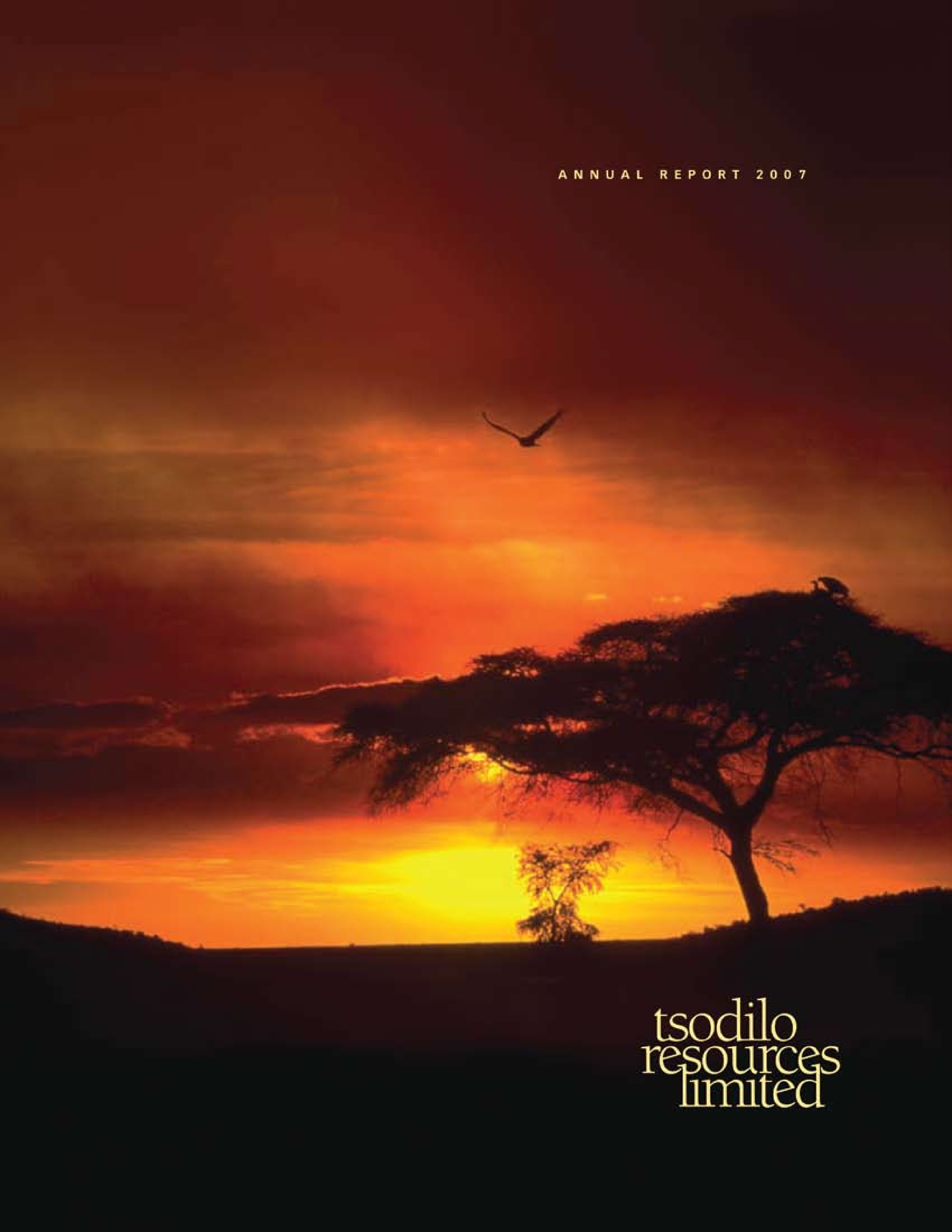

ANNUAL REPORT 2007

tsodilo
resources
limited

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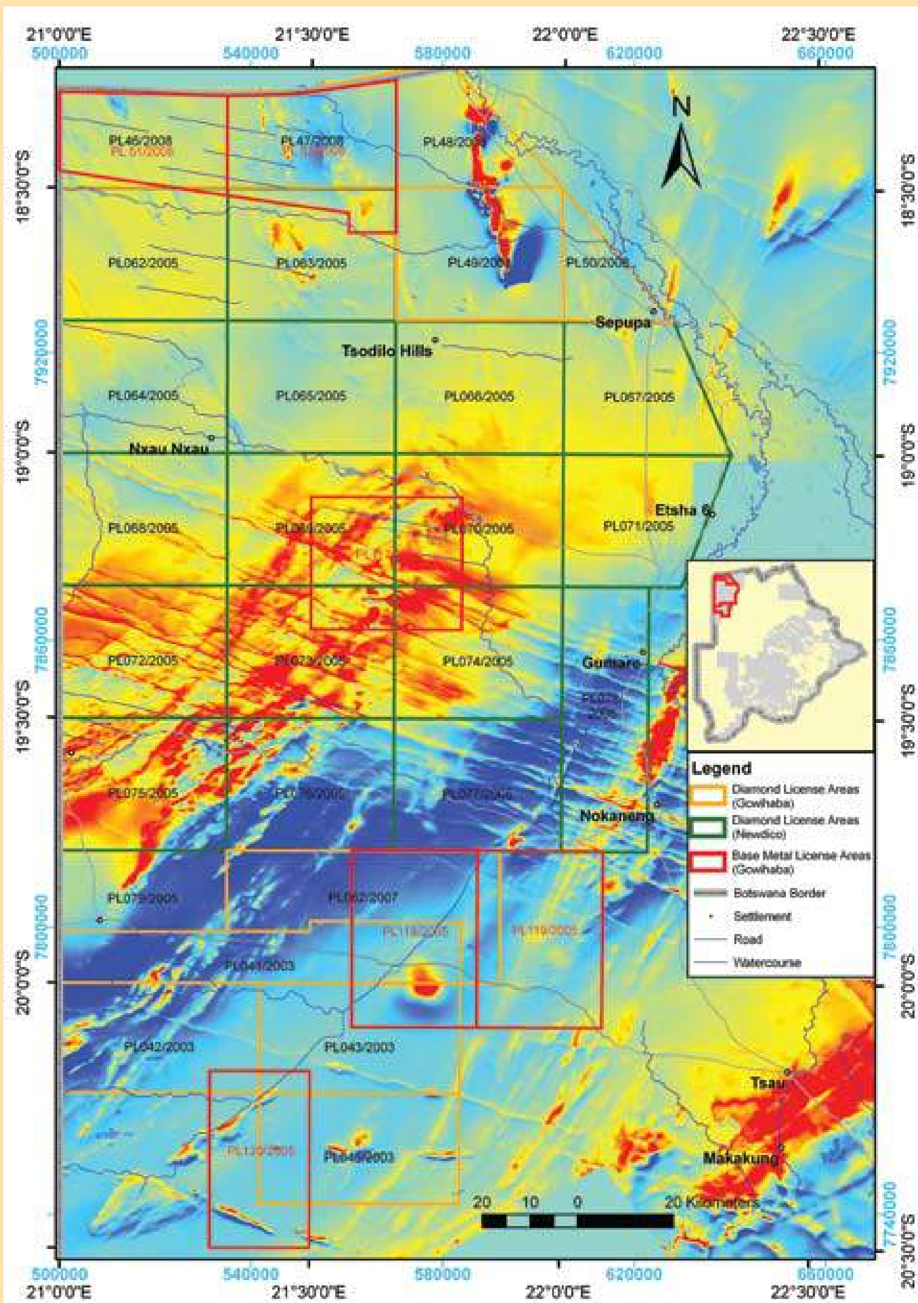
Newidico and Gcwihaba Prospecting Diamond Licenses - as of March 21, 2008



President's Message

Operating our own drill rig has given us the ability and flexibility to advance our exploration at a far greater rate and at a fraction of the per meter drilling costs of what it was previously.

Fellow Shareholders,

On behalf of the board of directors, I am pleased to provide this report of Tsodilo Resources Limited ("Tsodilo" or the "Company") progress together with the audited financials for the year ended December 31, 2007.

2007 was the first full year for the operation of our Atlas Copco CT14 diamond core drill rig, and our drilling operations in the field proceeded efficiently and without interruption. In total, six kilometers were drilled on our kimberlite and base and precious metals targets and a similar length of core was collected for analysis. The decision to purchase a drill rig and supporting equipment as well as geophysical instruments has produced the expected results as we have the ability to select a target; perform a detail ground geophysical survey; and drill test it all in a matter of weeks as opposed to the months or years which it previously took. Operating our own drill rig has given us the ability and flexibility to advance our exploration at a far greater rate and at a fraction of the per meter drilling costs of what it was previously. This efficient use of our resources resulted in the confirmation of fifteen additional kimberlites in the Company's Nxau Nxau kimberlite field in 2007 and provided a wealth of information in furtherance of our base and precious metals exploration projects.

During the past year, the Company funded exploration activity by raising funds in the capital markets through the successful issuance of stock by way of private placements. This process will continue in the coming year. Our current share base consists of 14,960,241 issued and outstanding (19,827,553 on a fully diluted basis) common shares. Tsodilo has a 93% interest in our Botswana Newdico project and a 100% interest in our Botswana Gcwihaba projects. The Company is well positioned to meet the challenges in the upcoming year.

Drilling in the Kalahari

We are looking forward to an exciting year ahead as we make progress in the exploration for an economic kimberlite below the Kalahari cover on this section of the Congo craton and continue the expansion of our base and precious metals projects. Please follow our progress carefully and remain informed by regular visits to our website, **www.TsodiloResources.com.**

On behalf of the board,

James M. Bruchs

James M. Bruchs
President and Chief Executive Officer
March 21, 2008

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the Consolidated Annual Financial Statements for the year ended December 31, 2007 and comments on the factors that affected the Company's performance during the periods covered by the 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. The Company changed its financial year end from March 31 to December 31 effective December 31, 2005 and was made to align with the reporting schedule of comparable public companies. The period December 31, 2005 was the transitional period and has a nine month reporting period. This management's discussion and analysis has been prepared as at March 21, 2008.

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 March 21, 2008, 14,960,241 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, 1,940,000 options remain outstanding of which 1,448,750 are exercisable at exercise prices ranging from Canadian $0.50 - $1.85. If all options were vested and exercised, 1,940,000 common shares of the Company would be issued.

As of March 21, 2008, 2,927,312 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 - $0.80 for a period of two years from the date of issuance (6/01/2006 – 3/11/08). If converted, 2,927,312 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 2,793,085 or 18.67% of the issued and outstanding common shares as of March 21, 2008. John R. Redmond, a Director of the Company, currently owns, controls or directs 2,434,024 or 16.27% of the issued and outstanding shares as of March 21, 2008 and the Firebird Global Master Fund, Ltd. controls 1,875,630 or 12.54% of the issued and outstanding shares as of March 21, 2008.

Subsidiaries

The Company has a 93% 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 (7%) 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 diamond prospecting licenses covering approximately 7,543 square kilometers and base and precious metal licenses covering 5,348 square kilometers.

Exploration Activities

Diamond Projects

The Company's Botswana licenses are proximal to two major unexplained surface concentrations of diamonds and G10 garnets across the border in Namibia, one near the village of Tsumkwe and another in the area known as Omatako. The characteristics of these kimberlite pathfinder mineral anomalies indicate that they are secondary concentrations derived from respective primary high-grade kimberlite sources located elsewhere. The geomorphological model envisages that the Tsumkwe and Omatako pathfinder anomalies were formed by ancient rivers transporting diamonds and garnets derived from kimberlites located in the Company's license blocks. Prior to the deposition of the superficial Kalahari sand that covers much of Ngamiland, this area formed a topographic high. Rivers rising off this high ground flowed westward into a major inland sea located in the north of present-day Namibia. The Company's diamond targets cover former headwaters of this ancient river system and lie within the southern margin of the Congo craton.

Base and Precious Metals Project

The results of a soil sampling program by the Government of Botswana show a high nickel kick associated with the dyke swarms surrounding several large intrusive bodies within our license blocks. Most nickel mineralization is associated with highly magnetic basic and ultrabasic rocks emplaced in orogenic belts and rifted plate margins and ocean basins. Examples of sulphide nickel deposits developed along extensive faults/suture zones include the Kambalda deposit in Western Australia; Hunters Road in Zimbabwe; the Noril'sk-Talnakh region in Siberia; and, Sudbury, Ontario. It is also important to note that the Jurassic Insizwa complex in South Africa is part of the Karoo Magmatic event with a setting similar to that of the intrusion being investigated by Tsodilo. Regional geological trends strongly suggest the continuation of the economically viable Matchless Amphibolite Belt (MAB) in Namibia across northwest Botswana.

NEWDICO (Pty) Limited ("Newdico")

Summary of work completed in 2007 and to date

◊ The 2007 drilling program confirmed 15 target anomalies in the Nxau Nxau field as kimberlites.

◊ Over 4,000 kimberlite indicator minerals ("KIM") from kimberlites A41, C15, A36, 1821C16, PD07, PD25, B1, B2, B3, B4, B5, B6, B7, B8 and B9 as well as those from A15 are undergoing electron microprobe analysis to establish their chemical composition.

◊ A detailed petrography study is ongoing on core samples from these kimberlites for the purpose of determining their diamond-carrying potential.

◊ A complete study of the kimberlites in the Company's Nxau Nxau kimberlite field for the purposing of selecting kimberlites for macro diamond analysis is expected to be completed in the 3rd quarter.

◊ Kimberlite samples from those bodies listed above were submitted to GEMOC (Macquarie University, Australia) for U-Pb dating which established the age of the kimberlites in the Nxau Nxau field as 83.2 ± 1.2 Ma.

◊ Geophysical ground surveys (magnetic) were conducted over fifteen targets totaling 166 line kilometers

Planned Exploration Program for 2008

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 kimberlite indicator minerals ("KIM") and diamond deposits at Tsumkwe and Omatako. Our program for 2008 will include the following:

◊ Drill testing of approximately twenty-five (25) magnetic target anomalies to the east / northeast of the Nxau Nxau kimberlite field.

◊ A ground magnetic geophysical survey covering approximately 400 square kilometers has commenced and will be completed in the 2nd quarter.

◊ Our study of the linkages between magnetotellurics, other geophysical variables and kimberlite occurrences and it's applicability to our license areas in northwest Botswana will continue in 2008. Work to date shows that there is a correlation of certain values for diamondiferous kimberlites as shown by the Resistivity and Temperature maps at a 200 kilometer depth in relation to high resistivity value areas and low temperature. This will assist us in prioritizing our drill target selection.

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 and tested for diamond in the Nxau Nxau field are known to be diamondiferous.

GCWIHABA Resources (Pty) Limited ("Gcwihaba")

Diamond Licenses

Summary of work completed in 2007 and to date

◊ Four target anomalies were drill tested in late 2007 and core samples have been submitted for petrography and KIM recovery.

◊ Geophysical ground surveys (magnetic) were conducted over ten targets totaling 80 line kilometers.

◊ Five Prospecting License ("PL") Nos. 046 / 2007 – No. 050 / 2007 encompassing 3,325 square kilometers were granted to the Company in 2008.

Planned Exploration Program for 2008

◊ Drill testing of priority 1 and 2 target anomalies will take place in the 3rd quarter of 2008.

Base and Precious Metals Licenses

Summary of work completed in 2007 and to date

◊ Two exploratory holes were completed on targets BM1 and BM during the year and core samples from both these holes have been submitted for analysis.

◊ Two exploratory holes were commenced over target anomaly (JB) in the 4th quarter at the end of the year but were abandoned due to technical difficulties and the onslaught of early rains. Geophysical modeling of the intrusive is still being performed and it is expect that drilling will recommence over this target in the 2nd quarter of 2008.

◊ Geophysical ground surveys (magnetic) were conducted over five targets totaling 770 line kilometers.

◊ Two Prospecting License ("PL") No. 051 / 2007 and No. 052 / 2007 encompassing 1,570 square kilometers were granted to the Company in 2008.

◊ An examination of geochemical and geophysical variations in the Ngamiland area and the application of these observations to constrain areas of possible economic interest on a regional scale was undertaken. Amongst the data types compared are: aeromagnetics, geology, soil geochemistry (Pb, Zn, Cu, Ag, Ni, Cr and Mg), degree of exposure and detailed geophysics data interpretations.

Planned Exploration Program for 2008

◊ Geophysical modeling of the JB intrusive is still being performed and it is expected that drilling will recommence over this target in the 3rd quarter of 2008.

◊ Exploratory drilling of suspected base metals deposits to determine their nature, composition and size will continue.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2007, the Company had negative net working capital of ($207,155) (2006: $152,871, which included cash and equivalents $53,197 (2006: $201,177). 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 has completed a private placement for an additional $325,000 in March 2008, 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. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of December 31, 2007, the expenditure requirements exclusive of license fees are:

Newdico	3,780,000 BWP	$587,703
Gcwihaba - Diamond	885,000 BWP	$137,597
Gcwihaba - Base and Precious Metals	720,000 BWP	$111,943

To date, the Company has exceeded these requirements in both the Newdico and Gcwihaba projects.

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 decreased from $292,016 in fiscal December 31, 2006 to $254,392 for the year ended December 31, 2007. This decrease is due to management's decision to lower expenses pending completion of research and analysis with respect to the prioritization of drill targets.

ANNUAL INFORMATION
(in US Dollars)

	Fiscal Year Dec. 31 2007	Restated Fiscal Year Dec. 31 2006	Restated Nine Months Ended Dec. 31 2005	Fiscal Year Mar. 31 2005
Total Revenues	--	--	--	--
Loss before Non-controlling Interest	(504,075)	(554,547)	(423,395)	(620,822)
Basic and diluted loss per share	($0.04)	($0.04)	($0.04)	($0.07)
Non-controlling Interest	--	--	--	--
Net Loss for the Year	(504,075)	(554,547)	(423,395)	(620,822)
Basic and diluted loss per share	($0.04)	($0.04)	($0.04)	($0.07)
Total Assets	4,050,815	3,472,693	2,032,426	2,087,421
Total long term liabilities	228,395	245,491	280,642	237,008
Cash dividends declared	--	--	--	--

QUARTERLY INFORMATION (in US Dollars)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4*
Fiscal Period 2005* (ended December 31, 2005)				
Total Revenues	--	--	--	
Loss for the period	(83,068)	(190,070)	(150,257)	
Basic and diluted loss per share	($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 Year 2006 (ended December 31, 2006)				
Total Revenues	--	--	--	--
Loss for the period	(156,252)	(234,194)	(89,720)	(74,381)
Basic and diluted loss per share	($0.01)	($0.02)	($0.01)	($0.00)
Total Assets	2,689,555	2,891,225	3,278,118	3,472,693
Total long term liabilities	289,490	235,769	219,441	245,491
Fiscal Year 2007 (ended December 31, 2007)				
Total Revenues	--	--	--	--
Loss for the period	(97,193)	(239,086)	(42,114)	(125,682)
Basic and diluted loss per share	($0.01)	($0.02)	($0.00)	($0.01)
Total Assets	3,491,244	3,779,683	3,904,928	4,050,815
Total long term liabilities	225,763	225,236	229,607	228,395

See accompanying notes to the consolidate financial statements

Investing Activities

Cash flow applied in investing activities decreased to $748,789 for the year ended December 31, 2007 (2006: $1,508,994).

Total expenditures of $914,757 on exploration properties for the period ended December 31, 2007 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 9.67% to 7.96%, 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 2007, the board of directors of Newdico approved an exploration program and budget for the period January 1, to December 31, 2008 that calls for expenditures totaling approximately Pula 7.76 million (approximately $1.2 million as of March 21, 2008). Trans Hex Group is presently responsible for funding 7% 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 year ended December 31, 2007 the Company received proceeds in the amount of $615,858 from the issuance of units consisting of one common share and one warrant related to private placements. Additional proceeds in the amount of $44,393 were received from the issuance of common shares upon the exercise of options during fiscal year 2007.

Subsequent to the fiscal period end, the Company issued, through a non-brokered private placement 457,901 units at a price of $0.71 (C$0.70) per unit for gross proceeds of $325,000. 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. The common shares, warrants and warrant shares are subject to a hold period of 12 months, as agreed to by the parties, expiring on March 11, 2009.

Tsodilo expects to raise the amounts required to fund its 93% 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 $504,075 in the fiscal year ended December 31, 2007 ($0.04 cents per common share) compared to a net loss of $554,547 in the fiscal period ended December 31, 2006 ($0.04 cents per common share). The Company experienced decreases in travel, investor relations and office and admin expenses reflecting general corporate activity. The increase in stock option expense reflects the timing of option grants.

Exploration expenditures on all projects amounted to $914,757 during the year ended December 31, 2007 compared to $744,502 for the year ended December 31, 2006. Exploration expenditures incurred on the Newdico project for the year ended December 31, 2007 was $908,321 compared to $693,394 for the year ended December 31, 2006. 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 propri¬etary 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 year ended December 31, 2007 were $6,436 compared to $51,108 for the year ended December 31, 2006.

PERSONNEL

At December 31, 2007 the Company and its subsidiaries employed twenty (20) individuals as compared to eighteen (18) at December 31, 2006, including senior officers, administrative and operations personnel including those on a short-term service basis.

FOURTH QUARTER – 2007

The fourth quarter was a normal operating period for a quarter and year end. Having acquired drilling equipment during the previous year, the Company was able to continue its drilling program to the end of the year without interruption. Operating expenses were at normal levels for the last quarter of the year.

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. 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 2006 and 2007). 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 AND ACCOUNTING DEVELOPMENTS

Financial instruments

Effective January 1, 2007, we adopted the new financial instruments accounting standards and related amendments to other standards on financial instruments issued by the CICA. In accordance with the transitional provisions, prior period financial statements have not been restated.

Financial Instruments–Recognition and Measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or nonfinancial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income, Section 1530

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income ("OCI") includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. As prescribed by these standards, prior periods have not been restated.

The adoption of Sections 3250, 3865 and 3855 did not have a material impact on the consolidated financial statements of the Company.

The following provisions have been adopted by the Company as of January 1, 2008.

Financial Instruments – Disclosures, Section 3862

Section 3862 Financial Instruments – Disclosures, requires additional disclosures to enable users to evaluate the significance of financial instruments to our financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments.

Financial Instruments – Presentations, Section 3863

CICA 3863 carries forward, without change, the presentation related requirements of CICA 3861. The requirements of this Section address an issuer's classification of financial instruments between liabilities and equity, the classification of related interest, dividends, losses and gains, as well as the offsetting of financial assets and financial liabilities.

Capital Disclosures – Section 1535

Section 1535 Capital Disclosures, requires disclosure of qualitative and quantitative information that enables users to evaluate our objectives, policies and process for managing capital.

Inventories – Section 3031

In June 2007, the CICA issued Section 3031 "Inventories" to replace existing Section 3030. The new section, which is effective January 1, 2008, establishes standards for the measurement and disclosure of inventories.

We do not expect the application of Sections 3862, 3863, 1535 and 3031 to have a significant impact on our financial statements.

Over the next four years, the CICA will adopt its new strategic plan for the direction of accounting standards in Canada which was ratified in January 2006. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Report Standards (IFRS) over the next four years. The Company continues to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Company borrowed $145,000 from a person who is an officer and director of the Company. $20,000 of this amount was repaid during the fiscal year. The $125,000 loan balance remaining has no interest rate, no maturity date, and no additional terms of repayment. In 2006, the Company borrowed $100,000 from a person who is an officer and director of the Company. The loan had no interest rate, no maturity date, and no terms of repayment. The loan was repaid during the 2006 fiscal year.

Accrued leave benefits in the amount of $87,192 was offset by an officer and director for the exercise of options (exercise cost $20,203) on December 7, 2007 and participation (97,102 units for a value of $66,989) in the Company's December private placement.

Tsodilo and its wholly owned subsidiary, Tsodilo Resources Bermuda (Ltd) ("TSDB") entered into an agreement with Trans Hex Group and its wholly owned subsidiary Trans Hex Diamond ("THD") with respect to their respective interests in Newdico (Pty) Ltd. ("Newdico"). At the time of agreement, Trans Hex Group owned 73.22% of Tsodilo. The agreement between the parties established that all expenditures undertaken by Newdico up to and including March 31, 2002 shall be deemed to have been incurred by Newdico and funded by TSDB and THD by way of shareholders loan account by Tsodilo as to 75% thereof; and Trans Hex as to 25% thereof.

Of the outstanding loan amounting to $1,611,058 as at 31 March 2002, $1,149,078 shall constitute a secondary loan, deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof and such secondary loans shall only be repayable after the primary loans have been repaid to TSDB and THD in full. These secondary loans shall be repayable before any additional secondary loans, which shall be repaid in the proportions in which they have been advanced. Thereafter, as to the secondary loans which existed as of March 31, 2002, in proportion after the additional secondary loans have been repaid, $461,980.67 shall be deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof ("the primary loan"). The primary loans shall be repayable in full before any parts of the secondary loans are repayable.

The secondary loans shall not be included in the necessary calculations for purposes of the share dilution provisions. All dilution calculations shall be based only on the value of the primary loans. All funding of the company by shareholders for purposes of the Ngami project, shall constitute additional primary loans, or additional secondary loans in the circumstances and to the extent set out in the parties agreement.

As of December 31, 2007, TSDB holds a 93% (2006: 90%) interest in Newdico while THD holds 7% (2006: 10%). The change in the parties' respective interest in the project is attributed to the dilution of THD's interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

Loan from Tsodilo Resources Bermuda Limited	Primary	3,247,940
$1,149,078.11 * 75% =	Secondary	861,808
Total Loan Outstanding Eliminated in Consolidation		4,109,748
Loan from Trans Hex Diamonds Limited (Minority Interest)	Primary	228,395

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.

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.

Gary Bojes

Gary A. Bojes
Chief Financial Officer
March 21, 2008

Financial Reporting Responsibility of Management

The annual 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 annual 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.

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 period ended December 31, 2007 have been audited by KPMG Inc., the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

James M. Bruchs
President and Chief Executive Officer
March 21, 2008

Gary A. Bojes
Officer Chief Financial Officer
March 21, 2008

Auditors' Report to the Shareholders of Tsodilo Resources Limited

We have audited the consolidated balance sheets of Tsodilo Resources Limited as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss, deficits and cash flows for the years ended December 31, 2007 and 2006 period. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

KPMG Inc.
Chartered Accountants (SA)
Bloemfonteim, South Africa
March 21, 2008

Tsodilo Resources Limited

Consolidated Balance Sheets

As at December 31, 2007 and 2006

(in United States dollars – note 2)

	2007	2006 (Restated – note 9)
ASSETS		
Current		
Cash	53,197	201,177
Accounts receivable and prepaid expenses	33,294	53,055
	86,491	254,232
Exploration Properties (note 3)	3,338,875	2,424,118
Property, Plant and Equipment (note 4)	625,449	794,343
	4,050,815	3,472,693
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 9)	168,646	101,361
Notes Payable	125,000	-
	293,646	101,361
Non-Controlling Interest (note 3)	228,395	245,491
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	27,423,585	27,024,564
Warrants (note 5)	1.194,742	1,018,683
Contributed Surplus (note 5)	6,668,132	6,336,204
Accumulated Other Comprehensive Income	(837,425)	(837,425)
Deficit	(30,920,260)	(30,416,185)
	3,528,774	3,125,841
	4,050,815	3,472,693

Going Concern *(note 1)*

Subsequent events *(note 5)*

Commitments *(note 12)*

See accompanying notes to the consolidated Financial Statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

James M. Bruchs
Director

Patrick C. McGinley
Director

Tsodilo Resources Limited

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2007 and 2006

(in United States dollars – note 2)

	2007	2006 (Restated – note 9)
Expenses		
Corporate remuneration *(note 9)*	123,624	137,669
Corporate travel and subsistence	8,233	36,089
Investor relations	52,159	74,437
Legal and audit	44,397	37,392
Office and administration	39.780	58,577
Lease Expense	9.067	8, 728
Amortization	2,926	5,092
Foreign exchange profit	(22,868)	(60,876)
Stock-based compensation *(note 5)*	246,757	257,439
Loss before non-controlling interest	(504,075)	(554,547)
Non-controlling interest	-	-
Loss and comprehensive loss for the year	(504,075)	(554,547)
Basic and diluted loss per share - cents (note 7)	$(0.04)	$(0.04)

Consolidated Statements of Deficit

For the years ended December 31

(in United States dollars – note 2)

	2007	2006 (Restated – note 9)
Deficit – Beginning of period	(30,416,185)	(29,814,222)
Restatement due to accrued benefits *(note 9)*	-	(47,416)
Deficit as restated		(29,861,638)
Loss for the year as restated	(504,075)	(554,547)
Deficit - End of year	(30,920,260)	(30,416,185)

See accompanying notes to the consolidated Financial Statements

Tsodilo Resources Limited
Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

(in United States dollars – note 2)

	2007	2006 (Restated – note 9)
CASH PROVIDED BY (USED IN):		
Operating Activities		
Loss for the year	(504,075)	(554,547)
Adjustments for non-cash items:		
Amortization	2,926	5,092
Stock-based compensation *(note 5)*	246,757	257,439
	(254,392)	(292,016)
Net change in non-cash working capital balances *(note 13)*	87,046	7,623
	(167,346)	(284,393)
Investing Activities		
Exploration properties	(735,774)	(617,723)
Additions to property, plant and equipment	(13,015)	(891,271)
	(748,789)	(1,508,994)
Financing Activities		
Shareholder Loan	125,000	
Issue of common shares	660,251	1,739,905
Contribution from non-controlling interest	(17,096)	(35,151)
	768,155	1,704,754
Change in cash - For the year	(147,980)	(88,633)
Cash - Beginning of year	201,177	289,810
Cash - End of year	53,197	201,177

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

1. NATURE OF OPERATIONS AND GOING CONCERN

Tsodilo Resources Limited is an exploration stage company ("Tsodilo" or "The 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 mineral 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 and joint ventures 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 December 31, 2007, the Company reported an accumulated deficit of ($30,920,260) [2006: ($30,416,185] and negative net cash outflows from operations of ($254,392) [2006: ($292,016)] for the year then ended. The cash position of the Company is insufficient to finance continued exploration. As an exploration stage company, it is currently unable to self-finance its operations. 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.

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 indirect subsidiaries. All inter-company transactions and balances have been eliminated.

Group Companies: December 31, 2007 and 2006

	2007	2006
Tsodilo Resources Bermuda Limited	100%	100%
Gcwihaba Resources (Proprietary) Ltd (Botswana) ("Gcwihaba")	100%	100%
Newdico (Proprietary) Limited (Botswana) ("Newdico")	93% (note 3)	90% (note 3)

Earnings per share

Basic Earnings-Per-Share (EPS) is computed as net income (loss) applicable to common stockholders' divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issued through stock options, warrants and other convertible securities when the effect would be dilutive. The "treasury share method" is used when calculating diluted earnings per share. However, diluted loss per share has not been presented as the potential exercise / conversion of options and warrants outstanding would have the effect of reducing loss per share. Basic and diluted loss per share are therefore presented as the same figure.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian 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. The most significant estimates are related to the valuation of warrants and options, the recoverability of exploration expenditures, property, plant and equipment 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. 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.

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

Property, Plant and Equipment

Property, plant and equipment are amortized principally on a straight-line basis over their estimated useful lives of three to five years to their estimated residual values. Property, plant and equipment awaiting installation on site are not amortized until they are commissioned. Property, plant and equipment 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 Company's functional and reporting currency is the US dollar. The Company's subsidiaries are accounted for as integrated foreign operations. 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 items are denominated in foreign currencies are translated to US dollar at exchange rates in effect at the balance sheet dates 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 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. 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 to an 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

Tsodilo 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

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur and/or in which a reasonable estimate of such costs can be made using the total undiscounted cash flows required to settle estimated obligations, estimated expected timing of cash flow payments required to settle the obligations and estimated credit-adjusted risk free discount rates and inflation rates.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING DEVELOPMENTS

Financial instruments

Effective January 1, 2007, we adopted the new financial instruments accounting standards and related amendments to other standards on financial instruments issued by the CICA. In accordance with the transitional provisions, prior period financial statements have not been restated.

Financial Instruments – Recognition and Measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or nonfinancial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income, Section 1530

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income ("OCI") includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. As prescribed by these standards, prior periods have not been restated.

The adoption of Sections 3250, 3865 and 3855 did not have a material impact on the consolidated financial statements of the Company.

The following provisions have been adopted by the Company as of January 1, 2008.

Financial Instruments – Disclosures, Section 3862

Section 3862 Financial Instruments – Disclosures, requires additional disclosures to enable users to evaluate the significance of financial instruments to our financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments.

Financial Instruments – Presentations, Section 3863

CICA 3863 carries forward, without change, the presentation related requirements of CICA 3861. The requirements of this Section address an issuer's classification of financial instruments between liabilities and equity, the classification of related interest, dividends, losses and gains, as well as the offsetting of financial assets and financial liabilities.

Capital Disclosures – Section 1535

Section 1535 Capital Disclosures, requires disclosure of qualitative and quantitative information that enables users to evaluate our objectives, policies and process for managing capital.

Inventories – Section 3031

In June 2007, the CICA issued Section 3031 "Inventories" to replace existing Section 3030. The new section, which is effective January 1, 2008, establishes standards for the measurement and disclosure of inventories.

We do not expect the application of Sections 3862, 3863, 1535 and 3031 to have a significant impact on our financial statements.

Over the next four years, the CICA will adopt its new strategic plan for the direction of accounting standards in Canada which was ratified in January 2006. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Report Standards (IFRS) over the next four years. The Company continues to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

3. EXPLORATION PROPERTIES

Exploration properties are summarized as follows:

	Newdico Botswana	Gcwihaba Botswana	Total
Balance at December 31, 2005	**1,500,052**	**179,564**	**1,679,616**
Jan. to Dec. 2006 expenditures	693,394	51,108	744,502
Balance at December 31, 2006	**2,193,446**	**230,672**	**2,424,118**
Jan. to Dec 2007 expenditures	908,321	6,436	914,757
Balance at December 31, 2007	**3,101,767**	**237,108**	**3,338,875**

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

Newdico (Proprietary) Limited - 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, and are renewable for 2 two year periods upon application and have a final expiry of 2012. The terms of the licenses require Newdico to spend a minimum of Botswana Pula 3.78 million (approximately $587,703 as of March 21, 2008) during the initial period of grant (7/1/05 – 6/30/08) exclusive of license fees.

Originally, Newdico was held 75% by Tsodilo and 25% by Trans Hex Group Limited ("THG"), with Tsodilo being the operator. THG has funded or been attributed to its proportionate share of expenditure and these amounts have been reflected as non-controlling interest of $228,395 (2006: $245,491) in the financial statements. During the year ended December 31, 2007, THG decided not to fund its propionate share of expenditures on cash calls and therefore as of January 1, 2008, the Company's interest in Newdico had effectively increased from 75% to 93% (2006: 90%) in accordance with the exploration agreement between the two parties.

Trans Hex Group has also advanced funds amounting to $205,591 (2006: $205,591) to Newdico, relating to exploration properties which have been written off in earlier years. 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 – Botswana

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

Diamond Exploration

The terms of the licenses granted Gcwihaba the right to prospect for a total of three years to 2006, and were renewed for a two year period expiring on June 30, 2008. The terms of these licenses require Gcwihaba to spend a minimum of Botswana Pula 675,000 (approximately $104,947 as of March 21, 2008) exclusive of license fees during the first renewal grant period. The licenses can be renewed for an additional two year period with a final expiry of 2010.

An additional license was granted to the Company for an initial three year period as of April 1, 2007. The terms of the license requires Gcwihaba to spend a minimum of Botswana Pula 210,000 (approximately $32,650 as of March 21, 2008) during the initial period of grant (4/1/07 – 3/31/2010) exclusive of license fees.

Base and Precious Metal Exploration

Gcwihaba holds base and precious metals prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 2005. The licenses are granted for an initial period for three years expiring September 30, 2008 and are renewable for an additional 2 two year period upon application and have a final expiry of 2012. The terms of the licenses require Gcwihaba Newdico to spend a minimum of Botswana Pula 720,000 (approximately $111,943 as of March 21, 2008) during the initial period of grant (10/1/05 – 9/30/08) exclusive of license fees.

4. PROPERTY, PLANT and EQUIPMENT

	Depreciation Rate in Years	Cost	Accumulated amortization	Book value
December 31, 2007				
Vehicles	5 Years	887,855	293,688	594,167
Furniture and Equipment	3 Years	88,608	57,326	31,282
		976,463	**351,014**	**625,449**
December 31, 2006				
Vehicles	5 Years	887,855	132,387	755,468
Furniture and Equipment	3 Years	76,484	37,609	38,875
		964,339	**169,996**	**794,343**

For the year ended 2007, an amount of $172,546 (2006: $126,781) of amortization has been capitalized under exploration properties.

5. SHARE CAPITAL

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 $
Issued and outstanding at December 31, 2005	11,045,045	26,218,172
On private placement for cash in 2006 See (i) to (v) below	2,390,793	1,739,907
Ascribed to warrants issued in 2006	-	(933,515)
Issued and outstanding at December 31, 2006	13,435,838	27,024,564
On private placement for cash (vi)	141,516	95,869
On private placement for cash (vii)	167,146	120,000
On private placement for cash (viii)	231,714	175,000
On private placement for cash (vi)	235,024	158,000
On private placement not for cash (x)	91,102	66,989
Ascribed to Exercise of Options	200,000	44,392
Ascribed to warrants issued in 2007	-	(261,229)
Issued and outstanding at December 31, 2007	14,502,340	27,423,585
Subsequent to Year End Private Placement (x)	457,901	$325,000

(i)Private Placement

In January 2006, the Company issued, through a non-brokered private placement, 468,776 units of the Company at a price of $1.07 (C$1.25) per unit for gross proceeds to the Company of $499,990. 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 $0.87 (C$1.00) for a period of two years.

(ii) Private Placement

In February 2006, the Company issued, through a non-brokered private placement, 319,108 units of the Company at a price of $0.78 (C$0.90) per unit for gross proceeds to the Company of $248,828 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 $0.87 (C$1.00) for a period of two years.

(iii) Private Placement

In May 2006, the Company issued, through a non-brokered private placement 649,984 units of the Company at a price of $0.63 (C$0.70) per unit for gross proceeds to the Company of $405,441. 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.

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(iv) Private Placement

In July 2006, the Company issued, through a non-brokered private placement 161,586 units of the Company 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.

(v) Private Placement

In September 2006, the Company issued, through a non-brokered private placement 791,339 units of the Company at a price of $0.63 (C$0.70) per Unit for gross proceeds to the Company of $485,648. 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 Company has negotiated finder's fees of $13,875, payable in accordance with the policies of the TSX Venture Exchange with respect to 500,000 units of the placement.

(vi) Private Placement

On February 13, 2007, the Company completed a non-brokered private placement. 141,516 units of the Company (the "Units") were issued at a price of $0.68 (C$0.80) per Unit for proceeds to the Company of $95,869. 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 ofC$0.80 for a period of two years.

vii) Private Placement

On May 18, 2007, the Company completed a non-brokered private placement. 167,146 units of the Company (the "Units") were issued at a price of $0.72 (C$0.80) per Unit for proceeds to the Company of $120,000. 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 C$0.80 for a period of two years.

(viii) Private Placement

On June 29, 2007, the Company completed a non-brokered private placement. 231,714 units of the Company (the "Units") were issued at a price of $0.75 (C$0.80) per Unit for proceeds to the Company of $175,000. 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 C$0.80 for a period of two years.

(ix) Private Placement

On December 19, 2007, the Company completed a non-brokered private placement. 326,126 units of the Company (the "Units") were issued at a price of $0.69 (C $0.70) per Unit for proceeds to the Company of $224,989. Of this amount, 91,102 units valued at $66,989 are attributed to an officer and director as an offset for accrued leave benefits as outlined in note 8. 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 C$0.70 for a period of two years.

(x) Private Placement

On March 11, 2008, the Company completed a non-brokered private placement. 457,901 units of the Company (the "Units") were issued at a price of $0.71 (C $0.70) per Unit for proceeds to the Company of $325,000. 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 C$0.70 for a period of two years.

(b) Warrants

As at December 31, 2006, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry	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	59,969	(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$1.00	--	468,776	468,776		146,788	146,788
February 21, 2008	C$1.00	--	319,108	319,108	--	109,988	109,988
May 4, 2008	C$0.70	--	649,984	649,984	--	167,886	167,886
July 19, 2008	C$0.70	--	161,586	161,586	--	49,643	49,643
September 21, 2008	C$0.70	--	791,339	791,339	--	459,208	459,208
		379,446	2,242,132	2,621,578	140,112	878,571	1,018,663

During the year ended December 31, 2006 2,390,853 warrants issued and a value of $933,813 was attributed as at December 31, 2006 (2005: none issued). During the year ended December 31, 2006 warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 69-89%, a risk-free interest rate of 4.5%, a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company.

As at December 31, 2007, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry	Exercise Price	Opening	Issued [Exercised] (Expired)	Closing	Opening (dollars)	Issued [Exercised] (Expired)	Closing (dollars)
June 1, 2006	C$0.75	65,024	(65,024)	--	--	--	--
October 14, 2006	C$1.12	56,969	(56,969)	--	--	--	--
November 8, 2006	C$2.35	26,668	(26,668)	--	--	--	--
March 4, 2007	C$1.15	230,785	(230,785)	--	85,170	(85,170)	--
January 27, 2008	C$1.00	468,776	--	468,776	146,788	--	146,778
Febryary 21, 2008	C$1.00	319,108	--	319,108	109,988	--	109,988
May 4, 2008	C$0.70	649,984	--	649,984	167,886	--	167,886
July 19, 2008	C$0.70	161,586	--	161,586	49,643	--	49,643
September 21, 2008	C$0.70	791,339	--	791,339	459,208	--	459,208
February 13, 2009	C$0.80	--	141,516	141,516	--	55,047	55,047
May 18, 2009	C$0.80	--	167,146	167,146	--	40,408	40,408
June 29, 2009	C$0.80	--	231,714	231,714	--	67,829	67,829
December 19, 2009	C$0.70	--	326,126	326,126	--	97,945	97,945
		2,770,239	487,056	3,257,295	1,018,683	176,059	1,194,742

During the year ended December 31, 2007 866,502 warrants issued and a value of $261,229 was attributed as at December 31, 2007 (2006: 2,390,853 issued and a value of $933,813 was attributed). During the year ended December 31, 2007, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 99-131% (2006: 69-89%), a risk-free interest rate of approximately 4% (2006: 4.5%), a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company. Subsequent to year end 146,788 warrants expired on January 27, 2008 and 109,988 warrants expired on February 21, 2008.

(c) Contributed Surplus

As at December 31, 2005	6,023,823
Relating to the expiry of warrants	54,942
Relating to stock based compensation	257,439
As at December 31, 2006	6,336,204
Relating to the expiry of warrants	85,170
Relating to stock based compensation	246,757
As at December 31, 2007	6,668,132

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at December 31, 2007 and December 31, 2006 were as follows:

Expiry	Price	Outstanding December 31, 2005	Granted [Cancelled] (Exercised)	Outstanding December 31, 2006	Granted	[Cancelled] (Exercised)		Outstanding December 31, 2007	Exercisable December 31, 2007
June 24, 2007	C$0.15	100,000	-	100,000		(100,000)	(i)	0	0
September 18, 2007	C$0.23	100,000	-	100,000		[50,000] (50,000)	(i)	0	0
December 31, 2007	C$0.41	50,000	-	50,000		(50,000)	(ii)	0	0
July 8, 2008	C$0.50	100,000	-	100,000			(ii)	100,000	100,000
January 1, 2009	C$0.75	60,000	(10,000)	50,000			(ii)	50,000	50,000
August 31, 2009	C$0.75	260,000	(10,000)	250,000			(ii)	250,000	250,000
January 3, 2010	C$1.85	35,000	(25,000)	10,000			(ii)	10,000	10,000
August 19, 2010	C$1.25	280,000	(20,000)	260,000			(ii)	260,000	260,000
January 3, 2011	C$1.25	-	60,000	60,000			(ii)	60,000	60,000
April 27, 2011	C$0.70	-	300,000	300,000			(ii)	300,000	300,000
August 18, 2011	C$0.70	-	65,000	65,000			(ii)	65,000	48,750
November 1, 2011	C$1.00	-	50,000	50,000		[50,000]	(iii)	0	0
January 3, 2012	C$1.00	-	-	-	85,000		(iii)	85,000	42,500
May 7, 2012	C$0.80	-	-	-	550,000		(iii)	550,000	275,000
Cancelled						[100,000]			
Exercised						(200,000)			
Total		985,000	410,000	1,395,000	635,000	(300,000)		1,730,000	1,396,250

	December 31, 2005	December 31, 2006	December 31, 2007
Options exercisable at end of year	680,000	873,375	1,396,250
Weighted average exercise price			
- issued	C$0.67	C$0.76	C$0,79
- outstanding	C$0.83	C$0.80	C$0.88
- exercisable	C$0.65	C$0.79	C$0.90

All options have a term of five years.

(i) These common share purchase options vest as to one-half immediately and one-half on the six-month anniversary of the date granted.

(ii) 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.

(iii) The Company recognized an expense of $246,757 (2006: $257,439) relating to the¬ fair value of options granted or vesting during the year. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility of 98% and 103%, a risk-free interest rate of approximately 4%, a term equivalent to the life of the option, and reinvestment of all dividends in the Company.

On January 2, 2008, the Company issued 210,000 options under its Stock Option Plan to persons who are officers and employees of the Company.

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 36.12% (Dec. 2006 – 36.12%) to income before taxes as follows:

	Dec-31 2007	Dec-31 2006 (Restated – note 9)
Net loss for the period	(504,075)	(554,547)
Income tax (recovery) provision at Canadian statutory income tax rates	(182,072)	(200,302)
Current year losses not recognized	92,943	110,875
Permanent differences	89,129	89,427
Provision for (recovery of) income taxes	-	-

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

	Dec-31 2007	Dec-31 2006 (Restated – note 9)
(Restated – note 9)		
Property, Plant and Equipment	8.000	14,000
Exploration & Development - Canada	93,000	93,000
Exploration & Development - Botswana	(1,206,002)	(890,617)
Losses carried forward - Canada	1,197,000	1,389,000
Losses carried forward - Botswana	1,294,426	941,563
Other	35,000	42,000
Subtotal – fut¬ure income tax asset	1,421,424	1,588,944
Valuation allowance	(1,421,424)	(1,588,944)
Net future income tax asset recorded	-	-

The permanent differences are primarily the result of expenses not allowed for stock-option based compensation for 2007 and 2006.

At December 31, 2007, the Company has Canadian net operating losses carried forward that expire as follows:

Loss	Year of Expiry	
818,000	2008	(1)
697,000	2009	(1)
322,000	2010	(1)
383,000	2011	(1)
505,000	2012	(1) *
198,000	2012	(2) *
227,000	2013	(2)
210,000	2014	(2)

* 2005 was a transitional year for year end change from March 31 to December 31. (1) expires March 31 and (2) expires December 31.

Total assessable losses relating to the activity in Botswana as at December 31, 2007 was $3,209,762 (December 31, 2006: $3,337,768) of which $2,606,760 have no expiry date.

7. LOSS PER SHARE

Loss per share is computed on the basis of the loss of ($504,075) for the year ended December 31, 2007 [2006: ($554,547)] and the weighted average number of common or equivalent shares outstanding during period, December 31, 2007: 13,889,166 (2006: 12,473,977). The effects of stock options and warrants in computing diluted per share amounts for December 31, 2007 and December 31, 2006 are anti-dilutive.

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Company borrowed $145,000 from a person who is an officer and director of the Company. $20,000 of this amount was repaid during the fiscal year. The $125,000 loan balance remaining has no interest rate, no maturity date, and no additional terms of repayment. In 2006, the Company borrowed $100,000 from a person who is an officer and director of the Company. The loan had no interest rate, no maturity date, and no terms of repayment. The loan was repaid during the 2006 fiscal year.

Accrued leave benefits in the amount of $87,192 was offset by an officer for the exercise of options (exercise cost $20,203) on December 7, 2007 and participation (97,102 units for a value of $66,989) in the Company's December private placement.

Tsodilo and its wholly owned subsidiary, Tsodilo Resources Bermuda (Ltd) ("TSDB") entered into an agreement with Trans Hex Group and its wholly owned subsidiary Trans Hex Diamond ("THD") with respect to their respective interests in Newdico (Pty) Ltd. ("Newdico"). At the time of agreement, Trans Hex Group owned 73.22% of Tsodilo. The agreement between the parties established that all expenditures undertaken by Newdico up to and including March 31, 2002 shall be deemed to have been incurred by Newdico and funded by TSDB and THD by way of shareholders loan account by Tsodilo as to 75% thereof; and Trans Hex as to 25% thereof.

Of the outstanding loan amounting to $1,611,058 as at 31 March 2002, $1,149,078 shall constitute a secondary loan, deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof and such secondary loans shall only be repayable after the primary loans have been repaid to TSDB and THD in full. These secondary loans shall be repayable before any additional secondary loans, which shall be repaid in the proportions in which they have been advanced. Thereafter, as to the secondary loans which existed as of March 31, 2002, in proportion after the additional secondary loans have been repaid, $461,980.67 shall be deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof ("the primary loan"). The primary loans shall be repayable in full before any parts of the secondary loans are repayable.

The secondary loans shall not be included in the necessary calculations for purposes of the share dilution provisions. All dilution calculations shall be based only on the value of the primary loans. All funding of the company by shareholders for purposes of the Ngami project, shall constitute additional primary loans, or additional secondary loans in the circumstances and to the extent set out in the parties agreement.
As of December 31, 2007, TSDB holds a 93% (2006: 90%) interest in Newdico while THD holds 7% (2006: 10%). The change in the parties' respective interest in the project is attributed to the dilution of THD's interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

Loan from Tsodilo Resources Bermuda Limited	Primary	3,247,940
$1,149,078.11 * 75% =	Secondary	861,808
Total Loan Outstanding Eliminated in Consolidation		4,109,748
Loan from Trans Hex Diamonds Limited (Minority Interest)	Primary	228,395

9. Restatement

The Company did not previously record leave for the prior year of the President and CEO. In the current year, the Company recorded this liability and the financial statements of 2006 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below.

	Effect on 2006
Increase in corporate remuneration	13,415
Increase in loss for the period	13,415
Decrease in non-cash working capital	13,415
Increase in accounts payable	13,415
Increase in deficit – end of year	60,831
Restated loss per share	($0.04)

10. 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 ($3,768) and Botswana ($621,681). The geographic distribution of the property acquisition costs and exploration expenditures is outlined in note 4.

11. 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.

12. COMMITMENTS

All operating leases that are for a period of no longer than one year are prepaid.
The aggregate minimum lease payments are $52,374 as follows:

2008	$26,187
2009	$26,187

The lease commitment is for storage space in Maun, Botswana at an annual rental of BWP 158,888 per year for 2008 and 2009 converted at an exchange rate as of December 31, 2007 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.

13. NOTES TO THE CASH FLOW

	2007	2006
Net change in non-working Capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	19,761	(25,000)
Increase in accounts payable and accrued liabilities	67,285	32,623
Total	87,046	7,623

Corporate Information

DIRECTORS

James M. Bruchs
Washington, DC
Appointed as director in 2002

Patrick C. McGinley
Washington, D.C.
Appointed as director in 2002

R. Stuart Angus
Vancouver, British Columbia
Appointed as director in 2004

John R. Redmond
Potomac, Maryland
Appointed as director in 2005

Jonathan R. KeLafant
Arlington, Virginia
Appointed as director in 2007

OFFICERS

James M. Bruchs, B.Sc., J.D.
President and Chief Executive Officer
Appointed in 2002

Gary A. Bojes, CPA, Ph.D.
Chief Financial Officer
Appointed in 2007

Gail McGinley
Corporate Secretary
Appointed in 2005

CORPORATE HEAD OFFICE

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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Toronto, Ontario

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: TSD