

Management's Discussion and Analysis

The following discussion and analysis for the first quarter results should be read in conjunction with the unaudited Consolidated Financial Statements included in this report, and the Management Discussion and Analysis filed in March of 2007 together with the Annual Report for the year ended December 31, 2006. This interim report is intended to provide the reader with a review of the factors that affected the Company's performance during the three month period ending June 30, 2007 and those factors reasonably expected to impact on future operations and results. The unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles applicable in Canada. This management's discussion and analysis has been prepared as at August 29, 2007.

OVERVIEW

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

Corporate

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

Outstanding Share Data

As of August 29, 2007, 14,126,214 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 1,830,000 options remain outstanding of which 1,187,500 are exercisable at exercise prices ranging from Canadian \$0.15 - \$1.85. If all options were vested and exercised, 1,830,000 common shares of the Company would be issued.

As of August 29, 2007, 2,931,169 warrants are outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company at purchase prices ranging from Canadian \$0.70 - \$2.35 for a period of two years from the date of issuance. If converted, 2,931,169 common shares of the Company would be issued.

Principal Shareholders of the Company

The largest shareholder of the Company is its President and Chief Executive Officer, James M. Bruchs, who currently owns, controls or directs 2,645,983 or 18.73% of the issued and outstanding common shares as of August 29, 2007. John R. Redmond, a Director of the Company, currently owns, controls or directs 1,903,647 or 13.28% of the issued and outstanding shares as of August 29, 2007 and the Firebird Global Master Fund, Ltd. controls 1,875,630 or 13.28% of the issued and outstanding shares as of August 29, 2007.

Subsidiaries

The Company has an 92% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds prospecting licenses and applications covering approximately 16,800 square kilometers in northwest Botswana on which there is encouragement for the existence of undiscovered kimberlites in at least three separate areas of the property. The Company's minority partner (8%) in this project, Trans Hex Group, is an established South African diamond mining company. Some, or all, of the current licenses held by Newdico may be subject to the granting of a 2% free carried interest in any mine or mines that may result thereon.

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

Exploration Activities

NEWDICO (Pty) Limited (“Newdico”)

The exploration program is based on our strategy of using a combination of indicator mineral sampling, magnetic and gravity data to generate individual targets for drill evaluation and our regional strategy of evaluating possible transport corridors giving rise to the alluvial secondary kimberlite indicator minerals (“KIM”) and diamond deposits at Tsumkwe and Omatako. Since the commissioning of the Company’s Atlas Copco CT14 diamond core drill rig in July of 2006, the following target anomalies have been drill tested.

DRILLHOLE WORK DATA FOR JULY 2006 TO JULY 2007

HOLE	DRILLHOLE #	DATE DRILLED	MAGNETIC ANOMALY	TOTAL DEPTH M	DESCRIPTION	MONTH	STATUS (WIP)
NXAU NXAU							
1	A41	26-Jul-07	A41	59.6	KIMBERLITE CRATER SEDIMENTS	July 06	1
2	A41(a)	27-Jul-06	A41	107.8	KIMBERLITE CRATER SEDIMENTS		1
3							
4	C15 / 1	01-Aug-06	C15	113.8	KIMBERLITE CRATER SEDIMENTS	August 06	2, 3 & 4
5	A36 / 1	04-Aug-06	A36	98.8	HYPERBYSSAL KIMBERLITE		2, 3 & 4
6	A36W / 1	07-Aug-06	A36W	98.8	DOLOMITIC MARBLE		1
7	1821 C16 / 1	08-Aug-06	1821 C16	77	HYPERBYSSAL KIMBERLITE		2, 3 & 4
8	A36 / 2	21-Aug-06	A36	57.8	HYPERBYSSAL KIMBERLITE		2, 3 & 4
9	A36W / 2	23-Aug-06	A36W	98.8	DOLOMITIC MARBLE		1
10	1821 C16 / 2	24-Aug-06	1821 C16	73	HYPERBYSSAL KIMBERLITE		2, 3 & 4
11	A16 / 2	26-Aug-06	A16	86.8	DOLOMITIC MARBLE		1
12							
13	C15 / 2	05-Sep-06	C15	101.8	KIMBERLITE CRATER SEDIMENTS	September 06	2, 3 & 4
14	KPH1	9-Sep-06	KAUDOM	65.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
15	KPH2	10-Sep-06	PALEO-	74.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
16	KPH3	12-Sep-06	CHANNEL	56.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
17	KPH4	13-Sep-06	↓	59.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
18	KPH5	17-Sep-06	↓	44.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
19	KPH6	16-Sep-06	↓	54	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
20	1821 C16 / 3	19-Sep-06	1821 C16	122.8	HYPERBYSSAL KIMBERLITE		2, 3, 4 & 5
21	A36 / 3	21-Sep-06	A36	98.8	HYPERBYSSAL KIMBERLITE		2, 3, 4 & 5
22	A32 / 1	26-Sep-06	A32	174	SEDIMENTS		1
23	A32 / 2	28-Sep-06	A32	147	SEDIMENTS		1
24	C15 / 3	06-Oct-06	C15	99	KIMBERLITE CRATER SEDIMENTS	October 06	2, 3 & 4
25	A31	07-Oct-06	A31	71	SEDIMENTS		1
26	KPH7	13-Oct-06	KPH	102	SEDIMENTS		1
27	A15/5	20-Oct-06	A15	242	TUFFISITIC KIMBERLITE BRECCIA		2, 3, 4 & 5

DRILLHOLE WORK DATA FOR JULY 2006 TO JULY 2007

HOLE	DRILLHOLE #	DATE DRILLED	MAGNETIC ANOMALY	TOTAL DEPTH M	DESCRIPTION	MONTH	STATUS (WIP)
GCWIHABA							
28	JEB / 1	06-Nov-06	JEB	206	MAFIC INTRUSIVE	November 06	1
29	JEB / 2	11-Nov-06	JEB	225	MAFIC INTRUSIVE		1
30	JEB / 3	14-Nov-06	JEB	233	MAFIC INTRUSIVE		1
31	11471A	23-Nov-07	11471A	148.6	MAFIC INTRUSIVE		4
32	11741A	26-Nov-06	11741	155	MAFIC INTRUSIVE		4
33	2021B2	28-Nov-06	2021B2	172	SEDIMENTS		1
35	JB / 1	05-Dec-06	JB	215	SEDIMENTS	December 06	1
36	JB / 2	08-Dec-06	JB	215	SEDIMENTS		1
GUMA							
37	1922A10	23-Jan-07	1922A10	120.8	AMPHIBOLITE	January 07	1
38	1922A12	26-Jan-07	1922A12	122.8	BASALT		1
39	A20/L4/1	29-Jan-07	A20	134.8	GNEISS SCHIST		1
40	A20/L4/2	03-Feb-07	A20	98.8	GNEISS SCHIST	February 07	1
41	A20/L4/3	06-Feb-07	A20	80.8	GRANITIC GNEISS		1
42	A20/L3/1	08-Feb-07	A20	69.8	GRANITIC GNEISS		1
43	A46/NW	09-Feb-07	A46	81.8	BASALT		1
44	A46/C	13-Feb-07	A46	95.8	BASALT		1
45	A47/S	16-Feb-07	A47	89.8	GRANITIC GNEISS		1
46	A47NW	19-Feb-07	A47	68.8	GRANITIC GNEISS		1
47	A21	25-Feb-07	A21	90.8	GRANITE		1
48	1822C3/S	02-Mar-07	1822C3	80.8	SERPENTINITE	March 07	1
49	1822C3/C	04-Mar-07	1822C3	92.8	SERPENTINITE		1
50	1822C3/NE	06-Mar-07	1822C3	72.8	GRANITIC GNEISS		1
51	A52/L3	08-Mar-07	A52	69.8	BASALT		1
52	A52/L2	10-Mar-07	A52	79.8	BASALT	1	
53	1821C3	14-Mar-07	1821C3	110.8	SEDIMENTS	1	
54	A42	22-Mar-07	A42	151.8	MICA SCHIST	1	
55	A43/SW	26-Mar-07	A43	77.8	GRANITIC GNEISS	1	
56	A43/C	29-Mar-07	A43	100.8	GRANITIC GNEISS	1	
57	BM1	11-Apr-07	BM1	74.8	MICA SCHIST	April 07	1
58	BM3	14-Apr-07	BM3	71.8	GRANODIORITE		1

DRILLHOLE WORK DATA FOR JULY 2006 TO JULY 2007

HOLE	DRILLHOLE #	DATE DRILLED	MAGNETIC ANOMALY	TOTAL DEPTH M	DESCRIPTION	MONTH	STATUS (WIP)
NXAU NXAU							
59	PD07/1	30-Apr-07	PD07	121.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
60	PD07/2	02-May-07	PD07	158.8	TUFFISITIC KIMBERLITE BRECCIA	May 07	2, 3, 4 & 5
61	PD25/1	05-May-07	PD25	188.8	KIMBERLITE BRECCIA		2, 3, 4 & 5
62	PD25/2	14-May-07	PD25	157.8	KIMBERLITE SILL		2, 3, 4 & 5
63	B1	19-May-07	B1	109	KIMBERLITE SILL		2, 3 & 4
64	B2	21-May-07	B2	107.8	KIMBERLITE SILL		2, 3, 4 & 5
65	B3	24-May-07	B3	123.8	TUFFISITIC KIMBERLITE BRECCIA		2, 3 & 4
66	B4	30-May-07	B4	98.8	KIMBERLITE CRATER SEDIMENTS		2, 3 & 4
67	B1	01-Jun-07	B1	108.8	KIMBERLITE SILL	June 07	2, 3 & 4
68	B5	05-Jun-07	B5	248.8	TUFFISITIC KIMBERLITE BRECCIA		2, 3 & 4
69	B6/1	09-Jun-07	B6	202.8	TUFFISITIC KIMBERLITE BRECCIA		2, 3 & 4
70	B6/2	14-Jun-07	B6	24.8	DOLOMITIC MARBLE		1
71	A16/3	16-Jun-07	A16	44.8	DOLOMITIC MARBLE		1
72	A16/4	21-Jun-07	A16	80.8	DOLOMITIC MARBLE		1
73	KPH8	23-Jun-07	KPH8	82.8	DOLOMITIC MARBLE		1
74	KPH9	26-Jun-07	KPH9	18.8	DOLOMITIC MARBLE	1	
75	B8/1	01-Jul-07	B8	96.8	HYPERBYSSAL KIMBERLITE	July 07	2, 3 & 4
76	B8/2	02-Jul-07	B8	87.8	HYPERBYSSAL KIMBERLITE		2, 3 & 4
77	B8/3	05-Jul-07	B8	71.8	HYPERBYSSAL KIMBERLITE		2, 3 & 4
78	B8/4	07-Jul-07	B8	74.8	HYPERBYSSAL KIMBERLITE		2, 3 & 4
79	B8/5	09-Jul-07	B8	71.8	HYPERBYSSAL KIMBERLITE SILL		2, 3 & 4
80	B8/6	12-Jul-07	B8	94.8	HYPERBYSSAL KIMBERLITE SILL		2, 3 & 4
81	B8/7	14-Jul-07	B8	198.8	HYPERBYSSAL KIMBERLITE SILL		2, 3 & 4
82	B8/8	18-Jul-07	B8	144.8	HYPERBYSSAL KIMBERLITE SILL		2, 3 & 4
83	1821C11	26-Jul-07	1821C11	98.8	SILTSTONES, SANDSTONES		1
84	1821C10	31-Jul-07	1821C10	92.2	SILTSTONES, SANDSTONES		1

TOTAL METERS

8,906.20

WORK IN PROGRESS (14 kimberlite bodies confirmed)

- 1) NFW - No further work
- 2) TBE - heavy mineral separation
- 3) Kimberlite Indicator Mineral ("KIM") picking & electron microprobe
- 4) Petrography
- 5) Kimberlite age dating

The results of the KIM chemistry of the A15 kimberlite is not yet complete and a decision as to whether to collect 100 tons of kimberlite for macro diamond analysis is expected in the third quarter. The chemistry of the other kimberlites currently being processed will also be considered in determining which kimberlite body in the Nxau Nxau may be the most suitable for macro-diamond testing.

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

GCWIHABA Resources (Pty) Limited (“Gcwihaba”)

Diamond Licenses

Planned Exploration Program for 2007

- Drill evaluation of eight priority targets in the Gcwihaba area schedule for the 4th quarter.

Base and Precious Metals Licenses

Planned Exploration Program for 2007

- There are several zones of co-incident base metal anomalies that require follow-up sampling as a first step in the evaluation process. A Chalcophyle Index has been prepared and is currently being reviewed by the Company's currently in preparation to assist in the prioritization of these zones for further drill testing.
- Exploratory drilling of suspected base metal deposits to determine their nature, composition and size will take place in the 3rd quarter.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2007, the Company had net working capital of \$25,509 (2006: \$114,245), which included cash and equivalents \$143,168 (2006: \$144,674). These funds are managed in-house in accordance with specific investment criteria approved by the board of directors, the primary objective being the preservation of capital to assure funding for exploration activities. The Company does not hedge its activities or otherwise use derivatives. At year end the Company did not have any material contractual obligations. The Company is required to spend a minimum on prospecting over the period of its licenses (Newdico: \$1.9 million, Gcwihaba: \$0.34 million). To date, the Company has exceeded this requirement in the Newdico project.

Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments. Due to the nature of the Company's operations, there is no significant credit or interest rate risk.

Operating Activities

Cash outflow used in operating activities for the first six months decreased from \$242,115 in June 30, 2006 to \$105,945 for the period ended June 30, 2007. Operating activities represented, are those typical for junior public exploration companies, including corporate consulting fees, legal and accounting services, investor relation activities and office and administration. The increase in Accounts Payable reflects the accrual for vacation pay and salary expense for the President who has not taken payment for either this year.

Investing Activities

Cash flow applied in investing activities decreased to \$427,271 for the first six months ended June 30, 2007 (2006: \$1,045,649). \$378,076 or 99.5% of the exploration expenditures were spent on the Newdico properties and \$1,752 or 0.5% of the expenditures were on the Gcwihaba properties. Total expenditures of \$379,828 (including non cash deferred amortization costs of \$41,949) on exploration properties for the period ended June 30, 2007 were attributable to the Newdico and Gcwihaba projects in northwest Botswana and included the 8% share funded by the Trans Hex Group for the Newdico project.

In November 2006, the board of directors of Newdico approved an exploration program and budget for the period January 1, to December 31, 2007 that calls for expenditures totaling approximately Pula 10.6 million (approximately \$1.8 million as of August 29, 2007). Trans Hex Group is presently responsible for funding 8% of the expenses of this company. The approved exploration program includes provision for additional soil sampling, airborne and ground magnetics and ground gravity surveying, geophysical interpretation.

The required expenditures for the third year of the diamond exploration program, including license fees, for Gcwihaba amount to approximately Pula 0.42 million (approximately \$0.07 million as of August 29, 2007). Gcwihaba's expenditures will exceed this required amount. The required expenditure in the first year of the base metal exploration program amounts to approximately Pula 0.20 million (approximately \$0.03 million as of August 29, 2007). Gcwihaba expects to meet or exceed this requirement.

Financing Activities

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

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

(i) On February 13, 2007, the Company completed a non-brokered private placement. 141,516 units of the Company (the "Units") were issued at a price of \$0.68 (C\$0.80) per Unit for proceeds to the Company of \$95,869. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.68 (C\$0.80) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on February 13, 2008 and the certificates evidencing such securities bear a legend to that effect.

(ii) On May 18, 2007, the Company completed a non-brokered private placement. 167,146 units of the Company (the "Units") were issued at a price of \$0.72 (C\$0.80) per Unit for proceeds to the Company of \$120,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.72 (C\$0.80) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on May 18, 2008 and the certificates evidencing such securities bear a legend to that effect.

(iii) On June 29, 2007, the Company completed a non-brokered private placement. 231,714 units of the Company (the "Units") were issued at a price of \$0.75 (C\$0.80) per Unit for proceeds to the Company of \$175,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.75 (C\$0.80) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on June 29, 2008 and the certificates evidencing such securities bear a legend to that effect.

Tsodilo expects to raise the amounts required to fund its 92% share of the Newdico project, the Gcwihaba projects and corporate general and administration expenses, by way of negotiated non-brokered private placements.

RESULTS OF OPERATIONS

For the three month period ended June 30, 2007, on a consolidated basis Tsodilo recorded a net loss of \$269,299 (\$0.03 cents per common share) compared to a net loss of \$234,194 for same period in 2006 (\$0.02 cents per common share). Over all expenses were up 2% or \$4,892 for the three months ended June 30, 2007 compared to the same three month period last year. The largest increase was in corporate remuneration of \$61,223 reflecting the accrual for vacation pay for the President for the period 2002 through 2006 which had not been taken. Increases in investor relations, filing and regulatory fees and office and administration reflect timing of expenses as these down on a year to date basis. The increases were partially offset by lower stock based compensation expense for the period.

For the six month period ended June 30, 2007, on a consolidated basis Tsodilo recorded a net loss of \$366,492 (\$0.03 cents per common share) compared to a net loss of \$390,446 for the same period in 2006 (\$0.04 cents per common share). Over all expenses were down by 16.1% or \$54,167 for the six months ended June 30, 2007 compared to the same period 2006. Decreases were in all categories with the exception of corporate remuneration as note above and filing and regulatory fees reflecting a change in timing of the filing services fees being paid. The largest decrease (and second largest expenditure) was the book entry reflecting the accounting valuation (in terms of the Black-Scholes option pricing model) of the options issued to directors, officers and consultants that vested during the period, of \$105,892 for the six month period. This compares with the expensing of \$151,384 for the same period the previous year.

ANNUAL INFORMATION

(in US dollars)	Fiscal Year	Nine Months Ended	Fiscal Year
	Dec.31	Dec.31	Mar. 31
	2006	2005	2005
Total Revenues	--	--	--
Loss before Non-controlling Interest	541,132	470,811	620,822
Basic and diluted loss per share - cents	\$0.04	\$0.04	\$0.07
Non-controlling Interest	--	--	--
Net Loss for the Year	541,132	470,811	620,822
Basic and diluted loss per share - cents	\$0.04	\$0.04	\$0.07
Total Assets	3,472,693	2,032,426	2,087,421
Total long term liabilities	245,491	280,642	237,008
Cash dividends declared	--	--	--

QUARTERLY INFORMATION

(in US dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Period 2005* (ended December 31, 2005)				
Total Revenues	--	--	--	--
Loss for the period	83,068	190,070	197,673	
Basic and diluted loss per share - cents	\$0.01	\$0.02	\$0.02	
Total Assets	2,171,006	2,166,670	2,032,426	
Total long term liabilities	294,236	294,236	280,642	
* Transitional period for year end change to December 31				
Fiscal Year 2006 (ended December 31, 2006)				
Total Revenues	--	--	--	--
Loss for the period	156,252	234,194	89,720	60,966
Basic and diluted loss per share - cents	\$0.01	\$0.02	\$0.01	\$0.00
Total Assets	2,689,555	2,891,225	3,278,118	3,472,69
Total long term liabilities	289,490	235,769	219,441	245,491
Fiscal Year 2007 (ended December 31, 2007)				
Total Revenues	--	--		
Loss for the period	97,193	366,492		
Basic and diluted loss per share - cents	\$0.01	\$0.03		
Total Assets	3,491,244	3,670,123		
Total long term liabilities	225,763	225,236		

PERSONNEL

At June 30, 2007 the Company and its subsidiaries employed eighteen (18) personnel as compared to fifteen (15) personnel at June 30, 2006, including senior officers, administrative and operations personnel including those on short-term contract bases. Dr. Gary A. Bojes will assume the position as Chief Financial Officer of the Company effective October 1, 2007, replacing Mr. L. Kirk Boyd who will remain with the Company as Controller.

RISKS AND UNCERTAINTIES

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

Capital Requirements

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

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financing arrangements.

Exploration Risks

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

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

Currency Risks

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

Key Personnel

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

Changes in Accounting Policies including Initial Adoption

There were no changes in accounting policies for the interim period ended June 30, 2007.

Tsodilo follows Canadian generally accepted accounting principles. In line with accepted industry practice, the Company has adopted the policy of deferring property specific acquisition and exploration costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate, are written off in the year such assessment is made. If Tsodilo adopted a policy of expensing all exploration costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different.

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

DISCLOSURE CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as at June 30, 2007, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would have been known to them.

RELATED PARTY TRANSACTIONS

In April and July 2007, the Company borrowed a total of \$75,000 on an interim basis from a person who is an officer and director of the Company. The loan had no interest rate, no maturity date, and no terms of repayment. The amount of \$20,000 has been repaid as at August 29, 2007.

OUTLOOK

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

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

TSODILO RESOURCES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTH PERIODS
ENDED JUNE 30, 2007**

(expressed in United States dollars)

Unaudited – Prepared by Management

CONTENTS:

Balance Sheet
Statement of Deficit
Statement of Operations
Statement of Cash Flows
Notes to Financial Statements

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

Tsodilo Resources Limited
Consolidated Balance Sheets
As At June 30, 2007

(in United States dollars)

(unaudited - Management prepared)

	June 30	December 31
	2007	2006
ASSETS		
Current		
Cash and equivalents	134,833	201,177
Amounts receivable and prepaid expenses	43,781	53,055
	178,614	254,232
Exploration Properties (note 3)	2,894,871	2,424,118
Property, Plant and Equipment (note 4)	706,198	794,343
	3,779,683	3,472,693
LIABILITIES		
Current		
Accounts payable and accrued liabilities	153,105	40,530
Shareholder's loan	30,000	0
Total current liabilities	183,105	40,530
NON-CONTROLLING INTEREST (note 3)	225,236	245,491
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	27,421,859	27,024,564
Warrants (note 5)	1,003,942	1,018,683
Contributed Surplus (note 5)	6,474,599	6,336,204
Cumulative Translation (note 2)	(837,425)	(837,425)
Deficit	(30,691,633)	(30,355,354)
	3,371,342	3,186,672
	3,779,683	3,472,693

Going Concern (note 1)

Subsequent events (note 5)

Commitments (note 9)

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

Tsodilo Resources Limited
Consolidated Statements of Operations
As at June 30, 2007

(in United States dollars)

(unaudited - Management prepared)

	For the 3 Month Period		For the 6 Month Period	
	June 30	June 30	June 30	June 30
	2007	2006	2007	2006
Expenses				
Corporate remuneration	101,998	40,775	127,998	81,766
Corporate travel and subsistence	7,653	4,101	8,081	17,413
Investor relations	11,595	4,629	18,741	22,517
Legal and audit	-	7,787	1,779	8,149
Filing and regulatory fees	11,123	4,714	22,238	17,408
Office and administration	19,304	13,346	23,190	32,022
Amortization	1,297	8,402	2,594	11,576
Foreign exchange loss	32,224	66,016	25,766	48,211
Stock-based compensation (note 5)	53,892	84,424	105,892	151,384
	239,086	234,194	336,279	390,446
Loss before non-controlling interest	(239,086)	(234,194)	(336,279)	(390,446)
Non-controlling interest	-	-	-	-
Loss for the period	(239,086)	(234,194)	(336,279)	(390,446)
Basic and diluted loss per share - cents (note 7)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.04)

Consolidated Statements of Deficit

(in United States dollars)

(unaudited - Management prepared)

	For the 3 Month Period		For the 6 Month Period	
	June 30	June 30	June 30	June 30
	2006	2005	2006	2005
Deficit – Beginning of period	(30,452,547)	(29,970,474)	(30,355,354)	(29,814,222)
Loss for the period	(239,086)	(234,194)	(336,279)	(390,446)
Deficit - End of Period	(30,691,633)	(30,204,668)	(30,691,633)	(30,204,668)

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

Tsodilo Resources Limited
Consolidated Statements of Cash Flows
As at June 30, 2007

(in United States dollars)

(unaudited - Management prepared)

	For the 3 Month Period		For the 6 Month Period	
	June 30	June 30	June 30	June 30
	2007	2006	2007	2006
Cash provided by (used in):				
Operating Activities				
Loss for the period	(239,086)	(234,194)	(336,279)	(390,446)
Adjustments for non-cash items:				
Foreign exchange adjustment		66,016		48,211
Amortization	1,297	8,402	2,594	11,576
Stock-based compensation (note 5)	53,892	84,424	105,892	151,384
	(183,897)	(75,352)	(227,793)	(179,275)
Net change in non-cash working capital balances	94,300	(69,451)	121,848	(62,840)
	(89,597)	(144,803)	(105,945)	(242,115)
Investing Activities				
Exploration properties	(230,363)	(73,217)	(400,322)	(178,678)
Disposals of / (Additions to) Property, Plant and Equipment	(3,974)	(535,432)	(5,134)	(866,971)
	(234,337)	(608,649)	(405,456)	(1,045,649)
Financing Activities				
Issue of common shares	319,188	284,962	415,057	1,033,780
Contribution from non-controlling interest	-	-		8,848
Shareholders' loan	30,000	100,000	30,000	100,000
	349,188	384,962	445,057	1,142,628
Change in cash and equivalents - For the period	25,254	(368,490)	(66,344)	(145,136)
Cash and equivalents - Beginning of period	109,579	513,164	201,177	289,810
Cash and equivalents - End of period	134,833	144,674	134,833	144,674

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the three and six month periods ended June 30, 2007 and 2006
(in United States dollars)*

1. NATURE OF OPERATIONS AND GOING CONCERN

Tsodilo Resources Limited (“Tsodilo” or the “Company”) is an international diamond exploration company engaged in the process of exploring its mineral properties in northwest Botswana. The Company has not yet determined whether these properties contain reserves that can be economically mined. As an exploration stage company, the recoverability of amounts shown for exploration expenditures is dependent upon the discovery of reserves that can be economically mined, the securing and maintenance of the interests in the properties, the ability of the Company to obtain the necessary financing to complete the development, and future production or proceeds from the disposition thereof. The Company is also actively reviewing additional opportunities within southern Africa.

As at June 30, 2007, the Company reported an accumulated deficit of \$30,691,633 (June 30, 2006: \$30,204,668) and cash outflows from operations of \$105,945 (2006: \$242,115) for the six month period then ended. The cash position of the Company is insufficient to finance continued exploration. The continuity of the Company’s operations is dependent on Tsodilo raising future financing for working capital, the continued exploration and development of its properties, and for acquisition and development costs of new project opportunities. There can be no assurance that adequate financing will be available, or available under terms favorable to the Company. These financial statements have been prepared on a going concern basis that assumes the continuity of operations and realization of assets and settlement of liabilities in the normal course of business. Should it be determined that the Company is no longer a going concern, adjustments, which could be significant, would be required to the carrying value of assets.

2. NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor, KPMG, Inc., has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the financial statements

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

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates are related to the recoverability of exploration expenditures, fixed assets and contingencies. Actual results could differ from those estimates.

Exploration properties

All costs relating to the acquisition, exploration and development of non-producing mining properties are capitalized as incurred. Some of the exploration activities of the Company are conducted jointly with others and accordingly, where the arrangements are of a joint venture nature; these financial statements reflect only the Company's proportionate interest in these activities. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

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

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

Amortization

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

Foreign currency translation

The Company's functional and reporting currency is the US dollar. The Company's subsidiaries are accounted for as integrated foreign operations. Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the

Foreign currency translation (cont'd)

transaction. Monetary items are denominated in foreign currencies are translated to US dollar at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expense items are translated at the average rate prevailing during the year except for depreciation, depletion, amortization and write-downs, which are translated at the same exchange rates as the assets to which they relate. Foreign exchange gains and losses are included in the statement of operations.

4. EXPLORATION PROPERTIES

These may be summarized as follows:

	Newdico Botswana	Gcwihaba Botswana	Total
	\$	\$	\$
Balance at December 31, 2005	1,500,052	179,564	1,679,616
Jan. to Dec. 2006 expenditures	693,394	51,108	744,502
Balance at December 31, 2006	2,193,446	230,672	2,424,118
Jan. to Jun. 2007 expenditures	468,971	1,782	470,753
Balance at June 30, 2007	2,662,417	232,454	2,894,871

5 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Book value
December 31, 2006			
Vehicles	887,855	132,387	755,468
Furniture and Equipment	76,484	37,609	38,875
	964,339	169,996	794,343
June 30, 2007			
Vehicles	887,855	213,487	674,368
Furniture and Equipment	77,644	45,814	31,830
	965,499	259,301	706,198

6. SHARE CAPITAL

(a) Common Shares

Authorized

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

Issued and outstanding

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

	Shares (number)	Amount \$
Issued and outstanding at December 31, 2005	11,045,045	26,218,172
On private placement for cash (i)	468,776	499,990
On private placement for cash (ii)	319,108	248,828
On private placement for cash (iii)	649,984	405,441
On private placement for cash (iv)	161,586	100,000
On private placement for cash (v)	791,339	485,648
Ascribed to warrants issued (b)	-	(933,515)
Issued and outstanding at December 31, 2006	13,435,838	27,024,564
On private placement for cash (vi)	141,516	95,869
On private placement for cash (vii)	167,146	120,000
On private placement for cash (viii)	231,714	175,000
Ascribed to exercise of options	150,000	76,855
Ascribed to warrants issued	-	(70,429)
Issued and outstanding at June 30, 2007	14,126,214	27,421,859

6. SHARE CAPITAL (cont'd)

Private Placements

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

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

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

6. SHARE CAPITAL (cont'd)

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

(v) On September 28, 2006, the Company completed a non-brokered private placement. 771,518 units of the Company (the "Units") were issued at a price of \$0.63 (C\$0.70) per Unit for proceeds to the Company of \$485,646. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.63 (C\$0.70) for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of four (4) months, expiring on January 27, 2007 and the certificates evidencing such securities bear a legend to that effect.

(vi) On February 13, 2007, the Company completed a non-brokered private placement. 141,516 units of the Company (the "Units") were issued at a price of \$0.68 (C\$0.80) per Unit for proceeds to the Company of \$95.869. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.68 (C\$0.80) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on February 13, 2008 and the certificates evidencing such securities bear a legend to that effect.

6. SHARE CAPITAL (cont'd)

(vii) On May 18, 2007, the Company completed a non-brokered private placement. 167,146 units of the Company (the "Units") were issued at a price of \$0.72 (C\$0.80) per Unit for proceeds to the Company of \$120,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.72 (C\$0.80) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on May 18, 2008 and the certificates evidencing such securities bear a legend to that effect.

(viii) On June 29, 2007, the Company completed a non-brokered private placement. 234,714 units of the Company (the "Units") were issued at a price of \$0.75 (C\$0.80) per Unit for proceeds to the Company of \$175,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.75 (C\$0.80) for a period of two years. The common shares, warrants and warrant shares are subject to a negotiated hold period of twelve (12) months, expiring on June 29, 2008 and the certificates evidencing such securities bear a legend to that effect.

6. SHARE CAPITAL (cont'd)

(b) Warrants

As at June 30, 2007, the following warrants were outstanding:

Expiry	Exercise Price	Number of Warrants			Value		
		Opening	Issued/ (Exercised) (Expired)	Closing	Opening (dollars)	Issued/ (Exercised) (Expired)	Closing (dollars)
June 1, 2006	C\$0.75	65,024	(65,024)	---	14,164	(14,164)	---
October 14, 2006	C\$1.12	56,969	(56,969)	---	20,156	(20,156)	---
November 8, 2006	C\$2.35	26,668	(26,668)	---	20,622	(20,622)	---
March 4, 2007	C\$1.15	230,785	(230,785)	---	85,170	(85,170)	---
January 27, 2008	C\$1.25	---	468,776	468,776	---	146,788	146,788
February 21, 2008	C\$0.90	---	319,108	319,108	---	109,988	109,988
May 4, 2008	C\$0.70	---	649,984	649,984	---	167,886	167,886
July 19, 2008	C\$0.70	---	161,586	161,586	---	49,643	49,643
September 21, 2008	C\$0.70	---	791,339	791,339	---	459,208	459,208
February 13, 2009	C\$0.80	---	141,516	141,516	---	32,233	32,233
May 18, 2009	C\$0.80	---	167,146	167,146	---	13,653	13,653
June 29, 2009	C\$0.80	---	234,714	234,714	---	24,543	24,543
		3,794,346	2,554,723	2,934,169	140,112	863,830	1,003,942

During the period no warrants were exercised.

(c) Contributed Surplus

As at December 31, 2005	6,023,823
Relating to the expiry of warrants	54,942
Relating to issue of stock options	257,439
As at December 31, 2006	6,336,204
Relating to the expiry of warrants	85,170
Relating to the exercise of stock options	(52,667)
Relating to issue of stock options	105,892
As at June 30, 2007	6,474,599

6. SHARE CAPITAL (cont'd)

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at June 30, 2007 were as follows:

Expiry	Price	Outstanding December 31 2006	Granted	(Exercised)	Outstanding June 30 2007	
June 24, 2007	C\$0.15	100,000	--	(100,000)	--	(i)
September 18, 2007	C\$0.23	100,000	--	(50,000)	50,000	(i)
December 31, 2007	C\$0.41	50,000	--	--	50,000	(ii)
July 8, 2008	C\$0.50	100,000	--	--	100,000	(ii)
January 1, 2009	C\$0.75	50,000	--	--	50,000	(ii)
August 31, 2009	C\$0.75	250,000	--	--	250,000	(ii)
January 3, 2010	C\$1.85	10,000	--	--	10,000	(ii)
August 19, 2010	C\$1.25	260,000	--	--	260,000	(ii)
January 3, 2011	C\$1.25	60,000	--	--	60,000	(ii)
April 27, 2011	C\$0.70	300,000	--	--	300,000	(ii)
August 18, 2011	C\$0.70	65,000	--	--	65,000	(ii)
November 1, 2011	C\$1.00	50,000	--	--	50,000	(ii)
January 3, 2012	C\$1.00	--	85,000	--	85,000	(ii)
May 9, 2012	C\$0.80	--	550,000	--	550,000	(ii)
		1,395,000	635,000	--	1,480,000	

	December 31 2006	June 30 2007
Options exercisable at end of year	873,375	1,181,250
Weighted average exercise price		
- issued	C\$0.76	C\$0.86
- outstanding	C\$0.80	C\$0.87
- exercisable	C\$0.79	C\$0.84

6. SHARE CAPITAL (cont'd)

All options have a term of five years.

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

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

- On April 30, 2007, 50,000 options were cancelled.
- On May 9, 2007, 550,000 options were granted to five directors and one employee at an exercise price of \$0.80 per share and vested as to one-quarter immediately and one-quarter on each of the six-month, 12-month and 18-month anniversaries of the date granted. These options are valid for five years.
- On May 10, 2007, 100,000 options were exercised for gross proceeds of \$17,171.
- On June 22, 2007, 50,000 options were exercised for gross proceeds of \$7,017

7. INCOME TAXES

The company uses the asset and liability method of accounting for income tax. Assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

8. LOSS PER SHARE

Loss per share is based on a weighted average number of common shares outstanding of 13,608,477 for period ended June 30, 2007 (2006: 11,448,211). Diluted loss per share assumes that outstanding stock options and warrants are exercised at the beginning of the period (or at the time of issuance, if later) and the proceeds used to purchase common stock at the then ruling closing price. The effect of conversion in computing diluted per share amounts for the period ended June 30, 2007 and 2006 is anti-dilutive.

9. SEGMENTED INFORMATION

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. Materially all of the Company's property plant and equipment is presently located in Canada (\$23,456) and Botswana (\$942,043).

10. COMMITMENTS

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

2008	27,216
2009	27,216