

Consolidated Financial Statements
(Expressed in Canadian dollars)

TANZANIAN ROYALTY EXPLORATION CORPORATION
(formerly Tan Range Exploration Corporation)
(An Exploration Stage Company)

Years ended August 31, 2006 and 2005



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Tan Range Exploration Corporation as at August 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

November 3, 2006

TANZANIAN ROYALTY EXPLORATION CORPORATION

(formerly Tan Range Exploration Corporation)
(An Exploration Stage Company)

Consolidated Balance Sheets
(Expressed in Canadian dollars)

August 31, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,174,549	\$ 1,395,468
Accounts and other receivables (note 8)	18,824	77,677
Inventory	158,380	49,934
Prepaid expenses	80,457	73,273
	3,432,210	1,596,352
Mineral properties and deferred exploration costs (note 3)	20,593,948	19,739,275
Equipment and leasehold improvements (note 4)	865,809	922,056
	\$ 24,891,967	\$ 22,257,683
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 559,312	\$ 172,812
Current portion of obligations under capital lease (note 5)	34,625	34,634
	593,937	207,446
Obligations under capital lease (note 5)	121,739	175,011
Shareholders' equity:		
Share capital (note 7)	51,397,278	44,839,796
Share subscriptions received (note 7(b))	750,000	813,828
Contributed surplus	134,133	-
Deficit	(28,105,120)	(23,778,398)
	24,176,291	21,875,226
	\$ 24,891,967	\$ 22,257,683

Nature of operations (note 1)
Commitments (notes 3 and 9)
Subsequent events (notes 3(c) and 10)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"James E. Sinclair" Director

"Norman Betts" Director

"Victoria M. Luis" Director

TANZANIAN ROYALTY EXPLORATION CORPORATION

(formerly Tan Range Exploration Corporation)
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Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended August 31, 2006 and 2005

	2006	2005
Expenses:		
Amortization	\$ 96,694	\$ 88,981
Annual general meeting	94,097	36,299
Capital tax	-	3,243
Consulting and management fees	177,771	139,054
Insurance	105,729	97,412
Memberships, courses and publications	6,889	649
Office and administration	92,071	76,022
Office rentals	61,972	65,760
Press releases	89,844	41,814
Printing and mailing	35,794	46,220
Professional fees	484,653	147,333
Promotions and shareholder relations	63,026	12,495
Salaries and benefits	765,173	691,059
Stock-based compensation	134,133	-
Telephone and fax	21,261	29,407
Training	-	18,756
Transfer agent and listing	204,795	140,166
Travel and accommodation	60,565	36,881
	2,494,467	1,671,551
Other expenses (earnings):		
Foreign exchange	139,856	134,650
Interest, net	(22,262)	11,488
Gain on sale of asset	-	(93)
Gain on sale of short-term investments	-	(2,527)
Property investigation costs	24,259	133,627
Write-off of mineral properties and deferred exploration costs (note 3)	1,690,402	1,629,932
	1,832,255	1,907,077
Loss before income taxes	(4,326,722)	(3,578,628)
Future income tax recovery	-	647,565
Loss for the year	(4,326,722)	(2,931,063)
Deficit, beginning of year	(23,778,398)	(20,847,335)
Deficit, end of year	\$ (28,105,120)	\$ (23,778,398)
Basic and diluted loss per share	\$ (0.05)	\$ (0.04)
Weighted average number of shares outstanding (note 2(k))	85,666,361	83,387,939

See accompanying notes to consolidated financial statements.

TANZANIAN ROYALTY EXPLORATION CORPORATION

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Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended August 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (4,326,722)	\$ (2,931,063)
Items not affecting cash:		
Amortization	96,694	88,981
Gain on sale of asset	-	(93)
Gain on sale of short-term investments	-	(2,527)
Stock-based compensation	134,133	-
Write-off of mineral properties and deferred exploration costs	1,690,402	1,629,932
Future income tax recovery	-	(647,565)
	(2,405,493)	(1,862,335)
Changes in non-cash working capital		
Accounts receivable and other receivables	58,853	(16,642)
Inventory	(108,446)	(49,934)
Prepaid expenses	(7,184)	(36,362)
Accounts payable and accrued liabilities	386,500	26,140
	(2,075,770)	(1,939,133)
Investing:		
Mineral properties and deferred exploration costs (note 3)	(2,865,096)	(1,817,102)
Option payments and recoveries	320,021	301,191
Equipment and leasehold improvement additions	(40,447)	(140,403)
Short-term investments	-	417,728
Proceeds on disposal of asset	-	2,653
	(2,585,522)	(1,235,933)
Financing:		
Share capital issued - net of issuance costs	5,743,654	2,694,325
Share subscriptions received	750,000	813,828
Repayment of obligations under capital lease	(53,281)	(5,067)
	6,440,373	3,503,086
Increase in cash and cash equivalents	1,779,081	328,020
Cash and cash equivalents, beginning of year	1,395,468	1,067,448
Cash and cash equivalents, end of year	\$ 3,174,549	\$ 1,395,468
Supplementary information:		
Interest received, net	\$ 22,262	\$ (11,488)
Non-cash transactions:		
Purchase of automotive equipment by way of capital lease	-	214,712
Deposit paid in 2004 for drilling equipment purchased in 2005	-	484,978
Shares issued in current year for subscriptions received in prior year	813,828	-

See accompanying notes to consolidated financial statements.

TANZANIAN ROYALTY EXPLORATION CORPORATION

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Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended August 31, 2006 and 2005

1. Nature of operations:

Tanzanian Royalty Exploration Corporation (the "Company") is incorporated under the laws of Alberta, Canada and its primary business activities are the acquisition and exploration of mineral properties including the optioning out of properties for pre-production option payments and royalties on future gold production.

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. Consequently, the Company considers itself to be an exploration stage company. Although at August 31, 2006 the Company has spending commitments (note 3) which approximate its working capital, it has financing commitments of \$3,000,000 from its chairman and chief executive officer ("CEO") (note 7(b)), and, if necessary, could adjust the extent and timing of certain expenditures. The recoverability of the amounts shown for mineral properties and related deferred costs are ultimately dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, entering into agreements with others to explore and develop the mineral properties, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as mineral properties and deferred exploration costs represent net costs incurred to date, being less amounts recovered from third parties and/or written off, and do not necessarily represent present or future values.

2. Significant accounting policies:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Tan Range Exploration Corporation and its subsidiaries. All intercompany amounts are eliminated on consolidation.

(b) Translation of foreign currencies:

The measurement currency of the Company in these consolidated financial statements is the Canadian dollar. The Company's subsidiaries are considered integrated foreign subsidiaries and their accounts are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the prevailing year-end exchange rates. Non-monetary assets are translated at historical exchange rates. Revenue and expense items are translated at the average rate of exchange for the year except for those arising from non-monetary assets which are translated at the historical exchange rate. Translation gains and losses are included in the statements of operations and deficit.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit with banks or highly liquid short-term interest-bearing securities with maturities at purchase dates of three months or less when acquired.

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2. Significant accounting policies (continued):

(d) Short-term investments:

Interest-bearing securities having a term to maturity in excess of three months but less than one year are classified as short-term investments. Short-term investments are stated at the lower of cost and market value.

(e) Inventory:

Inventory consists of supplies for the Company's drilling rig and is stated at the lower of cost and replacement cost.

(f) Mineral properties and deferred exploration costs:

The Company holds various positions in mineral property interests, including prospecting licences, reconnaissance licences, and options to acquire mining licences or leases. All of these positions are classified as mineral properties for financial statement purposes.

Acquisition costs and exploration costs, including option payments, relating to mineral properties are deferred until the properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or to be sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are written off. Option payments arising on the acquisition of mineral property interests are exercisable at the discretion of the Company and are recognized as paid or payable.

Amounts recovered from third parties to earn an interest in the Company's mineral properties are applied as a reduction of the mineral property and deferred exploration costs.

Overhead costs directly related to exploration are allocated to the mineral properties explored during the year and are deferred and are to be amortized using the same method applied to property-specific exploration costs. All other overhead and administration costs are expensed in the year they are incurred.

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2. Significant accounting policies (continued):

(f) Mineral properties and deferred exploration costs (continued):

Under CICA Handbook Section 3061, "*Property, Plant and Equipment*", for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. Emerging Issue Committee Abstract 126, "*Accounting by Mining Enterprises for Exploration Costs*", ("EIC-126") states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC-126 also sets forth the EIC's consensus that a mining enterprise in the development stage is not required to consider the conditions in Accounting Guideline No. 11 "*Enterprises in the Development Stage*" ("AcG 11") regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, EIC-126 sets forth the EIC's consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and, therefore, does not have a basis for preparing a projection of the estimated cash flow from the property, is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG 11 and CICA Handbook Section 3061 in determining whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

The Company considers that its exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-126, deferred exploration costs are not automatically subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11, exist.

The Company follows these recommendations and therefore the unproven mineral property claim costs are initially capitalized. Such assets are tested for impairment in accordance with the provisions of the CICA Handbook Section 3063, "*Impairment of Long-Lived Assets*". Mineral properties and deferred exploration costs are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if, at the date it is tested for recoverability, the carrying amount of the mineral property exceeds the sum of the undiscounted cash flows expected to result from its production and/or eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the mineral property exceeds its fair value.

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2. Significant accounting policies (continued):

(g) Equipment and leasehold improvements:

Equipment and leasehold improvements, other than mineral properties and deferred exploration and development costs, are recorded at cost and amortization is provided for on a declining balance basis using the following rates:

Assets	Rate
Machinery and equipment	20% to 30%
Automotive	30%
Computer equipment	30%
Drilling equipment and automotive equipment under capital lease	6.67%
Leasehold improvements	20%

(h) Stock-based compensation:

Effective September 1, 2002, the Company adopted the new standard of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new standards have been applied prospectively. All stock-based compensation is determined based on the fair value method and expensed over the expected vesting period. The fair value of restricted stock units is determined as the market price of the Company's shares on the grant date as determined for accounting purposes.

(i) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences) and loss carry forwards, and are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. Future tax benefits, such as non-capital loss carry forwards, are recognized if realization of such benefits is considered more likely than not.

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2. Significant accounting policies (continued):

(j) Asset retirement obligation:

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets if a reasonable estimate of fair value can be made. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The Company has determined that it has no material asset retirement obligations as at August 31, 2006 and 2005.

(k) Loss per share:

Loss per share has been calculated using the weighted average number of common shares issued and outstanding. Shares held in escrow subject to performance conditions for release are considered contingently issuable shares and are excluded from the weighted average number of shares used in calculating loss per share prior to their eligibility for release. All outstanding stock options, restricted stock units, special warrants and share purchase warrants, all of which could potentially dilute basic loss per share, have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

(l) Financial instruments:

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities and obligations under capital lease. The fair value of the Company's financial assets and liabilities is estimated to approximate their carrying value due either to the short-term to maturity or the existence of interest rates that approximate market rates.

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Years ended August 31, 2006 and 2005

2. Significant accounting policies (continued):

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Areas requiring the use of estimates and measurement uncertainties include the valuation and impairment of value of mineral properties and deferred exploration costs, the determination of stock-based compensation expense and the determination of future income taxes. Actual results may differ from management's estimates.

(n) Segmented information:

The Company's principal operations are located in Tanzania. The Company conducts its business in a single operating segment being the investment in and exploration of mineral properties. Substantially all mineral properties (note 3) and equipment and leasehold improvements are situated in Tanzania (note 4).

3. Mineral properties and deferred exploration costs:

The Company acquires gold or other precious metal concessions through its own efforts or through the efforts of its subsidiaries. All of the Company's concessions are located in Tanzania.

For each concession granted in Tanzania under a prospecting or a reconnaissance licence, the Company is required to carry out a minimum amount of exploration work before a mining licence can be granted for further development. Commencing with the new mining act issued in Tanzania in 1998, a prospecting licence is issued for a period of up to three years and renewable two times for a period up to two years each. At each renewal at least 50% of the remaining area is relinquished. A reconnaissance licence is issued for one year and renewed for a period not exceeding a year. All prospecting licences are granted subject to an annual rental fee of not more than U.S. \$30 per square kilometer payable to the government of Tanzania, a minimum exploration work commitment, and employment and training of Tanzanians. In addition, the government of Tanzania imposes a royalty on the gross value of all production at the rate of 3% of all gold produced.

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Years ended August 31, 2006 and 2005

3. Mineral properties and deferred exploration costs (continued):

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, 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 (656,500)	3,147,878 -	1,827,652 -	2,866,171 (73,010)	1,238,148 -	1,429,503 -	669,112 (316,476)	1,087,273 (299,118)	545,308 (43,399)	1,995,531 (241,429)	21,369,207 (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	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)
	486,910	969,904	(44,967)	32,873	130,844	(50,857)	11,334	(25,446)	(15,308)	1,049,788	2,545,075
Write-offs	-	(37,993)	(34,401)	-	(291,480)	(423,377)	(363,970)	-	-	(256,811)	(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

TANZANIAN ROYALTY EXPLORATION CORPORATION

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Notes to Consolidated Financial Statements

Years ended August 31, 2006 and 2005

3. Mineral properties and deferred exploration costs (continued):

The Company has assessed the carrying value of mineral properties and deferred exploration costs as at August 31, 2006 and concluded that additional write-downs of \$1,690,402 are required.

(a) Itetemia Project:

The Itetemia property consists of seven (2005 - seven) contiguous prospecting licences. Collectively, the Company refers to these concessions as the Itetemia Project.

One prospecting licence is subject to a 3% net smelter royalty.

The Company acquired a 90% interest in another of the prospecting licences through an agreement with the State Mining Corporation ("Stamico") dated July 18, 1994. Stamico retains a 2% royalty interest as well as a right to earn back an additional 20% interest in the prospecting licence by meeting 20% of the costs required to place the property into production. The Company retains the right to purchase one-half of Stamico's 2% royalty interest in exchange for US\$1,000,000.

The Company is required pay to Stamico an annual option fee of US\$15,000 for 2007 and US\$20,000 thereafter.

(b) Luhala Project:

The Luhala property consists of six (2005 - eight) contiguous prospecting licences. Collectively, the Company refers to these concessions as the Luhala Project.

During the years ended August 31, 2001 and 2000, the Company entered into option agreements to acquire three additional licences, named Shilalo, Ngobo and Sima. For Shilalo, the Company has made payments totaling US\$16,000, for Ngobo, the Company has made payments totalling US\$132,000, and for Sima, has made payments totalling US\$84,000 in order to maintain the options. The vendor in each case retains a 2% net smelter return royalty, of which the Company may buy back, in each case, one-half (i.e., 1%) for US\$1,000,000.

For the Shilalo licence, the vendor retains a 2% net smelter return royalty, of which the Company may buy back one-half (i.e., 1%) for US\$250,000.

During the year ended August 31, 2006, the Company abandoned certain licences in the area and wrote off \$37,993 of costs related to the abandoned area.

(c) Kigosi:

The Kigosi property consists of fourteen (2005 - fifteen) prospecting licences. During the year ended August 31, 2003, the Company reclassified five licences from the Ushirombo and Ushirombo West with deferred costs of \$371,411 (note 3(g)) to the Kigosi property. The Company has a 100% interest in two of the licences and, through prospecting and mining option agreements entered into in the 2003 fiscal year, has options to acquire between 51% to 90% interests in the other twelve licences. The Company must make payments totalling US\$162,000 over eight years (US\$36,000 paid to date with the balance required as follows: 2006 - US\$16,000; 2007 - US\$18,000; 2008 - US\$20,000; 2009 - US\$22,000; 2010 - US\$24,000, 2011 - US\$26,000) and is required to fund all costs of exploration of the properties in order to maintain the options.

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3. Mineral properties and deferred exploration costs (continued):

(c) Kigosi (continued):

During the year ended August 31, 2006, the Company abandoned certain licences in the area and wrote off \$34,401 of costs related to the abandoned area.

On July 21, 2003, the Company entered into an agreement with Ashanti Goldfields (Cayman) Limited ("Ashanti"), granting Ashanti the option to acquire the total rights, titles and interests of the Company in the prospecting licences in the Kigosi area, save and except for a royalty varying between 0.5% to 2% of net smelter returns, depending on the market price of gold, to be paid by Ashanti to the licence owners. During the year ended August 31, 2006, Ashanti advised the Company that they would not proceed with this agreement.

As a result, the Company entered into a Purchase and Sale Agreement 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.

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 will consist of (i) the issuance of 160,052 common shares to be 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.

The agreement is subject to regulatory approval.

(d) Lunguya:

The Lunguya property consists of eight (2005 - seven) prospecting licences. Through prospecting and mining option agreements the Company has options to acquire interests ranging from 60% to 75% in the eight licences. To maintain the options, the Company is required to meet certain expenditure requirements and fund all exploration costs of the properties.

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3. Mineral properties and deferred exploration costs (continued):

(e) Kanagele:

The Kanagele property consists of ten (2005 - eleven) prospecting licences. In 2002, the Company entered into an option agreement requiring payments totaling US\$72,000 over eight years (US\$30,000 paid to date) in exchange for a 90% interest in three prospecting licence and an option to purchase the remaining 10% upon production decision. In 2004, the Company entered into an option agreement for one prospecting license requiring payments of US\$145,000 (US\$33,000 paid to date) over nine years. The Company has options to acquire a 65% interest in the other seven licences acquired through prospecting and option agreements. The Company is required to fund all exploration costs of the properties.

In 2005, the Company entered into an agreement on two prospecting licenses for an 85% interest requiring payments of US\$173,000 over six years (\$36,000 paid to date).

Details by year of the required option payments described above are as follows:

2007	US\$	43,000
2008		47,000
2009		51,000
2010		55,000
Thereafter		95,000
	US\$	291,000

During the year ended August 31, 2006, the Company abandoned certain licences in the area and wrote-off \$291,480 of costs related to the abandoned area.

(f) Tulawaka:

The Tulawaka property consists of nine (2005 - fifteen) prospecting licences. The Company owns five of the licences and has options to acquire interests ranging from 65% to 90% in the other four licences through prospecting and option agreements. Two licences are subject to an option agreement with Northern Mining Explorations Ltd. ("Northern") (note 3(l)).

During the year ended August 31, 2003, the Company entered into a prospecting mining option agreement to acquire a 90% interest in a prospecting license. The Company must make payments of US\$117,000 over nine years, (US\$30,000 paid to date with the balance required as follows: 2007 - US\$12,000; 2008 - US\$13,000; 2009 - US\$14,000; 2010 - US\$15,000; 2011 - US\$16,000; 2012 - US\$17,000) and is required to fund all exploration costs of property to maintain its option.

During the year ended August 31, 2006, the Company abandoned certain licences in the area and wrote-off \$423,377 of costs related to the abandoned area.

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3. Mineral properties and deferred exploration costs (continued):

(g) Ushirombo and Ushirombo West:

The Ushirombo and Ushirombo West properties consist of four prospecting licences (2005 - twelve). The Company holds 100% interest in one of these licences and through prospecting and option agreements has options to acquire interests ranging from 65% to 80% in the other three licences. The Company is required to fund all exploration costs of the properties.

During the year ended August 31, 2006, the Company abandoned certain licences in the area and wrote-off \$363,970 of costs related to the abandoned area.

(h) Mbogwe:

The Mbogwe property consists of five (2005 - four) licences. The Company, through prospecting and option agreements, has options to acquire interests ranging from 51% to 80% in these licences. The Company is required to fund all exploration costs of the properties. One of the licences is subject to the option agreement with BEAL (note 3(k)).

(i) Biharamulu:

The Biharamulu property consists of six (2005 - five) prospecting licences. The Company has a 100% interest in two of these licences and through prospecting and option agreements has options to acquire interests ranging from 51% to 65% in the other four licences. The Company is required to fund all exploration costs of the properties. Two of the licences are subject to the option agreement with Northern (note 3(l)).

(j) Other:

The Company's other properties consist of several prospecting licences. The Company has options to acquire interests in these properties ranging from 51% to 100%. To maintain these options and licences, the Company must make the following future payments to maintain its options:

2007	\$ 286,500
2008	319,500
2009	317,500
2010	348,500
Thereafter	703,500

\$ 1,975,500

During the year ended August 31, 2005, the Company abandoned certain licences in the area and wrote-off \$539,181 of costs related to the abandoned area.

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3. Mineral properties and deferred exploration costs (continued):

(k) Joint venture with Barrick Exploration Africa Ltd. ("BEAL"):

Barrick Exploration Africa Ltd. ("BEAL") had the option to acquire the total rights, titles and interests of the Company in twelve prospecting licences in different properties, herein called the BEAL project. In exchange for this option, BEAL paid US\$100 to the Company. To maintain and exercise the option, BEAL was required to incur US\$250,000 in exploration and development costs on the BEAL project within a year of closing the agreement (completed), and thereafter, BEAL must expend US\$50,000 each year for each retained prospecting licence. In addition, BEAL must make the following annual payments to the Company for each retained prospecting licence (US\$50,000 paid to date):

December 2005	US\$	40,000
December 2006 and subsequent years		40,000

The Company has received from BEAL notices of relinquishment for all rights, titles, and interests for a total of ten prospecting licenses included in the option agreement.

As at August 31, 2006, of the two remaining prospecting licences in the BEAL project, one licence is located in Mbogwe and one in Itetemia.

Within thirty days after commercial production, BEAL must pay the Company US\$1,000,000 and an additional US\$1,000,000 on each of the next two years. BEAL will also pay the owner of the licence 1.5% of net smelter returns.

(l) Option Agreement with Northern Mining Explorations Ltd. ("Northern"):

On January 20, 2003, as amended on March 18, 2003, the Company entered into an agreement with Northern granting Northern the exclusive option to acquire the total rights, titles and interests of the Company in certain prospecting licences. In exchange for this option, Northern paid US\$80,000. In addition, to maintain and exercise the option, Northern must make annual payments for each retained prospecting licence, incur 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, 2008. Upon exercise of the option, the Company shall retain a net smelter return royalty fluctuating between 0.5% to 2% depending on the price of gold.

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3. Mineral properties and deferred exploration costs (continued):

(i) Option Agreement with Northern Mining Explorations Ltd. ("Northern") (continued):

On September 7, 2004, the Company entered into a second option agreement with Northern, granting Northern the exclusive option to acquire the total rights, titles, and interest of the Company in certain prospecting licenses all located in the Tulawaka area. In exchange for this option, Northern is required to make annual payments for each retained prospecting license, incur minimum exploration and development expenditures and certain drilling requirements, and undertake all obligations of the Company in respect of the licenses. Upon exercise of the option, the Company shall retain a net smelter royalty fluctuating between 0.5% to 2% depending on the price of gold.

As at August 31, 2006, of the four prospecting licences optioned to Northern, two are located in Biharamulu and two are located in Tulawaka.

4. Equipment and leasehold improvements:

2006	Cost	Accumulated amortization	Net book value
Drilling equipment	\$ 564,311	\$ 55,185	\$ 509,126
Automotive under capital lease	214,712	22,678	192,034
Automotive	143,715	103,805	39,910
Computer equipment	104,961	74,800	30,161
Machinery and equipment	157,171	64,508	92,663
Leasehold improvements	6,873	4,958	1,915
	\$ 1,191,743	\$ 325,934	\$ 865,809

2005	Cost	Accumulated amortization	Net book value
Drilling equipment	\$ 564,311	\$ 18,810	\$ 545,501
Automotive under capital lease	214,712	8,962	205,750
Automotive	157,279	97,008	60,271
Computer equipment	107,043	54,155	52,888
Machinery and equipment	101,078	46,168	54,910
Leasehold improvements	6,873	4,137	2,736
	\$ 1,151,296	\$ 229,240	\$ 922,056

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5. Obligations under capital lease:

During the year, the Company has financed two vehicles by entering into capital leasing arrangements.

Future minimum lease obligations are due as follows:

2007	\$ 49,760
2008	49,760
2009	49,760
2010	42,411
<hr/>	
Net minimum lease payments (US\$172,695)	191,691
Less amount representing interest at 9.0%	(35,327)
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Present value of net minimum capital lease payments	156,364
Current portion	34,625
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	\$ 121,739

Interest of \$17,242 (2005 - \$3,040) relating to obligations under capital lease has been included in interest expense.

6. Income taxes:

Substantially all differences between actual income tax recovery of nil (2005 - \$647,565) and the expected income tax recovery rebate to losses not recognized for tax purposes.

The tax effects of significant temporary differences which would comprise tax assets and liabilities at August 31, 2006 and 2005 are as follows:

	2006	2005
<hr/>		
Future income tax assets:		
Equipment	\$ 74,000	\$ 78,000
Non-capital losses for tax purposes	2,679,000	2,070,000
Capital losses for tax purposes	40,000	43,000
Resource related deductions carried forward	3,300,000	3,500,000
	<hr/> 6,093,000	<hr/> 5,691,000
Valuation allowance	(6,093,000)	(5,691,000)
<hr/>		
Net future income tax assets	\$ -	\$ -

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6. Income taxes (continued):

In assessing the recoverability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible.

At August 31, 2006, the Company has approximately \$7,200,000 of Canadian non-capital losses available for income tax purposes to reduce Canadian taxable income in future years that expire in years up to, and including 2026.

The Company has a capital loss carry forward of approximately \$250,000 which is available indefinitely to reduce future capital gains for tax purposes, and resource pools of approximately \$10,100,000 which are available indefinitely to reduce future income for tax purposes..

7. Share capital:

(a) Authorized:

91,000,000 common voting shares (2004 - 91,000,000)

(b) Issued common shares, warrants and share subscriptions:

	Number of shares	Amount
Balance, August 31, 2003	80,191,542	\$ 39,423,971
Issued for cash	1,477,050	2,250,000
Issued for share subscriptions previously received	65,445	125,000
Stock options exercised	730,000	346,500
Balance, August 31, 2004	82,464,037	42,145,471
Stock options exercised	107,500	69,325
Issued for cash	2,204,517	2,625,000
Balance, August 31, 2005	84,776,054	44,839,796
Issued for cash	793,468	5,513,979
Issued for share subscriptions previously received	379,053	813,828
Stock options exercised	292,500	229,675
Balance, August 31, 2006	86,241,075	\$ 51,397,278

The Company had no share purchase warrants outstanding as at August 31, 2006 and 2005.

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7. Share capital (continued):

(b) Issued common shares, warrants and share subscriptions (continued):

On March 5, 2003, the Company completed a private placement subscription agreement with the Company's chairman and CEO for the sale of between \$1,500,000 to \$3,000,000 worth of common shares of the Company in 24 separate monthly closings. The sales price of the common shares was equal to the five day weighted average trading price for the last five consecutive trading days of each month immediately preceding the closing date. Each closing was to be between \$62,500 to \$125,000. As at August 31, 2005, the Company has issued in total 2,137,629 common shares and received \$2,950,000 pursuant to this subscription agreement.

On January 13, 2005, the Company completed a private placement subscription agreement with the Company's chairman and CEO for the sale of \$3,000,000 worth of common shares in eight separate quarterly closings. The sales price of the common shares will be equal to the five day weighted average trading price for the last five consecutive trading days of each quarter immediately preceding the closing date. As at August 31, 2006, the Company issued in total 865,828 common shares (2005 - 642,169 common shares) and received cash proceeds of \$2,250,000 (2005 - \$750,000) pursuant to this agreement. As at August 31, 2006, the Company has also received \$750,000 from the Chairman and CEO pursuant to this private placement subscription agreement for which shares have not been issued. These funds are recorded as share subscriptions received at August 31, 2006 (note 10(b)).

During the year ended August 31, 2005, in addition to the monthly and quarterly private placements discussed above, the chairman and CEO also subscribed for an additional 819,000 common shares at a price of \$1.221 per share, resulting in gross proceeds of \$1,000,000 to the Company. During the year ended August 31, 2004, in addition to the monthly private placements discussed above, the chairman and CEO also subscribed for an additional 622,278 common shares of the Company at \$1.607 per share, resulting in gross proceeds of \$1,000,000 to the Company.

During the year ended August 31, 2006, in addition to the quarterly private placements discussed above, the Chairman and CEO completed a private placement subscription agreement for 107,124 common shares at a price of \$9.335 per share, resulting in gross proceeds of \$1,000,000 to the Company. On February 23, 2006 the Chairman and CEO also completed a private placement subscription agreement for 183,440 common shares of the Company at \$7.844 per share, resulting in gross proceeds of \$1,438,903 to the Company. In addition to the above, on September 30, 2005 the Chairman and CEO completed a private placement subscription agreement for 442,478 common shares of the Company at \$2.147 per share, resulting in gross proceeds of \$950,000 to the Company.

On August 8, 2006 the Company entered into a private placement subscription agreement with the Chairman and CEO for the purchase of an aggregate of \$3,000,000 worth of common shares of the Company in eight separate quarterly tranches of \$375,000 each. The initial quarterly period shall commence February 1, 2007.

Also during the year ended August 31, 2006, a third party purchased 215,820 common shares at \$6.667 per share for gross proceeds to the Company of \$1,458,872.

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7. Share capital (continued):

(c) Stock options:

The Company has a stock option plan which is administered by the board of directors and options are granted at their discretion. The number of shares reserved, set aside and available for issue under the plan should not exceed 8,109,132 or such greater number of shares as may be determined by the board and approved, if required, by the shareholders of the Company and by any relevant stock exchange or regulatory authority. Options must expire no later than five years from the date such options are granted. The purpose of granting such options is to assist the Company in compensating, attracting, retaining and motivating directors, officers and employees of the Company and to closely align the personal interests of those directors, officers and employees with those of the shareholders. Stock option activity during the three years ended August 31, 2006 was as follows:

	Number of shares	Weighted average price
Outstanding, August 31, 2004	525,000	\$ 0.76
Exercised	(107,500)	0.64
Outstanding, August 31, 2005	417,500	0.79
Exercised	(292,500)	0.79
Cancelled	(50,000)	0.79
Outstanding, August 31, 2006	75,000	\$ 0.79

At August 31, 2006, the following director and employee stock options were outstanding and exercisable:

Number of common shares	Exercise price	Expiry date
75,000	0.79	May 3, 2007

(d) Employee stock ownership plan:

On May 1, 2003, the Company established a non-leveraged employee stock ownership plan ("ESOP") for all eligible employees, consultants, and directors. The Company matches 100 percent of participants' contributions up to 5 percent of the participants' salaries and 50 percent of participants' contributions between 5 percent and 30 percent of the participants' salaries. All contributions fully vest immediately. ESOP compensation expense for the year ended August 31, 2006 was \$60,577 (2005 - \$57,362) and is included in salaries and benefits expense.

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7. Share capital (continued):

(e) Restricted share units:

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, 40,598 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. Total stock-based compensation expense related to the issue of restricted stock was \$134,311 (2005 - nil), with a corresponding amount credited to contributed surplus as the shares have not been issued.

8. Related party transactions:

In addition, to related party transactions disclosed elsewhere in these consolidated financial statements, during the year ended August 31, 2006, \$190,887 (2005 - \$44,813) was paid or payable by the Company to certain directors or entities affiliated with the directors and a former director for consulting fees. Directors were paid \$90,687 (2005 - \$92,986) for director fees.

Accounts and other receivables include nil (2005 - \$46,000) receivable from an entity related to a director.

Accounts payable and accrued liabilities include \$41,966 (2005 - \$24,325) payable to certain directors and a former director for consulting and director's fees.

9. Commitments:

In addition to the property payments committed to by the Company to maintain options in certain prospecting and mining option agreements (note 3), the Company is committed to rental payments of approximately \$15,750 for premises in 2007.

10. Subsequent events:

- (a) From September 1, 2006 to November 3, 2006, the Company entered into four new prospecting licenses. All of these represent renewals of past licenses.
- (b) Subsequent to August 31, 2006, the Company issued 54,058 common shares, to the chairman and CEO of the Company in consideration for \$375,000 in previously paid share subscriptions (note 7(b)).