



**TANZANIAN ROYALTY EXPLORATION CORPORATION**  
**(Formerly Tan Range Exploration Corporation)**

**Consolidated Financial Statements**  
**For the Three and Nine Months Ended May 31, 2006 and 2005**  
**(in Canadian Dollars)**

**Unaudited**  
**Prepared by Management**  
**Vancouver, B.C.**



**Tanzanian Royalty Exploration Corporation  
(Formerly Tan Range Exploration Corporation)  
Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2006 and 2005**

**Notice**

The accompanying unaudited interim financial statements of Tanzanian Royalty Exploration Corporation (the “Company”) have not been reviewed by the Company’s auditors.



**Tanzanian Royalty Exploration Corporation**  
**(Formerly Tan Range Exploration Corporation)**

Consolidated Balance Sheet

As at May 31, 2006 and August 31, 2005

(in Canadian Dollars)

| <b>ASSETS</b>   | <b>May 31, 2006</b>      | <b>August 31, 2005</b>   |
|---|--------------------------|--------------------------|
| <b>Current Assets</b>   | <b>\$</b>                | <b>\$</b>                |
| Cash and Short Term Deposits                                      | 3,467,815                | 1,395,468                |
| Accounts and Other Receivables                                    | 83,203                   | 77,677                   |
| Inventory   | 176,301                  | 49,934                   |
| Prepaid Expenses  | <u>138,879</u>           | <u>73,273</u>            |
|   | 3,866,198                | 1,596,352                |
| <b>Mineral Properties and Deferred Exploration Costs (note 3)</b> | 20,315,689               | 19,739,275               |
| Equipment and Leasehold Improvements                              | <u>851,792</u>           | <u>922,056</u>           |
|   | <u><u>25,033,679</u></u> | <u><u>22,257,683</u></u> |
| <br><b>LIABILITIES</b>  |                          |                          |
| <b>Current Liabilities</b>  |                          |                          |
| Accounts Payable and Accrued Liabilities                          | 51,410                   | 172,812                  |
| Current Portion of Obligations Under Capital Lease                | <u>34,009</u>            | <u>34,634</u>            |
|   | 85,419                   | 207,446                  |
| Obligations under capital lease                                   | 124,513                  | 175,011                  |
| <br><b>SHAREHOLDERS' EQUITY</b>                                   |                          |                          |
| Share Capital (note 4)  | 51,022,278               | 44,839,796               |
| Share Subscriptions Received                                      | 812                      | 813,828                  |
| Deficit   | <u>(26,199,343)</u>      | <u>(23,778,398)</u>      |
|   | <u>24,823,747</u>        | <u>21,875,226</u>        |
|   | <u><u>25,033,679</u></u> | <u><u>22,257,683</u></u> |

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements

"Victoria M. Luis", Director

"James E. Sinclair", Director

Unaudited – Prepared by Management

**Tanzanian Royalty Exploration Corporation**  
**(Formerly Tan Range Exploration Corporation)**  
Consolidated Statements of Operations and Deficit  
For the three and nine months ended May 31, 2006 and 2005  
(in Canadian Dollars)

|   | <b>Three months ended</b> |                   | <b>Nine months ended</b> |                   |
|---|---------------------------|-------------------|--------------------------|-------------------|
|   | <b>May 31</b>             |                   | <b>May 31</b>            |                   |
|   | <b>2006</b>               | <b>2005</b>       | <b>2006</b>              | <b>2005</b>       |
|   | <b>\$</b>                 | <b>\$</b>         | <b>\$</b>                | <b>\$</b>         |
| <b>EXPENSES</b>   |                           |                   |                          |                   |
| Annual general meeting  | 35,329                    | 6,215             | 94,098                   | 36,299            |
| Capital Tax   | -                         | -                 | -                        | 3,243             |
| Consulting and management fees  | 65,253                    | 20,108            | 146,131                  | 102,717           |
| Depreciation  | 25,344                    | 10,111            | 75,251                   | 30,181            |
| Insurance   | 26,595                    | 15,184            | 88,613                   | 52,931            |
| Interest on Interim Loan  | -                         | 5,079             | -                        | 5,079             |
| Memberships, courses and publications   | 829                       | 133               | 4,268                    | 649               |
| New property investigation costs  | 7,150                     | 3,180             | 17,562                   | 80,377            |
| Office and administration   | 18,459                    | 19,782            | 65,160                   | 65,833            |
| Office rentals  | 15,182                    | 14,425            | 46,609                   | 50,682            |
| Press releases  | 51,478                    | 3,346             | 69,737                   | 37,557            |
| Printing and mailing  | 152                       | 228               | 34,257                   | 31,251            |
| Professional fees   | 63,766                    | 13,804            | 183,123                  | 91,146            |
| Promotions and shareholder relations  | 15,540                    | 3,399             | 30,270                   | 6,539             |
| Salaries and benefits   | 189,409                   | 165,247           | 566,812                  | 494,350           |
| Telephone and fax   | 5,986                     | 7,521             | 16,364                   | 21,713            |
| Transfer agent and listing  | 125,430                   | 75,075            | 203,173                  | 99,814            |
| Travel and accommodation  | 9,394                     | 7,129             | 50,068                   | 28,222            |
| Training  | -                         | 28                | -                        | 18,875            |
|   | <u>655,296</u>            | <u>369,994</u>    | <u>1,691,496</u>         | <u>1,257,458</u>  |
| <b>OTHER (INCOME) EXPENSE</b>   |                           |                   |                          |                   |
| (Interest earned), net of expense   | (17,191)                  | 435               | (26,389)                 | 1,557             |
| Sale of assets (Gain) Loss  | -                         | 991               | -                        | (131)             |
| Interest, Capital Lease   | 6,976                     | -                 | 25,233                   | -                 |
| Short term investments (Gain) Loss  | -                         | -                 | -                        | (2,527)           |
| Foreign Exchange (Gain) Loss  | 85,726                    | (87,596)          | 120,440                  | 3,466             |
| Write-off of mineral properties and<br>deferred exploration and development costs | <u>494,577</u>            | <u>210,368</u>    | <u>610,165</u>           | <u>1,448,823</u>  |
|   | 570,088                   | 124,198           | 729,449                  | 1,451,188         |
| <b>NET LOSS FOR THE PERIOD</b>  | 1,225,384                 | 494,192           | 2,420,945                | 2,708,646         |
| <b>DEFICIT, BEGINNING OF PERIOD</b>   | <u>24,973,959</u>         | <u>23,061,789</u> | <u>23,778,398</u>        | <u>20,847,335</u> |
| <b>DEFICIT, END OF PERIOD</b>   | <u>26,199,343</u>         | <u>23,555,981</u> | <u>26,199,343</u>        | <u>23,555,981</u> |
| <b>Basic and diluted loss per share</b>   | <u>.014</u>               | <u>.006</u>       | <u>.028</u>              | <u>.032</u>       |

# Tanzanian Royalty

EXPLORATION CORPORATION

## Tanzanian Royalty Exploration Corporation

(Formerly Tan Range Exploration Corporation)

Consolidated Statement of Cash Flows

For the three and nine months ended May 31, 2006 and 2005

(in Canadian Dollars)

|  | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                    |
|--|---------------------------|------------------|--------------------------|--------------------|
|  | <b>May 31</b>             |                  | <b>May 31</b>            |                    |
|  | <b>2006</b>               | <b>2005</b>      | <b>2006</b>              | <b>2005</b>        |
|  | <b>\$</b>                 | <b>\$</b>        | <b>\$</b>                | <b>\$</b>          |
| <b>Cash provided from (used in):</b>                                   |                           |                  |                          |                    |
| <b>Operating activities:</b>   |                           |                  |                          |                    |
| Loss for the period  | (1,225,384)               | (494,192)        | (2,420,945)              | (2,708,646)        |
| Items not affecting cash:  |                           |                  |                          |                    |
| Write-off of mineral properties  | 494,577                   | 210,368          | 610,165                  | 1,448,823          |
| Depreciation   | 25,344                    | 10,111           | 75,251                   | 30,181             |
| Loss (Gain) on sale of plant and equipment                             | -                         | 991              | -                        | (131)              |
| Gain on short-term investments   | -                         | -                | -                        | (2,527)            |
|  | <u>(705,463)</u>          | <u>(272,722)</u> | <u>(1,735,529)</u>       | <u>(1,232,300)</u> |
| Change in non-cash working capital items:                              |                           |                  |                          |                    |
| Accounts and other receivables   | (26,486)                  | (470)            | (5,526)                  | 5,569              |
| Inventory  | (34,926)                  | -                | (126,367)                | -                  |
| Prepaid Expenses   | (38,969)                  | (65,379)         | (65,606)                 | (77,644)           |
| Accounts payable   | <u>(157,683)</u>          | <u>(92,566)</u>  | <u>(121,402)</u>         | <u>(69,902)</u>    |
|  | (963,527)                 | (431,137)        | (2,054,430)              | (1,374,277)        |
| <b>Investing activities:</b>   |                           |                  |                          |                    |
| Mineral properties and deferred exploration and development costs, net | (477,221)                 | (425,256)        | (1,186,579)              | (991,845)          |
| Short Term Investments   | -                         | (2,527)          | -                        | 417,728            |
| Plant and Equipment (additions) disposals, net                         | <u>3,753</u>              | <u>(28,369)</u>  | <u>(4,987)</u>           | <u>(172,398)</u>   |
|  | (473,468)                 | (456,152)        | (1,191,566)              | (746,515)          |
| <b>Financing Activities</b>  |                           |                  |                          |                    |
| Repayment of Capital Lease Obligation                                  | (35,040)                  | -                | (51,123)                 | -                  |
| Share capital issued   | 2,971,998                 | 375,000          | 5,368,654                | 1,284,600          |
| Share subscriptions received   | <u>(31,743)</u>           | <u>545,597</u>   | <u>812</u>               | <u>851,542</u>     |
|  | <u>2,905,215</u>          | <u>920,597</u>   | <u>5,318,343</u>         | <u>2,136,142</u>   |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                 | 1,468,220                 | 33,308           | 2,072,347                | 15,350             |
| <b>CASH, BEGINNING OF PERIOD</b>                                       | <u>1,999,595</u>          | <u>1,049,490</u> | <u>1,395,468</u>         | <u>1,067,448</u>   |
| <b>CASH, END OF PERIOD</b>   | <u>3,467,815</u>          | <u>1,082,798</u> | <u>3,467,815</u>         | <u>1,082,798</u>   |

### Supplemental Information

Non-cash transaction, purchase of plant and equipment financed by interim loan facility (\$215,223) and amount prepaid at August 31, 2004 (\$485,000)

- - - 700,223

See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements  
Unaudited – Prepared by Management



**Tanzanian Royalty Exploration Corporation**  
**(Formerly Tan Range Exploration Corporation)**

Notes to the Unaudited Interim Consolidated Financial Statements  
For the three and nine months ended May 31, 2006 and 2005  
(in Canadian Dollars)

**1. Nature of operations**

The Company changed its name from Tan Range Exploration Corporation to Tanzanian Royalty Exploration Corporation on February 28, 2006.

Tanzanian Royalty Exploration Corporation (the “Company”) is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for mineral properties and related deferred costs are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to explore and develop, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as deferred expenditures and property acquisition costs represent net costs to date, less amounts recovered, amortized and/or written off, and do not necessarily represent present or future values.

**2. Significant accounting policies**

These interim consolidated financial statements of the Company have been prepared by management, and have not been audited or reviewed by an independent public accountant. These interim consolidated financial statements do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the Company’s audited annual consolidated financial statements as at and for the year ended August 31, 2005.

These interim consolidated financial statements include the accounts of the Company and its subsidiaries.

**Tanzanian Royalty Exploration Corporation**  
**(Formerly Tan Range Exploration Corporation)**

Consolidated Statement of Mineral Properties and Deferred Exploration and Development Cost  
For the Nine Months Ended May 31, 2006 and Year Ended August 31, 2005

**3. Mineral properties and deferred exploration and development costs:**

The continuity of expenditures on mineral properties is as follows:

|                                       | Itememia Project<br>(a) | Luhala Project<br>(b) | Kigosi<br>(c) | Lunguya<br>(d) | Kanagele<br>(e) | Tulawaka<br>(f) | Ushiroombo<br>(g) | Mbogwe<br>(h) | Biharamulu<br>(i) | Other<br>(j) | Total        |
|---------------------------------------|-------------------------|-----------------------|---------------|----------------|-----------------|-----------------|-------------------|---------------|-------------------|--------------|--------------|
| Balance, August 31, 2003              | \$ 6,563,782            | \$ 2,579,230          | \$ 1,497,381  | \$ 2,593,338   | \$ 854,701      | \$ 1,557,708    | \$ 930,242        | \$ 1,044,912  | \$ 642,450        | \$ 408,702   | \$18,672,446 |
| Exploration expenditures:             |                         |                       |               |                |                 |                 |                   |               |                   |              |              |
| Camp, field supplies and travel       | -                       | 13,967                | -             | 5,528          | 3,406           | -               | 1,098             | -             | 2,259             | 21,386       | 47,644       |
| Exploration and field overhead        | -                       | 168,588               | 39,175        | 129,371        | 101,526         | 56,643          | 52,614            | 41,485        | 28,182            | 348,888      | 985,189      |
| Geological consulting and field wages | 18,717                  | 1,274                 | -             | -              | -               | -               | -                 | -             | -                 | (21,113)     | (19,839)     |
| Geophysical and geochemical           | -                       | 4,813                 | 3,986         | 60,625         | 73,524          | 2,598           | 16,065            | 2,288         | 5,244             | 91,976       | 261,119      |
| Property acquisition costs            | -                       | 50,546                | -             | -              | 21,706          | -               | -                 | -             | 274               | 164,833      | 237,359      |
| Parts and equipment                   | -                       | 108                   | -             | -              | -               | -               | -                 | -             | -                 | 109          | 217          |
| Trenching and drilling                | -                       | 1,095                 | -             | -              | -               | -               | -                 | -             | -                 | -            | 1,095        |
| Option payments received              | (17,496)                | -                     | (58,811)      | -              | -               | (88,926)        | (123,275)         | (17,496)      | (25,930)          | -            | (331,934)    |
| Reclassifications                     | -                       | -                     | 286,762       | -              | -               | -               | (286,762)         | -             | -                 | -            | -            |
|                                       | 1,221                   | 240,391               | 271,112       | 195,524        | 200,162         | (29,685)        | (340,260)         | 26,277        | 10,029            | 606,079      | 1,180,850    |
| Balance, August 31, 2004              | 6,565,003               | 2,819,621             | 1,768,493     | 2,788,862      | 1,054,863       | 1,528,023       | 589,982           | 1,071,189     | 652,479           | 1,014,781    | 19,853,296   |
| Exploration expenditures:             |                         |                       |               |                |                 |                 |                   |               |                   |              |              |
| Camp, field supplies and travel       | 339                     | 17,089                | -             | 4,432          | 20,091          | -               | 6,248             | 1,849         | -                 | 111,172      | 161,220      |
| Exploration and field overhead        | 2,800                   | 142,948               | 28,278        | 29,945         | 68,848          | 16,095          | 63,611            | 36,488        | 14,109            | 534,210      | 937,332      |
| Geological consulting and field wages | -                       | -                     | 14,332        | -              | -               | -               | -                 | -             | -                 | -            | 14,332       |
| Geophysical and geochemical           | -                       | 30,200                | -             | 42,932         | 33,298          | 34              | 9,271             | 1,893         | 1,393             | 83,610       | 202,631      |
| Property acquisition costs            | 18,635                  | 92,788                | 16,549        | -              | 60,149          | 12,075          | -                 | -             | -                 | 242,019      | 442,215      |
| Parts and equipment                   | -                       | 4,639                 | -             | -              | -               | -               | -                 | -             | -                 | -            | 4,639        |
| Trenching and drilling                | -                       | 40,593                | -             | -              | 899             | 3,502           | -                 | -             | -                 | 9,739        | 54,733       |
| Recoveries                            | (24,146)                | -                     | -             | -              | -               | (130,226)       | -                 | (24,146)      | (122,673)         | -            | (301,191)    |
|                                       | (2,372)                 | 328,257               | 59,159        | 77,309         | 183,285         | (98,520)        | 79,130            | 16,084        | (107,171)         | 980,750      | 1,515,911    |
| Write-offs                            | 6,562,631               | 3,147,878             | 1,827,652     | 2,866,171      | 1,238,148       | 1,429,503       | 669,112           | 1,087,273     | 545,308           | 1,995,531    | 21,369,207   |
|                                       | (656,500)               | -                     | -             | (73,010)       | -               | -               | (316,476)         | (299,118)     | (43,399)          | (241,429)    | (1,629,932)  |
| Balance, August 31, 2005              | 5,906,131               | 3,147,878             | 1,827,652     | 2,793,161      | 1,238,148       | 1,429,503       | 352,636           | 788,155       | 501,909           | 1,754,102    | 19,739,275   |
| Exploration expenditures:             |                         |                       |               |                |                 |                 |                   |               |                   |              |              |
| Camp, field supplies and travel       | 2,676                   | 57,418                | -             | 941            | 928             | 2,171           | -                 | -             | 6,295             | 56,588       | 127,017      |
| Exploration and field overhead        | 2,597                   | 329,649               | 14,811        | 6,288          | 60,165          | 20,857          | 9,549             | 2,025         | 21,227            | 226,037      | 693,205      |
| Geological consulting and field wages | 2,976                   | -                     | -             | -              | -               | -               | -                 | -             | -                 | -            | 2,976        |
| Geophysical and geochemical           | -                       | 83,157                | -             | -              | 27,730          | 125             | -                 | -             | 3,680             | 121,107      | 235,799      |
| Property acquisition costs            | 13,527                  | 52,117                | 17,975        | -              | 45,336          | 12,114          | -                 | 13,527        | -                 | 221,361      | 375,957      |
| Parts and equipment                   | -                       | 37                    | -             | -              | -               | -               | -                 | -             | -                 | -            | 37           |
| Trenching and drilling                | 81                      | 56,458                | -             | -              | 1,205           | -               | -                 | -             | -                 | 24,359       | 82,103       |
| Recoveries                            | (45,092)                | -                     | (80,155)      | -              | -               | (90,401)        | -                 | (45,092)      | (69,775)          | -            | (330,515)    |
|                                       | (23,235)                | 578,836               | (47,369)      | 7,229          | 135,364         | (55,134)        | 9,549             | (29,540)      | (38,573)          | 649,452      | 1,186,579    |
| Write-offs                            | 5,882,896               | 3,726,714             | 1,780,283     | 2,800,390      | 1,373,512       | 1,374,369       | 362,185           | 758,615       | 463,336           | 2,403,554    | 20,925,854   |
|                                       | -                       | (13,961)              | -             | -              | (89,729)        | (423,205)       | -                 | -             | -                 | (83,270)     | (610,165)    |
| Balance May 31, 2006                  | 5,882,896               | 3,712,753             | 1,780,283     | 2,800,390      | 1,283,783       | 951,164         | 362,185           | 758,615       | 463,336           | 2,320,284    | 20,315,689   |

Unaudited – Prepared by Management

**Tanzanian Royalty Exploration Corporation  
(Formerly Tan Range Exploration Corporation)**

Summary of Note Disclosure to the Consolidated Financial Statements  
For the Three and Nine Months Ended May 31, 2006 and 2005  
(in Canadian Dollars)  
(Unaudited)

**4. Share Capital**

| <u>(a) Share Capital</u>                      | <u>Number</u>     | <u>Amount (\$)</u> |
|---|-------------------|--------------------|
| Balance at August 31, 2005                    | 84,776,054        | 44,839,796         |
| Issued for cash                               | 748,803           | 5,138,979          |
| Issued for subscriptions previously received  | 379,054           | 813,828            |
| Issued on exercise of stock options, for cash | <u>292,500</u>    | <u>229,675</u>     |
| Balance at May 31, 2006                       | <u>86,196,411</u> | <u>51,022,278</u>  |
| <br><u>(b) Share Subscriptions Received</u>   |                   | <u>812</u>         |

912,037 shares issued for cash and subscriptions previously received were issued to James E. Sinclair, the Chairman and CEO of the Company.

**5. Options Outstanding**

| <u>Type of Security</u> | <u>Number of Shares</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-------------------------|-------------------------|-----------------------|--------------------|
| Options                 | 75,000                  | \$0.79                | May 3, 2007        |

**6. Related Party Transactions**

During the nine months ended May 31, 2006, \$113,829 was paid or payable for professional fees paid to a firm related to a director. Directors were paid \$71,375 in fees. 912,037 shares issued for cash and subscriptions previously received were issued to James E. Sinclair, the Chairman and CEO of the Company.