A class shares

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

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

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

The holders of the TanzaniteOne SA Limited A class shares will only be entitled to a dividend if TanzaniteOne Limited declares dividends in respect of any year, and then the TanzaniteOne SA Limited A class shares will be entitled to a preference dividend out of the profits of TanzaniteOne SA Limited available for distribution per TanzaniteOne SA Limited 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 Limited in respect of each TanzaniteOne Limited 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 Limited dividend is payable to TanzaniteOne Limited common shareholders.

15. CAPITAL AND RESERVES (CONTINUED)

15.2 A class share capital (Continued)

TanzaniteOne SA Limited in general meeting or the directors of TanzaniteOne SA Limited shall be entitled to declare preference dividends in respect of the TanzaniteOne SA Limited 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 Limited, to the holders of the TanzaniteOne SA Limited A class shares registered as such on the declaration date of the relevant TanzaniteOne Limited dividend.

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

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 Limited A class shares either by cheque sent by prepaid registered post to the address of each holder of TanzaniteOne SA Limited A class shares as recorded in the register of TanzaniteOne SA Limited's shareholders or by electronic transfer to such bank account nominated in writing by any holder of TanzaniteOne SA Limited A class shares for such purpose.

All or any of the rights attaching to the issued TanzaniteOne SA Limited 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 Limited A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA Limited A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA Limited A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the TanzaniteOne SA Limited 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 Limited A class shares present in person or by proxy are entitled to vote; and
2. holders of three quarters of the ordinary shares.

No shares in the capital of TanzaniteOne SA Limited, ranking in priority to or pari passu with the TanzaniteOne SA Limited 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 Limited A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA Limited A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA Limited A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the TanzaniteOne SA Limited 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 Limited A class shares present in person or by proxy are entitled to vote.

TanzaniteOne SA Limited 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 Limited A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA Limited A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA Limited A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the TanzaniteOne SA Limited 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 Limited A class shares present in person or by proxy are entitled to vote.

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

15. CAPITAL AND RESERVES (CONTINUED)

15.2 A class share capital (Continued)

At every meeting of the holders of the TanzaniteOne SA Limited A class shares the provisions of the articles of TanzaniteOne SA Limited 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 Limited A class shares, provided that if at any adjournment of such meeting a quorum is not present, then the provisions of the relevant articles of TanzaniteOne SA Limited relating to adjourned meetings shall, mutatis mutandis, apply.

Upon the date of redemption of any TanzaniteOne SA Limited A class shares, there shall be paid on any TanzaniteOne SA Limited 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 Limited A class shares, payment of the redemption moneys is not affected by TanzaniteOne SA Limited. The holders of the TanzaniteOne SA Limited A class shares shall deliver the certificate/s representing those TanzaniteOne SA Limited A class shares which are to be redeemed to TanzaniteOne SA Limited at its registered office. Upon such delivery of the share certificate/s TanzaniteOne SA Limited shall pay to the holders of the TanzaniteOne SA Limited A class shares the amount due in respect of the redemption and shall then be entitled to cancel the relevant TanzaniteOne SA Limited A class shares.

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

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

The holders of the TanzaniteOne SA Limited A class shares shall not be entitled to dispose of any TanzaniteOne SA Limited A class shares to any party other than TanzaniteOne Limited and the share certificates issued in respect of the TanzaniteOne SA Limited A class shares shall be endorsed to this effect. Notwithstanding the provisions of this clause, a holder of the TanzaniteOne SA Limited A class shares shall be entitled to transfer the relevant TanzaniteOne SA Limited 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 Limited of the same or similar nature as the TanzaniteOne SA Limited A class shares shall be issued save as provided for above.

	US $ '000 2010	US $ '000 2009
16. SHARE PREMIUM		
Balance at beginning of the year	46,020	38,709
Arising on issue common shares during the year	382	7,311
Balance at end of the year	46,402	46,020
17. SHARE OPTION RESERVE		
Balance at beginning of the year	706	706
Balance at end of the year	706	706

Share-based payments

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

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

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

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

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

	2010 Weighted average exercise price (UK pence/share)	2010 Number of options	2009 Weighted average exercise price (UK pence/share)	2009 Number of options
Outstanding at the beginning of the year	23	7,932,500	91	657,500
Granted during the year		-	16	7,275,000
Forfeited during the year		(725,000)		
Outstanding at the end of the year	27	7,207,500		7,932,500
Exercisable at the end of the year		5,507,500		3,082,500

The 657,500 options outstanding at 31 December 2010 have an exercise price in the range of ZAR7.59 to ZAR16.14 (2009: ZAR7.59 to ZAR16.14) and a weighted average contractual life of 3.15 years (2009: 4.15 years). The 6,550,000 options outstanding at 31 December 2010 have an exercise price of 16.237 UK pence and a weighted average contractual life of 8.10 years (2009: 9.75 years). The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

17. SHARE OPTION RESERVE (CONTINUED)

Fair value of share options and assumptions	**2010 Senior employees**	**2009 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 UK Pound Sterling as the Company is listed on the AIM market of the London Stock Exchange.

18. FOREIGN CURRENCY TRANSLATION RESERVE

	US $ '000 2010	**US $ '000 2009**
Balance at beginning of the year	(684)	(20)
Translation of foreign operations	(367)	(664)
Balance at end of the year	(1,051)	(684)

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

19. NON-CONTROLLING INTEREST

	US $ '000 2010	US $ '000 2009
25% interest in the equity of TanzaniteOne Trading Limited	(6)	(10)
25% interest in the equity of TsavoriteOne Mining Limited	(39)	(32)
	(45)	(42)
Movement during the year:		
25% interest in the profit(loss) for the year of TanzaniteOne Trading Limited	4	(41)
25% interest in the loss for the year of TsavoriteOne Mining Limited	(7)	(5)
Net loss debited in non-controlling interest account	(3)	(46)

20. EARNINGS PER SHARE

20.1 Basic earnings/(loss) per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to common shareholders of US $ 652,000 (2009: loss of US $ 2,376,000) and a weighted average number of common shares outstanding during the year ended 31 December 2010 of 114,136,667 (2009: 94,991,990) calculated as follows:

	US $ '000 2010	US $ '000 2009
Profit/(loss) attributable to common shareholders	652	(2,376)
	Number of shares 2010	Number of shares 2009
Weighted average number of common shares		
Effect of common shares on 1 January	113,607,628	74,476,691
Effect of common shares issued on 18 March 2009	-	5,878,356
Effect of common shares issued on 20 May 2009	-	14,344,521
Effect of common shares issued on 28 September 2009	-	292,422
Effect of common shares issued on 27 September 2010	529,039	-
Weighted average number of common shares	114,136,667	94,991,990
Basic earnings/(loss) per common share (US cents/share)	0.571	(2.50)

20. EARNINGS PER SHARE (CONTINUED)

20.2 Diluted earnings/(loss) per share

The calculation of diluted earnings per share at 31 December 2010 was based on the profit attributable to common shareholders of US $ 652,000 (2009: US $2,376,000) and a weighted average number of common shares outstanding during the year ended 31 December 2010 of 114,794,167 (2009: 94,991,990) calculated as follows:

	Number of shares 2010	Number of shares 2009
Weighted average number of common shares		
Effect of common shares on 1 January	113,607,628	74,476,691
Effect of common shares issued on 18 March 2009	-	5,878,356
Effect of common shares issued on 20 May 2009	-	14,344,521
Effect of common shares issued on 28 September 2009	-	292,422
Effect of common shares issued on 27 September 2010	529,039	-
Weighted average number of common shares	114,136,667	94,991,990
Diluted earnings per common share (US cents/share)	0.568	(2.50)

20.3 Net asset value per common share

Net assets (US $'000)	37,136	36,472
Number of common shares in issue at 31 December	115,639,781	113,607,159
Net asset value per common share (US cents/share)	32.11	32.10

20.4 No dividend was declared for both years

	US $ '000 2010	US $ '000 2009
21. INTEREST-BEARING BORROWINGS		
NBC Limited Bank loan	839	1,000
Less: Current portion transferred to current liabilities	(208)	(196)
Balance payable between one and five years	-	804
Bank loan	208	196
Bank overdraft	958	570
Balance payable between within 12 months	1,166	766
The NBC Limited bank loan is denominated in US $ and is secured over plant and equipment, and bearing interest at NBC base rate of 7% per annum. The bank overdraft is denominated in US $ and bear the interest of NBC USD base rate of 7% per annum and is charged on a monthly basis.		
Total interest-bearing borrowings		
Non-current	-	804
Current	1,166	766
	1,797	1,570
22. PROVISION FOR ENVIRONMENTAL REHABILITATION		
Balance at beginning of the year	107	100
Unwinding of discount	8	7
Balance at end of the year	115	107
23. TRADE AND OTHER PAYABLES		
Trade and other payables	1,739	645
Trade and other payables consists of balances payable in the following currencies:		
United States Dollars	1,683	341
South African Rands	56	307
Tanzanian Shillings	-	(3)
	1,739	645
24. NOTES TO THE STATEMENT OF CASH FLOWS		
24.1 Cash (utilised in)/generated from operations		
Profit/(loss) before income tax	208	(4,051)
Adjusted for:		
• Depreciation of property, plant and equipment	2,578	2,769
• Property, plant and equipment written off	25	-
• Inventory write-off	108	963
• Finance income	(1)	(17)
• Finance cost	167	131
• Unwinding of discount	8	7
• (Write back)/impairment of trade receivables	(378)	151
Net foreign exchange difference	(367)	(664)
Cash from operations before working capital changes	2,348	(711)
Inventories	(1,534)	12
Trade and other receivables	266	(688)
Trade and other payables	1,094	(1,126)
	2,174	(2,513)

	US $ '000 2010	US $ '000 2009
24. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)		
24.2 Net income tax (paid)/refund		
Income tax receivable at 1 January	1,980	1,888
Current taxation (charge)/credit	(82)	343
Income tax receivable at 31 December	(2,279)	(1,980)
	(381)	251
24.3 Net proceeds from the issue of share capital		
Issue of common share capital by Tanzanite One Limited	-	5,341
	-	5,341

25. 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.

25.1 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 maximum credit exposure at year end was US $1.1 million (2009: US $2.5 million)

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

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

25.2 Liquidity risk

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

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

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

	Interest bearing borrowings US $ '000	Bank overdraft US $ '000	Trade and other payables US $ '000
Financial liabilities			
Financial liabilities are payable as follows:			
31 December 2010			
Less than one year	260	958	1,739
More than one year and less than five years	692	-	-
	952	958	1,739
31 December 2009			
Less than one year	260	570	645
More than one year and less than five years	909	-	-
	1,169	570	645

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.3 Market risk

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

Interest rate risk

The Group is not exposed to significant interest rate risks as interest bearing borrowings and investments are mainly of a short to medium term nature. At 31 December 2010, an increase/decrease of interest rate by 50 basis points would not have resulted in any material increase/decrease in post tax profits for the year and equity.

Foreign currency risk

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

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

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

Sensitivity analysis

A 10 per cent strengthening of the United States Dollar against the following currencies at 31 December would have increased/ (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as at 31 December 2009.

	US $,000 2010	**US $,000 2009**
Profit and loss		
South African Rands	(421)	(263)
Tanzanian Shillings	74	1
British Pounds	(192)	(175)
	(539)	(437)

Equity would have increased in 2010 by US $366,000 (2009: US $569,000).

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

Operational price risk

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

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

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.4 Fair value of financial instruments

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

Trade and other receivables

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

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.

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 statement of financial position are as follows:

		Carrying amount	Fair value
2010	**Note**	**US $ '000**	**US $ '000**
Trade and other receivables	13	3,828	3,828
Cash and cash equivalents	14	1,410	1,410
Loans and receivables		5,238	5,238
Interest-bearing borrowings	21	839	839
Trade and other payables	23	1,739	1,739
Financial liabilities measured at amortised cost		2,578	2,578
2009			
Trade and other receivables	13	3,184	3,184
Cash and cash equivalents	14	1,623	1,623
Loans and receivables		4,807	4,807
Interest-bearing borrowings	21	1,000	1,000
Trade and other payables	23	645	645
Financial liabilities measured at amortised cost		1,645	1,645

The carrying amount of interest bearing borrowings, bank overdraft and trade and other payables approximate their fair value.

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.5 Capital management

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

The Group's target is to achieve a return on capital of between 12 and 16 percent. The Group's achieved a return on capital of 2 percent in 2010 (2009: negative return of 7 percent). The increase in return on capital is a result of the increased net operating income.

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

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

26. COMMITMENTS AND CONTINGENCIES

26.1 Capital commitments

No capital commitments existed year end (2009: US $ nil).

26.2 Finance lease commitments

	2010 US $ '000	2009 US $ '000
Non-cancellable lease rentals are payable as follows:		
Less than one year	126	162
Between two and five years	26	126
	152	288

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

26.3 Legal contingencies

The group was a defendant against various legal cases instituted by former employees and other third parties with claims amounting to US $53 million. The company has provided for US $0.04 million on recommendation of legal advisor. In the opinion of the Directors and Company's legal counsel, no additional material liabilities are expected to crystallise from the above over and above what has been provided for.

26.4 Tax contingencies

The Tanzanian Revenue Authority (TRA) conducted an audit of Tanzanite One Mining Limited during October 2006 and covering all the periods from 2003 to 2005. The concomitant taxes and penalties calculated by TRA have been estimated at $1.0 million. The group has objected to the results of the assessment since 2007 and discussion with TRA is an ongoing matter. Directors believe that there are no taxes payable and consequently no provision has been set in the books of account.

27. RESOURCES AND RESERVE STATEMENT

Tanzanite

As at 31 December 2010 the total inferred mineral resource was estimated at between 52.19 million carats and 72.19 million carats. At the current production rate of 2.2 million carats per annum and current recovery rates, indicate an estimated useful life for those assets depreciated by unit of production of approximately 23 years to 32 years.

27. RESOURCES AND RESERVE STATEMENT (CONTINUED)

Tsavorite

As at 31 December 2010 the total inferred mineral resource was estimated at between 7.6 million to 10.4 million bank cubic metres or approximately 18.2 to 24.9 million tonnes. The total indicated resource was estimated at between 0.89 million to 2.17 million bank cubic metres or approximately 2.1 million to 5.2 million tonnes located within the inferred resource. At an estimated tsavorite grade of 1.6 carats per loose cubic metre for indicated resource, the estimated tsavorite was 1.4 million to 3.5 million carats located within the indicated resource only. The Tsavorite project resource statement was prepared for the Group in accordance with the guidelines of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (JORC Code-2004 edition). This resource statement issued on 10 January 2011 was based on the work conducted to date on the project and covers approximately 50% of the project.

28. 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.

Directors of the holding company and their close family members control 12% (2009: 11%) of the voting shares of TanzaniteOne Limited.

	US $ 2010	US $ 2009
Short-term benefits		
Directors' emoluments for the year		
Services as directors of the Company		
Non-executive directors		
Salary	**100,000**	124,175
Executive directors		
Salary	**140,500**	233,925
Services as directors of the subsidiaries		
Executive directors		
Salary	**305,700**	255,065
Consulting fees paid to Strategic Works Consulting Limited in respect of Ami Mpungwe	**120,000**	120,000

Remuneration of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the group.

The remuneration of key management personnel recognised in the consolidated statement of comprehensive income including salaries and other current employee benefits amounted to $0.96 million (2009: $0.73 million). No terminal or other long term benefits were paid to key management personnel during the year (2009: Nil). There were no transactions with key management personnel during the year. There were no loans outstanding as at year end with key management personnel.

28. RELATED PARTIES (CONTINUED)

Group entities

Significant subsidiaries	Country of incorporation	Products/Services	Net amounts owing by/(to) subsidiaries US $ '000 2010	US $ '000 2009	Functional currency	Share holding %
The Tanzanite Company (UK) Limited	Great Britain	Polished gemstone and jewellery sales	(1,733)	(1,754)	GBP	100%
Tanzanite One (SA) Limited	Republic of South Africa	Management services	(20,399)	(18,554)	ZAR	100%
Tanzanite One Polished Sales (Proprietary) Limited	Republic of South Africa	Polished gemstone and jewellery sales	4,705	4,186	ZAR	100%
Afgem International Limited	Republic of Mauritius	Holding company	(61)	(50)	US$	100%
Tanzanite One Mauritius Limited	Republic of Mauritius	Rough and polished tanzanite sales	13,222	13,351	US$	100%
Tanzanite One Marketing DMCC	UAE-Dubai	Rough and polished tanzanite sales	5,394	(974)	US$	100%
Tanzanite One Mining Limited	United Republic of Tanzania	Tanzanite mining	3,632	6,095	US$	100%
Tanzanite One Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	(1,336)	(1,147)	US$	75%
The Tanzanite Laboratory Limited	United Republic of Tanzania	Certification of tanzanite	(172)	(158)	US$	100%
TsavoriteOne Mining Limited	United Republic of Tanzania	Tsavorite exploration	(4,019)	(3,505)	US$	75%
Tanzanite Foundation Limited	Nevis	Tanzanite marketing	(4,601)	(4,356)	US$	100%
TanzaniteOne Cutting Edge	Hong Kong, China	Polished and jewellery sales	77	-	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.

29. SUBSEQUENT EVENTS

Purchase of sapphire mine

On 1 June 2011, TanzaniteOne entered into an option agreement to acquire an established Sapphire project, for an upfront cash fee of AUD $120,000 to acquire at the company's sole discretion, following necessary and appropriate due diligence, an unencumbered 100% ownership of the project. Under the option agreement, TanzaniteOne has an exclusivity period for a minimum of three months and a maximum of six months to conduct its due diligence. The project which comprise two mining leases covering around 490 hectares, has previously been partially mined and has produced significant quantities of gemstone quality sapphire, and it is situated in a known sapphire field in Australia. The assets to be acquired comprise the mining licences, tangible assets, completed exploration, operational and sales data over the mining licence area. Exercise of the option is conditional upon the mining licence(s) being granted. The total consideration for the project, if the company elects to proceed on completion of the due diligence will be cash of AUD$1.2 million and 18 million fully paid common shares in TanzaniteOne, at the market price at the time of completion, representing approximately 13.5% of the enlarged issued share capital.

30. ULTIMATE HOLDING COMPANY

The company is widely owned by the public as has its primary listing on the Alternative Investment Market ("AIM") of the London Stock Exchange.