



TANZANIAN ROYALTY EXPLORATION CORPORATION

**Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2007 and 2006**

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



TANZANIAN ROYALTY EXPLORATION CORPORATION

**Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2007 and 2006**

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
Consolidated Balance Sheet
As at February 28, 2007 and August 31, 2006
(Expressed in Canadian Dollars)

| ASSETS | February 28, 2007 | August 31, 2006 |
|--|--------------------------|------------------------|
| Current Assets | \$ | \$ |
| Cash and Short Term Deposits | 1,998,952 | 3,174,549 |
| Short-Term Investment | 99,750 | - |
| Accounts and Other Receivables | 46,126 | 18,824 |
| Inventory | 220,230 | 158,380 |
| Prepaid Expenses | 160,565 | 80,457 |
| | <hr/> | <hr/> |
| | 2,525,623 | 3,432,210 |
| Mineral properties and deferred exploration and development costs (note 3) | 21,796,692 | 20,593,948 |
| Equipment and Leasehold Improvements | 825,489 | 865,809 |
| | <hr/> | <hr/> |
| | <u>\$25,147,804</u> | <u>\$24,891,967</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | 219,855 | 559,312 |
| Current portion of obligations under capital lease | 36,060 | 34,625 |
| | <hr/> | <hr/> |
| | 255,915 | 593,937 |
| Obligations under capital lease | 92,953 | 121,739 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (note 4) | 53,072,402 | 51,397,278 |
| Share subscriptions received | 1,117,000 | 750,000 |
| Contributed Surplus | 313,811 | 134,133 |
| Deficit | (29,704,277) | (28,105,120) |
| | <hr/> | <hr/> |
| | 24,798,936 | 24,176,291 |
| | <hr/> | <hr/> |
| | <u>\$25,147,804</u> | <u>\$24,891,967</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
Consolidated Statements of Operations and Deficit
For the Three and Six Months ended February 28, 2007 and 2006
(Expressed in Canadian Dollars)

| | Three months ended February 28 | | Six months ended February 28 | |
|--|-----------------------------------|---------------------|---------------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| EXPENSES | | | | |
| Annual General Meeting | 50,916 | 58,768 | 50,916 | 58,768 |
| Depreciation | 29,675 | 24,991 | 48,747 | 49,907 |
| Consulting and Management Fees | 27,872 | 51,042 | 89,022 | 80,878 |
| Insurance | 28,747 | 38,760 | 58,091 | 62,018 |
| Membership, Courses & Publications | 1,133 | 718 | 1,865 | 3,439 |
| New Property Investigation Costs | 18,477 | 5,720 | 23,488 | 10,412 |
| Office and Administration | 37,514 | 23,929 | 68,406 | 46,701 |
| Office Rentals | 20,837 | 14,470 | 32,354 | 31,427 |
| Press Releases | 12,256 | 13,069 | 27,180 | 18,259 |
| Printing and Mailout | 29,270 | 31,717 | 29,270 | 34,105 |
| Professional Fees | 36,912 | 101,464 | 70,684 | 119,357 |
| Promotion and Shareholder Relations | 13,922 | 12,892 | 32,373 | 14,730 |
| Salaries and Benefits | 259,029 | 205,741 | 500,472 | 377,404 |
| Stock-based compensation | 89,839 | - | 179,678 | - |
| Telephone and Fax | 6,286 | 4,005 | 9,664 | 10,378 |
| Transfer Agent and Listing | 37,769 | 49,212 | 85,333 | 77,743 |
| Travel and Accommodation | 13,559 | 21,006 | 25,066 | 40,674 |
| | <u>714,013</u> | <u>657,504</u> | <u>1,332,610</u> | <u>1,036,200</u> |
| OTHER (INCOME) EXPENSE | | | | |
| Property Write-Off (note 3) | 366,565 | 115,588 | 366,565 | 115,588 |
| Gain on sale of short term investments | (10,850) | - | (10,850) | - |
| Interest Expense (Income), net | (10,112) | (4,188) | (25,478) | (9,198) |
| Interest – Capital lease | 3,702 | 12,861 | 7,910 | 18,257 |
| Foreign Exchange Loss (Gain) | (92,964) | 10,870 | (71,600) | 34,714 |
| | <u>256,341</u> | <u>135,131</u> | <u>266,547</u> | <u>159,361</u> |
| NET LOSS FOR THE PERIOD | 970,354 | 792,635 | 1,599,157 | 1,195,561 |
| DEFICIT, BEGINNING OF PERIOD | 28,733,923 | 24,181,324 | 28,105,120 | 23,778,398 |
| DEFICIT, END OF PERIOD | <u>\$29,704,277</u> | <u>\$24,973,959</u> | <u>\$29,704,277</u> | <u>\$24,973,959</u> |
| Basic and diluted loss per share | (\$0.011) | (\$0.009) | (\$0.019) | (\$0.014) |
| Weighted average shares outstanding | 86,437,921 | 85,363,548 | 86,343,135 | 85,217,301 |

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

Tanzanian Royalty Exploration Corporation

Consolidated Statement of Cash Flows

For the Three and Six Months ended February 28, 2007 and 2006

(Expressed in Canadian Dollars)

| | Three months ended | | Six months ended | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | February 28 | | February 28 | |
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cash provided from (used in) | | | | |
| Operating activities | | | | |
| Loss for the period | (970,354) | (792,635) | (1,599,157) | (1,195,561) |
| Items not affecting cash: | | | | |
| Write off of Mineral Properties | 366,565 | 115,588 | 366,565 | 115,588 |
| Depreciation | 29,675 | 24,991 | 48,747 | 49,907 |
| Stock-based compensation | 89,839 | - | 179,678 | - |
| Gain on sale of short-term investments | (10,850) | - | (10,850) | - |
| | <u>(495,125)</u> | <u>(652,056)</u> | <u>(1,015,017)</u> | <u>(1,030,066)</u> |
| Change in non-cash working capital items: | | | | |
| Accounts and Other Receivables | 5,759 | 7,346 | (27,302) | 20,960 |
| Inventory | (27,538) | (54,975) | (61,850) | (91,441) |
| Prepaid Expenses | (66,628) | 46,895 | (80,108) | (26,637) |
| Accounts Payable | 24,800 | 87,634 | (339,457) | 36,281 |
| | <u>(558,732)</u> | <u>(565,156)</u> | <u>(1,523,734)</u> | <u>(1,090,903)</u> |
| Investing Activities | | | | |
| Mineral properties and deferred exploration, net | (97,607) | (232,566) | (762,936) | (709,358) |
| Proceeds on sale of short term investments | 29,850 | - | 29,850 | - |
| Repayment of obligations under lease | (22,087) | (7,498) | (27,351) | (16,083) |
| Plant and Equipment (additions) disposals, net | (8,815) | (6,635) | (8,426) | (8,740) |
| | <u>(98,659)</u> | <u>(246,699)</u> | <u>(768,863)</u> | <u>(734,181)</u> |
| Financing Activities | | | | |
| Share capital issued | - | 3,074,312 | - | 2,396,656 |
| Share subscriptions received | 1,117,000 | (1,615,537) | 1,117,000 | 32,555 |
| | <u>1,117,000</u> | <u>1,458,775</u> | <u>1,117,000</u> | <u>2,429,211</u> |
| NET INCREASE (DECREASE) IN CASH | <u>459,609</u> | <u>646,920</u> | <u>(1,175,597)</u> | <u>604,127</u> |
| CASH BEGINNING OF PERIOD | <u>1,539,343</u> | <u>1,352,675</u> | <u>3,174,549</u> | <u>1,395,468</u> |
| CASH END OF PERIOD | <u><u>1,998,952</u></u> | <u><u>1,999,595</u></u> | <u><u>1,998,952</u></u> | <u><u>1,999,595</u></u> |
| Supplemental Information, non-cash transactions: | | | | |
| Mineral property recoveries by way of marketable securities | \$118,750 | - | \$118,750 | - |
| Issuance of share capital for subscriptions previously received | 375,000 | - | 750,000 | - |
| Issuance of share capital for acquisition of mineral property acquisition | 925,124 | | 925,124 | |

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

Tanzanian Royalty Exploration Corporation

Notes to the Unaudited Consolidated Financial Statements

For the Three and Six Months ended February 28, 2007 and 2006

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of operations

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, 2006.

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

Tanzanian Royalty Exploration Corporation
Consolidated Statement of Mineral Properties and
Mineral Properties and Deferred Exploration and Development Cost
For the six months ended February 28, 2007 and year ended August 31, 2006
(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 | Kanagele | Tulawaka (d) | Ushirombo | Mbogwe | Biharamulu (e) | Other | Total |
|---|-------------------------|-----------------------|---------------|-------------|-------------|-----------------|-----------|-----------|-------------------|-------------|--------------|
| 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 | 7,861 | 82,544 | 250 | 3,110 | 2,969 | 3,172 | 1,811 | - | 7,426 | 67,525 | 176,668 |
| Exploration and field overhead | 32,321 | 361,174 | 14,989 | 29,337 | 19,279 | 20,898 | 9,446 | 5,116 | 40,652 | 488,818 | 1,022,030 |
| Geological consulting and field wages | 2,882 | - | - | - | - | - | - | - | - | - | 2,882 |
| Geophysical and geochemical | 3,413 | 231,846 | - | 47 | 41,600 | 875 | 77 | - | 4,174 | 194,280 | 476,312 |
| Property acquisition costs | 13,098 | 116,462 | 17,404 | - | 58,433 | 11,729 | - | 13,098 | - | 249,817 | 480,041 |
| Parts and equipment | - | 114 | - | - | - | - | - | - | - | - | 114 |
| Trenching and drilling | 470,995 | 177,764 | - | 379 | 8,563 | - | - | - | - | 49,348 | 707,049 |
| Recoveries | (43,660) | - | (77,610) | - | - | (87,531) | - | (43,660) | (67,560) | - | (320,021) |
| Write-offs | 486,910 | 969,904 | (44,967) | 32,873 | 130,844 | (50,857) | 11,334 | (25,446) | (15,308) | 1,049,788 | 2,545,075 |
| | - | (37,993) | (34,401) | - | (291,480) | (423,377) | (363,970) | - | - | (539,181) | (1,690,402) |
| 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 |
| Exploration expenditures: | | | | | | | | | | | |
| Shares issued for mineral properties interest | - | - | 925,124 | - | - | - | - | - | - | - | 925,124 |
| Camp, field supplies and travel | - | 6,312 | 59,983 | - | - | - | 5,343 | 1,607 | - | 11,534 | 84,779 |
| Exploration and field overhead | 278 | 32,948 | 426,654 | 3,241 | 1,847 | 2,631 | 6,275 | 6,989 | 4,332 | 152,247 | 637,442 |
| Geological consulting and field wages | - | - | - | - | - | - | - | - | - | - | - |
| Geophysical and geochemical | 270 | 61,549 | 3,132 | - | 745 | 14,422 | (604) | 528 | 20,016 | 10,635 | 110,693 |
| Property acquisition costs | - | 16,122 | 20,966 | - | 17,526 | 14,123 | - | - | - | 102,921 | 171,658 |
| Parts and equipment | - | 1,316 | 45,310 | - | - | - | - | - | - | - | 46,626 |
| Trenching and drilling | (10,610) | 1,125 | - | - | - | - | 3,568 | 6,140 | - | 7,859 | 8,082 |
| Recoveries | (84,167) | (81,055) | - | - | - | (93,518) | - | - | (156,355) | - | (415,095) |
| Write-Offs | (94,229) | 38,317 | 1,481,169 | 3,241 | 20,118 | (62,342) | 14,582 | 15,264 | (132,007) | 285,196 | 1,569,309 |
| | - | - | (2,291) | - | - | - | - | (24,820) | - | (339,454) | (366,565) |
| Balance February 28, 2007 | \$6,298,812 | \$4,118,106 | \$3,227,162 | \$2,829,275 | \$1,097,630 | \$892,927 | \$14,582 | \$753,153 | \$354,594 | \$2,210,451 | \$21,796,692 |

Summary of Note Disclosure to the Consolidated Financial Statements
For the Three and Six Months ended February 28, 2007 and 2006
(Expressed in Canadian Dollars)
(Unaudited)

3. Mineral properties and deferred exploration costs

(a & b) Itetemia and Luhala Project

On January 30, 2007, the Company announced that it has concluded an option agreement for its Luhala and Itetemia Projects with a private United Kingdom based company, Sloane Developments Ltd.

Under the option agreement, Tanzanian Royalty has granted Sloane the right to earn a beneficial interest ranging from 90 to 100% in ten prospecting licenses in the Lake Victoria greenstone belt of Tanzania. Six of these licenses comprise the 76 square kilometres Luhala Project (all 100%) while the remaining licenses constitute the 46 square kilometres Itetemia Project (all 90%).

The exploration component of the option agreement calls for a work commitment of USD \$1,000,000 within a two-year period of which \$400,000 will be expendable in the first year and the remaining amount in the second. Further provisions in the agreement call for the completion of a bankable feasibility study, the announcement of a production decision before the fifth anniversary of the agreement and the achievement of commercial production before the seventh anniversary. Tanzanian Royalty will act as operator for the exploration work. Under the Agreement, Sloane has made a US\$100,000 up front payment and must make escalating annual payments totaling US\$770,000 over six years, plus annual escalating amounts for each license held in excess of one. The Company retains the right to escalating net smelter royalties on commercial production that are tied to the price of gold and range from 0.5% below US\$250 per ounce to a maximum of 2% at US\$380 per ounce.

(c) Kigosi Project

The Company entered into a Purchase and Sale Agreement (the "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, from Ashanti in a transaction valued at US\$900,000. The price of 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 consisting of (i) the issuance and allotment of 160,052 common shares (based upon the weighted average trading price of the common shares over the five trading days preceding the date of execution of the Agreement) 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 and allotment to Ashanti of 20,006 common shares of the

Summary of Note Disclosure to the Consolidated Financial Statements
For the Three and Six Months ended February 28, 2007 and 2006
(Expressed in Canadian Dollars)
(Unaudited)

Company. In December 2006, 160,052 common shares have been issued. On February 28, 2007, the allotment of 20,006 common shares remains outstanding.

(d & e) Tulawaka and Biharamulu Project

On February 2, 2007, the Company received 125,000 common shares of Northern Mining Explorations Limited (“MDN”) in consideration for extending by one year the date required for MDN to complete a bankable feasibility study and make a production decision on properties under option to MDN. The value of these shares was recorded as recoveries in the two properties.

4. Share Capital

(a)

| <u>Share Capital</u> | <u>Number</u> | <u>Amount</u> <u>(\$)</u> |
|---|-------------------|------------------------------|
| Balance at August 31, 2006 | 86,241,075 | 51,397,278 |
| Issued for mineral property acquisition | 160,052 | 925,124 |
| Subscriptions previously received | <u>110,525</u> | <u>750,000</u> |
| Balance at February 28, 2007 | <u>86,511,652</u> | <u>53,072,402</u> |

The 110,525 shares issued during the six months ended February 28, 2007 were issued to the Company’s Chairman and CEO.

(b)

During 2006, the Company received shareholder approval to institute a Restricted Stock Unit Plan. The Plan is designed to compensate employees and directors for their services to the Company. Of the 500,000 shares available under the plan, 69,565 have been granted as of August 31, 2006. Of the shares granted, 32,242 units are expected to vest on the first anniversary of the grant date with the remainder vesting on the third anniversary of the grant date, subject to conditions of the Plan with respect to earlier vesting. For the six month period ended February 28, 2007, 1,392 units were forfeited and stock-based compensation expense related to the issue of restricted stock was \$179,678 (2006 - \$134,311), with a corresponding amount credited to contributed surplus as the shares have not been issued.

Summary of Note Disclosure to the Consolidated Financial Statements
For the Three and Six Months ended February 28, 2007 and 2006
(Expressed in Canadian Dollars)
(Unaudited)

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

The Company also 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, 2007 the Company made payments of \$108,861 to this legal firm. The amount is included in Professional fees.

7. Subsequent Event

During February 2007, the Company received 125,000 common shares of MDN as recovery for certain mineral properties. During the second quarter, 20,000 shares were sold. As at April 10, 2007, all of the shares of MDN were sold.