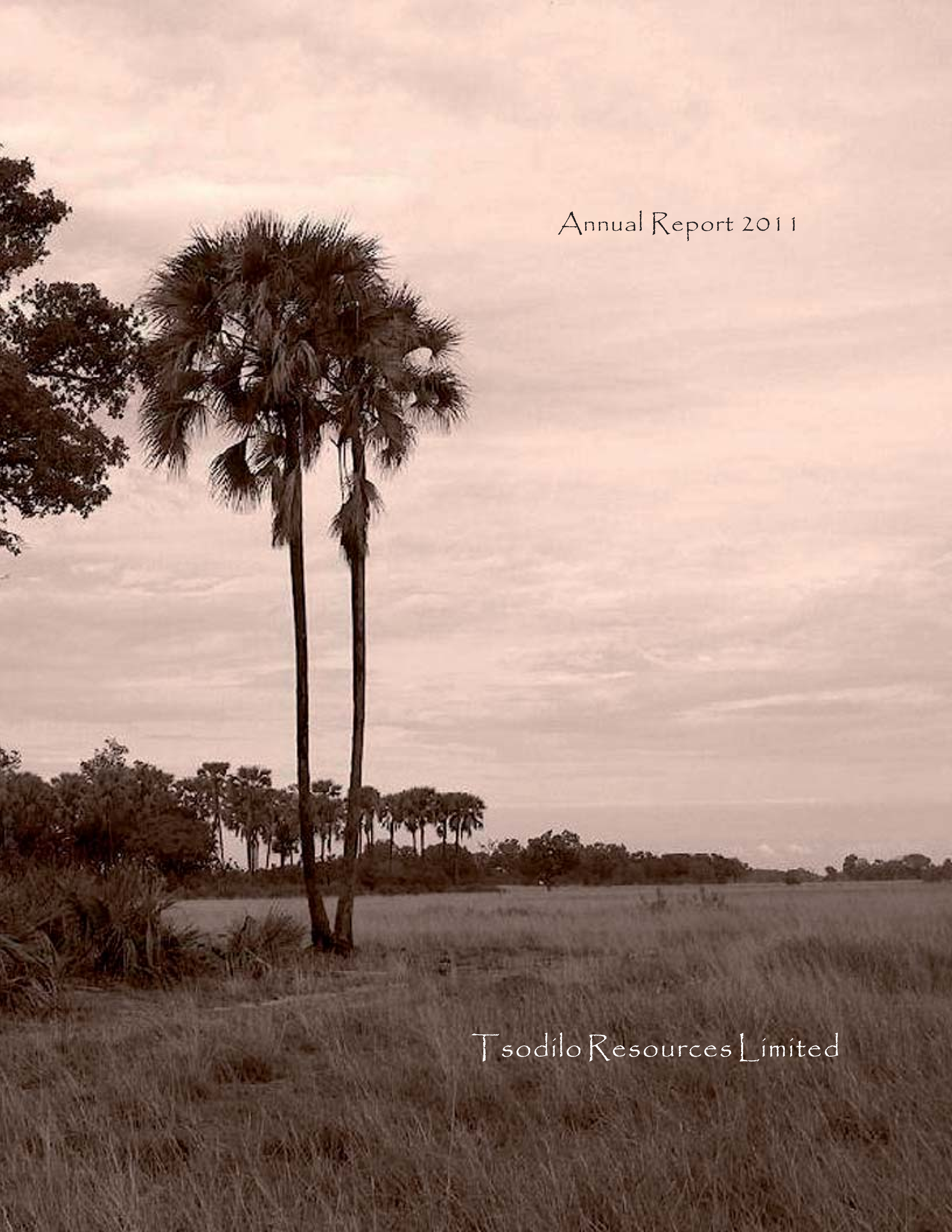

Annual Report 2011

Tsodilo Resources Limited

President's Message

Dear Shareholders,

On behalf of the board of directors, I am pleased to provide the annual report of Tsodilo Resources Limited ("Tsodilo" or the "Company") recording the Company's progress together with the audited financials for the year ending December 31, 2011.

The metal commodity markets recovered signifiantly in 2011 and during this period the Company was able to complete the first of its strategic objectives on its metal mineral projects. Phase 1, reconnaissance drilling, was completed in 2011 and mineralized zones were identified in several key areas. The next twelve months will be used to refine the geological models and mineralisation styles of these targets.

The rough diamonds also saw a remarkable upswing in their prices but despite these improvements the general appetite for greenfields diamond exploration remains low. However, the Company will continue the exploration for new kimberlites and complete the first-stage evaluation of two of its kimberlites.

The privilidged and advantageous position in which the Company is finding itself is having two drill rigs and fully equipped ground magnetic teams on site which means that considerable progress has been made with the exploration work program at a relatively low-cost.

Sample preparation is ongoing and split cores are sent to an accredited laboratory in Johannesburg on a continous basis and the turn around time is generallyless than two months. The newly acquired computer modelling program is being updated continously as new data and results become available and provides the Company with capabilities to review its geological database in 3D.

Exploration activites were accelerated in 2011 and we expect this to continue in 2012 as positive results continue to advance our programs.

Our current share capital consists of 25,880,970 issued and outstanding (31,553,672 on a fully diluted basis) common shares. Tsodilo has a 97% interest in our Botswana (Newdico (Pty) Limited project and a 100% interest in our Gcwihaba Resources (Pty) Limited projects.

The Company continues to strengthen our organization by appointments to our board and retaining quality professionals on the ground. We are well positioned for the challenges inherent in resource exploration and please follow our progress carefully and remained informed by regular visits to our website, **www.TsodiloResources.com**.

On behalf of the Board,

Michiel C.J. de Wit, Ph.D.
President and COO
February 17, 2012

Contents

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the years ended December 31, 2011 and 2010. The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The Company's functional and reporting currency is United States dollars and all amounts stated are in United States dollar unless otherwise noted. In addition, the Company has two operating subsidiaries, Newdico and Gcwihaba which have a functional currency of the Botswana Pula. This management's discussion and analysis has been prepared as at February 17, 2012.

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 and metals exploration company with majority interests in kimberlite and metals exploration projects 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 February 17, 2012, 25,880,970 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 2,970,000 options remain outstanding of which 2,455,000 are exercisable at exercise prices ranging from CAD $0.55 - $2.23.

As of February 17, 2012, 2,702,702 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 price of from Canadian $2.17 for a period of five years from the date of issuance (with 3.5 years remaining). If all warrants were converted, 2,702,702 common shares of the Company would be issued.

Principal Shareholders of the Company

The principal shareholders of the Company as of February 17, 2012 are as follows:

Name	Description	Shares - Owns, Controls or Directs	% of the Issued and Outstanding Shares
Preston Trust	Private Investment Vehicle	4,996,065	19.30%
International Finance Corporation	Division of the World Bank	2,702,702	10.44%
David J. Cushing	Director	2,460,501	9.50%
James M. Bruchs	Director	2,187,619	8.45%

Subsidiaries

The Company has a 97% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds nine prospecting licenses covering approximately 3,949 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 (3%) 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 six diamond prospecting licenses covering approximately 4,456 square kilometers, eighteen metals (base, precious, platinum group, and rare earth) licenses covering 4,618 square kilometers and eight radioactive minerals licenses covering 6,927 square kilometers.

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

Exploration activities for the year 2011

1. Diamond Projects

The company holds 15 Prospecting licences (8 0612.2 km^2) under the names of local companies Newdico (Pty) Ltd. and Gcwihaba Resources (Pty) Ltd for precious stones (Table 1). The Company continued with its exploration program during 2011 whilst shifting its focus to the north of the existing Nxau Nxau kimberlites cluster. This is based on geological interpretation of the Southern African Magnetotelluric Experiment (SAMTEX) project which indicates that the Angolan Craton extends and thickens northwards. This MT data images the three-dimensional regional-scale geometry of the electrical conductivity of the continental lithosphere below southern Africa. The results of this program has among others shown that the Company's northern licences are underlain by the Angolan Craton (Muller and Jones 2007) and this suggests that kimberlites occurring in the most northern licences should be the most interesting from a diamond perspective.

Furthermore, the mineral chemistry of the indicator minerals from the known kimberlites suggests that the interest rating also improves to the north.

Table 1. Summary of the Company's prospecting permits for precious stones

NEWDICO DIAMOND LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km^2**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
PL 62/2005	797	7/01/10	7/01/12	2nd Renewal	3,985	200,000	407,970	53,545
PL 63/2005	718	7/01/10	7/01/12	2nd Renewal	3,590	200,000	407,180	53,4410
PL 64 /2005	851	7/01/10	7/01/12	2nd Renewal	4,255	200,000	408,510	53,616
PL 65/2005	194	7/01/10	7/01/12	2nd Renewal	970	200,000	401,940	52,753
PL 66/2005	621	7/01/10	7/01/12	2nd Renewal	3,105	200,000	406,210	53,314
PL 67/2005	229	7/01/10	7/01/12	2nd Renewal	1.145	200,000	402,290	52,799
PL 68/2005	220	7/01/10	7/01/12	2nd Renewal	1,100	200,000	402,200	52,787
PL 69 /2005	181	7/01/10	7/01/12	2nd Renewal	905	200,000	401,810	52,736
PL 71/2005	138	7/01/10	7/01/12	2nd Renewal	690	200,000	401,380	52,680
TOTAL	3,949				19,745	1,800,000	3,639,490	477,676

GCWIHABA DIAMOND LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km^2**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
PL 46/2008	709	6/01/11	1/01/13	1st Renewal	3,545	70,000	147,090	19,305
PL 47/2008	491	6/01/11	1/01/13	1st Renewal	2,455	70,000	144,910	19,019
PL 49/2008	710	1/01/11	1/01/13	1st Renewal	3,550	70,000	147,100	19,306
PL 641/2009	923	7/01/09	7/01/12	Initial Grant	4,615	1) 70,000		
						2) 80,000	253,845	33,316
						3) 90,000		
PL 642/2009	839	7/01/09	7/01/12	Initial Grant	4,195	1) 70,000 2) 80,000	252,585	33,151
						3) 90,000		
Pl 643/2009	786	7/01/09	7/01/12	Initial Grant	3,930	1) 70,000		
						2) 80,000	251,790	33,046
						3) 90,000		
TOTAL	4,456				22,290	930,000	1,197,320	157,146

The interest level remains as there are two major unexplained surface concentrations of both diamonds and high-interest (G10) garnets across the border in Namibia – the Tsumkwe and the Omatako targets. It has been suggested that the diamonds and garnets from these targets have been derived from diamond-bearing kimberlites in the licence blocks presently held by the Company to the east.

The Company's kimberlites in the Nxau Nxau field, just east of the Botswana/Namibia border, are situated in the regional headwaters of the palaeo-drainages which generally feed these anomalies. The Company has therefore been working through the existing kimberlite database in order to match the mineral chemistry of the indicator minerals of these two anomalies with those from kimberlites in the Nxau Nxau cluster.

In addition, the geophysical data of the area covered by the Precious Stones licences were subjected to a rigorous review by a very reputable geophysical company, specialised in kimberlites, in order to identify any other kimberlite targets for drilling. Not only have more first-grade targets been identified within and immediately around the existing cluster, other targets have also been identified in the northern licence blocks that warrant detailed ground work and drilled scheduled for 2012. During the year, two targets were drilled – TOD 12 and K19. Both recovered kimberlite from the drilling but based on the petrography it has been downgraded in terms of its diamond potential and no further work is planned for these bodies.

The review of the petrography, mineral chemistry, micro-diamond and geophysical databases of the known kimberlites in the Nxau Nxau field is on-going. This review resulted in the decision to submit samples of the three most interesting pipes (K4 – PD07, K10 – B5, K20 – A15) in terms of size and mineral chemistry, for micro-diamond work in order to obtain a first-pass grade valuation for these bodies. Core samples from three kimberlites were submitted for micro-diamond analyses to the Geo-analytical Laboratories Diamond Services of the Saskatchewan Research Council. The results are summarised in Table 2.

Table 2. Micro-diamond results

Kimberlite	Kg	Stones	Carats	Stones/tonne
K4 (PD07/2)	208.85	2	0.000970	9.58
K10 (B5)	228.65	14	0.000955	61.23
K20 (A15/5)	183.80	0	0.000000	0.00
Total	621.30	16	0.001925	

Only K10, which produced 14 micro-diamonds, will require further work. Additional samples will be submitted in order to obtain additional diamonds in order to construct a grade estimate. At the same time samples from K11, proximate to K10 will also be submitted for microdiamond analyses.

Diamond exploration activities for 2012 will therefore focus on the microdiamond results of K10 and presumably K11 and also on targets generated from the Airborne Magnetic Geophysical surveys in the Company's most northern Prospecting permits PL 46, 47 and 49/2008.

2. Metals (Base and Precious, Platinum Group Metals, and Rare Earth Elements) Projects

The Company's Prospecting Licences have evolved with time into a package which covers some 12,110 km^2 (Table 2a). Most of the ground has been covered by the 1st drilling phase which was completed during the 3rd Quarter of 2011 (Phase 1). The main objective of this phase was to cover the ground on a wide grid to identify the areas of interest for more detailed follow-up work scheduled during Phase 2. So far the drilling has returned mineralised rocks in several parts of the licence area representing a variety of geological settings with different mineralisation styles.

The Company's exploration work had initially indicated that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverse the Company's southern licences in north-west Botswana, in an area where the Damara Belt links up with the Lufilian Arc. In addition more recent petrology, geochemistry and geochronology work by AEON's research group has highlighted the presence of Archean granite-gneisses (ca. 2550 Ma) in Ngamiland.

Table 2a. Summary of the Company's Prospecting Licences for metals

GCWIHABA – METAL LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km²**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
PL 118/2005	367	10/01/10	10/01/12	2nd Renewal	1,835	100,000	203,670	26,732
PL 119/2005	827	10/01/10	10/01/12	2nd Renewal	4,135	100,000	208,270	27,335
PL 051/2008	487	07/01/11	07/01/13	1st Renewal	2,435	70,000	144,870	19,014
PL 052/2008	382	07/01/11	07/01/13	1st Renewal	1,910	70,000	143,820	18,876
PL 386/2008	570	01/01/12	01/01/14	1st Renewal	2,850	100,000	205,700	26,998
PL 387/2008	965	01/01/12	01/01/14	1st Renewal	4,825	100,000	209,650	27,517
PL 388/2008	318	01/01/12	01/01/14	1st Renewal	1,590	100,000	203,180	26,667
PL 389/2008	979	01/01/12	01/01/14	1st Renewal	4,895	100,000	209,790	27,535
PL 390/2008	808	01/01/12	01/01/14	1st Renewal	4,040	100,000	208,080	27,311
PL 391/2008	455	01/01/12	01/01/14	1st Renewal	2,275	100,000	204,550	26,847
PL 392/2008	829	01/01/12	01/01/14	1st Renewal	4,145	100,000	208,290	27,338
PL 393/2008	938	01/01/12	01/01/14	1st Renewal	4,690	100,000	209,380	27,481
PL 394/2008	650	01/01/12	01/01/14	1st Renewal	3,250	100,000	206,500	27,103
PL 395/2008	972	01/01/12	01/01/14	1st Renewal	4,860	100,000	209,720	27,526
PL 595/2009	320	07/01/09	07/01/12	Initial Grant	1,600	100,000	304,800	40,005
PL 596/2009	925	07/01/09	07/01/12	Initial Grant	4,625	100,000	313,875	41,196
PL 5972009	514	07/01/09	07/01/12	Initial Grant	2,570	100,000	307,710	40,387
PL 588/2009	796	07/01/09	07/01/12	Initial Grant	3,980	100,000	311,940	40,942
TOTAL	12,102				60,510		4,013,795	526,810

This is the first time that Archean basement rocks have been discovered in this north-western part of Botswana. This development also supports the geophysical magnetic work that has been conducted in the region and identified the presence of the Angolan Craton. Paleoproterozoic granites (ca. 2000 Ma), which have been tectonically interlayered with Pan-African meta-sediments (including graphitic schist, carbonates, diamictites and meta-basites ca. 540 Ma), have also been dated. These tectonic contacts and graphitic schists are mineralized and have been targeted for further work. The 2 billion year old granites can be correlated either with the nearby Quangwadum and Okwa Complex in Botswana, suggesting the possibility of a large cryptic mineralized mafic intrusion in the region, or with the Kibaran granitic basement (ca. 2050 Ma) to the Katangan Supergroup beneath the Lufilian Arc in the DRC.

A minimum age for the diamictites intersected in the northern part of the project area was established at 743 Ma by our academic partners AEON (Witbooi 2011). This is an important age as it aligns itself directly with the Grand Conglomerate in the Copper Belt in Zambia and Chuos Formation in Namibia. This links the meta-sedimentary sequence in NW Ngamiland directly with these two mineral provinces. Finally, the Pan African meta-basites in Ngamiland yield an age of ca. 535 Ma.

This age is younger than the metabasalts of MAB and Katanga (ca. 765 Ma), but similar to the age of peak metamorphism and deformation in the MAB and Lufilian Arc (ca. 530 Ma) and the Pan-African granites in Namibia and the Hook Rhyolite in Zambia. The difference between metabasalts in Katanga and the Ngamiland meta-basites can be accounted for through the higher degrees of Pan African deformation and metamorphism found in Ngamiland (e.g. the new age is a tectonically reset age rather than a magmatic age) and/or that the metabasalts of Ngamiland represent subducted basaltic MAB-like oceanic crust that has been recycled as island-arc basalts. Either way, the new dates strengthen the previous suggestions by Tsodilo of a correlation between the mineralized Pan African rocks and basement in Nagamiland with those in the Central African Copper Belt, and those in the MAB. Work with AEON is on-going to refine the geological models.

The presence of massive magnetite units in the northern part of the area and the copper and gold showings east of the banded magnetite and associated with meta-basic rocks (epidote-scapolite-albite amphibolite) in the central part of the area, indicates that the mineralization model of Ngamiland can be associated with an Iron Oxide Copper Gold ore deposit (IOCG), also referred to as the Ngamiland IOCG.

The main activities during the year were driven by ground geophysical surveys and diamond drilling. The former is to upgrade and focus the regional geophysical dataset for more accurate drill positions on the various targets, and the latter as a continuation of the first-phase drilling program.

During the year 7,362 line-kilometers of ground magnetic data was collected. This was leveled and interpreted by the Company's in-house geophysical unit. This represents a coverage of some 264 km^2 on a 50-meter line spacing. During the year an additional walk-magnetometer was purchased in order to increase the coverage. These data was successfully used to position new drill holes on the often magnetic (due to the presence of pyrrhotite in the meta-sediments) zones identified as conductors from the electromagnetic data (EM).

In 2011, 36 diamond drill holes were completed to a cumulative depth of 9,242.44 meters and 7, 635.72 meters of core was recovered (Table 3). The Company's new drill rig, which was commissioned and started operating during the 3rd Quarter of the year, drilled 9 holes of the total to a cumulative depth of 1,574.7m and produced 1,096.9m of core. The objective of the Phase 1 drilling program was to cover all the prospecting licenses on a wide grid in order to identify potential mineralized deposits that are to be covered with detailed ground geophysics and follow-up drilling during the Phase 2 of the program. This latter phase started at the end of the 3rd Quarter in 2011.

Rock samples from approximately 50 boreholes were submitted to independent parties and 177 petrographic thin sections; 9 polished sections; 11 SEM images; 36 XRF analyses; and 5 samples were subject to geochronological age testing and reported on.

Table 3. Holes drilled in 2011 during the reconnaissance Phase 1 drilling program

Borehole Number	Drilled (m)	Total Core(m)	Main Lithology
L9570/3	170.8	136.8	Meta-pelite; dirty carbonate
L9570/4	356.0	321.6	Schist; dirty carbonate
L9560/2	308.62	293.62	Meta-pelite; dirty carbonate; dolomite
L9540/1	300.5	239.9	Schist
L9590/6	214.5	157.9	Schist; meta-pelite
L9600/10	268.5	264.5	Banded magnetite; BIF; schist; dirty carb
L9600/11	252.9	231.3	Banded magnetite; schist
L9600/12	370.0	358.0	Banded magnetite; schist
L9600/13	350.42	332.0	Schist; meta-pelite; dolomite
L9650/8	251.6	214.9	Banded magnetite: schist
L9670/10	305.4	284.0	Gneiss; schist; meta-pelite; dirty carb
L9700/10	98.5	11.7	Black shales
L9620/3	152.5	110.5	Schist, carbonate – hole abandoned
L9620/4	335.5	295.5	Schist; meta-basite; meta-pelite
L9610/13	187.5	133.5	Schists, carbonates, meta-pelitic schists

Table 3 continued

L9600/14	195.5	141.5	Black shales
L9600/15	401.5	346.5	Black shales; schist
L9610/14	401.5	351.6	Dolomite, mineralised schists
PL 394/3	380.6	307.4	Amphibolite, gneiss,
Pl 395/1	159.9	102.1	Granite
1822 C50	425.6	383.0	Gneissic schist;
1822 C51	119.0	74.0	Granite schist
1822 C27/2	381.4	326.4	Skarn
2021B10	211.4	123.5	Red sandstone
2021B11	176.4	92.4	Red sandstone
TOD12	122.3	98.3	Dwyka diamictite with kimberlites sill/dyke
1822 C27/3	377.4	330.1	Schist, meta-basite, carbonate
1822 C27/5	297.0	261	Schist, meta-basite
K19	138.3	98.4	Kimberlite
1821 B53	75.5	33.5	Abadoned hole
1821 B53/1	101.3	86.3	Magnetite schist, garnet-magnetite
1821 B61	86.5	8.5	Granitic schist
1821 B61/1	350.5	309.0	Schist; diamictite
1821 B64	312.5	247.0	Schist
1821 B63	302.5	259.5	Schist; diamictite
1821 B58	302.6	270.0	Schist; diamictite
Total	**9, 242.44**	**7, 635.72**	

Laboratory services for the assaying of core samples were obtained from ALS Minerals in Johannesburg, South Africa and Scientific Services CC in Cape Town, South Africa . During the year 14, 671 samples were assayed using a variety of methods as listed in Table 4.

Table 4. Assay results received during the year 2011

LABORATORY	**ME ICP61** (Major elements)	**PGM ICP23** (Au/ Pt/Pd)	**ME MS81** (REE)	**ME ICP81** (Si)	**ME OG62** (Fe)	**ICP AES** (Au/Pd/ Pt/ Ag/Fe/ Mn)	**ICP AES** (Ag/Fe/ Mn)	**ICP AES** (REE)	**Total**
ALS	5,400	5 ,171	1,389	675	21				12,656
Scientific Services						1,651	162	202	2,015
Total									14,671

The exploration program of Phase 1 has identified three different geological domains with different mineralization styles that are targeted for a Phase 2 follow-up program. These are:

1. Xaudum BIF Magnetite deposit

The northern part of the area is underlain by the very strong Xaudum BIF magnetic anomaly lying in an almost north-south orientation. Recent drilling has intersected multiple layers of magnetite in schist units. Assay results for selected intersections of the three boreholes drilled on the layered magnetic BIF rocks are listed in Table 5. These are the averages of the various intersections based on 1 meter samples. Iron values of well over 35% have been intersected repeatedly over tens of meters. Petrographically, most of the opaque minerals are magnetite. In shallower samples of borehole L9600/11 some of the magnetite is replaced by hematite.

The assay results are encouraging and indicate extensive mineralization associated with the ground geophysics. The Phase 2 drilling program has been initiated and will provide more details on the extent of this deposit.

Average assay values over selected intersection based on 1 meter samples for three bore holes on the Xuadum BIF Magnetite deposit are set forth in Table 5. (Note that the assay results in hole L9600/12 reported as 50% + have been leveled at 50% until the ME OG62 results become available).

TABLE 5

	From (m)	To (m)	Intersection (m)	Fe%	Al2O3%	SiO2%	P%
L9600/10	139	183	45	40.87	1.13	24.42	0.34
	144	164	21	45.41	0.64	21.35	0.36
	192	232	41	35.23	1.74	30.70	0.31
L9600/11	38	105	68	39.77	1.13	25.75	0.34
	62	105	44	42.63	1.12	26.84	0.34
	118	169	52	40.05	1.14	27.42	0.32
L9600/12	29	56	28	35.51	0.97	26.01	0.28
	29	41	13	38.07	0.61	26.49	0.27
	67	86	20	39.44	1.74	29.97	0.34
	67	78	12	43.81	0.93	25.22	0.35
	97	121	24	37.30	2.01	29.12	0.34
	137	152	16	34.72	2.48	30.32	0.37
	171	200	30	39.27	1.15	28.12	0.34
	171	180	10	41.46	0.82	33.46	0.34
	183	200	18	41.42	0.88	23.61	0.36
	229	346	118	40.74	0.91	26.68	0.29
	302	346	45	45.88	0.84	25.06	0.32
	356	370	15	40.01	0.86	30.35	0.25

In addition to the presence of iron mainly in the form of magnetite, anomalous values of Co, V and Ti have also been acquired using the Company's hand-held XRF unit on outcrop samples.

2. The Central Shale Basin

Central to the license area is the Central Shale Basin. Most of the mineralized zones are conductive and visible on the regional electro-magnetic survey flown on behalf of the government of Botswana. Subsequent drilling during Phase 1 recovered meta-sediments (pelites, shales, carbonates, evaporites and arenites) that are dipping steeply to the east. Comparison of the main lithologies and evidence from recently acquired radiometric ages leaves little doubt that these rocks are an extension of the stratiform Cu-Co province of the central African Copperbelt in Zambia and Democratic Republic of Congo.

Sediments are mainly composed of black shales, meta-pelites, meta-arenites, and dolomites, with interbedded evaporites. Most lithologies are mineralisased with pyrite, pyrrhotite, and chalco-pyrite.

Analysis of the geophysics combined with the lithological and assay information of the various boreholes in on going and will direct Phase 2 of the project.

3. Skarn Deposit

In the south of the Central Shale Basin are zones of mineralisation associated with skarn deposits. These are related to massive magnetite, meta-basites, meta-mafic units and granofels in contact with carbonates and meta-sediments.

The meta-basites at 1822C26/1 were dated at 535 Ma and have been interpreted as subducted tholeiitic oceanic crust which has been rejuvenated before being extruded as island arc alkaline magmas (Gaisford 2010). These rocks are of similar age to the Pan African granites in Namibia and the Hook Rhyolite in the Zambian Copper Belt. Mineralization here is characterized by Cu and Fe (Table 6) with elevated values of Ni (234 ppm Ni between 116.6 and 126.6 m in borehole 1822C26/1, peaking at 564 ppm), Au (0.02 ppm), Ag (2.3 ppm), Ti and some REE (La and Ce).

Table 6. Average assay values over selected intersection based on
1 meter samples for two bore holes on the Skarn deposit.

	From (m)	To (m)	Intersection (m)	Cu (ppm)	Fe (%)
1822C26/1	77.6	80.6	3	1,103	13.04
	99.6	105.6	6	1,057	13.39
	116.6	126.6	10	684	4.38
	129.6	136.6	7	846	7.31
	152.6	162.6	10	2,088	13.5
	177.6	180.6	3	1,846	8.71
1822C27/2	4	7	4	831	12.64
	16	21	6	636	12.84
	69	73	5	728	21.58
	83	89	7	649	30.51
	95	101	7	1,055	25.58
	104	109	6	944	43.63
	137	148	12	440	40.66
	152	153	2	1,575	37.15
	157	162	6	1,282	24.48

The copper and iron showings of these rocks associated with meta-basites (epidote-scapolite-albite amphibolite) on the central part of the area suggests that the mineralization model of these deposits could be associated with an Iron Oxide Copper Gold ore deposit (IOCG). The strong relationship of the Cu and Fe with kicks in the Au and Ag support this model and it may suggest, also based on the airborne geophysical data, that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverse the Company's licences south of the shale basin.

4. Radioactive licenses

The Company was granted six prospecting permits for radioactive minerals through its wholly owned subsidiary Gcwihaba Resources (Pty) Ltd in the north-west of Botswana directly west of the Okavango River in 2011. The additional area covers some 5687 km² (Table 7). The total area that the Company has secured for radioactive minerals is 7116.8 km² (Table 7) and overlaps with some of the Newdico diamond and Gcwihaba base metal permits.

Table 7. Prospecting Licences held by Gcwihaba

GCWIHABA – RADIOACTIVE LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km²**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
Pl 150/2010	719	07/01/10	07/01/13	Initial Grant	3,595	1) 50,000 2) 60,000 3) 70,000	190,785	25,040
PL 151/2010	711	07/01/10	07/01/13	Initial Grant	3,555	1) 50,000 2) 60,000 3) 70,000	190,665	25,024
PL 045/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	1) 50,000 2) 60,000 3) 70,000	195,000	25,593
PL 046/2011	847	01/01/11	01/01/14	Initial Grant	4,235	1) 50,000 2) 60,000 3) 70,000	192,705	25,292
PL 047/2011	907	01/01/11	01/01/14	Initial Grant	4,535	1) 50,000 2) 60,000 3) 70,000	193,605	25,410
PL 048/2011	769	01/01/11	01/01/14	Initial Grant	3,845	1) 50,000 2) 60,000 3) 70,000	191,535	25,139
PL 049/2011	974	01/01/11	01/01/14	Initial Grant	4,870	1) 50,000 2) 60,000 3) 70,000	194,610	25,542
PL 050/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	1) 50,000 2) 60,000 3) 70,000	195,000	25,593
TOTAL	6,927				34,635		1,543,905	202,633

The company is reviewing the exploration results from Union Carbide Exploration Corporation who had secured many prospecting licences in west and north-west Botswana for uranium. Their exploration program in north-west Botswana (Ngamiland) started in 1977 and continued until 1980, and of particular interest are their findings of anomalous uranium within what they called the Kkhaudum and Chadum palaeo-drainages covered by their Prospecting Licences 4/79, 5/79, 3/80, 4/80 and 5/80.

High counts of uranium in both calcrete and water samples and anomalous counts of vanadium from the water samples were obtained. Up to 30 meter thick valley calcrete (the target calcrete) were drilled with geochemical anomalous concentration of uranium in certain trap environments, However, at the time no ore-bodies were delineated, but Union Carbide concluded "that there is definitely uranium in the system as is evident by some very high uranium contents in the water samples" (Union Carbide Final report 1980 by DJ Jack).

The Company's strategy is two-fold. Firstly it is to conduct a geomorphological study of the area using remote sensing techniques with field checking. This is to be linked to buried palaeo-channels of Tertiary age that have been identified by geophysics while interpreting the most recent government Airborne Magnetic data in the search for kimberlites on overlapping Newdico diamond prospecting licences. Secondly, recent diamond drilling conducted by Gcwihaba mainly on the eastern part of the licences have returned anomalous uranium assay results in some of the Proterozoic meta-sedimentary units underlying the Kalahari Group sediments.

During the year, 7,001 samples were assayed for Uranium using the ME ICP61, ME MS81 (both in the ALS Laboratory in Johannesburg) and ICP AES (in the Scientific Services Laboratory in Cape Town) geochemical assay techniques. These samples were derived from 29 boreholes drilled during the Phase 1 program.

The results from borehole L9640/2 (100 ppm U) in black shales, and 1822D12/3 (40 ppm U) from meta-pelites, have been encouraging. Research in the understanding of the link between these anomalous meta-sedimentary rocks and the surface uranium anomalies in the Kalahari calcretes is on-going.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2011, the Company had a working capital of $80,446 [Deficiency at December 2010: ($2,569,273)], which included cash and equivalents $1,505,965, (December 2010: $2,728,695). 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 had exercises of warrants related to private placements for additional cash proceeds of $516,713, $150,979, $148,728, and $1,110,217 on February 26, 2011, June 8, 2011, August 15, 2011, and December 22, 2011 respectively, see discussion in Financing Activities below. The Company does not hedge its activities. At year end, the Company did not have any material contractual obligations except for minimum spending requirements on exploration licenses. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of December 31, 2011, the expenditure requirements inclusive of license fees from the date of grant to and if held to their full term are as follows:

Project Description	Required Expenditure	
	BWP	USD
Newdico – Diamond	3,639,490	$477,676
Gcwihaba - Diamond	1,197,320	$157,145
Gcwihaba - Metals	4,013,795	$526,810
Gcwihaba - Radioactive Minerals	1,543,905	$202,633

Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments. The Company's warrants are classified as derivative liabilities and are recorded at their estimated fair value. The liability recognized at December 31, 2011 for the warrants is $1,500,766 (December 2010: $5,266,191). The Company is not required to pay cash to the holders of the warrants to settle this liability. Due to the nature of the Company's operations, there is no significant credit or interest rate risk.

Operating Activities

Cash outflow used in operating activities before working capital adjustment increased from $413,859 for the year ended December 31, 2010 to $521,422 for the year ended December 31, 2011. The increase was due primarily to corporate remuneration, investor relations, legal and audit, filing fees, and administrative expenses, which were greater in 2011 than 2010.

Annual Information (in US Dollars)	Fiscal Year December 31, 2011	Fiscal Year December 31, 2010
Net income (loss) for the year	$1,719,246	($233,146)
Basic income (loss) per share	$0.07	($0.01)
Basic diluted income (loss) per share	$0.07	($0.01)
Total other comprehensive income (loss)	($1,810,035)	$335,407
Total comprehensive income (loss) for the year	($90,789)	$111,901
Basic comprehensive income (loss) per share	$0.00	$0.01
Diluted comprehensive income (loss) per share	$0.00	$0.01
Total assets	$11,477,912	$11,481,978
Total long term liabilities	-	-
Cash dividend	-	-

Quarterly Information (in US Dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Year ended December 31, 2010				
Net income (loss) for the year	($5,389,372)	$1,270,083	$2,062,846	$1,823,297
Basic income (loss) per share	($0.28)	$0.05	$0.10	$0.12
Diluted basic income (loss) per share	($0.28)	$0.04	$0.13	$0.10
Comprehensive income (loss) for the year	($5,464,797)	$968,877	$2,550,863	($2,056,958)
Basic comprehensive income (loss) for the year	($0.29)	$0.04	$0.13	($0.12)
Diluted comprehensive income (loss) per share	($0.29)	$0.04	$0.11	($0.14)
Total assets	$5,928,143	$10,577,211	$11,109,568	$11,481,978
Total long term liabilities	-	-	-	-

Quarterly Information (in US Dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Year ended December 31, 2011				
Net income (loss) for the year	$1,405,616	$128,486	($457,653)	$642,797
Basic income (loss) per share	$0.05	$0.01	($0.02)	$0.03
Diluted basic income (loss) per share	$0.05	$0.01	($0.02)	$0.03
Comprehensive income (loss) for the year	$937,594	$262,444	($1,169,022)	($121,805)
Basic comprehensive income (loss) for the year	$0.04	$0.01	($0.01)	($0.04)
Diluted comprehensive income (loss) per share	$0.03	$0.01	($0.01)	($0.03)
Total assets	$11,454,205	$11,751,730	$11,066,456	$11,477,912
Total long term liabilities	-	-	-	-

Investing Activities

Cash flow applied in investing activities decreased to $2,520,331 for the year ended December 31, 2011 (2010: $2,671,002).

Total expenditures of $2,270,342 on exploration properties for the year ended December 31, 2011 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 3.55% to 2.89% attributed to the Trans Hex Group for the Newdico project. Trans Hex Group has a 3% interest for funding the expenses of Newdico. There were no material disposals of capital assets or investments during the year.

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) financing 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 to five years from the date of issuance.

During the year ended December 31 2011, the Company received gross proceeds in the amount of $1,926,547 from the exercise of Warrants related to private placements.

Private Placement Date	No. of Units	Price per Unit	Proceeds
None	--	--	--
Warrant Exercise Date	**No. of Shares**	**Price per Share**	**Proceeds**
February 26, 2011	728,061	C$0.70	$516,713
June 8, 2011	210,894	C$0.70	$150,979
August 15, 2011	201,519	C$0.70	$148,728
December 22, 2011	2,093,156	C$0.55	$1,110,217

Tsodilo expects to raise the amounts required to fund its 97% 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 net income of $1,719,246 for the year ended December 31, 2011 ($0.07 cents per common share) compared to a net loss of ($223,146) for the year ended December, 2010 [($0.01) cents per common share]. Although the Company experienced an increase in remuneration and administration reflecting general corporate activity, it was offset by unrealized gains on warrants. The decrease in stock option expense reflects fewer option granted and changes to share price. The unrealized gain on warrants increased from $671,515 in 2010 to $2,673,378 in 2011.

Cumulative exploration expenditures including amortization of property, plant and equipment used in exploration activities on all projects amounted to $8,774,657 as at December 31, 2011 compared to $7,493,891 as at December 31, 2010. Cumulative exploration expenditures incurred on the Newdico project as at December 31, 2011 was $6,291,558 compared to $6,057,490 as at December 31, 2010. The principal components of the Newdico exploration program were: (a) additional soil sampling and the completion of the processing and analysis of the soil samples; (b) commissioning of further ground magnetic surveys of selected aeromagnetic anomalies; (c) analyzing detailed proprietary aeromagnetic maps covering the target areas; and (d) commencement of a diamond core drilling program on selected targets. Cumulative exploration expenditures incurred on Gcwihaba's projects as at December 31, 2011 were $2,483,099 compared to $1,436,401 as at December 31, 2010.

PERSONNEL

At December 31, 2011, the Company and its subsidiaries employed thirty-five (35) individuals compared to twenty-six (26) at December 31, 2010, including senior officers, administrative and operations personnel including those on a short-term service basis.

FOURTH QUARTER - 2011

The fourth quarter was a normal operating period for a quarter. Operating expenses were at normal levels for the fourth quarter of the year.

RISKS AND UNCERTAINTIES

Operations of the Company are speculative due to the high risk nature of its business which includes acquisition, financing, exploration and development of diamond and metal properties (collectively "mineral"). Material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set below. Any one or more of these risks and others could have a material adverse effect on the Company.

Additional Funding Requirements

Further development and exploration of the various mineral projects in which the Company holds an interest depends upon the Company's ability to obtain financing through equity or debt financing, joint ventures or other means. While the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be successful in obtaining additional financing in the amount and at the time required and, if available, that it can be obtained on terms satisfactory to the Company.

Failure to obtain equity or debt financing on a timely basis may cause the Company to postpone its exploration and development plans or forfeit rights in some of its projects.

Uncertainties Related to Mineral Resource Estimates

There is a degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity and value of reserves or resources may vary, depending on mineral prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company's properties. In addition, there is no assurance that recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production. Determining the economic viability of a mineral project is complicated and involves a number of variables.

Commodity Prices and Marketability

The mining industry, in general, is intensely competitive and there is no assurance that, even if commercial quantities of minerals are discovered, a profitable market will exist for the sale of minerals produced. Factors beyond the control of the Company may affect the marketability of any minerals produced and which cannot be accurately predicted, such as market fluctuations, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, any combination of which factors may result in the Company not receiving an adequate return on investment capital. Prices received for minerals produced and sold are also affected by numerous factors beyond the Company's control such as international economic and political trends, global or regional consumption and demand and supply patterns. There is no assurance that the sale price of minerals produced from any deposit will be such that they can be mined at a profit.

Currency Risk

The Company's business is mainly transacted in Botswana Pula and U.S. dollar currencies. As a consequence, fluctuations in exchange rates may have a significant effect on the cash flows and operating results of the Company in either a positive or negative direction.

Foreign Operations Risk

The Company's current significant projects are located in Botswana. This exposes the Company to risks that may not otherwise be experienced if its operations were domestic. The risks include, but are not limited to, environmental protection, land use, water use, health safety, labor, restrictions on production, price controls, currency remittance, and maintenance of mineral tenure and expropriation of property. There is no assurance that future changes in taxes or such regulation in the various jurisdictions in which the Company operates will not adversely affect the Company's operations. Although the operating environments in Botswana are considered favorable compared to those in other developing countries, there are still political risks. These risks include, but are not limited to terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation and labor unrest. Changes in mining or investment policies or shifts in political attitudes may also adversely affect the Company's business.

Mineral Exploration and Development

The business of exploring for minerals and mining is highly, speculative in nature and involves significant financial and other risks which even careful evaluation, experience and knowledge may not eliminate. There is no certainty that expenditures made or to be made by the Company in exploring and developing mineral properties in which it has an interest will result in the discovery of commercially mineable deposits. Most exploration projects do not result in the discovery of commercially mineable deposit. While discovery of a mineral deposit may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. There can be no guarantee that exploration programs carried out by the Company will result in the development of profitable mining operations.

Title Matters

Any changes in the laws of Botswana relating to mining could have a material adverse effect to the rights and title to the interests held in those countries by the Company. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of applicable exploration and mining authorizations nor that such exploration and mining authorizations will not be challenged or impugned by third parties.

Infrastructure

Exploration, development, mining and processing activities depend on the availability of adequate infrastructure. Reliable roads, bridges, sewer and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance of provision of such infrastructure could adversely affect activities and profitability of the Company.

Uninsured Risks

The mining business is subject to a number of risks and hazards including, but not limited to, environmental hazards, industrial accidents, labor disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave~ ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions and other acts of God. Such risks could result in damage to mineral properties or facilities, personal injury or death, environmental damage, delays in exploration, development or mining, monetary losses and possible legal liability. The Company maintains insurance against certain risks that are associated with its business in amounts that it believes to be reasonable at the current stage of operations. There can be no assurance that such insurance will continue to be available at economically acceptable premiums or will be adequate to cover any future claim.

Competition

The mining industry is intensely competitive in all its phases and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire prospective properties in the future.

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.

ADOPTION OF NEW ACCOUNTING STANDARDS

New Accounting Pronouncements

Transition to International Financial Reporting Standards ("IFRS")

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs, IASs, and interpretations issued by IFRICs or the former SICs.

As previously discussed in the Company's MD&A for the year ended December 31, 2010, the Company's two operating subsidiaries previously prepared audited financial statements in accordance with IFRS. Accordingly, the Company's transition plan was primarily focused on transition issues relating to the consolidation of the Company's operating subsidiaries, and on accounting issues at the parent company level. The plan consisted of three main phases, as follows:

- Scoping and Diagnostic Phase: An initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standard under IFRS was completed in 2010.
- Impact, Analysis, Evaluation and Design Phase: In this phase, each area identified during the scoping phase was addressed to determine the specific changes required to existing policies and to identify new policies under IFRS. This phase has now been completed.
- Implementation and Review Phase: This phase includes the execution of any changes to business processes and completion of formal documents analyzing the transition to IFRS. This phase, which includes the maintenance of sustainable IFRS compliant data and processes for fiscal 2011 and beyond, was carried out throughout 2011.

The Company's IFRS accounting policies are disclosed in Note 2 to the consolidated financial statements. Reconciliation between the Company's financial statements as previously reported under Canadian GAAP and the accounting policies used to prepare the interim condensed consolidated financial statements as at and for the periods ended March 31, 2010, June 30, 2011 and 2010, and September 30, 2011 and 2010, are consistent with the accounting policies used to prepare the December 31, 2011 and 2010 consolidated financial statements. Refer to current reporting under IFRS as detailed in Note 14 of the consolidated financial statements.

The following is an overview of the impacts to the Company's financial results due to the transition to IFRS.

IFRS Adjustments

Adjustment 1 - IFRS 2 Stock Based Compensation Expenses

The Company issues share-based compensation in the form of stock options that vest evenly (semi-annually) over a two year period. Under Canadian GAAP, the Company recognized the fair value of the compensation expenses, determined at the time of the grant, on a straight-line basis over the two year vesting period. Under IFRS 2 Share Based Payments, the fair value of each tranche of the award is considered to be a separate grant, based on its vested period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of this respective vesting period. Accordingly, compensation expense under IFRS was recognized at more accelerated rates than under Canadian GAAP.

The Company computed all non-vested stock options at January 1, 2010 on a graded basis separating tranches for amortization over respective vesting periods. Stock option forfeitures were also estimated on a historical basis. The Black Scholes valuation method was used to prepare the valuations, calculations and details for disclosure for Stock Option expense and comparative stock option expense estimated for prior year comparisons. As a result, Stock Option Reserves were increased by $29,629 as at January 1, 2010 and $261,482 as at December 31, 2010. Of these amounts, $4,986 and $133,144 were capitalized as salaries to exploration and evaluation cost as at January 1, 2010 and December 31, 2010 respectively.

Adjustment 2 – IAS 21 Foreign Exchange

The Company's subsidiaries (Gcwihaba and Newdico) operate in a functional currency in Botswana Pula. Under Canadian GAAP the subsidiaries were considered integrated operations for foreign exchange considerations and calculations. Under IFRS, since there is no integrated operation option and because of the difference in functional currency between these subsidies and the Company's U.S. Dollars, IFRS provides guidance on presenting the foreign operations in the presentation currency. Non-monetary assets and liabilities are translated at year-end exchange rates and income and expenses are translated at the rates at which they have been incurred. This differs from previous GAAP reporting which required non-monetary assets to be translated at the historical exchange rate in effect when the assets were acquired.

For December 31, 2010, a cummulative adjustment of ($82,254) was made to Plant, Property and Equipment, ($159,633) was made to Exploration and Evaluation Cost, and 1,994 was made to Accounts Payable.

Adjustment 3 – IAS 32 Warrants Denominated in Non-functional Currency

The Warrants issued by the Company provide the right to purchase stock in Canadian dollars. Since the Company's functional currency is the U.S. dollar, IFRS requires that the warrants be accounted for as derivative liabilities. As a result, the Company has reclassified its Warrants from Equity to liabilities and will account for warrants as derivative liabilities with changes in fair value being recognized in profit or loss.

At inception January 1, 2010 the value of the warrants increased by $1,466,252 resulting in corresponding charge to deficit.

Adjustment 4 – Non-Controlling Interest Reclassification into Equity

The Company reclassified its non-controlling interest at January 1, 2010 and December 31, 2010 to equity.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2010, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IAS 1 – Presentation of Financial Statements

IAS 1 prescribes the basis for presentation of general purpose financial statements and is effective for annual periods beginning on or after January 1, 2011 to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. There are no additional significant impacts on the Company.

IAS 24 – Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. There are no additional significant impacts on the Company.

Accounting standards effective January 1, 2012

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for the annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate the amendment to have a significant impact on its consolidated financial statements.

Income Taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Accounting standards anticipated to be effective January 1, 2013

IFRS 9 – Financial Instruments Disclosure

IFRS 9 Financial Instruments was published and contained requirements for financial assets updating IFRS 7. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires that a reporting entity should consolidate any investee that it controls. Control is the basis for consolidation for all types of investees. IFRS 10 also provides guidance on assessing control in circumstances where the assessment has proven to be difficult. IFRS 10 provides more guidance about the factors to consider in such structures that involve potential voting rights, agency relationships, relationships with structured entities and control without a majority of voting rights. The Company consolidation with its current subsidiaries and related consolidation decisions should be unaffected by the new consolidation model in IFRS 10.

IFRS 11 – Joint Arrangements

The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and requires such entities to be accounted for using the equity methods and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity caries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company does not anticipate this amendment will have a significant impact on its consolidated financial statements.

IFRS 12 – Disclosure of Interest in other entities

IFRS 12 sets out disclosure requirements for reporting entities that have an interest in a subsidiary, joint arrangement, associate or unconsolidated structured entity. The are no additional interest or disclosures required.

Consolidation

On September 20, 2010 the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standard on consolidations, IAS 27 – Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard's expected to have on its condensed consolidated financial statements.

Fair Value Measurement

IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

Accounting standards effective January 1, 2012

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for the annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate the amendment to have a significant impact on its consolidated financial statements.

Income Taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

RELATED PARTY TRANSACTIONS

During the years ended December 31, 2011, 2010, 2009 and 2008, the Company incurred leave benefits (2011 $23,412 2010: $33,293 2009: $19,024, 2008: $19,024) payable to an officer and director of the Company amounting to $94,753. In June 2010: $59,451 April 2011: $19,612 December 2011: $15,690, the Company paid the officer and director of the Company a total of $94,753, leaving a zero balance payable as at December 31, 2011 to an officer and director of the Company.

Remuneration of Key Management Personnel of the Company

	2011	2010
Short Term employee remuneration and benefits	$ 419,861	$ 348,427
Stock based compensation	522,963	559,963
Total compensation paid to key management personnel	$ 942,824	$ 908,390

There are no other related party transactions.

OUTLOOK

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

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

James M. Bruchs
Chairman and Chief Executive Officer
February 17, 2012

Gary A. Bojes
Chief Financial Officer
February 17, 2012

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 International Financial Reporting Standards 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 consolidated financial statements for the years ended December 31, 2011 and 2010 and the January 1, 2010 opening IFRS statement of financial position have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

James M. Bruchs
Chairman and Chief Executive Officer
February 17, 2012

Gary A. Bojes
Chief Financial Officer
February 17, 2012

AUDITORS' REPORT

To the Shareholders of Tsodilo Resources Limited:

We have audited the accompanying consolidated financial statements of Tsodilo Resources Limited, which comprise the statements of financial position as at December 31, 2011 and 2010, and January 1, 2010 and the consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tsodilo Resources Limited as at December 31, 2011 and 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada
February 17, 2012

Tsodilo Resources Limited

Consolidated Statements of Financial Position
(In United States dollars)

	December 31 2011	December 31 2010 (Note 14)	January 1 2010 (Note 14)
ASSETS			
Current			
Cash	**$ 1,505,965**	**$ 2,728,695**	**$ 108,341**
Accounts receivable and prepaid expenses	**179,352**	**65,171**	**67,640**
	1,685,317	**2,793,866**	**175,981**
Exploration and Evaluation Assets *(note 3)*	**8,774,657**	**7,493,891**	**4,919,093**
Property, Plant and Equipment *(note 4)*	**1,017,938**	**323,416**	**222,683**
Deposit on Equipment *(note 4)*	**--**	**870,805**	**--**
	$ 11,477,912	**$ 11,481,978**	**$ 5,317,757**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 104,105**	**$ 97,448**	**$ 73,051**
Warrants *(note 5b)*	**1,500,766**	**5,266,191**	**2,598,156**
Total Liabilities	**1,604,871**	**5,363,639**	**2,671,207**
SHAREHOLDERS' EQUITY			
Share Capital *(note 5a)*	**35,056,638**	**32,038,044**	**29,646,445**
Stock Option Reserves *(note 5c)*	**8,711,103**	**7,884,206**	**6,915,917**
Foreign Currency Reserves	**(1,455,134)**	**318,924**	**-**
Deficit	**(32,653,953)**	**(34,373,199)**	**(34,150,053)**
Equity attributable to Owners of the Parent	**9,658,654**	**5,867,975**	**2,412,309**
Non-controlling Interest *(note 3)*	**214,387**	**250,364**	**234,241**
Total Equity	**9,873,041**	**6,118,339**	**2,646,550**
Total Liabilities and Equity	**$ 11,477,912**	**$ 11,481,978**	**$ 5,317,757**

Commitments *(note 11)*
Subsequent events *(note 13)*

See accompanying notes to the consolidated financial statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

David J. Cushing
Chairman, of the Audit Committee

James M. Bruchs
Chairman

Tsodilo Resources Limited

Consolidated Statements of Operations and Comprehensive Income (Loss)

(In United States dollars)

	Year Ended December 31 **2011**	2010 (Note 14)
Administrative Expenses		
Corporate remuneration	**$ 148,624**	$ 79,692
Corporate travel and subsistence	**27,264**	4,092
Investor relations	**16,911**	9,500
Legal and audit	**134,876**	63,878
Filings and regulatory fees	**30,303**	22,635
Administrative expenses	**164,046**	148,255
Amortization	**4,846**	2,035
Stock-based compensation (note 5c)	**427,864**	478,772
	954,734	808,859
Other Income (Expense)		
Other expense	**3,077**	6,489
Warrant issue cost	**--**	(52,804)
Unrealized gain (loss) on warrants (Note 5b)	**2,673,378**	671,515
Foreign exchange (loss)	**(2,475)**	(39,487)
Net Income (Loss) for period	**$ 1,719,246**	($ 223,146)
Other Comprehensive Income (Loss)		
Foreign currency translation	**(1,810,035)**	335,047
Total Other Comprehensive Income (Loss)	**(1,810,035)**	335,407
Total Comprehensive Income (Loss) for the period	**($ 90,789)**	$ 111,901
Net Income (Loss) attributable to shareholders of the parent	**$ 1,719,246**	($ 223,146)
Non-controlling interest	**--**	--
	$ 1,719,246	($ 223,146)
Total Comprehensive Income (Loss) attributable to owners of the parent	**(54,812)**	$ 95,778
Non-controlling Interest	**(35,977)**	16,123
	($90,789)	$ 111,901
Basic income (loss) per share attributable to owners of the parent (note 7)	**$0.07**	($0.01)
Fully diluted income (loss) per share attributable to the owners of the parent (note 7)	**$0.07**	($0.01)
Basic comprehensive income (loss) per share attributable to the owners of the parent (note 7)	**($0.00)**	$0.01
Fully diluted comprehensive income (loss) per share attributable to the owners of the parent (note 7)	**($0.00)**	$0.01

See accompanying notes to the consolidated financial statements

Tsodilo Resources Limited

Consolidated Statements of Shareholders' Equity

(In United States dollars except for shares)

	Share Capital		Stock Option Reserve	Foreign Currency Reserve	Deficit	Total attributable to equity holder of the parent	Non-Controlling Interest	Total Equity
	Shares Issued	Amount						
Balance January 1, 2011	**22,647,340**	**$32,038,044**	**$7,884,206**	**$318,924**	**($34,373,199))**	**$5,867,975**	**$250,364**	**$6,118,339**
Exercise of warrants	**3,233,630**	**3,018,594**	--	--	--	**3,018,594**	**--**	**3,018,594**
Stock Based Compensation	**--**	**--**	**826,897**	**--**	**--**	**826,897**	**--**	**826,897**
Comprehensive Income (loss) 2011	**--**	**--**	**--**	**(1,774,058)**	**1,719,246**	**(54,812)**	**(35,977)**	**(90,789)**
Balance December 31, 2011	**25,880,970**	**$35,056,638**	**$8,711,103**	**($1,455,134)**	**($32,653,953)**	**$9,658,654**	**$214,387**	**$9,873,041**

See accompanying notes to the consolidated financial statements.

Tsodilo Resources Limited

Consolidated Statements of Shareholders' Equity

(In United States dollars except for shares)

	Share Capital		Stock Option Reserve	Foreign Currency Reserve	Deficit	Total attributable to equity holder of the parent	Non-Controlling Interest	Total
	Shares	Dollars						
Balance January 1, 2010	**18,787,457**	**$29,646,445**	**$6,915,917**	**-**	**($34,150,053)**	**$2,412,309**	**$234,241**	**$2,646,550**
Private Placement	**3,859,883**	**1,200,362**	--	--	--	**1,200,362**	--	**1,200,362**
Transaction Costs		**(21,554)**				**(21,554)**		**(21,554)**
Exercised Warrants		**1,212,791**	--	--	--	**1,212,791**	--	**1,212,791**
Stock Based Compensation	**--**	**--**	**968,289**	**--**	**--**	**968,289**	--	**968,289**
Comprehensive Income (loss)	**--**	**--**	**--**	**318,924**	**(223,146)**	**95,778**	**16,123**	**111,901**
Balance December 31, 2010	**22,647,340**	**$32,038,044**	**$7,884,206**	**$318,924**	**($34,373,199)**	**$5,867,975**	**$250,364**	**$6,118,339**

See accompanying notes to the consolidated financial statements.

Tsodilo Resources Limited

Consolidated Statements of Cash Flows

(In United States dollars)

	Year Ended December 31	
	2011	2010
Cash provided by (used in):		
Operating Activities		
Net Income (Loss) for the year	**$ 1,719,246**	($ 223,146)
Adjustments for non-cash items:		
Unrealized (gain) loss on warrants	**(2,673,378)**	(671,515)
Amortization	**4,846**	2,035
Stock-based compensation	**427,864**	478,772
	(521,422)	(413,854)
Net change in non-cash working capital balances *(note 12)*	**(107,524)**	26,866
	(628,946)	(386,988)
Investing Activities		
Additions to exploration properties	**(2,270,342)**	(1,584,780)
Deposit on equipment	**--**	(870,805)
Additions to property, plant and equipment	**(249,989)**	(215,417)
	(2,520,331)	(2,671,002)
Financing Activities		
Shares and warrants issued for cash, net of cost	**1,926,547**	5,678,344
	1,926,547	5,678,344
Change in cash - For the year	**(1,222,730)**	2,620,354
Cash - beginning of year	**2,728,695**	108,341
Cash - end of year	**$ 1,505,965**	$ 2,728,695

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

Tsodilo Resources Limited ("Tsodilo" or "the Company") is an exploration stage company which is engaged principally in the acquisition, exploration and development of mineral properties in the Republic of Botswana.

The Company is considered to be in the exploration and development stage given that none of its properties are in production and, to date, has not earned any significant revenues. The recoverability of amounts shown for exploration and evaluation assets is dependent on the existence of economically recoverable reserves, the renewal of exploration licenses, obtaining the necessary permits to operate a mine, obtaining the financing to complete exploration and development, and future profitable production. It is incorporated under laws of the Yukon Territory, Canada, under the Business Corporations Act of Yukon and the address of the Company's registered office is 161 Bay Street, P.O. Box 508 Toronto, Ontario, Canada, M5J 2S1. The Company currently exists under the Business Corporations Act of Yukon and its common shares are listed on the Toronto Venture Stock Exchange (TSXV) under the symbol TSD.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Company has sufficient cash (as well as no debt obligations outside of normal course accounts payable and accrued liabilities) to continue operating for the ensuing twelve months. Accordingly, these consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the consolidated statement of operations and comprehensive income (loss), and consolidated statement of financial position classifications that would be necessary were the going concern assumption not appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of Compliance and conversion to International Financial Reporting Standards*

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first consolidated financial statements prepared in accordance with IFRS using accounting policies consistent with IFRS. The accounting policies have been selected to be consistent with IFRS effective on December 31, 2011, the Company's first annual IFRS reporting date. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on February 17, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ***Basis of Preparation***

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss which are stated at their fair value. These consolidated financial statements are presented in United Stated dollars and include the accounts of the Company and the following direct and indirect subsidiaries:

	2011	2010
Tsodilo Resources Bermuda Limited (Bermuda)	100%	100%
Gcwihaba Resources (Proprietary) Limited ("Gcwihaba") [Botswana]	100%	100%
Bosoto (Proprietary) Limited ("Bosoto") [Botswana]	100%	100%
Newdico (Proprietary) Limited ("Newdico") [Botswana]	97%	96%

All intercompany transactions have been eliminated on consolidation

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented. They also have been applied in preparation of an opening IFRS statement of financial position as at January 1, 2010 (the "Transition Date"), as required by IFRS 1. *First Time Adoptions of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in note 14.

(c) ***Significant Accounting Judgments, Estimates and Assumptions***

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of polices and reporting amounts and assets and liabilities, income and expenses. Actual results may differ from these estimates.

Accounts that require estimates as the basis for determining the stated amounts include exploration and evaluation assets, property, plant and equipment, warrant liability and share-based compensation. Depreciation and depletion of exploration and evaluation assets and property, plant and equipment assets are dependent upon estimates of useful lives and resource estimates, both of which are determined with the exercise of judgment. The assessment of any impairment of exploration and evaluation assets or property, plant and equipment upon the estimates of fair value that take into account factors such as resources, economic and market conditions, and the useful lives of assets. Share-based compensation expense is calculated using the Black-Scholes valuation model which requires significant judgment as to considerations such as stock option lives and stock volatility. Warrant liability is also calculated using the Black-Scholes valuation model which requires significant judgment as to the considerations such as warrant lives and stock volatility.

(d) ***Earnings (Loss) per Common Share***

Earnings (loss) per share calculations are based on the net income attributable to common shareholders for the year divided by the weighted average number of common shares issued and outstanding during the year.

Diluted earnings per share calculations are based on the net income attributable to common shareholders for the year divided by the weighted average number of common shares outstanding during the year plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year. The incremental number of common shares that would be issued is included in the calculation of diluted earnings per share.

Diluted earnings per share calculations are based on the net comprehensive income (loss) and income attributable to common shareholders for the year divided by the weighted average number of common shares issued and outstanding during the year ended 2011. Stock options and share purchase warrants are included in the computation of comprehensive income (loss) and income per share for the year ended December 31, 2011.

(e) ***Exploration and Evaluation Assets***

Exploration and evaluation assets include acquired mineral use rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) for mineral use rights is capitalized. The amounts shown for exploration and evaluation assets represents all direct and indirect costs relating to the acquisition, exploration and development of exploration properties, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the exploration and evaluation assets are abandoned or sold. The Company has classified exploration and evaluation assets as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimates of proven and probable reserves.

Ownership of exploration and evaluation assets involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for exploration and evaluation assets is dependent upon the delineation of economically recoverable ore reserves, the renewal of exploration licenses, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate the mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its Botswana exploration and evaluation assets have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write downs of exploration and evaluation assets carrying values.

(f) ***Property, Plant and Equipment***

Property, plant and equipment is stated at cost, less accumulated depreciation.

Depreciation is calculated on a straight line basis over the following terms:

Vehicles	5 Years
Furniture and equipment	3 Years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(g) ***Cash***

Cash consists of cash held in banks.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) *Foreign Currency Translation*

(i) Functional and presentation currency

The Company's functional and presentation currency is the United States dollar. The functional currency of the Company's subsidiaries is as follows:

Tsodilo Resources Bermuda Limited	U.S. Dollar
Gcwihaba	Botswana Pula
Newdico	Botswana Pula
Bosoto	Botswana Pula

Each subsidiary and the Company's parent entity determine their own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date.

(iii) Translation of foreign operations

As at the reporting date the assets and liabilities of Gcwihaba, Newdico and Bosoto are translated into the presentation currency of the Company at the rate of exchange prevailing at the reporting date and its revenue and expenses are translated at the exchange rate at the date of the transactions. The exchange differences arising on the translation are taken to the foreign currency reserve. On consolidation, exchange differences arising from the translation of the net investments in Gcwihaba, Newdico and Bosoto are taken to the foreign currency reserve.

If Gcwihaba, Newdico and Bosoto were sold, the exchange differences would be transferred out of equity and recognized in the Statement of Operations and Comprehensive Income (Loss).

(i) *Income Taxes*

Current taxes are the expected tax payable or receivable on the local taxable income or loss for the year, using the local tax rate enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the balance sheet method whereby deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) ***Share-based Compensation***

The Company follows the fair value method of accounting for stock option awards granted to employees, directors and consultants. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock. Share-based compensation is amortized to earnings and portions are capitalized for indirect exploration costs over the vesting period of the related option.

The Company uses graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

(k) ***Decommissioning, restoration and similar liabilities (Asset Retirement Obligation or "ARO")***

The Company records the present value of estimated costs of legal and constructive obligations required to restore the site in a period in which the obligation is incurred. The nature of these restorations activities include dismantling and removing structures, rehabilitating mines and tailings dams, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of Botswana where the potential mines would operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of the obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The present value of decommissioning and site restoration costs are recorded as a long-term liability. The provision is discounted using a nominal, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations and comprehensive income (loss) to reflect the passage of time and the liability is accreted by a charge to the statement of operations and comprehensive income (loss) to reflect the passage of time and the liability is adjusted to reflect any change in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long term asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the estimated outstanding continuous rehabilitation work at each reporting date and the cost is charged to the statement of operations and comprehensive income (loss).

The Company had no asset retirement obligations as of December 31, 2011, December 31, 2010 and January 1, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held for maturity, available for sale, loans and receivables, or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses, recognized through earnings. The Company does not have any financial assets classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's cash and accounts receivable are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains or losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At December 31, 2011, December 31, 2010 and January 1, 2010, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

(m) Financial Liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, to, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include warrants with exercise prices denominated in a currency other than the Company's functional currency. Derivatives, including separated embedded derivatives are also classified as FVTPL and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. Transaction costs associated with FVTPL liabilities are expensed as incurred.

(n) Impairment of assets

At the end of each reporting period, the Company assesses each cash generating unit to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of the fair value less cost to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risk of a specific asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Related Party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

(p) New standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2010, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IAS 1 – Presentation of Financial Statements

IAS 1 prescribes the basis for presentation of general purpose financial statements and is effective for annual periods beginning on or after January 1, 2011 to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. There are no additional significant impacts on the Company.

IAS 24 - Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. There are no additional significant impacts on the Company.

Accounting standards effective January 1, 2012

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for the annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate the amendment to have a significant impact on its consolidated financial statements.

Income Taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES(continued)

Accounting standards anticipated to be effective January 1, 2013

IFRS 9 – Financial Instruments Disclosure

IFRS 9 Financial Instruments was published and contained requirements for financial assets updating IFRS 7. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires that a reporting entity should consolidate any investee that it controls. Control is the basis for consolidation for all types of investees. IFRS 10 also provides guidance on assessing control in circumstances where the assessment has proven to be difficult. IFRS 10 provides more guidance about the factors to consider in such structures that involve potential voting rights, agency relationships, relationships with structured entities and control without a majority of voting rights. The Company consolidation with its current subsidiaries and related consolidation decisions should be unaffected by the new consolidation model in IFRS 10.

IFRS 11 – Joint Arrangements

The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and requires such entities to be accounted for using the equity methods and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity caries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company does not anticipate this amendment will have a significant impact on its consolidated financial statements.

IFRS 12 – Disclosure of Interest in other entities

IFRS 12 sets out disclosure requirements for reporting entities that have an interest in a subsidiary, joint arrangement, associate or unconsolidated structured entity. There are no additional interest or disclosures required.

Consolidation

On September 20, 2010 the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standard on consolidations, IAS 27 – Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard's expected to have on its condensed consolidated financial statements.

Fair Value Measurement

IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are summarized as follows:

	Newdico Botswana Precious Stones	Gcwihaba Botswana Precious Stones	Metals	Radio-Active Materials	Subtotal	Total
Balance at January 1, 2010	**$ 4,259,345**	**$ 631,152**	**$ 28,596**	**$ -0-**	**$ 659,748**	**$ 4,919,093**
Additions	1,543,854	669,316	54,780	--	724,096	2,267,950
Net Exchange Differences	254,291	49,390	3,167	--	52,557	306,848
Balance at December 31, 2010	**$6,057,490**	**$1,349,858**	**$86,543**	**$ -0-**	**$1,436,401**	**$7,493,891**
Additions	1,461,647	456,415	668,300	334,763	1,459,478	2,921,125
Net Exchange Differences	(1,227,579)	(129,086)	(189,014)	(94,680)	(412,780)	(1,640,359)
Balance at December 31, 2011	**$6,291,558**	**$1,677,187**	**$565,829**	**$240,083**	**$ 2,483,099**	**$ 8,774,657**

The Company's significant exploration and evaluation assets are summarized as follows:

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

Newdico holds prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 1999, 2001 and 2003. In 2005, the Company was reissued its prospecting licenses for an initial term of three years expiring June 30, 2008, renewable for 2 additional two year periods upon application and which have a final expiry of June 2012. In June of 2008, Newdico relinquished approximately 7,400 square kilometers of the then outstanding 16,800 square kilometers under license. The licenses relinquished were evaluated and determined to be non-prospective for an economic kimberlite discovery. In June 2010, Newdico relinquished approximately 5,463 of the then outstanding 9,402 square kilometers under license. The relinquishment of this portion of the overall licenses did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The balance of the licenses totaling 3,949 square kilometers were renewed for a two-year period and expire in June 2012. The terms of the licenses require Newdico to spend a minimum of Botswana Pula 3,639,490 (US$ 477,676 as at December 31, 2011) inclusive of license fees, from the date of grant to and if held to their full-term.

3. EXPLORATION AND EVALUATION ASSETS (continued)

NEWDICO DIAMOND LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km²**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
PL 62/2005	797	7/01/10	7/01/12	2nd Renewal	3,985	200,000	407,970	53,545.20
PL 63/2005	718	7/01/10	7/01/12	2nd Renewal	3,590	200,000	407,180	53,441.60
PL 64 /2005	851	7/01/10	7/01/12	2nd Renewal	4,255	200,000	408,510	53,616.10
PL 65/2005	194	7/01/10	7/01/12	2nd Renewal	970	200,000	401,940	52,753.80
PL 66/2005	621	7/01/10	7/01/12	2nd Renewal	3,105	200,000	406,210	53,314.30
PL 67/2005	229	7/01/10	7/01/12	2nd Renewal	1.145	200,000	402,290	52,799.80
PL 68/2005	220	7/01/10	7/01/12	2nd Renewal	1,100	200,000	402,200	52,787.90
PL 69 /2005	181	7/01/10	7/01/12	2nd Renewal	905	200,000	401,810	52,736.80
PL 71/2005	138	7/01/10	7/01/12	2nd Renewal	690	200,000	401,380	52,680.30
TOTAL	3,949				19,745	1,800,000	3,639,490	477,676.00

Originally, as a result of an agreement completed on March 31, 2002, Newdico was owned 75% by Tsodilo and 25% by Trans Hex Group Limited ("THG"); with Tsodilo being the operator. Both Tsodilo and THG funded their initial investments in Newdico through a combination of an equity and debt interest. Based on the terms of the equity and debt interests, THG's equity and debt interest in Newdico has been accounted for as a non-controlling interest.

Starting in 2005, THG decided not to fund its proportionate share of expenditures on certain cash calls. Accordingly, the Company's interest in Newdico has increased from 75% to 97% at December 31, 2011 (December 31, 2010 - 96%, and January 1, 2010 - 95%).

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

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

Diamond Exploration

Gcwihaba holds six (6) precious stone – diamond prospecting licenses in the Ngamiland District of north-west Botswana covering 3,728 square kilometers as at December 31, 2010. The Company acquired the various licenses in 2007, 2008 and 2009. In April 2010, the Company relinquished PL 062/2007 in its entirety and PL's 048 and 050/2008 were relinquished in their entirety in December 2010. PL's 046, 047 and 049/2008 were reduced in part in December 31, 2010. The licenses relinquished were evaluated and determined to be non-prospective for an economic kimberlite discovery. The relinquishment of this portion of the overall licenses did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 1,197,320 (US$ 157,146) as at December 31, 2011, inclusive of license fees from the date of grant to and if held to their full-term.

3. EXPLORATION AND EVALUATION ASSETS (continued)

GCWIHABA DIAMOND LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km²**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
PL 46/2008	709	6/01/11	1/01/13	1st Renewal	3,545	70,000	147,090	19,305.30
PL 47/2008	491	6/01/11	1/01/13	1st Renewal	2,455	70,000	144,910	19,019.10
PL 49/2008	710	1/01/11	1/01/13	1st Renewal	3,550	70,000	147,100	19,306.60
PL 641/2009	923	7/01/09	7/01/12	Initial Grant	4,615	1) 70,000		
						2) 80,000	253,845	33,316.60
						3) 90,000		
PL 642/2009	839	7/01/09	7/01/12	Initial Grant	4,195	1) 70,000		
						2) 80,000	252,585	33,151.30
						3) 90,000		
Pl 643/2009	786	7/01/09	7/01/12	Initial Grant	3,930	1) 70,000		
						2) 80,000	251,790	33,047.00
						3) 90,000		
TOTAL	4,456				22,290	930,000	1,197,320	157,145.90

Metal Exploration

Gcwihaba holds eighteen (18) metal (base, precious, platinum group, and rare earth) prospecting licenses in the Ngamiland District of northwest Botswana covering 12,118 square kilometers. The Company acquired the various licenses in 2005, 2008 and 2009. In October 2010, PL's 118 and 119/2005 were relinquished in part; and in December 2010, PL's 051 and 052/2008 were relinquished in part. The relinquishment of this portion of the overall licenses did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 4,013,795 (US$ 526,881) as at December 31, 2011, inclusive of license fees from the date of grant to and if held to their full-term.

3. EXPLORATION AND EVALUATION ASSETS (continued)

GCWIHABA – METAL LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	**Km²**	**Grant Date**	**Renewal date**	**Current Stage**	**Expenditure**		**Total Expenditure From Grant and if held to Full License Term**	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
PL 118/2005	367	10/01/10	10/01/12	2nd Renewal	1,835	100,000	203,670	26,732
PL 119/2005	827	10/01/10	10/01/12	2nd Renewal	4,135	100,000	208,270	27,335
PL 051/2008	487	07/01/11	07/01/13	1st Renewal	2,435	70,000	144,870	19,014
PL 052/2008	382	07/01/11	07/01/13	1st Renewal	1,910	70,000	143,820	18,876
PL 386/2008	570	01/01/12	01/01/14	1st Renewal	2,850	100,000	205,700	26,998
PL 387/2008	965	01/01/12	01/01/14	1st Renewal	4,825	100,000	209,650	27,517
PL 388/2008	318	01/01/12	01/01/14	1st Renewal	1,590	100,000	203,180	26,667
PL 389/2008	979	01/01/12	01/01/14	1st Renewal	4,895	100,000	209,790	27,535
PL 390/2008	808	01/01/12	01/01/14	1st Renewal	4,040	100,000	208,080	27,311
PL 391/2008	455	01/01/12	01/01/14	1st Renewal	2,275	100,000	204,550	26,847
PL 392/2008	829	01/01/12	01/01/14	1st Renewal	4,145	100,000	208,290	27,338
PL 393/2008	938	01/01/12	01/01/14	1st Renewal	4,690	100,000	209,380	27,481
PL 394/2008	650	01/01/12	01/01/14	1st Renewal	3,250	100,000	206,500	27,103
PL 395/2008	972	01/01/12	01/01/14	1st Renewal	4,860	100,000	209,720	27,526
PL 595/2009	320	07/01/09	07/01/12	Initial Grant	1,600	100,000	304,800	40,005
PL 596/2009	925	07/01/09	07/01/12	Initial Grant	4,625	100,000	313,875	41,196
PL 5972009	514	07/01/09	07/01/12	Initial Grant	2,570	100,000	307,710	40,387
PL 588/2009	796	07/01/09	07/01/12	Initial Grant	3,980	100,000	311,940	40,942
TOTAL	12,102				60,510	1,740,000	4,013,795	526,881

Radioactive Minerals

As at December 31, 2011, Gcwihaba holds eight (8) radioactive mineral licenses in the Ngamiland District of northwest Botswana covering 6,925 square kilometers. The Company acquired two (2) of the licenses in July 2010 and a further six (6) in January 2011. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 1,543,905 (US$ 202,633) inclusive of license fees, from the date of initial grant to and if held to their full-term.

3. EXPLORATION AND EVALUATION ASSETS (continued)

GCWIHABA – RADIOACTIVE LICENSE AREAS AS AT DECEMBER 31, 2011								
PL numbers	Km^2	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2011
Pl 150/2010	719	07/01/10	07/01/13	Initial Grant	3,595	1) 50,000 2) 60,000 3) 70,000	190,785	25,040
PL 151/2010	711	07/01/10	07/01/13	Initial Grant	3,555	1) 50,000 2) 60,000 3) 70,000	190,665	25,024
PL 045/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	1) 50,000 2) 60,000 3) 70,000	195,000	25,593
PL 046/2011	847	01/01/11	01/01/14	Initial Grant	4,235	1) 50,000 2) 60,000 3) 70,000	192,705	25,292
PL 047/2011	907	01/01/11	01/01/14	Initial Grant	4,535	1) 50,000 2) 60,000 3) 70,000	193,605	25,410
PL 048/2011	769	01/01/11	01/01/14	Initial Grant	3,845	1) 50,000 2) 60,000 3) 70,000	191,535	25,139
PL 049/2011	974	01/01/11	01/01/14	Initial Grant	4,870	1) 50,000 2) 60,000 3) 70,000	194,610	25,542
PL 050/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	1) 50,000 2) 60,000 3) 70,000	195,000	25,593
TOTAL	6,925				34,635		1,543,905	202,633

General

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

4. PROPERTY, PLANT, AND EQUIPMENT AND DEPOSITS ON EQUIPMENT

PropertyPlnt and Equipment

Cost	**Vehicles**	**Furniture and Equipment**	**Total**
As at January 1, 2010	$ 747,792	$ 85,555	$ 833,347
Additions	114,871	100,546	215,417
Net Exchange Difference	76,033	44,574	120,607
As at December 31, 2010	$ 938,696	$ 230,675	$ 1,169,371

	Vehicles	**Furniture and Equipment**	**Total**
As at December 31, 2011	$ 938,696	$ 230,675	$ 1,169,371
Additions	1,097,607	23,187	1,120,794
Net Exchange Difference	(331,683)	(33,491)	(365,174)
As at December31, 2011	$ 1,704,620	$ 220,371	$ 1,924,991

Accumulated Depreciation

	Vehicles	**Furniture and Equipment**	**Total**
As at January 1, 2010	$ 546,255	$ 64,409	$ 610,664
Depreciation	158,578	29,291	187,869
Net Exchange Difference	19,046	28,376	47,422
As at December 31, 2010	$ 723,879	$ 122,076	$ 845,955

	Vehicles	**Furniture and Equipment**	**Total**
As at December 31, 2010	$723,879	$ 122,076	$ 845,955
Depreciation	178,573	40,562	219,135
Net Exchange Difference	(143,235)	(14,802)	(158,037)
As at December 31, 2011	$ 759,217	$ 147,836	$ 907,053

Net book value

As at January 1, 2010	$ 201,097	$ 21,146	$ 222,683
As at December 31, 2010	$ 214,817	$ 108,599	$ 323,416
As at December 31, 2011	$ 945,403	$ 72,535	$ 1,017,938

Deposits on Equipment

As at January 1, 2010	-	
Additions		$ 870,805
Net exchange difference		-
As at December 31, 2010		$ 870,805

For the year ended December 31, 2011, an amount of $219,135 (year ended December 31 2010: $187,869) of amortization has been capitalized under exploration properties.

The Company had purchased $870,805 of drilling equipment being custom designed during 2010. The Company took possession of the equipment during the third quarter, 2011.

5. SHARE CAPITAL

(a) Common Shares

Authorized, Issued and outstanding

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

Issued and outstanding: 25,880,970 Common Shares as at December 31, 2011 (December 31, 2010 - 22,647,340 Common Shares; January 1, 2010 - 18,787,457 Common Shares)

a) During the year ended December 31, 2011:

(i) On February 26, 2011, 728,061 warrants were exercised at a price of C$0.70 for proceeds to the Company of $516,713 (C$509,643). The fair value of the warrant liability associated with the exercised warrants that was reclassified to share capital was $259,699.

(ii) On June 8, 2011, 210,894 warrants were exercised at a price of C$0.70 for proceeds to the Company of $150,889 (C$147,626). The fair value of the warrant liability associated with the exercise warrants that was reclassified to share capital was $58,204.

(iii) On August 15, 2011, 201,519 warrants were exercised at a price of C$0.70 for proceeds to the Company of $148,728 (C$141,063). The fair value of the warrant liability associated with the exercise warrants that was reclassified to share capital was $59,246.

(iv) On December 22, 2011, 2,093,156 warrants were exercised at a price of C$0.55 for proceeds to the Company of $1,110,217 (C$1,151,236). The fair value of the warrant liability associated with the exercised warrants that was reclassified to share capital was $714,899.

b) During the year ended December 31, 2010:

(i) On January 22, 2010, the Company issued through a non-brokered private placement, 465,245 units of the Company at a price of $0.97 (C$1.00) per unit for gross proceeds to the Company of $451,944. Each unit consists of one common share of the Company and one warrant of the Company. Each warrant entitles the holder to purchase one common share of the Company at a price of C$1.00 until January 22, 2012. The amount of proceeds allocated to the common shares and warrants was $98,321 and $353,623, respectively. Transaction costs of $3,156 were allocated to the shares.

(ii) On March 1, 2010, 457,901 warrants were exercised at a price of C$0.70 for proceeds to the Company of $304,896 (C$320,531). The fair value of the warrant liability associated with these exercised warrants that was reclassified to share capital was $690,990.

(iii) On June 29, 2010, the Company issued through a non-brokered private placement, 2,701,702 units of the Company at a price of $1.79 (C$1.85) per unit for gross proceeds to the Company of $4,832,360. Each unit consists of one common share of the Company and one warrant of the Company. Each warrant entitles the holder to purchase one common share of the Company at a price of C$2.17 until January 22, 2015. The amount of proceeds allocated to the common shares and warrants was $1,102,831 and $3,729,729, respectively. Transaction costs of $71,202 were incurred and $18,398 was allocated to the shares and $52,804 was allocated to the warrant. Because the warrants are a FVTPL liability, the transaction costs allocated to the warrants were expensed.

(iv) On November 19, 2010, 234,035 warrants were exercised at a price of C$0.70 for proceeds to the Company of $163,497 (C$114,448). The fair value of the warrant liability associated with these exercised warrants that was reclassified to share capital was $53,408.

5. SHARE CAPITAL (continued)

(b) Warrants

As at December 31, 2011, the following warrants were outstanding:

		Number of Warrants - Units				
	Exercise Price	December 31, 2010	Issued	Exercised	Expired	December 31, 2011
Expiry						
February 26, 2011	C$0.70	728,061	--	(728,061)	--	--
June 7, 2011	C$0.70	331,386	--	(210,894)	(120,492)	--
August 4, 2011	C$0.70	201,519	--	(201,519)	--	--
December 22, 2011	C$0.55	2,102,758	--	(2,093,156)	(9,602)	--
January 20, 2012	C$1.00	465,245	--	--	--	465,245
June 29, 2015	C$2.17	2,702,702	--	--	--	2,702,702
		6,531,671	--	(3,233,630)	(130,094)	3,167,947

On February 26, 2011, 728,061 warrants were exercised at a price of C$0.70 for proceeds to the company of $516,713.

On June 7 2011, 210,894 warrants were exercised at a price of C$0.70 for proceeds to the Company of $150,889. Also 120,492 warrants expired unexercised.

On August 15, 2011, 201,519 warrants were exercised at a price of C$0.70 for proceeds to the Company of $148,728.

On December 22, 2011, 2,093,156 warrants were exercised at a price of C$0.55 for proceeds to the Company of $1,110,217 Also 9,602 warrants expired unexercised.

Under IFRS, warrants having a strike price other that the functional currency of the issuer are a derivative liability and are marked to market as the end of each reporting period. For the year ended December 31, 2011 the Company recorded a mark to market gain of $2,673,378 (December 31, 2010 - $671,515) on the revaluation of warrants. As at December 31, 2011, the outstanding warrants have a fair value of $1,500,766 (December 31, 2010 - $5,266,191; January 1, 2010 - $ 2,598,156) which is determined using the Black-Scholes Option Pricing Model with an expected volatility ranging from 23.18% to 120.13%, expected life of 3.0 to 4.5 years at a risk free rate ranging from 0.95% to 1.06%.

(c) Stock Option Plan

The Company has a stock option plan providing for the issuance of options that can not exceed 3,942,120 shares of common stock. The Company may grant options to directors, officers, employees, and contractors, and other personnel of the Company or its subsidiaries. The exercise price of each option cannot be lower than the market price of the shares being the closing price of the Company's common shares on the Toronto Stock Exchange the day before the grant date. Options generally vest ratable over eighteen- month period, beginning with the date of issuance and every 6 months thereafter, and expire in five years from the date of grant as determined by the Board of Directors.

5. SHARE CAPITAL (continued)

The following Table summarizes the Company's stock option plan as at December 31, 2011:

	Number of Shares	Weighted average exercise price (C$)
Outstanding as at January 1, 2010	2,195,000	C$0.80
Granted	740,000	C$1.91
Exercised	(210,000)	C$1.39
Forfeited	--	
Expired	--	
Outstanding as at December 31, 2010	2,725,000	C$1.06
Granted	710,000	C$1.15
Expired	(215,000)	C$0.83
Cancelled	(420,000)	C$0.98
Outstanding as at December 31, 2011	2,800,000	C$1.11

On January 3, 2011, the Company issued 310,000 options at C$1.25 under its Stock Option Plan to persons who are officers and employees of the Company.

On April 17, 2011, the Company issued 300,000 options at C$1.03 under its Stock Option Plan to persons who are officers and employees of the Company.

On July 25, 2011, the Company issued 100,000 options at C$1.19 under its Stock Option Plan to persons who are officers and employees of the Company.

On January 3, 2011, 50,000 stock options at C$1.25 expired

On April 24, 2011, 100,000 stock options at C$0.70 expired.

On August 15, 2011, 65,000 options at a price of C$0.70 expired.

420,000 options were cancelled during the year ended December 31, 2011, as a result of employees' and board member's retirements from the Company

Subsequent to December 31, 2011, (on January 2, 2012) 65,000 stock options at C$1.00 expired.

Subsequent to December 31, 2011 (on January 3, 2012), the Company issued 235,000 options at C$0.90 under its Stock Option Plan to persons who are officers and employees of the Company.

The following table summarizes the stock option compensation expense and capitalized stock compensation for the year ended December 31, 2011 and 2010.

	2011	2010
Stock-based compensation expense	$ 427,864	$478,772
Capitalized Stock-based compensation expense	399,033	489,467
	$826,897	$968,239

The following assumptions were used in the Black Scholes option pricing model to fair value of the stock options granted during the year ended December 31, 2011 and 2010:

	2011	2010
Expected lives	3.0 to 4.5 years	5 years
Expected volatilities	158.4% - 176.0%	118% - 126%
Expected dividend yield	0%	0%
Risk free rates	0.68% - 1.90%	2.42% - 2.6%
Weighted average fair value of option	1.05	1.56

5. SHARE CAPITAL (continued)

The following table summarizes stock options outstanding as at December 31, 2011:

	Options Outstanding				**Options Exercisable**	
Exercise Price (C$)	Number of Outstanding Options	Weighted Average Exercise Price (C$)	Weighted Average Remaining Contractual Life (Years)	Number of Exercisable Options	Weighted Average Exercise Price (C$)	Weighted Average Remaining Contractual Life (Years)
C$0.55	100,000	C$0.55	2.84	100,000	C$0.55	2.84
C$0.70	970,000	C$0.70	1.68	970,000	C$0.70	1.68
C$0.80	350,000	C$0.80	0.35	350,000	C$0.80	0.35
C$1.00	195,000	C$1.00	1.52	195,000	C$1.00	2.02
C$1.03	300,000	C$1.03	4.30	150,000	C$1.03	4.29
C$1.19	100,000	C$1.19	4.57	25,000	C$1.19	4.57
C$1.25	285,000	C$1.25	4.01	142,500	C$1.25	4.00
C$2.23	500,000	C$2.23	3.34	500,000	C$2.23	3.34
	2,800,000			2,432,500		

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 28.25% (2010: 31.00%) to net income (loss) before income taxes as follows:

	December 31, 2011	December 31 2010
Net Income (Loss) for the year	$1,719,246	$(223,146)
Income tax recovery at Canadian statutory	28.25%	31.00%
Income tax rates	485,687	(89,175)
Effect of statutory tax rate change	(4,261)	(7,809)
Foreign operation taxed at lower rates	4,545	7,143
Permanent differences	(634,357)	(37,539)
Change in valuation allowances	(63,615)	(120,301)
Expiry of tax losses	163.847	135,256
Changes in estimate and foreign exchange	49.040	105,905
Other	(886)	(13,480)
Provision for (recovery of) income taxes	$ --	$ --

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

	December 31, 2011	December 31 2010
Losses carried forward - Botswana	2,026,000	1,798,000
Other	45,000	45,000
Exploration & Development - Botswana	(2,026,000)	(1,836,000)
Property, Plant and Equipment - Botswana	(45,000)	(7,000)
Net future income tax asset recorded	$ --	$ --

As at December 31, 2011, the Company has Canadian net operating losses carried forward that expire as follows:

Loss	**Year of Expiry**
275,000	2015
335,000	2016
235,000	2027
213,000	2028
136,000	2029
307,000	2030

6. INCOME TAXES (continued)

456,000	2031

Total assessable losses relating to the activity in Botswana as at December 31, 2011 was $9,107,576 (2010: $8,317,342).

7. EARNINGS (LOSS) PER SHARE

Net earnings per share were calculated based on the following:

Year ended December31	2011	2010
Net income for the year	**$ 1,719,246**	$ (223,146)
Effect of Dilutive Securities		
Stock options and warrants	(7,937)	--
Diluted net earnings for the year	**$ 1,711,309**	$ (223,146)

Net earnings per share from continuing operations and net earnings per share for the year ended December 31 were calculated based on the following:

	2011	2010
Basic weighted-average number of shares outstanding	23,508,532	21,004,082
Effect of dilutive securities:		
Stock Options	1,193,343	--
Warrants	459,220	--
Diluted weighted-average number of shares outstanding	25,161,195	21,004,082

The weighted average number of stock options and warrants outstanding during the year ended December 31, 2011 was 5,541,194 of which 2,080,245 were dilutive and included in the above tables. The effect of the remaining 3,460,949 million stock options was anti-dilutive because the underlying exercise prices exceeded the average market price of the underlying common shares of C$1.01. In addition, the loss per share is the same as the basic loss per share for the year period ended December 31, 2010 because the stock options and warrants were anti-dilutive.

8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2011, 2010, 2009 and 2008, the Company incurred leave benefits (2011: $23,412, 2010: $33,293, 2009: $19,024, 2008: $19,024) payable to an officer and director of the Company amounting to $94,753. In June 2010: $59,451, April 2011: $19,612, December 2011: $15,690, the Company paid the officer and director of the Company a total of $94,753, leaving a zero balance payable as at December 31, 2011 to an officer and director of the Company.

Remuneration of Key Management Personnel of the Company

	2011	2010
Short term employee remuneration and benefits	$ 419,861	$ 348,427
Stock based compensation	522,963	559,963
Total compensation paid to key management personnel	$ 942,824	$ 908,390

There are no other related party transactions.

9. SEGMENTED INFORMATION

The Company is operating in one industry. As at December 31, 2011 the Company's long-term assets in the United States were $11,696 (December 31, 2010 - $7,909) and in Botswana of $1,006,242 (December 31, 2010 – $315,507). No revenues or expenses were realized for Exploration and Evaluation Segments that are detailed in note 4 above.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying value of cash, restricted cash, accounts receivable, accounts payable, and accrued liabilities as presented in the financial statements are reasonable estimates of fair values due to the relatively short periods to maturity and the terms of these instruments.

The Company's financial instruments have been classified as follows:

Financial Instrument	Classification	Fair Value Hierarchy
Cash and cash equivalents	Held-for-trading	Level 1 & Level 2
Accounts receivable	Loans and receivables	n/a
Accounts payable and accrued liabilities	Other financial liabilities	n/a
Warrants	Fair value through Profit and Loss	Level 3

See the Company's statement of financial position for financial instrument balances.

International Financial Reporting Standards 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other that quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices): and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobserved inputs).

Risk Exposure and Management

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

(a) Capital Management

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

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand. In 2011 the Company raised the cash capital as shown in note 5(a) in the amount of $1,926,547. It is anticipated that the Company cash balance of $1,505,965 will be substantial enough to continue operations for the ensuing twelve months.

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

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

(b) Liquidity Risk

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

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet it contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and accounts receivable, there are no amounts at risk. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. There are no allowances for doubtful accounts required.

The majority of the Company's cash is held with a major Canadian based financial institution.

(d) Interest Rate Risk

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

The Company is exposed to currency risks on its Canadian dollar denominated working capital balances due to changes in the USD/CAD exchange rate and the functional currency of the parent company.

The Company issues equity in Canadian dollars but the majority of its expenditures is in U.S. dollars. The Company purchases U.S. dollars based on its near term forecast expenditures and does not hedge its exposure to currency fluctuations.

Based on the net Pula denominated asset and liability exposures as at December 31, 2011, a 10% change in the USD/Pula exchange rate would not have a material impact the Company's earnings. The risk range from a 10% reduction in exchange rate is $16,701 to a 10% increase in exchange rate is $18,371.

11. COMMITMENTS

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

The aggregate minimum lease payments exclusive of VAT are as follows:

2012	$ 21,897
2013	22,990
2014	22,990
2015	22,990
Total	$ 90,867

The lease commitment is for storage space in Maun, Botswana at an annual rental of Pula 166,834 per year for 2012 and Pula 175,165 for years 2013 through 2015 plus taxes converted at an exchange rate as at December 31, 2011 to US dollars.

11. COMMITMENTS (continued)

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

12. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31 2011	December 31, 2010
Net change in noncash working capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	$(114,181)	$2,469
Increase / (Decrease) in accounts payable and accrued liabilities	6,657	$24,397
Total	($107,524)	$26,866

13. SUBSEQUENT EVENTS

Warrants

On January 20, 2012, 465,245 warrants at a price of C$1.00 expired unexercised.

Stock Option Plan

On January 3, 2012, the Company issued 235,000 options at C$0.90 under its Stock Option Plan to persons who are officers and employees of the Company.

On January 2, 2012, 65,000 stock options at C$1.00 expired.

14. TRANSITION AND FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS with a transition date of January 1, 2010. Under IFRS 1 'First Time Adoption of International Financial Reporting Standards,' the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied. The guidance for first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company is applying the following exemptions on first-time adoption of IFRS:

- to not account for business combinations that occurred prior to January 1, 2010 using the principles of IFRS 3 – Business Combinations and instead retain the accounting treatment applied under Canadian GAAP;
- to charge all foreign currency translation differences, previously recognized as a separate component of equity to deficit as at the transition date including those foreign currency differences which arise on adoption of IFRS; and
- to only apply IFRS 2 to the Sock Option Grants that were unvested as at the date of transition.

The IFRS 1 elections, identified, above, and the significant accounting policies, set out in note 2, have been applied in preparing these audited consolidated financial statements and selected audited comparative information presented below. The following tables reconcile the Company's audited consolidated statements of financial position and statements of loss and comprehensive income (loss) with those prepared in accordance with Canadian GAAP and as previously reported to those prepared and reported in these audited consolidated financial statements in accordance with IFRS.

Tsodilo Resources Limited

Reconciliation of equity as at January 1, 2010
(in United States dollars)

	Previous Amounts per Canadian GAAP	**Adjustment 1**	**Adjustment 2**	**Adjustment 3**	**Adjustment 4**	**Total IFRS adjustments**	**IFRSs**
		IFRS 2 Stock-based Compensation	**IAS 21 Foreign Exchange**	**IAS 32 Warrants in Non-functional Currency**	**IAS 21 Reclass Non-controlling Interest**		
ASSETS							
Current							
Cash	$ 108,341					$ -0-	$108,341
Accounts receivable and prepaid expenses	67,640					-0-	67,640
	175,981					-0-	175,981
Exploration Properties (note3)	5,361,645	$4,986	($447,538)			(442,552)	4,919,093
Property, Plant and Equipment (note 4)	347,582		(124,899)			(124,899)	222,683
Deposit on Equipment (note 4)							
Total Assets	**$5,885,208**	**$4,986**	**($572,437)**	**$ --**	**$ --**	**($567,451)**	**$5,317,757**
LIABILITIES							
Current							
Accounts payable and accrued liabilities	$73,050		1			1	$73,051
Warrants (note 5b)				2,598,156		2,598,156	2,598,156
Total Liabilities	**73,050**	**--**	**1**	**2,598,156**	**--**	**2,598,157**	**2,671,207**
Minority Interest	210,814				(210,814)	(210,814)	-0-
SHAREHOLDERS' EQUITY							
Share Capital (note 5)	28,696,445			950,000		950,000	29,646,445
Stock Option Reserve (note 5c)	8,221,288	29,629		(1,335,000)		(1,305,371)	6,915,917
Warrants	1,131,904			(1,131,904)		(1,131,904)	-0-
Foreign Currency Reserve	(837,425)		837,425			837,425	--
Deficit	(31,610,868)	(24,643)	(1,409,863)	(1,081,252)	(23,427)	(2,539,185)	(34,150,053)
Equity attributable to Owners of the Parent	**5,601,344**	**4,986**	**(572,438)**	**(2,598,156)**	**(23,427)**	**(3,189,035)**	**2,412,309**
Non-controlling Interest (note 3)			--		234,241	234,241	234,241
Total Equity	**5,601,344**	**4,986**	**(572,438)**	**(2,598,156)**	**210,814**	**(2,954,794)**	**2,646,550**
Total Liabilities & Equity	**$ 5,885,208**	**$ 4,986**	**($572,437)**	**$ --**	**$ --**	**($567,451)**	**$5,317,757**

Tsodilo Resources Limited
Reconciliation of equity as at December 31, 2010
(in United States dollars)

	Previous Amounts per Canadian GAAP	Adjustment 1 IFRS 2 Stock-based Compensation	Adjustment 2 IAS 21 Foreign Exchange	Adjustment 3 IAS 32 Warrants in Non-functional Currency	Adjustment 4 IAS 21 Reclass Non-controlling Interest	Total IFRS adjustments	IFRSs
ASSETS							
Current							
Cash	$ 2,728,695					$ -0-	$ 2,728,695
Accounts receivable and prepaid expenses	65,171					-0-	65,171
	2,793,866					**-0-**	**2,793,866**
Exploration Properties (note 3)	7,520,380	$ 133,144	($159,633)			(26,489)	7,493,891
Property, Plant and Equipment (note 4)	405,670		(82,254)			(82,254)	323,416
Deposit on Equipment (note 4)	870,805					0	870,805
Total Assets	**$11,590,721**	**$ 133,144**	**($241,887)**	**$ 0**	**$ 0**	**($108,743)**	**$11,481,978**
LIABILITIES							
Current							
Accounts payable and accrued liabilities	$95,455		$ 1,993			$ 1,993	$ 97,448
Warrants (note 5b)				$ 5,266,191		5,266,191	5,266,191
Total Liabilities	**95,455**	**0**	**1,993**	**5,266,191**	**0**	**5,268,184**	**5,363,639**
Minority Interest	217,303		(6,489)		(210,814)	(217,303)	$0
SHAREHOLDERS' EQUITY							
Share Capita (note 5)	30,290,847			1,747,197		1,747,197	32,038,044
Stock Option Reserve (note 5c)	9,114,311	261,482		(1,491,587)		(1,230,105)	7,884,206
Warrants	5,059,260			(5,059,260)		(5,059,260)	-0-
Foreign Currency Reserve	(837,425)		1,156,349			1,156,349	$318,924
Deficit	(32,349,030)	(128,338)	(1,409,863)	(462,541)	(23,427)	(2,024,169)	(34,373,199)
Equity attributable to Owners of the Parent	**11,277,963**	**133,144**	**(253,514)**	**(5,266,191)**	**(23,427)**	**(5,409,988)**	**5,867,975**
Non-controlling Interest (note 3)			16,123		234,241	250,364	250,364
Total Equity	**11,277,963**	**133,144**	**(237,391)**	**(5,266,191)**	**210,814**	**(5,159,624)**	**6,118,339**
Total Liabilities & Equity	**$11,590,721**	**$ 133,144**	**($241,887)**	**$ 0**	**$ 0**	**($108,743)**	**$11,481,978**

Tsodilo Resources Limited
Reconciliation of Profit and Loss for the year ended December 31, 2010
(in United States dollars)

	Previous Amounts per Canadian GAAP	**Adjustment 1**	**Adjustment 2**	**Adjustment 3**	**Adjustment 4**	**Total IFRS adjustments**	**IFRSs**
		IFRS 2 Stock-based Compensation	**IAS 21 Foreign Exchange**	**IAS 32 Warrants in Non-functional Currency**	**IAS 21 Reclass Non-controlling Interest**		
Expenses							
Corporate remuneration	$79,692					$ 0	$ 79,692
Corporate travel and subsistence	4,092					0	$4,092
Investor relations	9,500					0	$9,500
Legal and audit	63,878					0	$63,878
Filings and regulatory fees	22,635					0	$22,635
Office and administration	148,255					0	148,255
Amortization	2,035					0	$2,035
Stock-based compensation (note 5(d))	375,077	$ 103,695				103,695	$478,772
Total Expenses	**705,164**	**103,695**	**--**	**--**	**--**	**103,695**	**$808,859**
Other Income							
Warrant issue costs	--			(52,804)		(52,804)	($52,804)
Gain/(Loss) on warrants	--			671,515		671,515	$671,515
Foreign exchange Gain/(Loss)	(39,487)					0	($39,487)
Non-controlling interest	6,489					0	$6,489
Net Income	**(738,162)**	**(103,695)**	**--**	**618,711**	**--**	**515,016**	**($223,146)**
Foreign exchange translation	--		335,047			335,047	$335,047
Comprehensive Income	($738,162)	($103,695)	$ 335,047	$ 618,711	--	$ 850,063	$ 111,901
Net Income attributable to owners of the parent	**($744,651)**	**($103,695)**	**$ 6,489**	**$ 618,711**		$ 521,505	**($223,146)**
Net Income Attributable to Non-controlling Interest	6,489		-6,489			-6,489	--
	($738,162)	**($103,695)**	**$ --**	**$618,711**	**$ --**	**$ 515,016**	**($223,146)**
Comprehensive income attributable to owners of the parent	**($744,651)**	**($103,695)**	**$ 325,413**	**$ 618,711**		**$ 840,429**	**$ 95,778**
Comprehensive Income Attributable to Non-controlling Interest	6,489		9,634			9,634	16,123
	($738,162	**($103,695)**	**$ 355,047**	**$ 618,711**	**$ --**	**$ 850,063**	**$ 111,901**

14. TRANSITION AND FIRST TIME ADOPTION OF IFRS (continued)

Tsodilo Resources Limited

Reconciliation of Statements of Cash Flows

(in United States dollars)

	Year Ended December 31		
	2010	**Effect of Transition to IFRS**	**2010**
	GAAP		**IFRS**
Cash provided by (used in):			
Operating Activities			
Net Income (Loss) for the period	$ (738,162)	$515,016	$ (223,146)
Adjustments for non-cash items:			
Unrealized (gain) loss on warrants	--	(671,515)	(671,515)
Amortization	2,035	--	2,035
Other	6,489	(6,489)	--
Stock-based compensation	375,077	103,695	478,772
	(354,561)	(59,293)	(413,854)
Net change in non-cash working capital balances *(note 11)*	24,874	1,992	26,866
	(329,687)	(57,301)	(386,988)
Investing Activities			
Additions to exploration properties	(1,619,058)	34,278	(1,584,780)
Additions to property, plant and equipment	(238,440)	23,023	(215,417)
Deposit on Equipment	(870,805)	--	(870,805)
	(2,728,303)	57,301	(2,671,002)
Financing Activities			
Shares and warrants issued for cash, net of cost	5,678,344	--	5,678,344
	5,678,344	--	5,678,344
Change in cash - For the period	2,620,354	--	2,620,354
Cash - beginning of period	108,341	--	108,341
Cash - end of period	$ 2,728,695	$ --	$2,728,695

NOTES TO RESTATEMENT OF EQUITY FROM PREVIOUS CANADIAN GAAP to IFRS

ADJUSTMENT REQUIRED TO RECONCILE EQUITY FROM CANADIAN GAAP TO IFRS

Adjustment 1 - IFRS 2 Stock Based Compensation Expenses

The Company issues share-based compensation in the form of stock options that vest evenly (semi-annually) over a two year period. Under Canadian GAAP, the Company recognized the fair value of the compensation expenses, determined at the time of the grant, on a straight-line basis over the two year vesting period. Under IFRS 2 Share Based Payments, the fair value of each tranche of the award is considered to be a separate grant, based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of this respective vesting period. Accordingly, compensation expense under IFRS was recognized at more accelerated rates than under Canadian GAAP.

The Company computed all non-vested stock options at January 1, 2010 on a graded basis separating tranches for amortization over respective vesting periods. Stock option forfeitures were also estimated on a historical basis. The Black Scholes valuation method was used to prepare the valuations, calculations and details for disclosure for Stock Option expense and comparative stock option expense estimated for prior year comparisons. As a result, Stock Option Reserves were increased by $29,629 as at January 1, 2010 and $261,482 as at December 31, 2010. Of these amounts, $4,986 and $133,144 were capitalized as salaries to exploration and evaluation cost as at January 1, 2010 and December 31, 2010 respectively.

Adjustment 2 – IAS 21 Foreign Exchange

The Company's subsidiaries (Gcwihaba and Newdico) operate in a functional currency in Botswana Pula. Under Canadian GAAP the subsidiaries were considered integrated operations for foreign exchange considerations and calculations. Under IFRS, since there is no integrated operation option and because of the difference in functional currency between these subsidies and the Company's U.S. Dollars, IFRS provides guidance on presenting the foreign operations in the presentation currency. Non-monetary assets and liabilities are translated at year-end exchange rates and income and expenses are translated at the rates at which they have been incurred. This differs from previous GAAP reporting which required non-monetary assets to be translated at the historical exchange rate in effect when the assets were acquired.

For December 31, 2009, an adjustment of ($124,899) made to Plant, Property and Equipment, and an adjustment of ($447,538) was made to Exploration and evaluation cost. For December 31, 2010, a cummulative adjustment of ($82,254) was made to Plant, Property and Equipment, ($159,633) was made to Exploration and Evaluation Cost, and $1,994 was made to Accounts Payable.

Adjustment 3 – IAS 32 Warrants Denominated in Non-functional Currency

The Warrants issued by the Company provide the right to purchase stock in Canadian dollars. Since the Company's functional currency is the U.S. dollar, IFRS requires that the warrants be accounted for as derivative liabilities. As a result, the Company has reclassified its Warrants from Equity to liabilities and will account for warrants as derivative liabilities with changes in fair value being recognized in profit or loss.

At inception January 1, 2010 the value of the warrants increased by $1,466,252 resulting in corresponding charge to deficit.

Adjustment 4 – Non-Controlling Interest Reclassification into Equity

The Company reclassified its non-controlling interest at January 1, 2010 and December 31, 2010 to equity.

Corporate Information

DIRECTORS

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

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

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

David J. Cushing
Chevy Chase, Maryland
Appointed as director in 2008

Michiel C. J. de Wit, Ph.D.
Irene, South Africa
Appointed as director in 2009

Murray Hitzman, Ph.D.
Golden Colorado
Appointed as director in 2011

OFFICERS

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

Michiel C. J. de Wit, Ph.D.
Irene, South Africa
President and Chief Operating Officer
Appointed in 20109

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