



**TANZANIAN ROYALTY EXPLORATION CORPORATION
(An Exploration Stage Company)**

**Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2010 and 2009**

Notice

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

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



Tanzanian Royalty Exploration Corporation
(An Exploration Stage Company)

Consolidated Balance Sheets
As at February 28, 2010 and August 31, 2009
(Expressed in Canadian Dollars)

	February 28 2010 (unaudited)	August 31 2009 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,864,441	\$ 1,165,746
Accounts and other receivables	30,089	43,516
Inventory	294,790	347,407
Prepaid expenses	110,781	70,720
	<u>2,300,101</u>	<u>1,627,389</u>
Mineral properties and deferred exploration costs (note 3)	28,026,585	26,950,430
Equipment and leasehold improvements	1,030,294	707,386
	<u>\$ 31,356,980</u>	<u>\$ 29,285,205</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 497,091	\$ 644,477
Current portion of obligations under capital lease	16,194	39,693
	<u>513,285</u>	<u>684,170</u>
Obligations under capital lease	-	-
Shareholders' equity:		
Share capital (note 4)	72,196,195	68,111,716
Share subscriptions received	69,478	473,211
Contributed surplus	719,775	472,578
Deficit	(42,141,753)	(40,456,470)
	<u>30,843,695</u>	<u>28,601,035</u>
Nature of operations (note 1)	<u>\$ 31,356,980</u>	<u>\$ 29,285,205</u>

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

"James E. Sinclair", Director

"Norman Betts", Director



Tanzanian Royalty Exploration Corporation
(An Exploration Stage Company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Three and Six Months ended February 28, 2010 and 2009 (unaudited)
(Expressed in Canadian Dollars)

	Three months ended February 28		Six months ended February 28	
	2010 \$	2009 \$	2010 \$	2009 \$
EXPENSES				
Amortization	64,409	24,752	92,982	49,377
Annual General Meeting, Printing & Mailout	69,382	88,230	69,865	88,583
Consulting and Management Fees	69,448	42,179	126,771	102,043
Directors' Fee	105,673	112,642	222,426	225,800
Insurance	25,186	24,358	49,736	49,048
Membership, Courses & Publications	5,911	3,711	6,942	4,845
New Property Investigation Costs	5,676	8,419	15,214	19,481
Office and Administration	42,116	19,349	65,505	49,859
Office Rentals	22,952	22,195	35,015	43,017
Press Releases	3,953	685	4,373	899
Professional Fees	95,361	141,010	189,356	232,651
Promotion and Shareholder Relations	652	4,471	1,252	7,418
Salaries and Benefits	248,394	320,507	500,674	596,146
Stock-based compensation	36,935	50,808	74,567	102,176
Telephone and Fax	7,155	3,984	12,833	9,211
Transfer Agent and Listing	43,672	68,854	103,455	115,806
Travel and Accommodation	11,109	13,546	26,679	30,207
Other	-	6,437	-	8,355
	<u>857,984</u>	<u>956,137</u>	<u>1,597,645</u>	<u>1,734,922</u>
OTHER (INCOME) EXPENSE				
Property Write-Off (note 3)	3,525	-	3,525	-
Interest, net	1,709	4,154	5,193	6,088
Foreign Exchange Loss (Gain)	17,948	(41,160)	78,920	(226,966)
	<u>23,182</u>	<u>(37,006)</u>	<u>87,638</u>	<u>(220,878)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD				
	881,166	919,131	1,685,282	1,514,044
DEFICIT, BEGINNING OF PERIOD	41,260,587	36,319,547	40,456,470	35,724,634
DEFICIT, END OF PERIOD	<u>\$42,141,753</u>	<u>\$37,238,678</u>	<u>\$42,141,753</u>	<u>\$37,238,678</u>
Basic and diluted loss per share	(\$0.010)	(\$0.010)	(\$0.018)	(\$0.017)
Weighted average shares outstanding	90,439,388	88,547,886	90,854,648	88,743,421

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

Tanzanian Royalty Exploration Corporation
(An Exploration Stage Company)

Consolidated Statement of Cash Flows
For the Three and Six Months ended February 28, 2010 and February 28, 2009
(Expressed in Canadian Dollars)

	Three months ended February 28		Six months ended February 28	
	2010 \$	2009 \$	2010 \$	2009 \$
Cash provided from (used in)				
Operating activities				
Loss for the period	(881,166)	(919,131)	(1,685,282)	(1,514,044)
Items not affecting cash:				
Write off of Mineral Properties	3,525	-	3,525	-
Depreciation	64,408	24,752	92,982	49,377
Stock-based compensation	36,935	50,808	74,567	102,176
Non-cash directors' fees	84,614	81,804	170,166	164,511
	<u>(691,684)</u>	<u>(761,767)</u>	<u>(1,344,042)</u>	<u>(1,197,980)</u>
Change in non-cash working capital items:				
Accounts and Other Receivables	62,482	(11,541)	13,427	(11,470)
Inventory	43,685	119,915	52,617	86,661
Prepaid Expenses	(80,754)	(28,638)	(40,061)	(6,749)
Accounts Payable	37,737	(56,251)	(147,386)	(22,703)
	<u>(628,534)</u>	<u>(738,282)</u>	<u>(1,465,445)</u>	<u>(1,152,241)</u>
Investing Activities				
Mineral properties and deferred exploration expenditures	(761,660)	(1,293,486)	(1,380,255)	(2,337,351)
Option payments received and recoveries	400,769	31,094	403,036	31,094
Capital assets (additions) disposal, net	<u>(325,985)</u>	<u>(9,662)</u>	<u>(415,890)</u>	<u>(10,341)</u>
	<u>(686,876)</u>	<u>(1,272,054)</u>	<u>(1,393,109)</u>	<u>(2,316,598)</u>
Financing Activities				
Share capital issued, net of issuance costs	2,457,691	1,490,000	2,984,480	2,490,000
Share subscriptions received	435,519	203,507	596,268	1,013,710
Repayment of obligations under lease	<u>(11,387)</u>	<u>(10,701)</u>	<u>(23,499)</u>	<u>(11,456)</u>
	<u>2,881,824</u>	<u>1,682,806</u>	<u>3,557,249</u>	<u>3,492,254</u>
Net increase(decrease) in cash and cash equivalent	<u>1,566,413</u>	<u>(327,530)</u>	<u>698,695</u>	<u>23,415</u>
Cash and cash equivalent, beginning of the period	<u>298,028</u>	<u>1,546,182</u>	<u>1,165,746</u>	<u>1,195,237</u>
Cash and cash equivalent, end of the period	<u><u>1,868,441</u></u>	<u><u>1,218,652</u></u>	<u><u>1,864,441</u></u>	<u><u>1,218,652</u></u>
Supplementary information:				
Mineral properties recoveries by way of marketable securities	73,750	-	73,750	-
Issuance of share capital for subscriptions previously received	-	-	473,211	-
Stock based compensation capitalized to mineral properties	64,829	9,613	102,461	19,112
Shares issued pursuant to RSU	100,000	-	100,000	-

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

Tanzanian Royalty Exploration Corporation
(An Exploration Stage Company)

Notes to the Unaudited Consolidated Financial Statements

For the Three and Six Months ended February 28, 2010 and February 28, 2009

(Expressed in Canadian Dollars)

1. Nature of operations

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 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 Tanzanian Royalty Exploration Corporation (the "Company") include the accounts of the Company and four subsidiaries have been prepared by management. These statements 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 described in Note 2 in the Company's audited annual consolidated financial statements as at and for the year ended August 31, 2009.

Changes in Accounting Policies including Initial Adoption

Effective September 1, 2009, the Company adopted on a prospective basis, the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

- (i) The Canadian Accounting Standards Board (AcSB) amended CICA Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3025, *Impaired Loans*, to converge with IFRS for impairment of debt instruments by enabling debt securities to be included in the loans and receivables category. The sections allow for elimination of the distinction between debt securities and other debt instruments and adopt the definition of loans and receivables, permit reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. It also allow reclassification to net income, foreign exchange gains and losses associated with assets transferred out of the available-for-sale category, that were previously recognized in other comprehensive income, immediately upon transfer. This change the impairment model for held-to-maturity investments to the incurred credit loss model in accordance with HB 3025. It required the reversal of an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The Company has applied this for the six month period ended February 28, 2010 and there was no significant impact on its financial statements as a result of this amendment.

- (ii) The Canadian Accounting Standards Board (AcSB) has amended CICA Section 3855, *Financial Instruments – Recognition and Measurement* by further providing guidance on calculating the effective interest rate. The amendment requires that subsequent to recognition of an impairment write-down of a financial asset (other than a loan or receivable), interest income is recognized using the same interest rate used to discount cash flows for the purpose of measuring the impairment loss. The Company has applied this for the six month period ended February 28, 2010 and there was no significant impact on its financial statements as a result of this amendment.
- (iii) The Canadian Accounting Standards Board (AcSB) has amended CICA section 3855, *Financial Instruments – Recognition and Measurement* by further providing guidance on the assessment of embedded derivatives upon reclassification of a financial asset out of held-for-trading category. Reclassification of an instrument out of held-for-trading category is prohibited if an entity is unable to measure separately the embedded derivative in the combined contract. The Company has applied this for the six month period ended February 28, 2010 and there was no significant impact on its financial statements as a result of this amendment.
- (iv) In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Intangible Assets*, and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard applies to the Company's interim and annual financial statements effective September 1, 2009 and had no material impact on the Company's consolidated financial statements.

Future Canadian Accounting Standards:

- (i) International Financial Reporting Standards (IFRS):

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will therefore adopt IFRS for its August 2012 year end. The transition date of September 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

- (ii) CICA 3855 *Financial Instruments: – Recognition and Measurement (Embedded Prepayment Options)*

The Canadian Accounting Standards Board (AcSB) has amended CICA section 3855 with regard to determining when a prepayment option in a host debt instrument is closely related to the host instrument. The amendment states that if the exercise price of a prepayment option compensates the lender for an amount equivalent to the present value of the lost interest for the remaining term of the host instrument, the feature is considered closely related to the host contract in which it is embedded. The amendments to Section 3855 apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company does not expect them to have a material impact on the Company's financial statements.

- (iii) CICA 3862 *Financial Instruments – Disclosures (Improvements to fair value and liquidity risk disclosures)*
Financial Instruments:

The Canadian Accounting Standards Board (AcSB) has amended CICA Section 3862, to enhanced disclosure requirement for fair value measurement of financial instruments and liquidity risks. The amendments require additional disclosure for fair value measurements

including the fair value hierarchy into which the fair value measurements are categorized in their entirety. Any significant transfers between the Level of the fair value hierarchy and the reasons for those transfers. It requires reconciliation of the beginning balances to the ending balances for those fair value measurements that result from the use of significant unobservable inputs in valuation techniques and disclosing separately changes during the period. It also requires disclosures of the risk relates to financial liabilities that are settled by delivering cash or another financial assets and maturity analysis disclosure for derivative financial liabilities based on how an entity manages liquidity risk. The amendments to Section 3862 apply for interim and annual financial statements relating to fiscal years ending after September 30, 2009. The Company does not expect them to have a material impact on the Company's financial statements.

Tanzanian Royalty Exploration Corporation

Consolidated Statement of Mineral Properties and
Deferred Exploration and Development Cost

For the Six Months Ended February 28, 2010 and Year Ended August 31, 2009

(Expressed in Canadian dollars)

3. Mineral properties and deferred exploration and development costs:

The continuity of expenditures on mineral properties is as follows:

	Itetemia Project (a)	Luhala Project (b)	Kigosi (c)	Lunguya (d)	Kanagele (e)	Tulawaka (f)	Ushirombo (g)	Mbogwe (h)	Biharamulo (i)	Other (j)	Total
Balance August 31, 2007	\$6,316,844	\$4,233,154	\$4,061,498	\$ 2,834,740	\$ 1,140,999	\$ 876,756	\$ -	\$ 462,473	\$ 348,308	\$ 2,184,857	\$ 22,459,629
Exploration expenditures:											
Camp, field supplies and travel	-	-	312,588	13,163	6,311	-	4,004	1,015	3,497	65,647	406,225
Exploration and field overhead	-	6,344	895,209	40,114	14,770	31,636	25,037	18,681	19,091	223,454	1,274,336
Geological consulting and field wages	-	-	-	-	-	-	-	-	-	-	-
Geophysical and geochemical	-	-	179,631	3,813	9,988	603	9,512	3,277	2,883	99,548	309,255
Property acquisition costs	-	-	19,260	-	47,711	14,077	-	-	-	298,176	379,224
Parts and equipment	-	-	-	-	-	-	-	-	-	-	-
Trenching and drilling	-	-	594,400	-	-	-	-	-	-	-	594,400
Recoveries	(108,533)	(123,451)	-	-	-	(59,440)	-	-	(98,822)	-	(390,246)
	(108,533)	(117,107)	2,001,088	57,090	78,780	(13,124)	38,553	22,973	(73,351)	686,825	2,573,194
Write-offs	-	-	(31,220)	(129,566)	(6,801)	(190,020)	-	(8,472)	(256,438)	(49,961)	(672,478)
Balance August 31, 2008	\$ 6,208,311	\$ 4,116,047	\$ 6,031,366	\$ 2,762,264	\$ 1,212,978	\$ 673,612	\$ 38,553	\$ 476,974	\$ 18,519	\$ 2,821,719	\$24,360,343
Exploration expenditures:											
Camp, field supplies and travel	-	-	271,912	5,476	-	-	830	4,680	-	10,375	293,273
Exploration and field overhead	30,458	1,203	1,315,001	41,178	15,968	6,100	26,758	25,661	2,743	230,919	1,695,989
Geological consulting and field wages	-	-	-	-	-	-	-	-	-	-	-
Geophysical and geochemical	-	-	266,525	12,776	-	-	10,375	16,577	-	24,164	330,417
Property acquisition costs	29,833	-	24,866	-	47,213	14,675	-	1,692	-	354,008	472,287
Parts and equipment	-	-	-	-	-	-	-	-	-	-	-
Trenching and drilling	-	-	1,421,843	-	-	-	-	-	-	-	1,421,843
Recoveries	(159,016)	(193,514)	(60,006)	-	-	(1,661)	-	-	(2,116)	-	(416,313)
	(98,725)	(192,311)	3,240,141	59,430	63,181	19,114	37,963	48,610	627	619,466	3,797,496
Write-offs	-	-	-	-	(246,546)	-	-	(486,919)	-	(473,944)	(1,207,409)
Balance, August 31, 2009	\$ 6,109,586	\$ 3,923,736	\$ 9,271,507	\$ 2,821,694	\$ 1,029,613	\$ 692,726	\$ 76,516	\$ 38,665	\$ 19,146	\$ 2,967,241	\$ 26,950,430
Exploration expenditures:											
Camp, field supplies and travel	-	-	96,282	1,494	-	-	55	-	98	330	98,259
Exploration and field overhead	733	3,407	456,244	10,265	5,480	1,420	96,013	3,545	1,452	90,501	669,060
Geological consulting and field wages	-	-	8,999	-	-	-	-	-	-	-	8,999
Geophysical and geochemical	-	-	298,957	56	-	-	-	-	37	547	299,597
Property acquisition costs	-	-	25,450	-	22,087	15,676	-	-	-	88,963	152,176
Parts and equipment	-	-	-	-	-	-	-	-	-	-	-
Trenching and drilling	-	-	205,290	-	-	-	-	-	-	-	205,290
Recoveries	(194,925)	(83,613)	-	-	-	(74,815)	-	-	(348)	-	(353,701)
	(194,192)	(80,206)	1,091,222	11,815	27,567	(57,719)	96,068	3,545	1,239	180,341	1,079,680
Write-offs	-	-	-	-	-	-	-	-	-	(3,525)	(3,525)
Balance February 28, 2010	5,915,394	3,843,530	10,362,729	2,833,509	1,057,180	635,007	172,584	42,210	(20,385)	3,144,057	28,026,585

3. Mineral properties and deferred exploration costs

(a) Itetemia Project:

The Itetemia property consists of several contiguous prospecting licenses and/or new and renewal applications. Collectively, the Company refers to these concessions as the Itetemia Project.

As at February 28, 2010, two of the licenses are subject to an option agreement with Barrick Exploration Africa Ltd. (BEAL).

In January 2007, the Company concluded an option royalty agreement with Sloane Developments Ltd. (Sloane), a UK-based company for its Itetemia and Luhala gold projects. Under the option agreement, the Company granted Sloane the right to earn a beneficial interest ranging from 90 to 100% in certain prospecting licenses in the Lake Victoria greenstone belt of Tanzania by making certain cash payments, incurring \$1 million in expenditures on the licenses on or before the second anniversary date, complete certain drilling meters on or before the third anniversary date, complete a bankable feasible report on or before the fifth anniversary date and commence commercial production on or before the seventh anniversary date. Five licenses constitute the Itetemia Project.

(b) Luhala Project:

The Luhala property consists of several contiguous prospecting licenses and/or new and renewal applications. Collectively, the Company refers to these concessions as the Luhala Project.

Luhala forms part of an agreement entered into between the Company and Sloane Developments Ltd. (note 3(a)).

In December 2009 Sloane returned seven Luhala licences and applications to the Company, retaining two Luhala licences.

(c) Kigosi:

The Kigosi property consists of several contiguous prospecting licenses and/or new and renewal applications.

During the six month period ended February 28, 2010, the Company did not abandon any licences in the area therefore no write off was taken for this property.

The Company entered into a Purchase and Sale Agreement with Ashanti Goldfields (Cayman) Limited (Ashanti) dated September 26, 2006 for the repurchase of its rights to the Kigosi property, including all related camp and equipment, along with the purchase of a non-associated property, the Dongo property, from Ashanti.

The acquisition will be satisfied by the issuance to Ashanti a total of 180,058 common shares of the Company in two tranches and subject to certain conditions set out below. The two tranches consist of (i) the issuance of 160,052 common shares which were issued in consideration of the transfer to the Company of the Kigosi Rights, as defined in the Agreement, and (ii) subject to receipt of ministerial consent from the Tanzanian government to the transfer from Ashanti to the Company of the Dongo Rights, as defined in the Agreement, the issuance to Ashanti of 20,006 common shares of the Company. As at February 28, 2010 the issuance of 20,006 common shares remains outstanding.

(d) Lunguya:

The Lunguya property consists of several contiguous prospecting licenses and/or new and renewal applications.

During the six month period ended February 28, 2010, the Company did not abandon any licences in the area therefore no write off was taken for this property.

(e) **Kanagele:**

The Kanagele property consists of several contiguous prospecting licenses and/or new and renewal applications.

During the six month period ended February 28, 2010, the Company did not abandon any licences in the area therefore no write off was taken for this property.

(f) **Tulawaka:**

The Tulawaka property consists of several contiguous prospecting licenses and/or new and renewal applications. Three licences are subject to an option agreement with MDN Inc. (MDN) (note 3(k)).

During the six month period ended February 28, 2010 the Company did not abandon any licences in the area therefore no write off was taken for this property.

(g) **Ushirombo:**

The Ushirombo property consists of several prospecting licenses and/or new and renewal applications.

During the six month period ended February 28, 2010, the Company did not abandon any licences in the area and therefore no write off was taken in this area.

(h) **Mbogwe:**

The Mbogwe property consists of several prospecting licences.

During the six month period ended February 28, 2010, the Company did not abandon any licences in the area therefore no write off was taken for this property.

(i) **Biharamulo:**

The Biharamulo property consists of several contiguous prospecting licenses and/or new and renewal applications. Three of the licences are subject to the option agreement with MDN (note 3(k)).

During the six month period ended February 28, 2010, the Company did not abandon any licences in the area therefore no write off was taken for this property.

(j) **Other:**

The Company has options to acquire interests in their properties ranging from 51% to 100%.

The Company has recorded a write-down on mineral properties abandoned during the period ended February 28, 2010.

(k) **Option Agreement with MDN:**

On January 20, 2003, as amended on March 18, 2003 and January 9, 2007, the Company entered into an agreement with MDN granting MDN the exclusive option to acquire the total rights, titles and interests of the Company in certain prospecting licences. To maintain and exercise the option, MDN has made annual payments for each retained prospecting licence, incurred minimum exploration and development expenditures and certain drilling requirements, undertake all obligations of the Company in respect of the licences and complete a feasibility study by December 31, 2009. On November 11, 2009 the Company was advised by MDN that a feasibility study and production decision would not be made by December 31, 2009. In consideration for a second extension of the feasibility study and production decision date to December 31, 2010, MDN has issued to the Company 125,000 common shares of MDN (\$73,750).

As at February 28, 2010 the prospecting licences under option to MDN are located at Biharamulo and Tulawaka.

4. Share Capital

(a) Issued common shares and share subscriptions:

	Number of shares	Amount (\$)
Balance, August 31, 2009	89,782,544	68,111,716
Issued for private placements	1,462,584	3,984,479
Issued pursuant to Restricted Share Unit Plan	18,010	100,000
Balance, February 28, 2010	91,263,138	72,196,195

On October 26, 2009, the Company completed a private placement with the Company's Chairman and CEO for 306,749 common shares at a price of \$3.26 per share, resulting in net proceeds of \$1,000,000 to the Company.

On December 21, 2009, the Company completed private placements whereby the Company issued an aggregate 1,155,835 common shares at a price of \$2.718 per share for net proceeds of \$2,984,479 pursuant to subscription agreements dated November 6, 2009 with arm's length third party European investment funds.

(b) Restricted Stock Unit Plan

Under the Restricted Stock Unit ("RSU") Plan employees and outside directors are compensated for their services to the Company. The annual compensation for directors is \$68,750 per year, plus \$6,875 per year for serving on Committees, plus \$3,437 per year for serving as Chair of a Committee. At the election of each individual director, up to one-third of the annual compensation may be received in cash, paid quarterly. The remainder of the director's annual compensation (at least two-thirds, and up to 100%) will be awarded as Restricted Stock Units ("RSUs") in accordance with the terms of the RSU Plan and shall vest within a minimum of one (1) year and a maximum of three (3) years, at the election of the director, subject to the conditions of the RSU Plan with respect to earlier vesting.

At February 28, 2010 the number of RSUs outstanding under the RSU Plan are as follows:

Granted:	2007	36,966
	2008	64,080
	2009	184,140

At February 28, 2010 the number of RSUs expected to vest (listed by year expected to vest) are as follows:

2010	126,872
2011	64,080
2012	94,234

For the six month period ended February 28, 2010, stock-based compensation expense related to the issue of restricted stock was \$177,028 (2009 - \$285,799).

5. Transactions with Related parties

During the six months ended February 28, 2010, \$218,120 was paid or payable by the Company to directors for professional fees. Directors were paid \$47,951 in cash and \$170,169 in non cash equivalent RSU during the six month period ended February 28, 2010 compared to \$51,833 and \$164,511 respectively during the six month period ended February 29, 2009. The company engages a legal firm for professional services in which one of the Company's directors is a partner. During the six months ended February 28, 2010, the legal expense charged by this firm

was \$61,440. In addition, during the six months ended February 28, 2010 \$103,460 (2009 - \$nil) was paid to certain members of the Company's Technical Committee.

On October 26, 2009, the Company issued 306,749 common shares at a price of \$3.26 per share to the Company's Chairman and CEO, resulting in net proceeds of \$1,000,000 to the Company.

At February 28, 2010, the Company has a receivable of \$Nil (2009 - \$38,049) from the Company's Chairman and CEO.

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