



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

**Consolidated Financial Statements
For the Three and Nine Months Ended May 31, 2009 and 2008**

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



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

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For the Three and Nine Months Ended May 31, 2009 and 2008**

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
(An Exploration Stage Company)

Consolidated Balance Sheets
As at May 31, 2009 and August 31, 2008
(Expressed in Canadian Dollars)

	May 31 2009	August 31 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,773,651	\$ 1,195,237
Accounts and other receivables	124,381	75,021
Inventory	343,596	452,339
Prepaid expenses	111,326	88,340
	<u>2,352,954</u>	<u>1,810,937</u>
Mineral properties and deferred exploration costs (note 3)	25,881,734	24,360,343
Equipment and leasehold improvements	730,880	794,014
	<u>\$ 28,965,568</u>	<u>\$ 26,965,294</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	352,872	\$ 502,777
Current portion of obligations under capital lease	45,598	43,626
	<u>398,470</u>	<u>546,403</u>
Obligations under capital lease	4,945	38,435
Shareholders' equity:		
Share capital (note 4)	68,111,716	61,705,400
Contributed surplus	401,510	399,690
Deficit	(39,951,073)	(35,724,634)
	<u>28,562,153</u>	<u>26,380,456</u>
Nature of operations (note 1)		
	<u>\$ 28,965,568</u>	<u>\$ 26,965,294</u>

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

"Norman Betts", Director

"James Sinclair", Director

Tanzanian Royalty Exploration Corporation
(An Exploration Stage Company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Three and Nine Months ended May 31, 2009 and 2008
(Expressed in Canadian Dollars)

	Three months ended May 31		Nine months ended May 31	
	2009 \$	2008 \$	2009 \$	2008 \$
EXPENSES				
Amortization	28,082	34,686	77,458	75,810
Annual General Meeting, Printing & Mailout	1,590	951	90,174	96,343
Consulting and Management Fees	85,829	104,220	187,872	183,602
Directors' Fee	103,487	89,784	329,287	321,559
Insurance	26,271	26,702	75,319	74,325
Membership, Training, Courses & Publications	1,750	1,037	6,595	1,639
Office and Administration	13,845	33,268	63,704	104,095
Office Rentals	15,179	15,103	58,196	47,584
Other	(69)	-	8,286	-
Press Releases	241	248	1,140	16,211
Professional Fees	103,485	109,808	336,137	295,481
Promotion and Shareholder Relations	697	2,927	8,115	9,791
Property Investigation Costs	8,175	75,377	27,657	93,562
Salaries and Benefits	340,049	215,988	936,195	747,602
Stock-based compensation	49,817	20,019	151,993	61,559
Telephone and Fax	3,990	6,078	13,201	17,222
Transfer Agent and Listing	63,866	53,555	179,672	155,460
Travel and Accommodation	10,572	18,141	40,779	40,487
	<u>856,856</u>	<u>807,892</u>	<u>2,591,780</u>	<u>2,342,332</u>
OTHER (INCOME) EXPENSE				
Property Write-Off (note 3)	1,639,682	121,471	1,639,682	673,881
Consulting Income	-	(75,545)	-	(75,545)
Interest Expense (Income), net	3,709	(2,842)	5,827	(23,063)
Interest – Capital lease	1,648	2,341	5,616	7,030
Foreign Exchange Loss (Gain)	210,500	51,447	(16,466)	113,265
	<u>1,855,539</u>	<u>96,872</u>	<u>1,634,659</u>	<u>695,568</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD				
	2,712,395	904,764	4,226,439	3,037,900
DEFICIT, BEGINNING OF PERIOD	<u>37,238,678</u>	<u>34,159,725</u>	<u>35,724,634</u>	<u>32,026,589</u>
DEFICIT, END OF PERIOD	<u><u>39,951,073</u></u>	<u><u>35,064,489</u></u>	<u><u>39,951,073</u></u>	<u><u>35,064,489</u></u>
Basic and diluted loss per share	(0.030)	(0.010)	(0.047)	(0.035)
Weighted average shares outstanding	88,791,343	87,485,335	89,041,180	87,189,548

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 Nine Months ended May 31, 2009 and 2008
(Expressed in Canadian Dollars)

	Three months ended May 31		Nine months ended May 31	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash provided from (used in)				
Operating activities				
Loss for the period	(2,712,395)	(904,764)	(4,226,439)	(3,037,900)
Items not affecting cash:				
Write off of Mineral Properties	1,639,682	121,471	1,639,682	673,881
Depreciation	28,081	34,686	77,458	75,810
Stock-based compensation	49,817	20,019	151,993	61,559
Non-cash directors' fees	72,615	58,859	237,126	218,212
	(922,200)	(669,729)	(2,120,180)	(2,008,438)
Change in non-cash working capital items:				
Accounts and Other Receivables	(37,890)	(9,310)	(49,360)	(19,771)
Inventory	22,082	212,544	108,743	88,290
Prepaid Expenses	(16,237)	22,654	(22,986)	(10,798)
Accounts Payable	(127,202)	(372,368)	(149,905)	(290,651)
	(1,081,447)	(816,209)	(2,233,688)	(2,241,368)
Investing Activities				
Mineral properties and deferred exploration expenditures	(887,041)	(990,885)	(3,224,392)	(2,030,927)
Option payments received and recoveries	61,242	203,344	92,336	391,911
Repayment of obligations under lease	(20,062)	(7,779)	(31,518)	(29,689)
Capital assets (additions) disposal, net	(3,983)	(62,202)	(14,324)	(75,068)
	(849,844)	(857,522)	(3,177,898)	(1,743,773)
Financing Activities				
Share capital issued	2,486,290	1,004,981	4,976,290	3,932,985
Share subscriptions received	-	-	1,013,710	-
	2,486,290	1,004,981	5,990,000	3,932,985
NET INCREASE (DECREASE) IN CASH	<u>554,999</u>	<u>(668,750)</u>	<u>578,414</u>	<u>(52,156)</u>
CASH BEGINNING OF PERIOD	<u>1,218,652</u>	<u>2,218,864</u>	<u>1,195,237</u>	<u>1,602,270</u>
CASH END OF PERIOD	<u>1,773,651</u>	<u>1,550,114</u>	<u>1,773,651</u>	<u>1,550,114</u>
Issuance of share capital for subscriptions previously received	-	1,167,015	-	1,917,015
Stock based compensation capitalized to mineral properties	9,904	-	29,016	-
Issuance of share capital for Restricted Share Units	416,316	292,080	416,316	292,080

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 Nine Months ended May 31, 2009 and 2008
(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, 2008.

Changes in Accounting Policies including Initial Adoption

Effective September 1, 2008, the Company adopted, on a prospective basis, the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

(a) Section 1535 – Capital Disclosures

This section requires disclosure of any entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

The Company's objective when managing capital is to safeguard the Company's ability to continue to support exploration and development of mineral properties.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions as the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares. The Company is not exposed to externally imposed capital requirements.

(b) Section 3862 and 3863– Financial Instruments – Disclosures and Presentation

This section replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. The CICA also issued Section 3863 –

Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

(i) Disclosure

The Company's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities.

Cash and short-term deposits are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded in interest income.

The fair values of cash, accounts receivable, account payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments.

(ii) Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit Risk

The Company is mainly exposed to credit risk on its bank accounts and its short-term deposits. Bank accounts and short-term deposits are with Canadian Schedule 1 banks with a \$20 million counterparty credit limit.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements after taking into account the Company's holding of cash. The Company's cash is invested in business accounts which are available on demand.

Market Risk

The only significant market risk exposure to which the Company is exposed is interest rate risk. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates.

(c) Section 3031 – Inventories

This section replaced CICA section 3030 of the same name. The new guidance provides additional measurement and disclosure requirements. While this standard has been adopted, it has no financial statement impact on the Company.

Recently released Canadian accounting standards:

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 transition date of September 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 1, 2010. 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.

CICA 3064 Goodwill and Intangible Assets:

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 for its fiscal year ending August 31, 2010.

Tanzanian Royalty Exploration Corporation

Consolidated Statement of Mineral Properties and
Deferred Exploration and Development Cost

For the Nine Months Ended May 31, 2009 and Year Ended August 31, 2008

(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)	Biharamulu (i)	Other (j)	Total
Balance, August 31, 2006	\$ 6,393,041	\$ 4,079,789	\$ 1,748,284	\$ 2,826,034	\$ 1,077,512	\$ 955,269	-	\$ 762,709	\$ 486,601	\$ 2,264,709	\$20,593,948
Shares issued for mineral properties interest	-	-	925,124	-	-	-	-	-	-	-	925,124
Exploration expenditures:											
Camp, field supplies and travel	-	13,077	157,810	-	-	-	11,510	1,593	-	66,050	250,040
Exploration and field overhead	17,454	83,156	927,100	8,706	5,631	40,081	97,695	23,782	7,612	146,591	1,357,808
Geological consulting and field wages	-	-	-	-	-	-	-	-	-	(11,233)	(11,233)
Geophysical and geochemical	267	62,821	89,995	-	738	14,291	(414)	524	19,835	127,171	315,228
Property acquisition costs	-	71,801	4,178	-	57,118	13,995	-	-	-	245,856	392,948
Parts and equipment	-	1,304	-	-	-	-	-	-	-	-	1,304
Trenching and drilling	(10,514)	1,527	286,486	-	-	-	14,542	8,403	-	10,382	310,826
Recoveries	(83,404)	(80,321)	-	-	-	(92,670)	-	-	(154,938)	-	(411,333)
	(76,197)	153,365	2,390,693	8,706	63,487	(24,303)	123,333	34,302	(127,491)	584,817	3,130,712
Write-offs	-	-	(77,479)	-	-	(54,210)	(123,333)	(334,538)	(10,802)	(664,669)	(1,265,031)
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	-	-	202,074	5,020	-	-	-	4,692	-	4,428	216,214
Exploration and field overhead	30,455	507	914,602	36,405	6,921	3,954	10,042	13,197	2,813	126,782	1,145,678
Geological consulting and field wages	-	-	-	-	-	-	-	-	-	-	-
Geophysical and geochemical	-	-	265,119	13,164	-	-	10,640	17,000	-	24,874	330,797
Property acquisition costs	-	-	25,502	-	30,188	15,050	-	-	-	257,010	327,750
Parts and equipment	-	-	-	-	-	-	-	-	-	-	-
Trenching and drilling	-	-	1,232,970	-	-	-	-	-	-	-	1,232,970
Recoveries	(30,838)	-	(61,498)	-	-	-	-	-	-	-	(92,336)
	(383)	507	2,578,769	54,589	37,109	19,004	20,682	34,889	2,813	413,094	3,161,073
Write-offs	-	-	-	-	(259,574)	-	-	(57,517)	(3,655)	(1,318,936)	(1,639,682)
Balance May 31, 2009	\$ 6,207,928	\$ 4,116,554	\$ 8,610,135	\$ 2,816,853	\$ 990,513	\$ 692,616	\$ 59,235	\$ 454,346	\$ 17,677	\$ 1,915,877	\$ 25,881,734

3. Mineral properties and deferred exploration costs

(a) & (b) Itetemia Project and Luhala Project:

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 Itetemia and Luhala projects by making annual option payments and payment for each retained license, and incurring \$1 million in expenditures on the licenses.

In addition, two licenses located at Itetemia are subject to an option agreement with Barrick Exploration Africa Ltd. (BEAL).

(c) Kigosi Project:

The Company continues its own exploration program on the Kigosi property.

(d) & (e) Tulawaka and Biharamulo

Three Tulawaka licences and three Biharamulo licences are subject to an option agreement with MDN Inc.

(j) Other

In January 2009 the Company signed a royalty agreement with Kazakh Africa Mining Ltd. for its 21 Mwadui Project area diamond licences located in the Lake Victoria Greenstone Belt of Tanzania. Kazakh can acquire a 100% interest in the licences by fulfilling various option payments whereby the Company will then receive a GORR (Gross Overriding Royalty) of 1.5% on all diamonds sold.

In March 2009 the Company entered into a royalty option agreement with Songshan Mining Co. Ltd. granting Songshan an option to acquire the Company's interest in its Kabanga nickel licences located in northwestern Tanzania, subject to a 30-year 3% net smelter royalty in favor of the Company.

4. Share Capital

(a) Issued common shares and share subscriptions:

	Number of shares	Amount (\$)
Balance, August 31, 2008	88,114,352	61,705,400
Issued for private placements	1,456,801	5,240,000
Issued pursuant to share subscriptions agreement	141,809	750,000
Issued pursuant to Restricted Share Unit Plan	69,582	416,316
Balance, May 31, 2009	89,782,544	68,111,716

In August 2006, James E. Sinclair, Chairman and CEO of the Company, confirmed his intention to continue his regular investments in Tanzanian Royalty by entering into a Private Placement Subscription Agreement with the Company under which he agreed to subscribe for common shares of the Company for an aggregate amount of \$3,000,000. Under the August 2006 agreement, Mr. Sinclair agreed to subscribe for eight (8) quarterly tranches of \$375,000 each, commencing February 1, 2007. As at May 31, 2009 all of the eight quarterly tranches have been subscribed for.

On February 3, 2009, James E. Sinclair, Chairman and CEO of the Company, confirmed his intention to continue his regular investments in Tanzanian Royalty by entering into a new Private Placement Subscription Agreement with the Company under which he agreed to subscribe for common shares of the Company for an aggregate amount of \$3,000,000. Under the February 3, 2009 agreement,

Mr. Sinclair has agreed to subscribe for eight (8) quarterly tranches of \$375,000 each. As at May 31, 2009 these tranches have not yet commenced.

During the nine months ended May 31, 2009:

On October 10, 2008 the Company completed a private placement with James E. Sinclair, Chairman and CEO, for 327,225 common shares at a price of \$3.056 per share for total proceeds of \$1,000,000.

On December 9, 2008 the Company completed a private placement with Van Tongeren Management LLC for 352,381 common shares at a price of \$2.10 per share for total proceeds of \$740,000.

Under the agreement with Mr. Sinclair commenced on February 1, 2007, on January 13, 2009 the Company completed the 7th tranche of the \$3 million private placement for 69,832 common shares at \$5.37 per share for proceeds of \$375,000.

Under the agreement with Mr. Sinclair commenced on February 1, 2007, on February 20, 2009 the Company completed the 8th tranche of the \$3 million private placement for 71,977 common shares at \$5.21 per share for proceeds of \$375,000.

On March 4, 2009 the Company completed a private placement with James E. Sinclair for 189,036 common shares at a price of \$5.29 per share for total proceeds of \$1,000,000.

On April 14, 2009 the Company completed a private placement with James E. Sinclair for 248,139 common shares at a price of \$6.045 per share for total proceeds of \$1,500,000.

On May 28, 2009 the Company completed a private placement with Van Tongeren Management LLC for 340,020 common shares at a price of \$2.941 per share for total proceeds of \$1,000,000.

(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 \$3,437.50 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 May 31, 2009 the number of RSUs outstanding under the RSU Plan are as follows:

Granted:	2007	56,007
	2008	97,587
	2009	214,576

At May 31, 2009 the number of RSUs expected to vest (listed by year expected to vest) are as follows:

	2010	128,010
	2011	97,587
	2012	142,573

For the nine month period ended May 31, 2009, stock-based compensation expense related to the issue of restricted stock was \$418,136 (2008 - \$279,771).

5. Transactions with Related parties

In addition to the related party transactions with the Company's CEO described in Note 4(a), the company had the following related party transactions.

During the nine months ended May 31, 2009, \$314,876 was paid or payable by the Company to directors for professional fees. Directors were paid \$77,749 in cash and \$237,127 in non cash equivalent RSU during the nine month period ended May 31, 2009 compared to \$86,981 and \$218,212 respectively during the nine month period ended May 31, 2008.

The company engages a legal firm for professional services in which one of the Company's directors is a partner. During the nine months ended May 31, 2009, the legal expense charged by this firm was \$147,847.

At May 31, 2009, the Company has a receivable of \$75,699 from Mr. Sinclair for administrative expenses paid on his behalf.