



**Tanzanian Royalty Exploration Corporation
Management’s Discussion and Analysis
Years ended August 31, 2009 and 2008**

The Management’s Discussion and Analysis of Financial Condition and Results of Operation (“MD&A”) for Tanzanian Royalty Exploration Corporation (the “Company”) should be read in conjunction with the audited Consolidated Financial Statements for the years ended August 31, 2009 and 2008.

The financial information in the MD&A is derived from the Company’s Consolidated Financial Statements which have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise described. The effective date of this MD&A is November 26, 2009.

Overall Performance

As of August 31, 2009, the Company had Current Assets of \$1,627,000 as compared to \$1,811,000 on August 31, 2008. The decrease of \$184,000 in current assets is mainly attributed to decreases in drill inventory. Mineral Properties and Deferred Exploration costs amounted to \$26,950,000 as of August 31, 2009, an increase of \$2,590,000 as compared to \$24,360,000 at August 31, 2008. The current year’s net expenditures on Mineral Property exploration is \$3,798,000 (2008 - \$2,573,000) and the Company recovered \$416,000 of exploration costs from its option partners in 2009 (2008 - \$390,000). The Company has also recorded a write-down in 2009 of \$1,207,000 (2008 - \$672,000) on mineral properties abandoned.

The Company has financed its operations and investments through the issuance of common shares. During 2009, the Company raised \$5,990,000 (2008 - \$4,880,000) through the issuance of share capital and share subscriptions.

Selected Annual Information

	2009 August 31	2008 August 31	2007 August 31
Total Revenues	\$0	\$0	\$0
Net Loss for the period	(\$4,731,836)	(\$3,698,045)	(\$3,921,469)
Basic and diluted loss per share	(\$0.05)	(\$0.04)	(\$0.05)
Total assets	\$29,285,205	\$26,965,294	\$25,421,472
Total Long Term Financial Liabilities	\$0	\$38,435	\$75,912
Cash dividends declared per share	\$0	\$0	\$0

Results of Operations

The loss before income tax in 2009 was \$4,732,000 a \$1,034,000 increase from last year's loss before income taxes of \$3,698,000. The increase in loss before income taxes in 2009 was due mainly to an increase of write off of mineral properties and deferred exploration costs of \$535,000 and an increase in salaries and benefits of \$372,000.

During the year, the Company did not enter into any Service Agreements therefore no consulting income was earned (2008 - \$88,000). The foreign exchange loss has decreased by \$63,000 from \$74,000 for the year ended August 31, 2008 to \$11,000 for the year ended August 31, 2009 due to the strength of the Canadian dollar throughout the year. As there was a decrease in cash and cash equivalents throughout the year less interest income was earned, resulting in a net interest charge of \$15,000 in 2009 compared to net interest income of \$15,000 in 2008, which is a decrease of \$30,000. During 2009, three members of the Company's Technical Committee received a monthly retainer. This increased the consulting and management fee to \$277,000 from \$230,000 in 2008.

Property investigation costs were \$23,000 for the year ended August 31, 2009 as compared to \$83,000 for 2008. The decrease of \$60,000 was a result of the Company concentrating on operations in areas where the Company has determined that it will continue exploration. Transfer agent and listing fees increased from \$203,000 in 2008 to \$228,000 in 2009 due to an increase in the number of private placements during 2009. Professional Fees have increased by \$87,000 from \$395,000 in 2008 to \$481,000 in 2009 due to additional legal expense from contract negotiations.

Salaries and benefit expense increased by \$371,000 in 2009 to \$1,374,000 from \$1,003,000 in 2008. The increase was to the full year effect of Tanzania having imposed minimum taxes in January 2008 and an accrual for severance pay of \$132,000. The effect had only a partial affect on salaries in 2008. Travel and accommodation expenses were \$88,000 for the year as compared to \$47,000 in 2008. The increase of \$41,000 was due costs associated with trade shows and contract negotiations in China.

In 2009, stock based compensation decreased by \$57,000, due to previously granted Restricted Stock Units having been forfeited. The expenses incurred in previous years have been reversed in current year expenditure.

For the years ended August 31, 2009 and 2008, the Company did not record any income tax expense or recovery.

Summary of Quarterly Results

	2009 August 31	2009 May 31	2009 February 29	2008 November 30	2008 August 31	2008 May 31	2008 February 29	2007 November 30
Total Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Loss	(\$505,397)	(\$2,712,395)	(\$919,131)	(\$594,913)	(\$660,145)	(\$904,764)	(\$1,152,336)	(\$980,800)
Basic and diluted loss per share	(\$0.006)	(\$0.030)	(\$0.010)	(\$0.007)	(\$0.007)	(\$0.010)	(\$0.014)	(\$0.011)

There are two primary reasons for fluctuations in quarterly operating results. If a property is deemed uneconomical it results in a write-off of the deferred exploration cost which can result in a large one-time loss. This explains the variation experienced in the quarters of 2009. Another cause for quarterly fluctuations is the amount of new property investigations in a given quarter. Exploration costs associated with investigating properties are not deferred but rather are expensed as incurred.

Liquidity

Because the Company does not currently derive any production revenue from operations, its ability to conduct exploration and development work on its properties is largely based upon its ability to raise capital by equity funding. Throughout the year, the Company issued 906,209 shares in private placements with Mr. Sinclair, Chairman and CEO of the Company in consideration for cash received of \$4,250,000. In addition, the Company has received \$1,740,000 for share subscriptions for which 692,401 common shares were issued.

As of August 31, 2009 the Company's working capital was \$943,000 as compared to \$1,265,000 on August 31, 2008. As the Company's mineral properties advance under various exploration agreements, option payments could increasingly play a role in funding exploration activities for our own account.

The following table sets out the Company's known contractual obligations as of the latest fiscal year end:

<i>Contractual Obligations</i>	Payments Due by Period				
	<i>Total</i>	<i>Less than 1 year</i>	<i>2-3 years</i>	<i>4-5 years</i>	<i>More than 5 years</i>
Capital Lease	US\$38,110 ⁽¹⁾	US\$38,110	Nil	Nil	Nil

⁽¹⁾ Includes finance charges

Capital Resources

The Company acquires gold and other mineral concessions through its own efforts or those 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 is granted for further development. There are no set work requirements to keep the concessions in good standing. A prospecting licence is issued for a period of up to three years and they are renewable two times for a period up to two years each. At each renewal, at least 50% of the area must be relinquished. A reconnaissance license is issued for one year and renewed for a period not exceeding a year. All prospecting licenses granted by the Tanzanian government are subject to an annual rental fee of not more than U.S. \$50 per square kilometer, 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 gold production at the rate of 3%.

Many of the Company's mineral properties are being acquired over time by way of option payments. It is at the Company's option as to whether to continue with the acquisition of the mineral properties and to incur these option payments. Current details of option payments required in the future if the Company elects to maintain its interest are as follows:

<i>Option Agreement Commitments</i>	Option Payments Due by Period (US\$)				
	<i>Total</i>	<i>Less than 1 year</i>	<i>2-3 years</i>	<i>4-5 years</i>	<i>More than 5 years</i>
	\$1,223,000	\$400,500	\$617,500	\$205,000	\$Nil

On August 8, 2006 the Company entered into private placement subscription agreement with James E. Sinclair, the Company's Chairman and C.E.O. 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 commenced February 1, 2007. As at August 31, 2009 all of the eight quarterly tranches have been subscribed for:

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 February 1, 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. The subscription is complete as of the date of this MD&A.

During the year ended August 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.

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.

Although no assurance can be given, the Company believes it will be able to raise additional capital as required to fund its commitments. In addition, if necessary, the Company could adjust the extent and timing of certain expenditures.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Transactions with Related Parties

During the year ended August 31, 2009, \$446,927 (2008 - \$437,567) was paid or payable by the Company to directors for directors' fees. Directors were paid \$104,877 (2008 - \$112,898) in cash and \$323,622 (2008 - \$303,883) in non-cash equivalent RSUs.

The Company engages a legal firm for professional services in which one of the Company's directors is a partner. During the year ended August 31, 2009, the legal expense charged by the firm was \$257,006 (2008 - \$152,583), of which \$104,241 remains payable at year end.

During the year ended August 31, 2009 \$121,891 (2008 - \$Nil) was paid or payable by the Company to three members of the Technical Committee who receive a monthly retainer.

At August 31, 2009, the Company has no receivable (2008- payable \$10,478) from Mr. J. Sinclair, the Company's CEO.

Restricted Stock Unit Plan

The Board of Directors has implemented the Restricted Stock Unit ("RSU") Plan under which employees and outside directors are compensated for their services to the Company. 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 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 August 31, 2009 the number of RSUs outstanding under the RSU Plan are as follows:

Granted:	2007	44,806
	2008	78,972
	2009	187,721

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

	2010	116,809
	2011	78,972
	2012	115,718

For the year ended August 31, 2009, stock-based compensation expenses related to the issue of RSUs to employees were \$196,000 including \$134,000 capitalized to mineral properties and deferred exploration expenditures compared to \$152,000 for 2008. Expenses related to the issue of RSUs to directors were \$324,000 in 2009 and \$304,000 in 2008.

Fourth Quarter

Net loss for the fourth quarter 2009 was \$505,000 compared to \$660,000 for the same period in the previous year. The primary reason for the decrease in the loss was due to a decrease of \$147,000 in stock based compensation expense for forfeited RSUs that were expensed in previous years. Professional fees were \$145,000 and \$99,000 for the fourth quarter 2009 and 2008, respectively. The fees include accrual for the annual audit fee of \$120,000. Salaries and benefit expense was \$438,000 in the quarter ended August 31, 2009 as compared to \$264,000 in 2008. The increase was due to an accrual of \$132,000 for severance pay. The write-off of mineral properties in the fourth quarter in 2009 was \$432,000 compared to \$10,000 in 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):

(i) The CICA has issued new accounting standards Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation* which replaces Section 3861 *Financial Instruments - Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the existing presentation requirements. These new standards were adopted by the Company effective September 1, 2008.

(ii) Effective September 1, 2008, the Company adopted new accounting standard CICA Section 1535, *Capital Disclosures*, which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to

include whether companies have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance.

(iii) The Company implemented the amended CICA Section 1400, *General Standard of Financial Statement Presentation*. These amendments require management to assess the entity's ability to continue as a going concern. The Company has forecast its financial results and cash flow for 2010. The forecasts are based on management's best estimates of operating conditions in the context of current economic climate and today's difficult capital market conditions. Based on its forecasts, the Company expects that sufficient liquidity is available to meet its obligations in 2010.

(iv) The Company implemented the CICA Section 3031, *Inventories*, which replaces Section 3030, *Inventories*, in an effort to harmonize accounting for inventories under Canadian GAAP with IFRS.

(v) On March 27, 2008, the Emerging Issues Committee of the CICA approved an abstract EIC-174 Mining Exploration Costs, which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of such capitalized costs. The Company has applied this new abstract for the year ended August 31, 2009 and there was no significant impact on its financial statements as a result of this abstract.

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 2010 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 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 effective September 1, 2009.

Critical Accounting Estimates

The Company's most critical accounting estimate relates to the write-off of exploration licenses and associated costs. The Company has recorded a write-down in 2009 of \$1,207,000 on mineral properties abandoned. Management assesses impairment of its exploration prospects quarterly. If an impairment results, the capitalized costs associated with the related project or area of interest are charged to expense. Other areas requiring the use of estimates include the determination of stock-based compensation and future income taxes.

Disclosure of Outstanding Share Data

As at the date of this MD&A, 90,089,293 common shares are outstanding and a total of 164,614 RSU shares have been issued. There were no director and employee stock options outstanding and the Company had no share purchase warrants outstanding.

Subsequent Event

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. With completion of this \$1 million private placement, the \$3 million private placement agreement dated February 1, 2009 between the Company and Mr. Sinclair is complete.

On November 11, 2009 the Company was advised by MDN Inc. ("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 agreed to issue to the Company 125,000 common shares of MDN.

The Company entered into private placement subscription agreements dated November 6, 2009 with arm's length third parties for an aggregate 1,155,835 common shares at a price of \$2.718 per share. The proposed private placements are subject to regulatory approval.

Financial and Other 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 the capital lease, of which some are held in different currencies. The Company does not engage in any hedging activities relating to these foreign denominated assets and liabilities. The fair value of the Company's financial assets and liabilities is estimated to approximate their carrying value.

Litigation

There are no legal proceedings which may have or have had a significant affect on the Company's financial position or profitability.

Exploration Summary

Kigosi Project

Property Description and Location

The Kigosi Project comprises thirty one (31) prospecting licenses and applications. The project area is situated within the Kigosi Game Reserve some 100 kilometres south of Lake Victoria.

Luhwaika Prospect

Gold mineralization at the Luhwaika Prospect occurs in a series of sub-parallel and variably auriferous shear zones. The geological setting of the Luhwaika Gold Prospect shows many characteristics that are typical of classic mesothermal lode gold deposits.

At Luhwaika, two principal shear zones have been identified: the Luhwaika Main and Luhwaika West reefs. These reefs carry significant gold mineralization as evidenced by strike extensive small-scale mining and exploration shafts, and more recent drill results.

The gold mineralization in the Luhwaika Main reef is structurally controlled, consisting mostly of lodes of laminated quartz veins impregnated in strongly sheared and altered quartz sericite schist with occasional massive tabular whitish-grey quartz vein blow-outs. These veins are shear hosted, with lesser extensional veins noted in outcrop in the granite host rock.

The Luhwaika West reef, located 100-200 metres in the hanging-wall and sub-parallel to the Luhwaika Main reef, consists mainly of shear-zone hosted tabular quartz veins that often contain irregular hematite filled fracture surfaces.

Gravel Deposit

The Luhwaika Prospect is host to a potential gravel deposit which is likely a direct result of surface collapse and erosion of the Luhwaika Main and West reefs. Artisanal mining activity has concentrated on this deposit which is easily accessible for mining. The Company is currently conducting more detailed work to determine how much gold occurs in the quartz, and how much free (alluvial) gold is in the system. High grade gravels have so far been identified in three areas: the Luhwaika West reef, the Luhwaika Main reef and the Luhwaika East area.

Igunda Prospect

The structural setting of the Igunda Gold Prospect is similar to that of the Luhwaika Prospect with the exception that the former is hosted in mafic greenstone rocks intruded by lenses of felsic granitoids including quartz-feldspar porphyry. At Igunda, two principal shear zones have been identified: the Igunda A and B reefs. Closely associated with the reefs are sub parallel quartz feldspar porphyry units.

Gold mineralization is structurally controlled and the Igunda Reefs are localized in two sub-vertical dipping northwest striking shear zones, dipping steeply (75° – 85°) to the northeast. Gold mineralization also occurs in the host wall rock up to over a meter and is not confined to the veins.

Drilling

Drilling at Kigosi has been under way almost continuously during the past year, with the year-end rainy season being the notable exception. The drilling to date has focused on the Luhwaika and Igunda gold occurrences which occur within the Kigosi Lineament, an airborne magnetic feature that is known to extend for at least 35 kilometres. In total, some 517 RC holes and 13 diamond drill holes have been drilled at Luhwaika over a strike extent of 3.6 kilometres, covering the Luhwaika Main and West reefs, the Luhwaika East area, and the German workings. Results to date indicate that there are four main targets that warrant a possible resource classification: the Igunda reefs, Luhwaika Main reef, Luhwaika West reef and sub-surface gold bearing gravel deposits that form the surface expression of the collapsed reefs.

Property Acquisitions and Abandonments

Properties are acquired on the basis of favorable geology and will be evaluated in detail by our in-house technical staff to firm up exploration potential and make them attractive to potential partners under standard royalty agreements.

The Company currently has royalty agreements with five (5) industry partners covering 68 prospecting licences and applications; 2 of these licenses are under agreement with Barrick Exploration Africa Limited (“BEAL”); 6 licenses are under agreement with MDN; 13 licenses are under agreement with Sloane; another 21 licenses and applications are under agreement with Kazakh, and the remaining 26 licenses and applications are under agreement with Songshan.

Risk Factors

The Company is subject to a number of extraneous risk factors over which it has no control. These factors are common to most exploration companies and include, among others: project ownership and exploration risk, depressed equity markets and related financing risk, commodity price risk, fluctuating exchange rates, environmental risk, insurance risk and sovereign risk.

Management’s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company’s management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of August 31, 2009. In making this assessment, the Company’s management used the criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a control deficiency, or a combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual financial statements will not be prevented or detected. The company identified a material weakness in its internal control over financial reporting as of August 31, 2009:

- The Company has limited accounting personnel with expertise in generally accepted accounting principles to enable effective segregation of duties over transaction processes with respect to financial reporting matters and internal control over financial reporting. Specifically, certain personnel with financial transaction initiation and reporting responsibilities had incompatible duties that allowed for the creation, review and recording of journal entries, note disclosures and certain account reconciliations without adequate independent review and authorization. This control deficiency, which is pervasive in impact, did not result in adjustments to the financial statements, however there is a reasonable possibility that a material misstatement of the annual financial statements would not have been prevented or detected on a timely basis.

KPMG LLP, an independent registered public accounting firm that audited the financial statements has also performed an audit of internal control over financial reporting. Their report is included in the audited financial statements.

Changes in Internal Controls over Financial Reporting

During the fiscal year ended August 31, 2009 there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

- Management continues to review the current assignment of responsibilities to improve the segregation. In addition, Management will identify and may hire additional accounting resources where required to redistribute and eliminate overlapping of duties.

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered in this report, evaluated the effectiveness of our disclosure controls and procedure and determined that, as a result of the material weakness in internal control over financial reporting described above, as of August 31, 2009 our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified.

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Approval

The Board of Directors of Tanzanian Royalty Exploration Corporation has approved the disclosure contained in the Annual MD&A. A copy of this Annual MD&A will be provided to anyone who requests it and can be located while additional information will be available on the SEDAR website at www.sedar.com.

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in the foregoing Management's Discussion and Analysis and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risk set above.

Additional Information

Additional information about the company and its business activities is available on SEDAR at www.sedar.com.