TSODILO RESOURCES LIMITED

Management's Discussion and Analysis of Results of Operations and Financial Condition

For the Six month Period Ended June 30, 2006

The following discussion and analysis for the second quarter results should be read in conjunction with the unaudited Consolidated Financial Statements included in this report, and the Management Discussion and Analysis filed in March of 2006 together with the Annual Report for the year ended December 31, 2005. This interim report is intended to provide the reader with a review of the factors that affected the Company's performance during the six month period ending June, 2006 and those factors reasonably expected to impact on future operations and results. The unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles applicable in Canada. The Company's functional and reporting currency was changed to United States dollars and all amounts stated are in United States dollar unless otherwise noted. On August 18, 2005 the board of directors of the Company decided that it was in the best interests of the Company to change its financial year end from March 31 to December 31 effective December 31, 2005. The change in financial year to December 31 was made to align with the reporting schedule of comparable public companies. The period December 31, 2005 was a transitional period and had a nine month reporting period. This management's discussion and analysis has been prepared as at August 14, 2006.

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 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 of debt due and owing to Trans Hex Group Limited ("Trans Hex Group"), the principal shareholder and creditor of the Company prior to restructuring, of $612,783. 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 14, 2006, 12,644,499 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, 1,370,000 options remain outstanding of which 990,000 are exercisable at exercise prices ranging from Canadian $0.15 - $1.85. If all options were vested and exercised, 1,370,000 common shares of the Company would be issued.

As of August 14, 2006, 1,913,696 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 $0.70 - $2.35 for a period of two years from the date of issuance. If converted, 1,913,696 common shares of the Company would be issued.

Principal Shareholders of the Company

The largest shareholder of the Company is its President and Chief Executive Officer, James M. Bruchs, who currently owns, controls or directs 2,545,983 or 20.13% of the issued and outstanding common shares as of August 14, 2006. The Firebird Global Master Fund, Ltd. controls 1,875,630 or 14.83% of the issued and outstanding shares as of August 14, 2006 and John R. Redmond, a Director of the Company, currently owns, controls or directs 1,764,359 or 13.95% of the issued and outstanding shares as of August 14, 2006.

Subsidiaries

The Company has an 89% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds prospecting licenses and applications covering approximately 16,800 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 (11%) in this project, Trans Hex Group, is an established South African diamond mining company.

During the 2006 fiscal year, THG funded their proportionate share of the exploration expenditure for the 1st quarter at this project but has not funded their proportionate share of the 2nd quarter program expenditures. Pursuant to the terms of the applicable agreement, the Company will increase its direct ownership of the Newdico project to 89%. The non-funding by THG has not and will not have an impact on the Company's ability to fund and carry out its exploration activities. Some, or all, of the current licenses held by Newdico may be subject to the granting of a 2% free carried interest in any mine or mines that may result thereon.

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gcwihaba Resources (Proprietary) Limited (“Gcwihaba”), which has diamond prospecting licenses covering approximately 6,800 square kilometers and base and precious metal licenses covering 3,780 square kilometers.

Exploration Activities

Newdico (Proprietary) Limited - Botswana

The program is based on our strategy of using a combination of indicator mineral sampling, magnetic and gravity data to generate individual targets for drill evaluation and our regional strategy of evaluating possible transport corridors giving rise to the alluvial secondary KIM and diamond deposits at Tsumkwe and Omatako. During the quarter, the Company accepted delivery of an Atlas Copco CT 14 diamond core drill rig. After an initial commissioning period, the drill rig was tasked to begin priority one targets in the Nxau Nxau. To date, two additional kimbelrites (C15 and A41) have been drill tested and determined to be kimberlite pipes. An examination of the kimberlitic material will take place in order to determine the diamond carrying potential of these kimbelrites. The continuing program for 2006 will include the following:

- ◊ Extend the 2x2 kilometer KIM sampling grid for 24 kilometers to the south of the Nxau Nxau kimberlite field to cover the western 40 kilometers of the Okavango Dyke Swarm. This will involve the collection and processing of some 240 deflation soil samples.

- ◊ Prepare drill access roads and collect KIM samples along two 17 kilometer sections across interpreted paleo-drainage channel transport corridors.

- ◊ Drill evaluation of the 16 high-priority targets in the Guma District.

- ◊ Drill evaluation of the remaining 16 high-priority targets in the Nxau-Nxau kimberlite field.

- ◊ Drill evaluation of transport corridor sections.

The favorable chemistry and diamond preservation potential of the kimberlites in our license blocks together with the known secondary alluvial diamond discoveries down slope across the border in Namibia establish the greater Nxau Nxau field as highly prospective with the possibility of several economic kimberlites present within our ground. To date, at least 18% of the kimberlites discovered in the Nxau Nxau field are known to be diamondiferous.

Gcwihaba Resources (Pty) Limited ("Gcwihaba")

Diamond Licenses

Exploration Activities

- ◊ Upon completion of the drill program in the Nxau Nxau region, drill will commence on anomaly 2021 A7 and other high priority targets in the region.

Base and Precious Metals Licenses

Exploration Activities

- ◊ Exploratory drilling of suspected base metal deposits to determine their nature, composition and size will commence early next quarter.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

ANNUAL INFORMATION (in US dollars)	**Nine Months Ended** Dec.31 2005	**Fiscal Year** Mar. 31 2005	Mar. 31 2004
Total Revenues	--	--	--
Loss before Non-controlling Interest	470,811	620,822	405,814
Basic and diluted loss per share - cents	$0.04	$0.07	$0.06
Non-controlling Interest	--	--	--
Net Loss for the Year	470,811	620,822	405,814
Basic and diluted loss per share - cents	$0.04	$0.07	$0.06
Total Assets	2,032,426	2,087,421	1,010,432
Total long term liabilities	280,642	237,008	213,549
Cash dividends declared	--	--	--

QUARTERLY INFORMATION (in US dollars)	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**
Fiscal Year 2005 (ended March 31, 2005)				
Total Revenues	--	--	--	--
Loss for the period	75,106	185,742	113,981	245,993
Basic and diluted loss per share - cents	$0.01	$0.02	$0.01	$0.03
Total Assets	1,422,230	1,408,529	1,842,605	2,087,421
Total long term liabilities	213,549	237,245	237,245	237,008
Fiscal Period 2005* (ended December 31, 2005)				
Total Revenues	--	--	--	
Loss for the period	83,068	190,070	197,673	
Basic and diluted loss per share - cents	$0.01	$0.02	$0.02	
Total Assets	2,171,006	2,166,670	2,032,426	
Total long term liabilities	294,236	294,236	280,642	
* Transitional period for year end change to December 31				
Fiscal Period 2006 (ended December 31, 2006)				
Total Revenues	--			
Loss for the period	156,252	234,194		
Basic and diluted loss per share - cents	$0.01	$0.02		
Total Assets	2,689,555	2,891,225		
Total long term liabilities	289,490	235,769		

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2006, the Company had net working capital of $114,245 (December 31, 2005: $296,541), which included cash and equivalents $144,674 (December 31, 2005: 289,810). 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 does not hedge its activities or otherwise use derivatives. At year end the Company did not have any material contractual obligations. The Company is required to spend a minimum on prospecting over the period of its licenses (Newdico: $1.9million, Gcwihaba: $0.34million). To date in the Newdico project, it has spent in excess of its requirement.

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. 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 for the six months decreased slightly from $267,948 in June 30, 2005 to $242,115 for the period ended June, 2006. Operating activities represented, are those typical for junior public exploration companies, including corporate consulting fees, legal and accounting services, investor relation activities and office and administration.

Investing Activities

Cash flow applied in investing activities increased to $1,045,649 for the six months ended June 30, 2006 (June 30, 2005: $140,211). $178,678 was spent on exploration activity (June 30, 2005: 140,211). All expenditures on exploration properties for the six months ended June 30, 2006 were attributable to the Newdico and Gcwihaba projects in northwest Botswana and included the 11% share funded by the Trans Hex Group for the Newdico project.. The Company ordered a mobile diamond core drill rig and transport and commenced drilling on site July 26, 2006. In addition, $99,464 was spent on acquiring support vehicles

In February 2006, the board of directors of Newdico approved an exploration program and budget for the period April 2006 to December 31, 2006 that calls for expenditures totaling approximately Pula 11.6 million (approximately $2.0 million as of August 14, 2006). Trans Hex Group is presently responsible for funding 19% of the expenses of this company. The approved exploration program includes provision for additional soil sampling, airborne and ground magnetics and ground gravity surveying, geophysical interpretation, and drilling equipment.

The required third year of the diamond exploration program expenditures, including license fees, for Gcwihaba amount to approximately Pula 0.42 million (approximately $0.07 million as of August 14, 2006). Gcwihaba's expenditures will exceed this required amount. The required expenditure in the first year of the base metal exploration program amounts to approximately Pula 0.20 million (approximately $0.04 million as of August 14, 2006). As with previous years, Gcwihaba expects to meet or exceed this requirement.

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 of the Company, 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 first six months, the Company issued, through non-brokered private placements:

On January 27, 2006, 468,776 units of the Company (the "Units") were issued at a price of $1.09 (C$1.25) per Unit for proceeds to the Company of $500,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.87 (C$1.00) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on January 27, 2007 and the certificates evidencing such securities bear a legend to that effect.

On February 21, 2006, 319,108 units of the Company (the "Units") were issued at a price of $0.78 (C$0.90) per Unit for proceeds to the Company of $250,000. Each Unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.87 (C$1.00) for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of four (4) months, expiring on June 21, 2006 and the certificates evidencing such securities bear a legend to that effect.

On May 9, 2006, 649,984 units of the Company (the "Units") were issued at a price of $0.63 (C$0.70) per Unit for proceeds to the Company of $410,943. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.63 (C$0.70) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on May 9, 2007 and the certificates evidencing such securities bear a legend to that effect.

On July 28, 2006, 161,586 units of the Company (the "Units") were issued at a price of $0.62 (C$0.70) per Unit for proceeds to the Company of $100,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.62 (C$0.70) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on July 28, 2007 and the certificates evidencing such securities bear a legend to that effect.

Tsodilo expects to raise the amounts required to fund its 89% share of the Newdico project, the Gcwihaba projects and corporate general and administration expenses, by way of negotiated non-brokered private placements.

RESULTS OF OPERATIONS

On a consolidated basis Tsodilo recorded a net loss of $242,699 in the quarter ended June 30, 2006 ($0.02 per common share) compared to a net loss of $83,068 for the quarter ended June 30, 2005 ($0.02 per common share). For the six month periods ended June 30, 2006 and 2005 respectively, the company incurred losses of $398,951 and $329,061. The single largest expense was the book entry reflecting the accounting valuation (in terms of the Black-Scholes option pricing model) of the options issued to directors, officers and consultants that vested during the period, of $84,424 and $151,384 for the three and six month periods. This compares with the expensing of $31,233 and $93,348 respectively for the same periods the previous year.

PERSONNEL

At August 14, 2006, the Company and its subsidiaries employed fifteen (15) personnel which is nine (9) more than at December 31, 2005 and June 30, 2005. Employees include senior officers, administrative and operations personnel including those on short-term contract bases. The Company's Vice President for Exploration, Peter Walker has informed the company of his retirement from full-time employment effective October 31, 2006. The Company is currently interviewing candidates to assume these duties.

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 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.

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.

At this time, the major portion of the Company's exploration activity is carried out in partnership with another party. Doing so allows the Company to maximize its exposure to promising exploration opportunities, to manage the risks inherent in diamond exploration, and to optimize its use of financial and management resources.

Currency Risks

The Company's financing has generally been received in United States dollars while significant portions of its operating expenses has been and will be incurred in Botswana Pula. On May 29, 2005, the Botswana Minister of Finance and Development Planning announced a 12% devaluation of the pula against a basket of currencies, as well as a change in the system of exchange-rate adjustments to a crawling peg rather than the discrete steps previously used, in order to improve Botswana's competitiveness. This action has stabilized the current pula / dollar rates similar to those in 2002.

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. In line with accepted industry practice, 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. 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.

RELATED PARTY TRANSACTIONS

During the period, the Company borrowed monies on a short term basis from an individual who is both an officer and director of the Company. The loan is non-interest bearing and intended to be short term but without fixed terms of repayment. The Company did not entered into related parties transactions during and the nine month fiscal period ended December 31, 2005.

OUTLOOK

Diamond 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 diamond exploration through carefully managed programs. Peter W. A. Walker, a professional geologist registered with the South African Council for Natural Scientific Professions is the qualified person responsible for the design and conduct of the Company's exploration 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.

L. Kirk Boyd

Chief Financial Officer

August 14, 2006

TSODILO RESOURCES LIMITED

INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE SIX MONTHS
ENDED JUNE 30, 2006

(expressed in United States dollars)

Unaudited – Prepared by Management

CONTENTS:

These interim financial statements have not been subjected to a review by the Company's external auditors.

TSODILO RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2006

(in United States dollars)
(MANAGEMENT PREPARED)

	June 30 2006 (Unaudited)	December 31 2005 (Audited)
ASSETS		
Current		
Cash and equivalents	**144,674**	289,810
Amounts receivable & prepaid expense	**85,686**	28,055
	230,360	317,865
Exploration Properities	**1,761,551**	1,679,616
Property, Plant and Equipment	**899,314**	34,945
	$ 2,891,225	$ 2,032,426
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	**16,115**	21,324
Shareholders loans	**100,000**	
NON-CONTROLLING INTEREST	**235,769**	280,642
SHAREHOLDERS' EQUITY		
Share Capital	**26,880,277**	26,218,172
Warrants	**511,787**	140,112
Contributed Surplus	**6,189,371**	6,023,823
Cumulative Translation	**(837,425)**	(837,425)
Deficit	**(30,204,668)**	(29,814,222)
	2,539,342	1,730,460
	$ 2,891,225	$ 2,032,426

These interim financial statements have not been subjected to a review by the Company's external auditors.

The accompanying notes form an integral part of, and should be read in conjunction with, these consolidated financial statements.

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENT OF DEFICIT
AS AT JUNE 30, 2006

(in United States dollars)
(UNAUDITED - MANAGEMENT PREPARED)

	For the 3 Month Period		**For the 6 Month Period**	
	June 30 2006 (unaudited)	June 30 2005 (unaudited)	**June 30 2006 (unaudited)**	June 30 2005 (unaudited)
Deficit at beginning of the period	**$ 29,970,474**	$ 29,343,411	**$ 29,814,222**	$ 29,097,418
Loss of the period	**234,194**	83,068	**390,446**	329,061
Deficit at the End of the Period	**$ 30,204,668**	$ 29,426,479	**$ 30,204,668**	$ 29,426,479

These interim financial statements have not been subjected to a review by the Company's external auditors.

The accompanying notes form an integral part of, and should be read in conjunction with, these consolidated financial statements.

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENT OF OPERATIONS
AS AT JUNE 30, 2006

(in United States dollars)
(UNAUDITED - MANAGEMENT PREPARED)

	Three Month Period Ended		Six Month Period Ended	
	June 30 2006	June 30 2005	**June 30 2006**	June 30 2005
REVENUES	**$ -**	$ -	**$ -**	$ -
EXPENSES				
Consulting fees				2,710
Corporate renumeration	**40,775**	25,257	**81,766**	88,232
Corporate travel and subsistence	**4,101**		**17,413**	12,001
Investor relations	**9,343**	7,139	**39,925**	19,123
Legal and audit	**7,787**	2,245	**8,149**	40,382
Office and adminstration	**13,346**	10,354	**32,022**	22,321
Amortization	**8,402**	405	**11,576**	1,974
Foreign exchange loss/(gain)	**66,016**	6,435	**48,211**	48,970
Stock-based compensation	**84,424**	31,233	**151,384**	93,348
Loss before non-controlling interest	**234,194**	83,068	**390,446**	329,061
Non-controlling interest	**-**	-	**-**	-
Loss for period	**234,194**	83,068	**390,446**	329,061
Basic and diluted loss per share	**$ 0.02**	$ 0.01	**$ 0.04**	$ 0.04

These interim financial statements have not been subjected to a review by the Company's external auditors.

The accompanying notes form an integral part of, and should be read in conjunction with, these consolidated financial statements.

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
AS AT JUNE 30, 2006

(in United States dollars)
(UNAUDITED - MANAGEMENT PREPARED)

	Three Month Period Ended		Six Month Period Ended	
	June 30 2006	June 30 2005	**June 30 2006**	June 30 2005
CASH PROVIDED BY/(USED IN)				
OPERATING ACTIVITIES				
Loss for the period	**(234,194)**	(83,068)	**(390,446)**	(329,061)
Adjustments for non-cash items:				
Foreign exchange adjustment	**66,016**		**48,211**	48,970
Amortization	**8,402**	405	**11576**	1,974
Stocked-based compensation	**84,424**	31,233	**151,384**	93,348
	(75,352)	(51,430)	**(179,275)**	(184,769)
Net change in non-cash working capital balances	**(69,451)**	(39,111)	**(62,840)**	(83,179)
	(144,803)	(90,541)	**(242,115)**	(267,948)
INVESTING ACTIVITIES				
Exploration properities	**(73,217)**	(99,338)	**(178,678)**	(140,211)
Disposals of/(additions to)	**(535,432)**	-	**(866,971)**	-
Property, Plant and Equipment	**(608,649)**	(99,338)	**(1,045,649)**	(140,211)
FINANCING ACTIVITIES				
Issue of Common Shares	**284,962**	95,970	**1,033,780**	527,772
Contribution from Non-Controlling Interest	**-**	68,661	**8,848**	68,661
Shareholders loan	**100,000**		**100,000**	
	384,962	164,631	**1,142,628**	596,433
Change in cash and equivlents - for period	**(368,490)**	(25,248)	**(145,136)**	188,274
Cash and equivalents - Beginning of period	**513,164**	637,805	**289,810**	424,283
Cash and equivalents - end of period	**$ 144,674**	$ 612,557	**$ 144,674**	$ 612,557

These interim financial statements have not been subjected to a review by the Company's external auditors.

The accompanying notes form an integral part of, and should be read in conjunction with, these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six month period ended June 30, 2006 and 2005
(in United States dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Tsodilo Resources Limited ("Tsodilo" or the "Company") is an international diamond exploration company engaged in the process of exploring its mineral properties 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 opportunities within southern Africa.

As at June 30, 2006, the Company reported an accumulated deficit of $30,204,668 (June 30, 2005: $29,426,479) and cash outflows from operations of $242,115 (2005: $267,948) for the six month period then ended. The cash position of the Company is insufficient to finance continued exploration. The continuity of the Company's operations is dependent on Tsodilo raising future financing for working capital, the continued exploration and development of its properties, and for acquisition and development costs of new project opportunities. There can be no assurance that adequate financing will be available, or available under terms favorable to the Company. These financial statements have been prepared on a going concern basis that assumes the continuity of operations and realization of assets and settlement of liabilities in the normal course of business. Should it be determined that the Company is no longer a going concern, adjustments, which could be significant, would be required to the carrying value of assets.

2. NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

Under National Instrument 51-102 "Continuous Disclosure Requirements", Part 4, Subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financials have not been reviewed by an auditor. 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, KPMG, Inc., 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the financial statements

The consolidated financial statements have been presented in US dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its direct and indirect subsidiaries. All inter-company transactions and balances have been eliminated.

Change in reporting currency

Management have elected to change the reporting currency of the Company from Canadian to United States dollars, as this more accurately reflects the requirements of the Company's investors and other users of the financial statements.

Accordingly, the financial statements for the period ended June 30, 2006 and the fiscal year ended December 31, 2005 have been presented in US dollars, and the financial statements from prior periods have been represented in US dollars to provide information on a consistent basis. The change in reporting currency did not have a material impact on the reported results for prior periods.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates are related to the recoverability of exploration expenditures, fixed assets and contingencies. Actual results could differ from those estimates.

Exploration properties

All costs relating to the acquisition, exploration and development of non-producing mining properties are capitalized as incurred. Some of the exploration activities of the Company are conducted jointly with others and accordingly, where the arrangements are of a joint venture nature; these financial statements reflect only the Company's proportionate interest in these activities. 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.

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.

Exploration costs that do not relate to specific non-producing mining properties are expensed as incurred.

Amortization

Property, plant and equipment are amortized principally on a straight-line basis over their estimated useful lives of three to ten years. Property, plant and equipment awaiting installation on site are not amortized until they are commissioned, but are reviewed for impairment and if deemed impaired, an impairment loss is measured and recorded based on the net recoverable value of the asset.

Foreign currency translation

The US dollar is the currency in which the financial statements are presented. Foreign currency transactions and balances, and the financial statements of foreign operations, all of which are integrated, are translated into US dollars using the temporal method. Under this method, monetary assets and liabilities of the Company and its subsidiaries denominated in foreign currencies are translated into US dollars at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rates. Revenue and expense items are translated at the average rate prevailing during the year, except for depreciation, depletion, amortization and write downs, which are translated at the same exchange rates as the assets to which they relate with gains and losses arising on settlement recognized in the statement of operations. Gains and losses on translation from functional currencies into US dollars are reflected in cumulative translation account.

4. EXPLORATION PROPERTIES

These may be summarized as follows:

	Newdico Botswana	Gcwihaba Botswana	Total
	$	$	$
Balance at March 31, 2005	1,260,547	136,092	1,396,639
Apr. to Dec. 2005 expenditures	239,505	43,472	282,977
Balance at December 31, 2005	1,500,052	179,564	1,679,616
Jan. to Jun. 2006 expenditures	78,832	3,103	81,935
Balance at June 30, 2006	1,578,884	182,667	1,761,551

5. **SHARE CAPITAL**

(a) Common Shares

Authorized

The authorized capital stock of the Company comprises an unlimited number of common shares.

Issued and outstanding

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

	Shares (number)	Amount (dollars)
Issued and outstanding at December 31, 2005	11,045,045	26,218,172
Shares issued on private placement	1,437,868	1,169,690
Ascribed to warrants issued		(385,839)
Issued and outstanding at June 30, 2006	12,482,913	26,880,277

Private Placements

On January 27, 2006 the Company completed a non-brokered private placement. 468,776 units of the Company (the "Units") were issued at a price of $1.09 (C$1.25) per Unit for proceeds to the Company of $500,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.87 (C$1.00) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on January 27, 2007 and the certificates evidencing such securities bear a legend to that effect.

On February 21, 2006 the Company completed a non-brokered private placement. 319,108 units of the Company (the "Units") were issued at a price of $0.78 (C$0.90) per Unit for proceeds to the Company of $250,000. Each Unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.87 (C$1.00) for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of four (4) months, expiring on June 21, 2006 and the certificates evidencing such securities bear a legend to that effect.

On May 9, 2006 the Company completed a non-brokered private placement. 649,984 units of the Company (the "Units") were issued at a price of $0.63 (C$0.70) per Unit for proceeds to the Company of $410,943. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.63 (C$0.70) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on May 9, 2007 and the certificates evidencing such securities bear a legend to that effect.

(b) **Warrants**

As at June 30, 2006, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry Date	Exercise Price	Opening	Issued/ (Exercised)/ (Expired)	Closing	Opening (dollars)	Issued/ (Exercised)/ (Expired)	Closing (dollars)
June 1, 2006	C$0.75	**65,024**	**(65,024)**	**---**	**14,164**	**(14,164)**	**---**
October 14, 2006	C$1.12	**56,969**	**---**	**56,969**	**20,156**	**---**	**20,156**
November 8, 2006	C$2.35	**26,668**	**---**	**26,668**	**20,622**	**---**	**20,622**
March 4, 2007	C$1.15	**230,785**	**---**	**230,785**	**85,170**	**---**	**85,170**
January 27, 2008	C$1.25	**---**	**468,776**	**468,776**		**132,849**	
February 21, 2008	C$0.90	**---**	**319,108**	**319,108**		**90,112**	
May 9, 2008	C$0.70	**---**	**649,984**	**649,984**		**162,878**	
		379,446	**1,372,904**	**1,752,290**	**140,112**	**371,275**	**511,787**

During the period no warrants were exercised.

(c) **Contributed Surplus**

As at December 31, 2005	6,023,823
Relating to the issue of stock options	165,548
As at June 30, 2006	6,189,371

(d) **Stock Option Plan**

Outstanding stock options granted to directors, officers and employees at June 30, 2006 were as follows:

Expiry	**Price**	**Outstanding June 30, 2006**	**Exercisable Options**
June 24, 2007	C$0.15	100,000	100,000
September 18, 2007	C$0.23	100,000	100,000
December 31, 2007	C$0.41	50,000	50,000
July 8, 2008	C$0.50	100,000	100,000
January 1, 2009	C$0.75	60,000	60,000
August 31, 2009	C$0.75	210,000	210,000
January 3, 2010	C$1.85	85,000	63,750
August 19, 2010	C$1.25	280,000	210,000
January 3, 2011	C$1.25	85,000	21,250
April 27, 2011	C$0.70	300,000	75,000
		1,370,,000	990,000

Weighted average exercise price	
- outstanding	**$0.60**
- exercisable	**$0.70**

6. INCOME TAXES

The company uses the asset and liability method of accounting for income tax. 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. 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.

7. LOSS PER SHARE

Loss per share is based on a weighted average number of common shares outstanding of 11,448,211 for period ended June 30, 2006(2005: 10,640,995). Diluted loss per share assumes that outstanding stock options and warrants are exercised at the beginning of the period (or at the time of issuance, if later) and the proceeds used to purchase common stock at the then ruling closing price. The effect of conversion in computing diluted per share amounts for the period ended June 30, 2006 and 2005 is anti-dilutive.

8. RELATED PARTY TRANSACTIONS

During the period, the Company borrowed monies on a short term basis from an individual who is both an officer and director of the Company. The loan is non-interest bearing and intended to be short term but without fixed terms of repayment.

9. **SEGMENTED INFORMATION**

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. Materially all of the Company's property plant and equipment is presently located in Canada ($7,941) and Botswana ($891,373).

10. COMMITMENTS

Minimum lease payments for leased equipment or space are as follows:

2006	**NIL**