TSODILO RESOURCES LIMITED

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the Consolidated Quarterly Financial Statements for the period ended June 30, 2010 and comments on the factors that affected the Company's performance during the periods covered by the 2009 Consolidated Annual Financial Statements as well as the Company's financial condition and future prospects. The Company's functional and reporting currency is United States dollars and all amounts stated are in United States dollar unless otherwise noted. This management's discussion and analysis has been prepared as at August 20, 2010.

OVERVIEW

Tsodilo Resources Limited ("Tsodilo" or the "Company") was organized under the laws of the Province of Ontario in 1996 and continued under the laws of the Yukon in 2002. The shares of the Company are listed and posted for trading on the TSX Venture Exchange under the symbol: TSD. Tsodilo is an international diamond exploration company with the majority interest in a kimberlite exploration project in northwest Botswana. The Company has not yet determined whether these properties contain reserves that can be economically mined. As an exploration stage company, the recoverability of amounts shown for exploration expenditures is dependent upon the discovery of reserves that can be economically mined, the securing and maintenance of the interests in the properties, the ability of the Company to obtain the necessary financing to complete the development, and future production or proceeds from the disposition thereof. The Company is also actively reviewing additional diamond and base and precious metal opportunities within southern Africa.

Corporate

At a special meeting of the holders of common shares of the Company held on April 9, 2002 shareholders approved a restructuring of the Company that incorporated the sale of substantially all of the Company's assets. The assets were transferred in settlement on debt due of $612,783 and owing to Trans Hex Group Limited ("Trans Hex Group"), the principal shareholder and creditor of the Company prior to restructuring. The Company retained an interest in all future dividends that may be paid by either Northbank Diamonds Limited, Hoanib Diamonds (Proprietary) Limited or Trans Hex (Zimbabwe) Limited. In addition, the Company was released from the long-term loans due to Trans Hex Group by the subsidiaries being sold, of $3,341,690, and Trans Hex Group agreed to return the 10,688,137 common shares in the capital of the Company, representing 73.22% of the issued and outstanding shares of the Company at that time, to treasury for cancellation. The special meeting of shareholders also approved the discontinuance of the Company from the Province of Ontario and its continuance under the Business Corporations Act (Yukon), the change of name of the Company from Trans Hex International Ltd. to Tsodilo Resources Limited, the election of new directors and the repeal of the existing stock option plan of the Company and adoption of a new stock option plan. Following the restructuring of the Company, as approved by shareholders in April 2002, Tsodilo has no long-term debt.

Outstanding Share Data

As of August 20, 2010, 22,413,305 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 2,675,000 options remain outstanding of which 2,107,500 are exercisable at exercise prices ranging from CAD $0.55 - $2.21. If all options were vested and exercised, 2,675,000 common shares of the Company would be issued.

As of August 20, 2010, 6,995,523 warrants are outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company at purchase prices ranging from Canadian $0.55 - $2.17 for a period of two to five years from the date of issuance (11/14/2008 - 6/29/2010). If all warrants were converted, 6,995,523 common shares of the Company would be issued.

Principal Shareholders of the Company

The principal shareholders (> 5%) of the Company as of August 20, 2010 are as follows:

Name	Description	Shares Owns, Controls or Directs	% of the Issued and Outstanding Shares
Preston Trust	Private Investment Vehicle	3,923,995	19.90%
IFC	International Finance Corp.	2,702,702	12.05%
James M. Bruchs	Chairman & CEO	2,214,749	9.87%
David J. Cushing	Director	1,915,882	8.55%

Subsidiaries

The Company has a 95% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which currently holds ten prospecting licenses ("PL") covering approximately 9,402 square kilometers in northwest Botswana on which there is encouragement for the existence of undiscovered kimberlites in at least three separate areas of the property. The Company's minority partner (5%) in this project, Trans Hex Group, is an established South African diamond mining company.

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gcwihaba Resources (Proprietary) Limited ("Gcwihaba"), which has eight diamond PL's covering approximately 5,871 square kilometers; eighteen metals (base, precious, platinum group, and rare earth) PL's covering 13,533 square kilometers; and two radioactive mineral PL's licenses covering 1,430 square kilometers.

The Company holds a 100% interest in Tsodilo Resources Bermuda Limited to which the shares of its operating subsidiaries, Newdico and Gcwihaba, are registered.

Exploration Activities

Prospecting Licenses

The PL's held as of June 30, 2010, by the Tsodilo Group of Companies in Botswana and their status are summarized in the attached table. All PL's are in good standing and the renewal reports for the PL 62-71/2005 have been submitted with the Department of Mines.

Table 1: Summary of the status the Company's prospecting licenses

PL numbers	PL's	Km^2	Commodity	Renewal dates	Current Stage
Newdico (Pty) Ltd					
PL 62-71/2005	10	9,402.20	Precious Stones	07/01/2010	2nd Renewal
Gcwihaba Resources (Pty) Ltd.					
PL 46-50/2008	5	3,325.00	Precious Stones	01/01/2011	Initial Grant
PL 641-643/2009	3	2,546.20	Precious Stones	07/01/2012	Initial Grant
PL 118-119/2005	2	1,937.30	Metals*	10/01/2010	1st Renewal
PL 51-52/2008	2	1,569.00	Metals*	01/01/2011	Initial Grant
PL 386-395/2008	10	7,478.60	Metals*	10/01/2011	Initial Grant
PL 588, 595-597/2009	4	2,555.00	Metals*	01/07/2012	Initial Grant
Total	**36**	**28,813.30**			
PL 150-151/2010 **	2	1,430.00	Radioactive Minerals	07/01/2013	Initial Grant
	38	**30,243.30**			

*(base, precious, platinum group and rare earth)

** granted subsequent to end of 2nd quarter

Presently the Company has 38 permits under licence at various levels of duration. Gcwihaba Resources (Pty) Limited ("Gcwihaba"), a wholly owned subsidiary of Tsodilo Resources Ltd, has just over two-thirds of that ground (20,846 km^2) under its name, or 28 permits. Newdico (Pty) Limited ("Newdico") of which Tsodilo Resources holds a 95% interest, has 10 permits covering an area of 9,402 km^2.

All the ten Newdico permits and eight of the Gcwihaba permits are licenses with precious stones (Diamonds) rights and this represents roughly half of the Company's ground holding (15,273km^2) in Botswana. On the metal (base, precious, platinum and rare earth) side, the company retains its interest over 20 Prospecting Licenses or 14,974km^2 through Gcwihaba alone.

In addition, the Company has relinquished four permits (PL 41/, 42/, 43/ and 46/2003) where there has been no further interest. Subsequent to the end of the quarter, licenses for radioactive minerals – uranium were granted to Gcwihaba.

The philosophy of continuously applying and relinquishing Prospecting Licenses is in line with the Company's vision to access and aggressively explore the most prospective ground to enhance the chances of finding an economic mineral deposit. The company is well equipped to work through ground rapidly and thoroughly, having acquired and trained its own geological and geophysical back-up teams and having access to its wholly owned diamond drill rig.

Field prospecting

Ground geophysical surveys continue to assist in positioning the boreholes for both the precious stones as well as for the metal programs. During the quarter a total of 1,601 line kilometers of ground magnetic data was acquired which equates to 148km^2. Most of these surveys were completed on 20 meter line spacing enhancing the resolution to accurately position drill holes.

In terms of drilling during the quarter seven holes were drilled to a cumulative depth of 1,615 meters. This produced 1,366 meters of core. Magnetic susceptibility measurements are taken of the core at every 0.5 meter and are plotted against the detailed geological log. In addition samples are taken of selected position along the various holes for petrography to assist in developing a robust geological model. Since the area is covered by Kalahari sediments it is critical to maximize the geological information from the boreholes and link these directly to the ground and airborne geophysical data. Finally, samples are now taken every one meter section of the mineralized core and have recently been forwarded to an independent geochemical laboratory for assaying.

Table 2: Holes drilled during the second quarter 2010

Hole number	Date drilled	Depth (m)	Metres core (m)	Main rock type
L9660/5	7/4-13/4/2010	317.8	26.5-317.8	Quartzite, shist
L9670/7	15/4-22/4/2010	356.5	38.2-356.5	Quartzite, shist, meta-pelite
L9660/8	24/5-6/6/2010	194.6	47-194.6	Quartzite, shist, black shale
L9650/6	8/6-17/6/2010	404.5	32.5-404.5	Black carbonaceous shale, siltstone, meta-pelite
TOD 004	21/6-23/6/2010	134.8	50-134.8	Ultramafic
TOD 008	25/6-/2010	133.0	50.2-133	Ultramafic
Total		1,541.2		

Diamond Project

A review of all the kimberlites discovered to date in the Nxau Nxau field has been initiated in order to assess its diamond potential. The kimberlites represent a cross-section of hypabyssal, volcaniclastic and crater facies material. Dating of these intrusions indicate that this is part of a Cretaceous cluster. This is based on U-Pb dating of several perovskite minerals from kimberlites 6/K20 (A15), 6/K21 (A36) and 6/K22 (1821C16), that were analyzed at the Gemoc Arc National Key Centre (Macquarie University) in Australia. The analyses were performed using an Agilent 7500s

ICPMS attached to a New Wave Research UP-213 laser ablation micro-sampling system. The kimberlite event was dated at 83.2Ma.

The Tsodilo's Airborne Magnetic Geophysical dataset was re-interpreted by an independent consultant, not only to identify new targets but also to re-evaluate the known 27 kimberlites in terms of depth and size.. Samples were selected for heavy mineral extraction and these kimberlitic minerals will subsequently be forwarded for microprobe analyses. Those kimberlites that return high interest grains will be selected for micro-diamond analyses. In the meantime three known kimberlites, from which previously micro-diamonds had been recovered, have been re-sampled for micro-diamond analysis. The reason for this was because the sampling material of those early analyses was inappropriate for qualitative results and can therefore not be used for grade modeling purposes. Core from the boreholes drilled by the Company owned drill rig is now being used for this purpose and results from these analyses will provide some ideas on grade.

Two classic dipole targets identified as possible intrusions in the south-western part of the project area roughly midway between the Tsodilo Hills and Sepopa were drilled and highly weathered 'ultramafic' material was intersected. Several samples have been submitted to a well-known kimberlite petrologist for identification. The area has returned several mantle minerals, such as garnet, and a source for these minerals has yet to be located.

The region remains of interest not only because of the high-interest kimberlitic minerals, including diamond, have been recovered from soil samples but also because the meta-sedimentary Proterozoic cover rocks of the extreme north-western part of Botswana are believed to be underlain by of the southern part of the Congo Craton.

Metals Project

The focus of the metal project at this stage is to construct a geological model for the area, based on various analyses of the drill core, including but not restricted to petrography, magnetic susceptibility and sedimentological analyses, and both magnetic and electromagnetic geophysical ground and airborne surveys. The geological model will form the basis for a resource model once the results from the assay analyses start flowing back from the geochemical laboratory.

In 2005, the Company initiated an internal geological investigation with respect to the sulphide-rich Matchless Amphibolite Belt ("MAB") that stretches from Namibia into Botswana and most likely beyond. Copper (Cu), cobalt (Co) and nickel (Ni) mineralization along this Matchless Belt has been known for more than a century. The Company's work has indicated that the MAB traverses the Company licenses in northwest Botswana, in an area where the Damaran Belt links with the Lufilian Arc. The latter contains the Copper Belt (>25 million tons of copper produced in Zambia) which extends from Zambia into the Katanga Province of the Democratic Republic of Congo and is a major source for copper (Cu), cobalt (Co) and uranium (U).

Except for the meta-sedimentary rocks outcropping at Tsodilo Hills, the area is covered by Tertiary sediments of the Kalahari Group. Deformed granitoid basement of the Quangwadum Complex, low grade marbles and siltstones of the Xaudum Group and strongly deformed meta-sedimentary siliciclastic rocks and some biotite gneisses of the Tsodilo Hills Group are thought to form part of a Palaeo-proterozoic basement rocks. Ductile trusts and shears in the region, mostly interpreted from the geophysics, are exposed in the Tsodilo Hills.

Detailed airborne magnetic data suggests that these folded rock sequences form a cover sequence over the southern part of the Congo Craton. This is supported by the presence of G10 garnets and diamonds that have been recovered from soil samples in the region by various prospecting programs.

The three main metal project areas secured by the Company are the Panhandle, Nokaneng and the Lenyati /Kwango prospects (see previous MD&A). The Panhandle Prospect, directly west of the Okavango Delta, was exposed to most of the drilling during the quarter, with drilling having been conducted on the Prospecting Licenses PL 386/2008, 387/2008 and 388/2008. The northern part of this prospect was targeted purely on the basis of the structural fabric as interpreted from the airborne magnetic and time domain electromagnetic data. The latter has been extremely valuable in locating conductive sulphide-bearing structures. The drilling has targeted these conductors and has identified these to be associated with mineralized meta-sediments.

The north-central part of this Panhandle Prospect project area is dominated by meta-pelitic rocks, with interbedded shists and shales, evaporites and quartzites. These mainly siliciclastic rocks resemble a more proximal setting of a presumable rifted margin. The more central part of the Panhandle Prospect has a frequency of black carbonaceous shale, carbonates and minor evaporates, representing the more central part of a rifted basin. Visible sulphide minerals are present throughout the succession and the first assay results of some grab samples form the black shale have reported 0.4% Cu. The assay results that will be forth-coming over the next quarter will provide an insight in the style of mineralization associated with these meta-sediments.

The dominant lithofacies for the holes drilled during the quarter are: quartzite and shist (L9660/5, L9660/8), folded meta-pelitic rocks (with zones of metamorphic garnet) with some shale and evaporites (L9670/7), and carbonaceous shales and siltstones (L9650/6). Although mineralisation is visible in most of the cores the meta-pelites in L9670/7 are particular rich in pyrrothite and visible sulphides scattered throughout and concentrated in bands.

It is too soon to speculate on the relationship between the finely laminated carbonaceous shales, the more siliciclastics units and the dolomites and dolomitic shists that have been drilled so far. However these rocks are very similar to those reported from the Kalumbila Co-Ni-Cu Prospect in Western Zambia. The rocks at Kalumbila have also been described as being broadly similar to the stratigraphy in the Zambian Copperbelt.

The mafic / ultramafic rocks, intersected on magnetic targets TOD 004 and 008, are associated with a significant northward orientated structural trend in the palaeo-Proterozoic meta-sediments. This trend is also highly visible in the regional gravity data and the structure is likely to be associated with a major north-south orientated trust zone. Whether these rocks are linked to parts of the Matchless-Mwembshi Belt, or whether it is associated a significant mineralization event is too early to say.

General

The Company hosted a visit during the quarter by members of AEON (Africa Earth Observatory Network) with which the Company maintains its membership and close working relationship. AEON is linked to the Department of Geology at the University of Cape Town in South Africa and provides a research and educational environment for Earth-systems, life and human sciences, engineering and resource economics, under the direction of Prof. Maarten de Wit. AEON has access to advanced analytical tools and technologies to promote exploration of our Earth particularly in Africa. The AEON science advisory group comprises 18 members spread across four continents, and from five South African universities and industry.

Several research projects have been set up to with AEON focused on the geological modeling and mineralization of the area under license by the Company in Ngamiland. Samples from the drilling program have been supplied by the Company and are being used to for this purpose. This data provides the Company with new insight of the geology of the area.

Simultaneously several staff members from the Geology Department of the University of Glasgow in Scotland, under leadership of Professor Roderick Brown, a world leader in Apatite Fission Track Analysis (AFTA), selected samples from the Company's drill holes for their research. The focus of their work is to measure the lengths of fission tracks in the mineral apatite that have been produced as a result of Uranium damage. The track length distributions will provide important information on the rates and timing of uplift, erosion and sedimentation and will provide some important clues as to the geological history of the area.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2010, the Company had net working capital (deficiency) of $4.884,226 [2009: ($110,489)] which included cash and equivalents $4,865,063 (2009: $63,212). These funds are managed in-house in accordance with specific investment criteria approved by the board of directors, the primary objective being the preservation of capital to assure funding for exploration activities. The Company completed private placements for $451,944 in January 2010 and $4,832,360 in June 2010, and issued shares for $304,896 from the exercise of warrants in March 2010, see discussion in Financing Activities below. The Company does not hedge its activities or otherwise use derivatives. At year end, the Company did not have any material contractual obligations except for minimum spending requirements on exploration licenses.

The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of June 30, 2010, the expenditure requirements inclusive of license fees from the date of grant to and if held to their full term as well as actual and attributed expenditures with respect thereto as of December 31, are as follows:

Project Description	Required Expenditure		Actual Expenditure		Attributed Expenditure *	
	BWP	USD	BWP	USD	BWP	USD
Newdico	1,594,070	$221,552	11,637,888	$1,617,490	11,637,888	$1,617,490
Gcwihaba Diamond	2,882,888	$400,678	2,563,017	$356,221	7,051,505	$980,053
Gcwihaba Metals	6,593,456	$916,391	1,508,543	$209,665	10,524,159	$1,462,700

* The Company's Newdico subsidiary provides drilling services for the Company's Gcwihaba subsidiary. Services performed are accounted for at below market rates for similar services performed by third party contractors. These attributed amounts for services are used in calculating required license expenditures.

Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments. The company does not hold financial derivatives. Due to the nature of the Company's operations, there is no significant credit or interest rate risk.

Operating Activities

Cash outflow used in operating activities before changes in working capital increased from $103,482 in the period ended June 30, 2009 to $110,489 for the period ended June 30, 2010. The increase was due primarily to filing expenses and office and administration expenses in 2010 were greater than 2009.

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ANNUAL INFORMATION

(in US dollars)	Period June 30 2010	Period March 31 2010	Fiscal Year Dec. 31 2009
Total Revenues		--	--
Loss before Non-controlling Interest	(517,432)	(141,379)	(331,162)
Basic and diluted loss per share	($0.02)	($0.01)	($0.02)
Non-controlling Interest	--	--	(4,040)
Net Loss for the Year	(517,432)	(141,379)	(327,122)
Basic and diluted loss per share	($0.02)	($0.01)	($0.02)
Total Assets	11,275,851	6,529,383	5,885,208
Total long term liabilities	53,885	205,442	210,814
Cash dividends declared	--	--	

QUARTERLY INFORMATION

(in US Dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Year 2009 (ended December 31, 2009)				
Total Revenues	--	--	--	--
Loss for the period	(82,214)	(161,337)	(101,449)	23,878
Basic and diluted loss per share	--	($0.01)	($0.01)	--
Total Assets	4,989,799	5,151,428	5,339,383	5,885,208
Total long term liabilities	211,615	262,361	277,661	210,814
Fiscal Year 2010 (ended March 31, 2010)				
Total Revenues				
Loss for the period	(141,379)	(376,053)		
Basic and diluted loss per share				
Total Assets	6,529,383	11,275,851		
Total long term liabilities	205,442	53,885		

See accompanying notes to the consolidate financial statements

Investing Activities

Cash flow applied in investing activities increased to $662,998 for the period ended June 30, 2010 (2009: $455,633).

Total actual expenditures of $661,139 on exploration properties for the period ended June 30, 2010 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 6.04% to 5.20% attributed to the Trans Hex Group for the Newdico project. There were no material disposals of capital assets or investments during the year.

In December 2009, the board of directors of Newdico approved an exploration program and budget for the period January 1, to December 31, 2010 that calls for expenditures totaling approximately Pula 9.8 million (approximately $1.45 million as of December 31, 2009). The 2010 budget envisions a micro-diamond sampling program and analysis for up to seven different kimberlites. Trans Hex Group is presently responsible for funding 5% of the expenses of this company. The approved exploration program includes provision for additional drilling, soil sampling, ground geophysical surveys, processing and analysis.

Financing Activities

Following the restructuring of Tsodilo in April 2002 and the cancellation of the shares formerly held by Trans Hex, the source of financing for the Company's activities changed from debt (related party) finance to equity, through the issue of units by way of non-brokered private placements. Each unit has consisted of one common share of the Company and one or one-half a warrant with each full such warrant entitling the holder to purchase one common share of the Company for a purchase price equal to the unit price for a period of two years from the date of issuance.

During the period ended June 30, 2010, the Company received gross proceeds in the amount of $4,832,360 from the issuance of units consisting of one common share and one warrant related to a private placement subscribed to by the IFC, a member of the World Bank Group.

Private Placement Date	No. of Units	Price per Unit	Proceeds
June 29, 2010	2,702,702	$1.79	$4,832,360

The purpose of the investment is to assist in the financing of the Company's ongoing exploration of its Botswana diamond and metals licenses in northwest Botswana. The key features of the investment are:

1. An initial equity investment of C$5 million in exchange for 2,702,702 common shares.
2. A warrants package (up to C$5.64 million) consisting of one full warrant per ordinary share purchased valid for 5 years from closing and priced at C$2.17
3. Potential for additional funding during the exploration stage and at feasibility study and development stages.
4. IFC will initially control 12% of the outstanding shares and become the second largest shareholder in Tsodilo.
5. IFC was granted a pre-emptive right to maintain its pro rata interest in Tsodilo by subscribing to any future equity placements in an amount that would equal its current percentage of shareholdings.

6. Investment by IFC provides Tsodilo with a highly credible strategic investor necessary for the progression of the Company's rapidly emerging kimberlite and metals projects in an environmentally and socially sustainable manner

Tsodilo expects to raise the amounts required to fund its 95% share of the Newdico project, the Gcwihaba projects and corporate general and administration expenses, by way of non-brokered private placements.

RESULTS OF OPERATIONS

On a consolidated basis, Tsodilo recorded a net loss of $517,432 in the period ended June 30, 2010 ($0.02 cents per common share) compared to a net loss of $243,551 in the period ended June 30, 2009 ($0.03 cents per common share). The Company experienced an increase in most expenses categories with expenses reflecting general increases in corporate activity. Exploration expenditures including amortization of property, plant and equipment used in exploration activities on all projects amounted to $661,139 during the period ended June 30, 2010 compared to $455,946 for the period ended June 30, 2009. Exploration expenditures incurred on the Newdico project for the year ended June 30, 2010 was $467,245 compared to $362,109 for the year ended June 30, 2009. The principal components of the Newdico exploration program were: (a) additional soil sampling and the completion of the processing and analysis of the soil samples; (b) commissioning of further ground magnetic surveys of selected aeromagnetic anomalies; (c) analyzing detailed proprietary aeromagnetic maps covering the target areas; and (d) commencement of a diamond core drilling program on selected targets. Exploration expenditures incurred on the Gcwihaba project for the period ended June 30, 2010 were $193,894 compared to $93,836 for the period ended June 30, 2009.

PERSONNEL

At June 30, 2010, the Company and its subsidiaries employed twenty-five (29) individuals compared to twenty-three (23) at June 30, 2009, including senior officers, administrative and operations personnel including those on a short-term service basis.

SECOND QUARTER – 2010

The second quarter was a normal operating period. Operating expenses were at normal levels for the last quarter of the year and were offset by a gain in foreign exchange.

RISKS AND UNCERTAINTIES

Tsodilo's primary objective is the discovery of an economic kimberlite diamond deposit capable of rapid advancement to feasibility stage and ultimate development as a producing property. The discovery of a kimberlite is only the first step in the exploration process. Subsequent evaluation begins with caustic fusion diamond analysis of the kimberlite and, if results warrant, continues through progressively larger mini-bulk and bulk samples in order to make an increasingly accurate determination of the content and quality of the diamonds. Early stages of kimberlite evaluation provide an initial qualitative assessment rather than an accurate indication of either the grade of the ore body or the value per carat of the diamonds. Collection of larger bulk samples and formal appraisal of a commercial-size parcel of diamonds are necessary to make an accurate determination of these parameters. At any stage in the process, the results may indicate that the deposit lacks the required economic value.

Capital Requirements

In the absence of cash flow from operations, Tsodilo relies on capital markets to fund its operations. The ongoing exploration and eventual successful development of a diamond mine would require significant additional financing. There can be no assurance that adequate funding will be available, or available under terms favorable to the Company, for these purposes when ultimately required. The exploration and development of mineral deposits involve significant financial risks over an extended period of time. Even a combination of careful evaluation, experience and knowledge may not eliminate these risks. While discovery of a diamond or base and precious metal deposit may result in substantial rewards, few exploration properties ultimately become producing mines.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financing arrangements., such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instrument obligations or any obligations that trigger liquidity market or credit risk to the Company.

Exploration Risks

The Company's operations are subject to all the hazards and risks normally incident to the exploration, development and mining of diamond deposits, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. Whether a diamond deposit will ultimately be commercially viable depends on a number of factors, including the particular attributes of the deposit such as the deposit's size; the quality and quantity of the diamonds; its proximity to existing infrastructure; financing costs and the prevailing prices for diamonds. Also of key importance are government regulations, including those relating to prices, taxes, royalties, land tenure, land use, the importing and exporting of diamonds and production plant and equipment, and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of them may impede the development of a deposit or render it uneconomic.

CRITICAL RISK FACTORS

Currency Risks

The Company's financing has generally been received in United States Dollars (USD) while significant portions of its operating expenses has been and will be incurred in Botswana Pula (BWP). The current USD / BWP currency exchange is favorable to the Company. While currency fluctuations will certainly occur throughout 2010 as the world economic and credit crisis seeks stabilization, it is anticipated that the USD / BWP exchange rate will remain advantageous to the Company on a historical basis in 2010.

Key Personnel

The Company is dependent upon on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. The Company currently does not have key personal insurance on these individuals.

ACCOUNTING STANDARDS

Tsodilo follows Canadian generally accepted accounting principles. The Company has adopted the policy of deferring property specific acquisition and exploration costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate, are written off in the year such assessment is made (no such write-offs were incurred in 2008 and 2009). If Tsodilo adopted a policy of expensing all exploration costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different.

The Company evaluates its license properties on a project basis as opposed to treating each individual license block as a separate project.

ADOPTION OF NEW ACCOUNTING STANDARDS

New Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing CICA 3062, Goodwill and Other Intangible Assets and CICA 3450, Research and Development Costs. New section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted Section 3064. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and were adopted by the Company effective January 1, 2009. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States ("U.S. GAAP") by eliminating the practice of recognizing as assets a variety of start up, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. The adoption of this standard did not have any impact on the consolidated financial statements of the Company.

Effective January 1, 2009, the Company adopted the EIC-174, "Mining Exploration Costs." This EIC provides guidance on accounting for capitalization and impairment of exploration costs. This standard was effective for the fiscal year beginning January 1, 2009. The adoption of this EIC did not have a significant impact on the financial statements.

Future Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") to commence in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's Generally Accepted Accounting Principles ("GAAP") and the official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company's Botswana subsidiaries already report using IFRS and Tsodilo Resources Limited will adopt IFRS according to requirements outlined by the AcSB, and is in the process of preparing for the adoption of IFRS on January 1, 2011.

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high quality standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The effective implementation date of the conversion from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. Tsodilo is engaged in an assessment and conversion process which includes consultation with external consulting firms and expects to be ready for the conversion to IFRS in advance of January 1, 2011. The Company's two operating subsidiaries currently prepare audited financial statements in accordance with IFRS. Accordingly, differences relating to these operating subsidiaries have been previously identified.

As such, the Company's transition plan to IFRS has been primarily focused on transition issues relating to the consolidation of the Company's operating subsidiaries, and on accounting issues at the parent company level. This plan consists of three main phases, which are summarized as follows:

- Phase one - an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS was completed in 2010. This phase is currently being finalized and an overview of some of the more significant differences identified to date are summarized below.

- Phase two - an in-depth analysis of the IFRS impact in those areas identified under phase one is now effectively also complete, subject to changes in circumstances and pronouncements between now and the end of the year. It is expected that this phase will be completed prior to the filing of the Company's third quarter financial statements in November 2010.

- Phase three - the implementation of the conversion process, including the completion and auditing of the opening balance sheet as at January 1, 2010 together with related discussion and notes. It is expected that this phase will be completed prior to the end of the year.

As a result of the procedures performed to date, we have initially identified the following significant differences between Canadian GAAP and IFRS that will impact the Company:

Foreign Exchange – Expenditures in Newdico and Gcwihaba are primarily in Botswana Pula, it is expected that the functional currency for these entities will change from US$, as is the case under Canadian GAAP, to the Botswana Pula. As such, foreign exchange gains and losses associated with translating the balances from Pula to US$ will be recorded as a separate component of shareholders' equity as opposed to in the income statement.

Minority Interest – Minority interest is carried as part of equity. Management is evaluating whether there is any adjustment required given that minority interest, on acquisition, is recorded based on the fair value of the entity (or fair value of identifiable assets and liabilities of the entity) as opposed to being based on the carrying value of the assets and liabilities of the entity.

Stock Based Compensation – The Company uses graded vesting, and that, under IFRS, each vesting period is treated as a separate grant whereas under Canadian GAAP, all of the vesting periods can be treated as a single grant.

Warrants – Warrants issued in the private placements have a strike price in Canadian dollars, which is different than the functional currency of the Company (US$). IFRS requires that the warrants be accounted for as liabilities and recorded at their fair value on each financial statement date, with gains and losses being recognized in income.

Disclosures – Disclosures are more extensive under IFRS and management is evaluating additional language.

At this point, the Company's IT accounting and financial reporting systems are not expected to be significantly impacted.

The above comments should not be considered as a complete list of changes that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's financial statements as at January 1, 2011 and in subsequent years, including projects regarding income taxes and financial instruments. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, but this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

Business combinations and related sections

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011 unless they are early adopted at the same time as Section 1582 "Business Combinations".

8. RELATED PARTY TRANSACTIONS

As at June 30, 2010, the Company incurred leave payable to an officer and director of the Company amounting to $59,450 as follows:

Accrued Leave Benefits	**1st Q**	**2nd Q**	**3rd Q**	**4th Q**	**Totals**
2010	5,945	5,945			11,890
2009	5,945	5,945	5,945	5,945	23,780
2008	5,945	5,945	5,945	5,945	23,780
				Total	**59,450**

The Company borrowed funds from a person who is an officer and director of the Company in fiscal years 2008 and 2007. The loans were interest free, payable upon demand and had no other terms of repayment. The outstanding loans were paid in 2009. The amount of borrowing and repayment for fiscal years 2010 and 2009 are as follows:

	Total Amount Borrowed	Total Amount Repaid	Amount Outstanding at year end
2010	$ -0 -	$-0-	$ -0 -
2009	$ -0 -	$105,000	$ -0 -

OUTLOOK

Diamond and metal exploration remains a high-risk undertaking requiring patience and persistence. Despite difficult capital markets in the junior resource sector, the Company remains committed to international commodity exploration through carefully managed programs.

ADDITIONAL INFORMATION

Additional information relating to Tsodilo Resources Limited is available on its website **www.TsodiloResources.com** or through SEDAR at **www.sedar.com**.

FORWARD-LOOKING STATEMENTS

The Annual Report, including this MD&A, contains certain forward-looking statements related to, among other things, expected future events and the financial and operating results of the Company. Forward-looking statements are subject to inherent risks and uncertainties including, but not limited to, market and general economic conditions, changes in regulatory environments affecting the Company's business and the availability and terms of financing. Other risks are outlined in the Uncertainties and Risk Factors section of this MD&A. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward looking statements for a variety of reasons. Readers are therefore cautioned not to place undue reliance on any forward-looking statement. The Company disclaims any intention and assumes no obligation to update any forward-looking statement even if such information becomes available as a result of future events or for any other reason.

/s/	/s/
James M. Bruchs	Gary A. Bojes, Ph.D
Chairman & CEO	Chief Financial Officer
August 20, 2010	August 20, 2010

TSODILO RESOURCES LIMITED

INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

[REVISED January 12, 2011]

FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2010

(expressed in United States dollars)

Unaudited – Prepared by Management

Notice of disclosure of non-auditor review of consolidated interim financial statements pursuant to national Instrument 51-102, Part 4, Subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying consolidated financial statements of the Company for the period ended September 30, 2010 have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these interim financial statements.

CONTENTS:

TSODILO RESOURCES LIMITED
Financial Reporting Responsibility of Management

The quarterly report and consolidated financial statements have been prepared by management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on informed judgments and best estimates. The financial information presented in this period report is consistent with the consolidated financial statements. Management acknowledges responsibility for the fairness, integrity and objectivity of all information contained in the annual report including the consolidated financial statements. Management is also responsible for the maintenance of financial and operating systems, which include effective controls to provide reasonable assurance that assets are properly protected and that relevant and reliable financial information is produced. Our independent auditors have the responsibility of auditing the consolidated financial statements and expressing an opinion on them at our year end.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is composed of three directors, all of whom qualify as unrelated directors and are independent of management and free from any interest or business relationship which could, or could be perceived to materially interfere with their ability to act in the best interests of the Company. This committee meets periodically with management and the external auditors to review accounting, auditing, internal control and financial reporting matters. The Audit Committee reviews the annual financial statements before they are presented to the Board of Directors for approval and considers the independence of the auditors.

The financial statements for the periods ended December 31, 2009, and December 31, 2008 have been audited by Ernst & Young, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

/s/

James M. Bruchs
Chairman and Chief Executive Officer
November 16, 2010
Revised January 12, 2011

/s/

Gary A. Bojes
Chief Financial Officer
November 16, 2010
Revised January 12, 2011

Tsodilo Resources Limited

Consolidated Balance Sheets

As at December 31, 2009 &
September 30, 2010 and 2009

(in United States dollars)

(unaudited - Management prepared)

	December 2009	**September 2010**	September 2009
ASSETS			
Current			
Cash	$ 108,341	**$ 4,030,189**	$ 23,985
Accounts receivable and prepaid expenses	67,640	**92,181**	40,275
	175,981	**4,122,370**	64,260
Exploration Properties *(note 3)*	5,361,645	**6,627,142**	4,882,436
Property, Plant and Equipment *(note 4)*	347,582	**464,590**	392,687
	$ 5,885,208	**$ 11,214,102**	$ 5,339,383
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 73,050	**$ 27,145**	$ 459,905
Notes payable (*note 8*)			105,000
Capital subscriptions *(note 13)*			115,000
	73,050	**27,145**	679,905
Non-Controlling Interest *(note 3)*	210,814	**218,346**	277,661
SHAREHOLDERS' EQUITY			
Share Capital *(note 5)*	28,696,445	**29,417,035**	28,279,307
Warrants *(note 5b)*	1,131,904	**5,855,207**	564,488
Contributed Surplus *(note 5c)*	8,221,288	**8,862,411**	8,010,243
Accumulated Other Comprehensive Income	(837,425)	**(837,425)**	(837,425)
Deficit	(31,610,868)	**(32,328,617)**	(31,634,796)
	5,601,344	**10,968,611**	4,381,817
	$ 5,885,208	**$ 11,214,102**	$ 5,339,383

Nature of operations and going concern *(note 1)*

Subsequent events *(note 13)*

Commitments *(note 11)*

See accompanying notes to the consolidate financial statements

Tsodilo Resources Limited

Consolidated Statements of Operations and Comprehensive Loss

As at September 30, 2010 and 2009

(in United States dollars)

(unaudited - Management prepared)

	For the 3 Months		For the 9 Months	
	2010	2009	**2010**	2009
Expenses				
Corporate remuneration	**34,252**	1,756	**46,142**	11,268
Corporate travel and subsistence	**1,508**	--	**2,495**	--
Investor relations	**(942)**	168	**7,750**	4,528
Legal and audit	**39,783**	248	**46,993**	7,058
Filing and regulatory fees	**6,776**	4,441	**17,509**	22,839
Office and administration	**50,704**	50,275	**109,511**	104,586
Amortization	**(76,977)**	38,308	**1,380**	108,280
Foreign exchange gain	**26,497**	12,303	**6,087**	43,786
Stock-based compensation	**118,716**	--	**479,882**	48,705
Subtotal of Expenses	**200,317**	107,499	**717,749**	351,050
Loss before non-controlling interest	**(200,317)**	(107,499)	**(717,749)**	(351,050)
Non-controlling interest	**--**	--	--	--
Loss for the period	**(200,317)**	(107,499)	**(717,749)**	(351,050)
Basic and diluted loss per share - cents (note 8)	**$(0.01)**	$(0.01)	**$(0.03)**	$ (0.02)

Consolidated Statements of Deficit

For the periods ended June 30, 2010 and 2009

(in United States dollars)

(unaudited - Management prepared)	For the 3 Months		For the 9 Month Period	
	2010	2009	**2010**	2009
Deficit – Beginning of period	**(32,128,300)**	(31,527,297)	**(31,610,868)**	(31,283746)
Loss for the period	**(200,317)**	(107,499)	**(717,749)**	(351,050)
Deficit - End of Period	**(32,328,617)**	(31,634,796)	**(32,328,617)**	(31,634,796)

See accompanying notes to the consolidate financial statements

Tsodilo Resources Limited
Consolidated Statements of Cash Flows
As at September 30, 2009
(in United States dollars)
(unaudited - Management prepared)

	For the 3 Months		For the 9 Months	
	2010	2009	**2010**	2009
Cash provided by (used in):				
Operating Activities				
Loss for the period	**(200,317)**	(107,499)	**(717,749)**	(351,050)
Adjustments for non-cash items:				
Foreign exchange adjustment (gain)				
Amortization	**(76,977)**	38,309	**1,380**	108,280
Stock-based compensation *(note 6)*	**118,716**		**479,882**	48,705
	(158,578)	(69,910)	**(236,489)**	(194,065)
Net change in non-cash working capital balances	**(44,873)**	62,061	**(70,443)**	76,447
	(203,451)	(7,129)	**(306,932)**	(117,618)
Investing Activities				
Exploration properties	**(590,947)**	(267,497)	**(1,209,214)**	(723,443)
Disposals of / (Additions to) Property, Plant and Equipment	**(73,657)**	(16,301)	**(118,388)**	(15,988)
	(664,604)	(283,798)	**(1,327,602)**	(739,431)
Financing Activities				
Issue of common shares	**--**	121,400	**5,548,850**	726,400
Capital Subscriptions	**--**	115,000		30,000
Contribution from non-controlling interest	**33,181**	15,300	**7,532**	62,807
	33,181	251,700	**5,566,382**	819,207
Change in cash and equivalents - For the period	**(834,874)**	(39,227)	**3,921,848**	(37,842)
Cash and equivalents - Beginning of period	**4,865,063**	63,212	**108,341**	61,827
Cash and equivalents - End of period	**4,030,189**	23,985	**4,030,189**	23,985

The accompanying notes are an integral part of these consolidated financial statements.

Tsodilo Resources Limited

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2010 and 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

Tsodilo Resources Limited ("Tsodilo" or "The Company") is an exploration stage company which is engaged principally in the acquisition, exploration and development of mineral properties in the Republic of Botswana. The recovery of the Company's investment in exploration properties and the attainment of profitable operations are dependent upon the discovery, development and sale of ore reserves, and the renewal of licenses, the ultimate outcome of which cannot presently be determined as they are contingent on future events. The Company along with its subsidiaries operates internationally with projects in continental Africa. These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which assumes continuity of operations, realization of assets, and settlement of liabilities in the normal course of business.

As at September 30,, 2010, the Company reported an accumulated deficit of $32,328.617 [2009: $31,634,796] with $717,749 deficit this period [2009, $351,050] and negative net cash outflows from operations before changes in working capital of $306,932 [2009: $117,618] for the year then ended and current required exploration property license commitments (which may be reduced by relinquishing licenses prior to the expiry of their call term) of approximately $1.7 million. Accordingly, the cash position of the Company is insufficient to finance continued exploration. Management believes that it will be able to secure the necessary financing through a combination of the issue of new equity or debt instruments, the entering into of joint venture arrangements or the exercise of warrants and options for the purchase of common shares. However, there is no assurance that the Company will be successful in these actions.

These financial statements do not reflect the adjustments, which could be material, to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate or if the necessary financing cannot be raised.

NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

National Instrument 51-102 "Continuous Disclosure Requirements", Part 4, Subsection 4.3(3) requires: (a) If an auditor has not performed a review of the interim financial statements required to be filed under subsection (1), the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

As at September 30 2010, the Company had cash of $4,030,189 [2009: $23.985].

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor, Ernst & Young LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor except for those sections relevant to the December 31, 2010 and 2009 annual audited financial statements.

The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position at September 30, 2010 and its results of operations and its cash flows for the period then ended and for all such periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its direct and the following direct and indirect subsidiaries:

	2010	2009
Tsodilo Resources Bermuda Limited (Bermuda)	100%	100%
Gcwihaba Resources (Proprietary) Ltd ("Gcwihaba") [Botswana]	100%	100%
Newdico (Proprietary) Limited ("Newdico") [Botswana]	96%	95%

All intercompany transactions have been eliminated on consolidation

Earnings (loss) per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Earnings per share calculations are based on the weighted average number of common shares and common shares equivalents issued and outstanding during the year. Diluted earnings per share are calculated using the treasury method which requires the calculation of diluted earnings per share by assuming that outstanding stock options and warrants with the average market price that exceeds the average exercise prices of the options and warrants for the year are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of common shares for the year.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant accounts that require estimates relate to the possible impairment of property, plant and equipment and mineral property interest, the useful life of property, plant and equipment, valuation allowances for future income taxes, valuation of investments, valuation of stock-based compensation and warrants in private placements and valuations of asset retirement obligations.

Exploration properties

All direct and indirect costs relating to the acquisition, exploration and development of non-producing mining properties are capitalized as incurred. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties. Exploration costs that do not relate to specific non-producing mining properties are expensed as incurred.

If a property proceeds to development, these costs become part of preproduction and development costs of the mine and will be amortized over the expected life of the mine. If a property is abandoned, sold or continued exploration is not deemed appropriate in the foreseeable future or when other events and circumstances indicate that the carrying amount may not be recovered, the related costs and expenditures are written down to the net recoverable amount at the time the determination is made. Proceeds from the sale of exploration properties are credited to the costs of the relevant property.

On an ongoing basis the capitalized costs are reviewed to consider if there is any impairment on the subject mineral property interest. The Company conducts this evaluation on a project specific basis as opposed to treating each individual license block as a separate project. If a property is deemed impaired, an impairment loss is measured and recorded based on the net recoverable value of the asset.

Property, Plant and Equipment

Property, plant and equipment is amortized on a straight-line basis over its estimated useful life of three to five years.

Cash

Cash consist of cash held in banks.

Foreign Currency Translation

The Company's functional and reporting currency is the US dollar. The Company's subsidiaries are accounted for as integrated foreign operations and are translated into the US dollar equivalent using the temporal method. Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to at the exchange rate in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expense items are translated rates approximating those in effect at the time of the transaction. Foreign exchange gains and losses are included in the statement of operations.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded against any future income asset if it is more than likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted. The Company does not have deferred tax assets, deferred tax liabilities or current tax provisions.

Stock-Based Compensation Plans

The Company has a Stock Option Plan (refer to note 5). Under the Stock Option Plan, the Company may grant options to directors, officers and employees for up to 2,715,471 shares of common stock. The exercise price is determined by the Chairman of the Compensation Committee and the President and CEO in consultation with the board of directors, but is not less than the market price of the Company's stock on the date of the grant. An option's maximum term is 5 years. The Company uses the fair value method of accounting for stock options. Under the fair value method stock-based payments are measured at the fair value of the equity investments and are amortized over the vesting period. Consideration paid on exercise of stock options is credited to common share capital.

Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any material asset retirement obligations.

Financial Instruments and Comprehensive Income

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value at the date of acquisition. Subsequent measurement and accounting for changes in fair value will depend on the initial classification, as follows:

(i) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income;

(ii) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income (loss); and

(iii) loans and receivables, held-to-maturity investments and other financial liabilities, are measured at amortized cost.

The Company designated its cash as held-for-trading, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Transaction costs directly attributable to the acquisition or issuance of financial instruments are recognized in net income (loss) in the period incurred.

ADOPTION OF NEW ACCOUNTING STANDARDS

New Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing CICA 3062, Goodwill and Other Intangible Assets and CICA 3450, Research and Development Costs. New section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted Section 3064. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and were adopted by the Company effective January 1, 2009. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States ("U.S. GAAP") by eliminating the practice of recognizing as assets a variety of start up, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. The adoption of this standard did not have any impact on the consolidated financial statements of the Company.

Effective January 1, 2009, the Company adopted the EIC-174, "Mining Exploration Costs." This EIC provides guidance on accounting for capitalization and impairment of exploration costs. This standard was effective for the fiscal year beginning January 1, 2009. The adoption of this EIC did not have a significant impact on the Company's consolidated financial statements.

Future Changes in Accounting Policies

Business combinations and related sections

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011 unless they are early adopted at the same time as Section 1582 "Business Combinations".

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In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The effective implementation date of the conversion from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. Tsodilo Resources is engaged in an assessment and conversion process which includes consultation with external consulting firms and expects to be ready for the conversion to IFRS in advance of January 1, 2011. The Company's two operating subsidiaries currently prepare audited financial statements in accordance with IFRS. Accordingly, differences relating to these operating subsidiaries have been previously identified and are summarized as follows:

As such, the Company's transition plan to IFRS has been primarily focused on transition issues relating to the consolidation of the Company's operating subsidiaries, and on accounting issues at the parent company level. This plan consists of three main phases, which are summarized as follows:

- Phase one - an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS was completed in 2010. This phase is currently being finalized and an overview of some of the more significant differences identified to date are summarized below.
- Phase two - an in depth analysis of the IFRS impact in those areas identified under phase one is now effectively also complete, subject to changes in circumstances and pronouncements between now and the end of the year. It is expected that this phase will be completed prior to the filing of the Company's third quarter financial statements in November 2010.
- Phase three - the implementation of the conversion process, including the completion and auditing of the opening balance sheet as at January 1, 2010 together with related discussion and notes. It is expected that this phase will be completed prior to the end of the year.

As a result of the procedures performed to date, we have initially identified the following significant differences between Canadian GAAP and IFRS that will impact the Company:

- Foreign Exchange
- Minority Interest
- Stock Based Compensation
- Warrants
- Disclosures

At this point, the Company's IT accounting and financial reporting systems are not expected to be significantly impacted.

The above comments should not be considered as a complete list of changes that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the

Company's financial statements as at January 1, 2011 and in subsequent years, including projects regarding income taxes and financial instruments. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, but this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

3. EXPLORATION PROPERTIES

Exploration properties are summarized as follows:

	Newdico Botswana	**Gcwihaba Botswana**	**Total**
Balance at December 31, 2008	**$ 3,787,002**	**$ 371,991**	**$ 4,158,993**
Jan. to Dec 2009 expenditures	892,032	310,620	1,202,652
Balance at December 31, 2009	**$4,679,034**	**682,611**	**$5,361,645**
Jan. to September 2010 expenditures	898,559	366,938	1,265,497
Balance at September 30, 2010	**$5,577,593**	**1,049,549**	**$6,627,142**

A summary of the significant agreements entered into by the Company is as follows:

Newdico (Proprietary) Limited ("Newdico") - Botswana

Newdico holds prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 1999, 2001 and 2003. In 2005, the Company was reissued its prospecting licenses for an initial term of three years expiring June 30, 2008, renewable for 2 two year periods upon application and which have a final expiry of 2012. In June of 2008, Newdico relinquished approximately 7,400 square kilometers of the then outstanding 16,800 square kilometers under license. The licenses relinquished were evaluated and determine to be non-prospective for an economic kimberlite discovery. The relinquishment of this portion of the overall licenses did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The balance of the licenses totaling 9,400 square kilometers were renewed for 2 two year periods. The terms of the licenses require Newdico to spend a minimum of Botswana Pula 1.6 million (approximately $234,386 (as at 12/31/09) inclusive of license fees from the date of grant to and if the licenses were held to their full term.

Originally, as a result of an agreement completed on March 31, 2002, Newdico was held 75% by Tsodilo and 25% by Trans Hex Group Limited ("THG") with Tsodilo being the operator. Both Tsodilo and THG funded their initial investments in the Ngami property held by Newdico through a combination of an equity interest and a primary loan interest. Based on the terms of the equity and primary loan interests, THG's interest in Newdico has been accounted for as a non-controlling interest. At September 30 2010, the amount reflected ass non-controlling interest was $218,346 (2009 $277,361).

In 2005, THG decided not to fund its proportionate share of expenditures on certain cash calls. Accordingly, the Company's interest in Newdico increased from 75% to 94% at December 31, 2008. During the year ended December 31, 2009, and during the period ended September 30, 2010 THG did not fund its proportionate share of expenditures on cash calls, and therefore, the Company's interest in Newdico increased to 96% at September 30, 2010 in accordance with the agreement between the two parties.

Trans Hex Group has also advanced funds, designated as a secondary loan, amounting to $287,270 CAD ($273,750 as at 12/31/09; 2008: $234,938) to Newdico, relating to exploration properties which had been written off prior to March 31, 2002. This liability has not been recorded in these financial statements as it is repayable only from Trans Hex Group's share of any future earnings of Newdico after repayment of loans relating to the Newdico project.

Gcwihaba Resources (Proprietary) Limited ("Gcwihaba") – Botswana

Gcwihaba, a wholly owned subsidiary of the Company, holds prospecting licenses in the Ngamiland project area.

Diamond Exploration

Gcwihaba holds eight precious stone – diamond prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 2007, 2008 and 2009. The combined area totaled approximately 6,860 square kilometers as of September 30 2010. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 2.88 million (approximately $423,888 (as at 12/31/10) inclusive of license fees from the date of grant to and if the licenses were held to their full term.

Base and Precious Metal Exploration

Gcwihaba holds eighteen metal (base, precious, platinum group, and rare earth) prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 2008 and 2009. In total, the company holds twenty licenses totaling 13,500 square kilometers. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 6.6 million (approximately $969,475 as at 12/31/09) inclusive of license fees from the date of grant to and if the licenses were held to their full term.

General

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of permits and the potential for problems arising from government conveyance accuracy, prior unregistered agreements or transfers, native land claims, confirmation of physical boundaries, and title may be affected by undetected defects. The Company does not carry title insurance. The Company has evaluated title to all of its mineral properties and believes, to the best of its knowledge, that evidence of title is adequate and acceptable given the current stage of exploration.

4. PROPERTY, PLANT and EQUIPMENT

	Amortization Rate in Years	**Cost**	**Accumulated amortization**	**Book value**
September 30, 2010				
Vehicles	5 Years	$ 887.855	$ 675,630	$ 212,225
Furniture and Equipment	3 Years	367,040	114,675	252,365
		1,254,895	**790,305**	**464,590**
December 31, 2009				
Vehicles	5 Years	887,855	571,018	316,837
Furniture and Equipment	3 Years	123,819	93,074	30,745
		$1,011,674	**$664,092**	**$347,582**

For the year ended 2009 an amount of $147,952 (2008: $160,404) of amortization has been capitalized under exploration properties

5. SHARE CAPITAL

(a) Common Shares

Authorized, Issued and outstanding

The authorized capital stock of the Company comprises an unlimited number of common shares with no par value.

Details of the issued and outstanding common shares are as follows:

	Shares (number)	Amount $
Issued and outstanding at December 31, 2008	15,423,733	27,862,864
On private placement for cash (i)	728,061	405,000
On private placement for cash (ii)	331,386	200,000
On private placement for cash (iii)	201,519	121,400
On private placement for cash (iv)	2,102,758	1,095,000
Share issue costs	-	(12,501)
Ascribed to warrants issued in 2009	-	(975,318)
Issued and outstanding at December 31, 2009	18,787,457	28,696,445
On private placement for cash (v)	465,245	451,944
On Issuance of warrants for cash (vi)	457,901	304,896
On private placement for cash (vii)	2,702,702	4,832,360
Share issue costs	-	(40,350)
Ascribed to warrants issued in 2010	--	(4,828,260)
Issued and outstanding at September 30, 2010	22,413,305	29,417,035

(i) Private Placement

On February 26, 2009, the Company issued, through a non-brokered private placement, 728,061 units of the Company at a price of $0.56 (C$0.70) per unit for gross proceeds to the Company of $405,000. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$0.70) for a period of two years.

(ii) Private Placement

On June 8, 2009, the Company issued, through a non-brokered private placement, 331,386 units of the Company at a price of $0.60 (C$0.70) per unit for gross proceeds to the Company of $200,000. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$0.70) for a period of two years.

(iii) Private Placement

On August 5, 2009, the Company issued, through a non-brokered private placement, 201,519 units of the Company at a price of $0.60 (C$0.70) per unit for gross proceeds to the Company of $121,400. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$0.70) for a period of two years.

(iv) Private Placement

On December 22, 2009, the Company issued, through a non-brokered private placement, 2,102,758 units of the Company at a price of $0.52 (C$0.55) per unit for gross proceeds to the Company of $1,095,000. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$0.55) for a period of two years.

(v) Private Placement

On January 22, 2010, the Company issued, through a non-brokered private placement, 465,245 units of the Company at a price of $0.97 (C$1.00) per unit for gross proceeds to the Company of $451,944. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$1.00) for a period of two years.

(vi) Stock issued from exercise of warrants

On March 1, 2010, 457,901 warrants were exercised at a price of C$0.70 for proceeds to the Company of $304,896.

(vii) Private Placement

On June 29, 2010, the Company issued, through a non-brokered private placement, 2,702,702 units of the Company at a price of $1.79 (C$1.85) per unit for gross proceeds to the Company of $4,832,360,. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of C$2.17 for a period of five years.

(b) Warrants

As at September 30, 2010, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry	Exercise Price	December 31, 2009	Issued [Exercised] (Expired)	September 30, 2010	December 31,2009	Issued [Exercised] (Expired)	September 30, 2010
March 10, 2010	C$0.70	457,901	[457,901]	--	104,958	[104,958]	--
November 14, 2010	C$0.70	463,852	--	463,852	51,628	--	51,628
February 26, 2011	C$0.70	728,061	--	728,061	157,751	--	157,751
June 3, 2011	C$0.70	331,386	--	331,386	104,159	--	104,159
August 4, 2011	C$0.70	201,519	--	201,519	60,056	--	60,056
December 22, 2011	C$0.55	2,102,758	--	2,102,758	653,352	--	653,352
January 20, 2012	C$1.00	--	465,245	465,245		379,062	379,062
June 29, 2015	C$2.17		2,702,702	2,702,702		4,449,199	4,449,199
		4,285,477	2,710,046	6,995,523	$1,131,904	$4,723,303	$5,855,207

On March 1, 2010, 457,901 warrants were exercised. During the period ended September 30, 2010, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 101% to 206% (2009: 139% to 170%), a risk-free interest rate ranging from approximately 0.56% to 2.54% (2009: 0.9% to 1.42%), a term equivalent to the life of the warrant, and a dividend rate of zero percent.

(c) Contributed Surplus

As at December 31, 2008	$ 7,798,255
Relating to the expiry of warrants	261,229
Relating to stock based compensation	161,804
As at December 31, 2009	8,221,288
Relating to the expiry of warrants	104,958
Relating to stock based compensation	536,165
As at September 30, 2010	$ 8,862,411

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at September 30, 2010 were as follows:

Expiry	Price	Outstanding December 31, 2008	Granted [Cancelled] (Exercised)	Outstanding December 31, 2009	Granted	[Cancelled] (Exercised)		Outstanding September 30, 2010	Exercisable September 30, 2010
January 3, 2010	C$1.85	50,000	--	50,000		[50,000]	(i)	0	0
August 18, 2010	C$1.25	160,000	--	160,000		[160,000]	(i)	0	0
January 3, 2011	C$1.25	50,000	--	50,000			(i)	50,000	50,000
April 24, 2011	C$0.70	150,000	--	150,000			(i)	150,000	150,000
August 15, 2011	C$0.70	65,000	--	65,000			(i)	65,000	65,000
January 2, 2012	C$1.00	75,000	--	75,000			(i)	75,000	75,000
May 8, 2012	C$0.80	400,000	--	400,000			(i)	400,000	400,000
January 2, 2013	C$0.70	210,000	--	210,000			(i)	210,000	210,000
May 8, 2013	C$0.70	350,000	--	350,000			(i)	350,000	350,000
January 2, 2014	C$0.70	--	225,000	225,000			(ii)	225,000	225,000
May 3, 2014	C$0.70	--	360,000	360,000			(ii)	360,000	270,000
November 1,2014	C$0.55	--	100,000	100,000			(ii)	100,000	50,000
January 9, 2015	C$1.00				190,000			190,000	95,000
May 4, 2010	C$2.23				550,000			550,000	137,500
Total		1,510,000	685,000	2,195,000	740,000	[210,000]		2,725,000	2,077,500

Options exercisable at end of year	1,480,000	1,827,500	2,077,500
Weighted average exercise price			
- issued	C$0.83	C$0.68	C$1.86
- outstanding	C$0.91	C$0.80	C$1.03
- exercisable	C$0.94	C$0.83	C$0.83

All options have a term of five years.

(i) These common share purchase options vest as to one-quarter immediately and one-quarter on each of the six-month, 12-month and 18-month anniversaries of the date granted.

(ii) On January 10, 2010, the Company under its Stock Option Plan issued 190,000 options at C$1.00 to persons who are directors, officers and employees of the Company. On May 4, 2010, the Company under its Stock Option Plan issued 550,000 options at C$2.23 to persons who are officers and employees of the Company.

The Company recognized an expense of $536,165 (2009: $479,882) relating to the fair value of options granted and vesting during the year. In addition, $56,283 of stock-based compensation was capitalized into exploration properties. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility ranging from 105% to 150%, risk-free interest rates ranging from approximately 1.10 to 3.7%, a term equivalent to the life of the option, and a dividend rate of zero percent.

6. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rate of approximately 33.00% (Dec. 2008 – 33.50%) to income before taxes as follows:

	Dec-31 2009	Dec-31 2008
Net loss for the period	$(369,584)	$(363,486)
Income tax (recovery) provision at Canadian statutory	33.00%	33.50%
Income tax rates	(121,963)	(121,768)
Effect of statutory tax rate change	84,820	254,534
Foreign operation taxed at lower rates	7,924	
Permanent differences	55,213	65,864
Change in valuation allowances	254,376	(666,424)
Expiry of tax Losses	271,477	484,232
True up and foreign exchange	(547,723)	
Other	(4,124)	(16,438)
Provision for (recovery of) income taxes	$ -	$ -

The following summarizes the principal temporary differences and related future tax effect:

	Dec-31 2009	Dec-31 2008
Property, Plant and Equipment - Canada	$ 16,000	$ 29,000
Property, Plant and Equipment - Botswana	51,000	
Exploration & Development - Canada	20,000	20,000
Exploration & Development - Botswana	(1,227,000)	(1,348,000)
Losses carried forward - Canada	626,000	539,000
Losses carried forward - Botswana	1,485,000	1,480,000
Other	38,000	35,000
Subtotal – future income tax asset	1,009,000	755,000
Valuation allowance	(1,009,000)	(755,000)
Net future income tax asset recorded	$ -	$ -

At December 31, 2009, the Company has Canadian net operating losses carried forward that expire as follows:

Loss	Year of Expiry	Loss	Year of Expiry
371,000	2013	235,000	2027
436,000	2014	124,000	2028
855,000	2015	133,000	2029
335,000	2016		

Total assessable losses relating to the activity in Botswana as at December 31, 2009 was $5,939,979 (December 31, 2008: $5,148,331

7. LOSS PER SHARE

Loss per share is computed on the basis of the loss of ($717,749) for the period ended September 30, 2010 [2009: ($351,050)] and the weighted average number of common or equivalent shares outstanding during period, September 30, 2010: 23,665,003 (2009 14.993.408). The effects of Stock options and warrants in computing **diluted** earnings (loss) per share amounts for September 30, 2010 are calculated as follows:

	2010			2009		
	Earnings (Loss) Dollars	**Weighted Average # Shares**	**Earnings (Loss) Per Share**	**Earnings (Loss) Dollars**	**Weighted Average # Shares**	**Earnings (Loss) Per Share**
Net Loss from continuing operations	($ 717,749)			(351,050)		
Weighted Average number of shares		20,063,240			14,933,408	
Basic Earnings (Loss) from continuing operations	(717,749)	20,063,240	($0.04)	(351,050)	14,933,408	($0.02)
Effect of dilutive securities						
• Warrants	--	2,361,737		--	--	
• Options	--	1,204,026		--	--	
	-0-	3,601,763		-0-	-0-	
Diluted earnings (loss) per share from continuing operations	($ 717,749)	23,665,003	($0.03)	($ 351,050)		($0.02)

8. RELATED PARTY TRANSACTIONS

As at September 30, 2010, the Company incurred leave payable to an officer and director of the Company amounting to $5,945 as follows:

Accrued	Leave	1st Q	2nd Q	3rd Q	4th Q	Totals
	2010			5,945		5,945

The Company borrowed funds from a person who is an officer and director of the Company in fiscal years 2008 and 2007. The loans were interest free, payable upon demand and had no other terms of repayment. The outstanding loans were paid in 2009. The amount of borrowing and repayment for fiscal years 2010 and 2009 are as follows:

	Total Amount Borrowed	Total Amount Repaid	Amount Outstanding at year end
2010	$ -0 -	$-0-	$ -0 -
2009	$ -0 -	$105,000	$ -0 -

9. SEGMENTED INFORMATION

Materially all of the Company's property, plant and equipment at September 30, 2010 is located in North America of $6,093 (2009 $1,862) and Botswana of $458,497 (2009 $449,730). The geographic distribution of the property acquisition costs and exploration expenditures is outlined in note 3.

10. FINANCIAL INSTRUMENTS

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents (classified by the Company as held for trading), accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments. The Company does not have any financial derivatives.

Risk Exposure and Management

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, and interest rate risk. Where material these risks are reviewed and monitored by the Board of Directors.

Capital Management

a. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand.

In order to facilitate the management if its capital requirements, the Company prepare annual expenditure budgets, which are approved by the Board of Directors and updated as necessary depending on various factors, including capital deployment and general industry conditions.

The Company anticipates continuing to access equity markets to fund continued exploration of its mineral properties and the future growth of the business.

b. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

c. Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet it contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents and short term investment are held with a major Canadian based financial institution.

d. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash. Because the cash is held on deposit at financial institutions and may be withdrawn at any time, the Company's exposure to interest rate risk is not significant.

11. COMMITMENTS

All operating leases that are for a period of no longer than one year are prepaid.

The aggregate minimum continuing lease payments are $126,328 as follows:

2011	24,530
2012	24,530
2013	25,756
2014	25,756
2015	25,756

The lease commitment is for storage space in Maun, Botswana at an annual rental of BWP 166,824 per year for 2010 through 2012 and BWP 175,165 for years 2013 through 2015 converted at an exchange rate as of December 31, 2009 to US dollar.

The Company holds prospecting licenses which require the Company to spend a specified minimum amount on prospecting over the period of the terms as outlined in note 3.

12. NOTES TO THE CASH FLOW

	September 30 2010	September 30 2009
Net change in non-working Capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	($ 24,541)	($ 20,784)
Increase / (Decrease) in accounts payable and accrued liabilities	(45,902)	97,231
Total	($ 70,443)	$ 76,447

13. SUBSEQUENT EVENTS

In November 2010, 229,065 warrants were exercised for proceeds to the Company of $163,497.