

**TSODILO RESOURCES LIMITED**  
**Management's Discussion and Analysis**

**FOR THE THREE AND SIX MONTH PERIOD  
ENDED SEPTEMBER 30, 2012**

**The Management's Discussion and Analysis has been authorized for  
release by the Company's Board of Directors on November 16, 2012**

# **TSODILO RESOURCES LIMITED**

## **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 periods ended September 30, 2012 and 2011. The Company's interim condensed 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 November 16, 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 November 16, 28,049,151 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, 3,095,000 options remain outstanding of which 2,366,250 are exercisable at exercise prices ranging from CAD \$0.55 - \$2.23.

As of November 16, 2012, 4,520,883 warrants are outstanding. The warrants were issued by way of private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company. 2,702,702 warrants expiring on June 29, 2015 are priced at CAD \$2.17 and 1,818,181 warrants expiring on June 29, 2015 are priced at USD \$1.21. If all warrants were converted, 4,520,883 common shares of the Company would be issued.

### Principal Shareholders of the Company

The principal shareholders (greater than 5%) of the Company as of November 16, 2012 are as follows:

Name	Description	Shares - Owns, Controls or Directs	% of the Issued and Outstanding Shares
Azur LLC	Private Investment Vehicle	4,996,065	17.81%
International Finance Corporation	Division of the World Bank	4,522,883	16.12%
David J. Cushing	Director	2,460,501	8.77%
James M. Bruchs	Director	2,232,119	7.96%

### Subsidiaries

The Company has a 98% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds one prospecting licenses covering approximately 851 square kilometers in northwest Botswana.

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, twenty-three metal (base, precious, platinum group, and rare earth) licenses covering 14,914 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 – 3<sup>rd</sup> Quarter 2012

### 1. Diamond Projects

The company presently holds seven Prospecting Licences (“PL’s”) inclusive of one license currently under renewal under the name of Newdico and Gcwihaba for precious stones (Table 1).

Table 1

NEWDICO DIAMOND LICENSES AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From Date of Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 9.30.2012
PL 064 /2005	851	7/01/10	7/01/12	In Renewal	-	-	NA	NA
TOTAL								
GCWIHABA DIAMOND LICENSES AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From Date of Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 9.30.2012
PL 046/2008	709	6/01/11	1/01/13	1 <sup>st</sup> Renewal	3,545	70,000	147,090	19,446
PL 047/2008	491	6/01/11	1/01/13	1 <sup>st</sup> Renewal	2,455	70,000	144,910	19,158
PL 049/2008	710	1/01/11	1/01/13	1 <sup>st</sup> Renewal	3,550	70,000	147,100	19,447
PL 641/2009	923	7/01/09	7/01/12	In Renewal	-	-	NA	NA
PL 642/2009	839	7/01/09	7/01/12	In Renewal	-	-	NA	NA
PL 643/2009	786	7/01/09	7/01/12	In Renewal	-	-	NA	NA
PL 195/2012	494	7/01/12	6/30/12	Initial Grant	2,470	100,000	307,410	40,641
TOTAL	4.952				12,020	310,000	746,510	98,692

Renewal applications for PL 64/2005; PL641/2009; 642/2009; and PL643/2009 have been timely filed with the Botswana Department of Geological Survey.

The interest in the kimberlites within PL064/2005 is driven by the two unexplained surface concentrations of both diamonds and high-interest (G10) garnets across the border in Namibia - the *Tsumkwe* and the *Omatako* targets. It was suggested that the diamonds and garnets from these targets have been derived from one of the diamond-bearing

kimberlites in the Nxau Nxau field or from an undiscovered kimberlite(s) associated with airborne magnetic targets in the Company's licence blocks that remain to be drilled north of the Nxau Nxau field.

Recent microdiamond work on K10 produced 14 stones from 229kg of kimberlites material (61.23 stones per ton). Because of the relative limited number of stones to produce a grade curve with some level of confidence more diamonds are required from K10 and hence more material will be submitted for microdiamond analysis. In addition, sampling for microdiamonds is also required for kimberlite K11 which is next to K10. K11's mineral chemistry signature is similar to K10 and is approximately 2.5ha in size. Finally, a third magnetic target B7, which lies directly south of K10 and K11 and appears to be very similar, is likely a third kimberlite in this tight cluster, and will be drilled during the course of 2012 once the renewal of this permit has been received.

The interest in the area is raised by the geological interpretation of the Southern African Magnetotelluric Experiment (SAMTEX) project which shows, among others, that the Company's northern licences are underlain by the Congo Craton (Khoza et al in press, Muller and Jones 2007). This means that kimberlites occurring in these prospecting licences should be the most interesting from a diamond perspective. In addition, Archean ages have been obtained from granite/gneiss samples from two boreholes drilled by the Company - L9590/7 (2,641 Ma) and L9660/5 (2,548 Ma) confirming the prospective nature of the area.

Ground magnetic surveys over targets TOD 17 (Grade 6 target) and TOD 29 and 30 (both Grade 5 targets) have been levelled and the data is being modelling in order to establish whether drilling is to be recommended. These targets resemble kimberlite magnetic targets in the Company's most northern Gcwihaba Prospecting Licences.

On June 15, 2012, Prospecting License No. 195/2012 was issued to the Company. The license grants the exclusive right to prospect for Precious Stones (diamonds) for an initial period of 3 years commencing on July 1, 2012 and ending on June 30, 2015. The Final report of prospecting activities by De Beers in the area was obtained and reviewed (PL 1 to 17/95). De Beers prospected the area (a total of 17 PLs) between 1995 and 2002 and found one kimberlite west southwest of the Jwaneng diamond mine. Numerous indicator mineral anomalies were delineated but no other primary sources were found.

PL 195/2012 covers an isolated garnet/spinel kimberlitic indicator anomaly which clearly has a proximal source and which to date has not been located. All available geophysical data has been gathered for further processing and when completed, a soil sampling program will be initiated to retrieve kimberlitic minerals for surface texture (to determine distance to source) and mineral chemistry (to determine prospectivity) analysis.

## **2. Metals (Base and Precious, Rare Earth Elements (REE) and Platinum Group Minerals ( PGM)) Projects**

The Company's current and those in renewal Prospecting Licences for metals are listed below. The combined licenses cover an area of 14,547 km<sup>2</sup> (Table 2). Prospecting Licenses PL's 093-097/2012 were granted during the quarter. Relinquishment and renewal applications for PL 118 and PL 119 respectively have been filed.

Table 2

GCWIHABA – METAL LICENSE AREAS AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From date of Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 9.30.2012
PL 119/2005	827	10/01/10	10/01/12	In Renewal	-	-	NA	NA
PL 051/2008	487	07/01/11	07/01/13	1 <sup>st</sup> Renewal	2,435	70,000	144,870	19,152
PL 052/2008	382	07/01/11	07/01/13	1 <sup>st</sup> Renewal	1,910	70,000	143,820	19,013
PL 386/2008	570	01/01/12	01/01/14	1 <sup>st</sup> Renewal	2,850	100,000	205,700	27,194
PL 387/2008	965	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,825	100,000	209,650	27,716
PL 388/2008	318	01/01/12	01/01/14	1 <sup>st</sup> Renewal	1,590	100,000	203,180	26,861
PL 389/2008	979	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,895	100,000	209,790	27,735
PL 390/2008	808	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,040	100,000	208,080	27,509
PL 391/2008	455	01/01/12	01/01/14	1 <sup>st</sup> Renewal	2,275	100,000	204,550	27,042
PL 392/2008	829	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,145	100,000	208,290	27,537
PL 393/2008	938	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,690	100,000	209,380	27,681
PL 394/2008	650	01/01/12	01/01/14	1 <sup>st</sup> Renewal	3,250	100,000	206,500	27,300
PL 395/2008	972	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,860	100,000	209,720	27,726
PL 595/2009	320	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PL 596/2009	925	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PL 597/2009	514	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PL 588/2009	796	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PI 093/2012	434	04/01/12	04/01/15	Initial Grant	2,170	50,000 *	166,510	22,013
PI 094/2012	679	04/01/12	04/01/15	Initial Grant	2,895	50,000 *	168,685	22,301
PI 095/2012	422	04/01/12	04/01/15	Initial Grant	2,110	50,000 *	166,330	21,989
PI 096/2012	677	04/01/12	04/01/15	Initial Grant	3,385	50,000 *	160,155	21,173
PI 097/2012	600	04/01/12	04/01/15	Initial Grant	3,000	50,000 *	169,000	22,342
<b>TOTAL</b>	<b>14,547</b>				<b>61,295</b>	<b>1,590,000</b>	<b>3,606,150</b>	<b>422,284</b>

\* 1<sup>st</sup> year 50,000; 2<sup>nd</sup> year 50,000 : and 3<sup>rd</sup> year 60,000

The Company's exploration work had initially indicated that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverse the Company's southern licences in northwest Botswana in an area where the Damara Belt connects with the Lufilian Arc. Recent petrology, geochemistry and geochronology work by AEON's (Africa Earth Observatory Network) research group now located at the NMMU (Nelson Mandela Metropolitan University) in Port Elizabeth, South Africa highlights the presence in Ngamiland of Archaean granite-gneisses (ca. 2,550 Ma). Paleoproterozoic granites (ca. 2,000 Ma) have been tectonically interlayered with Lufilian Arc-equivalent meta-sediments (including graphitic schist, carbonates and diamictites) and meta-basites and gabbros (ca. 540 Ma). These tectonic contacts, which are mainly major thrust zones, and graphitic schists are mineralized and have been targeted for further work. The two 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. 2,050 Ma) to the Katangan Supergroup beneath the Lufilian Arc in the DRC. The Pan African meta-basites in Ngamiland yield

an age of ca. 535 Ma. This is younger than the meta-basalts 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). This age difference 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 meta-basalts of Ngamiland represent subducted basaltic MAB-like oceanic crust that has been recycled as island-arc basalts.

The Phase 1 drilling program was completed in 2011. The objective was to cover the ground on a wide grid to identify the areas of interest for a more detailed follow-up Phase 2 drill program. During the Phase 1 drilling program three different mineralisation domains in several parts of the licence area were identified, representing different geological settings each with a specific mineralisation style as set forth in Table 3 below:

**Table 3**

<b>Main mineralogical domains identified during the Phase 1 drill program</b>		
Xaudum Magnetite Banded Iron Formation (BIF)	Layered and massive BIF at the base of the Grand Conglomerate	<b>Rapitan type Fe Formation</b> Iron
Sepopa Cu/Au Skarn deposit (IOCG?)	<b>Iron-copper skarns</b> associated with ~535 Ma basic intrusions	Copper-gold-iron
Cu/Co Central Shale Belt	<b>Copperbelt-style sedimentary rock-hosted copper deposits</b> at multiple stratigraphic levels, spatially associated with faults	Copper (cobalt)

The drilling and the ground geophysical program during the 3<sup>rd</sup> Quarter have concentrated on the first two of these three domains. The presence of the layered and massive magnetite banded ironstone formation associated with the Xaudum Magnetic Anomaly in the northern part of the area has been isolated and is intimately associated with deformed diamictites resembling glacial deposits. These rocks have been identified as being part of a Rapitan type iron-formation both in terms of age and lithology, and extend over some 35km in a north-south direction and the magnetite bands interbedded with diamictites occur over a width of several kilometres. Rapitan-type iron-formations are Neoproterozoic (0.8-0.6 Ga) iron-formations that are characterized by their distinct association with glaciomarine sediments. They are thought to have been deposited in the immediate aftermath of a so-called 'Snowball Earth' state. Examples include the Rapitan Group (Canada), the Yudnamutara Subgroup (Australia), the Chuos Formation (Namibia), and the Jacadigo Group (Brazil).

The drilling program is focused on the northern Xaudum Magnetite Deposit and the Sepopo Skarn deposit. During the Quarter 16 holes were completed, with 13 drilled in the northern Xaudum Magnetite Ironstone deposit and three on the 1822C27 part of the Sepopo Skarn deposit.

The one diamond core drill rig was positioned over the northern part of this deposit in order to continue with detailed drilling along fences to improve on the geological model. Folds and probably trusts have complicated the geology

but the combination of high resolution ground magnetic surveys and drilling has provided the first geological map of this area.

The majority of the 13 Ironstone holes intersected magnetite bearing rocks. Equipment capable of recording core orientation and down-the-hole drill orientation for drill hole direction was introduced by Reflex Instruments and attached to the drills. This will assist greatly to obtain dip and strike information of the magnetite-bearing beds. During the quarter, a training program was presented to induct all technical staff to these instruments. The first hole to utilize this equipment was 1821B90E\_56AO.

The other three holes were sighted on the 1822C27 part of the Sepopo skarn deposit which is believed to be associated with the 535Ma old meta-basites. The 16 diamond drill holes completed in Q3 achieved a cumulative depth of 3,455.9 meters while 2,977.2 meters of core were recovered (Table 4). Detailed logging is ongoing.

**Table 4**

<b>Holes drilled in 3<sup>rd</sup> Quarter 2012</b>			
<b>Hole No</b>	<b>Drilled meters</b>	<b>Core meters</b>	<b>Main Lithologies</b>
1821B90_E	173.40	144.00	Magnetite (mixed and massive), Diamictite
1821B90E_56AO	170.40	128.40	Magnetite (mixed and massive), Diamictite
1821B112_W	321.50	297.50	Magnetite (massive), Diamictite
L9600_10E	174.40	168.40	Magnetite (massive), schist, Diamictite
L9600_10W	188.40	159.00	Magnetite (mixed and massive), Diamictite
1821B90E_56AQ	131.50	85.50	Massive 'Grand conglomerate' inter-bedded with BIF.
1821B90E_56AP	172.44	128.44	Clast-poor 'Grand conglomerate' above the BIF; massive diamictite beneath it.
1822C27_6	352.50	291.00	Fine-grained schist, greenish mafics, skarn (epidote, pyroxene? and big garnets) and coarse crystalline dolomite.
L9600_10E_31S	155.40	153.40	Massive BIF inter-bedded with clast-poor diamictite. Massive diamictite at the bottom of the hole.
L9600_11W_25P	178.05	164.65	Massive BIF inter-bedded with the 'Grand conglomerate'.
1822C27_8	425.90	361.74	Skarnified meta-sediments
L9600_11W_25O	164.50	150.30	Siderite and silica facies interbedded with oxide facies (massive magnetite), diamictite with quartz and dolomite clasts occurring at the base of the hole.
1822C27_7	224.50	146.50	Quartz-biotite-phlogopite-amphibole schist, with skarn garnets-epidote-pyroxene? at the base.
L9600_11V_25O	260.50	255.85	Siderite facies (carbonate matrix+ amphibole + garnets + magnetite matrix) interbedded with oxide facies, and diamictite with quartz and dolomite clasts at the base.
L9600_11W_25Q	148.66	139.66	Siderite, silica and oxide facies. Diamictite at the base of the hole.
1821B85W_28O	213.84	202.84	Diamictite interbedded with siderite, silica and oxide facies (BIF).
<b>Total</b>	<b>3,455.89</b>	<b>2,977.18</b>	



The copper and gold showings of skarn-type targets, south-east of this banded magnetite iron deposit and central to the prospecting area, are associated with meta-basic rocks (garnet-epidote-scapolite-albite amphibolite and gabbros) and indicate that the mineralization model here could be associated with **Iron Oxide Copper Gold** ore deposits (“**IOCG**”). Low-titanium magnetite associated with these units supports this interpretation. Target 1822C27 clearly shows an offset of the causative magnetic body in relation to the gravity anomaly. The former is associated with massive magnetite mineralization believed to be linked with ‘gabbroic’ intrusions whilst the gravity anomaly has not been resolved and will be the focus of more drilling. Several other targets such as 1822C10 are surrounded by boreholes which contain anomalous Cu values in some of the core samples.

Mineralisation associated with these skarn deposits are related to massive magnetite, meta-basites, meta-mafic units and granofels in contact with Mwashya-type carbonates and metasediments. Mineralization here is characterized by elevated values of Cu, Ni, Ti, V, (Copper, Nickel, Titanium and Vanadium) and La (Lanthanum) and Ce (Cerium) both of which are rare earth elements (REE's). Anomalous levels for Au (Gold) have also been recorded in some samples.

Between the BIF in the north and the skarn IOCG-type mineralization in the south-east, are north-eastward trending mineralized meta-sediments in what is referred to as the Central Shale Basin. These are identical to the host rocks of the Kalimbila Cu-Ni-Co deposit, which is part of the Copper Belt in western Zambia and north of Ngamiland. With the new geochronological dates the Company is presently applying this data in its Gocad software to develop a 3-D model of the stratigraphy in order to define drill targets. The Central Shale Basin to the north-east of the project area contains a meta-sedimentary sequence which geologically is very similar to the stratiform Cu-Co (Copper-Cobalt) province of the central African Copperbelt. The black shales, meta-pelites, meta-arenites, dolomites, with interbedded evaporates in particular bear strong resemblance to the Mwashya rocks in Zambia. Most lithologies are mineralized with pyrite, pyrrhotite and chalcopyrite.

The main activity during the 3<sup>rd</sup> Quarter, besides drilling, was to complete the collection of high resolution ground magnetic data over target TOD017 in the Northwestern corner of the Gcwihaba permit area. The ground magnetic crew then moved back to the Xaudum Iron Stone area to infill lines over the fold hinge area (northern circle) and a large magnetic target on the east (southern circle).

They then moved south to complete the collection of the ground magnetic data over the ground to the southern side of the Xaudum Ironstone target, which is also further south from where the company is currently conducting its detailed drilling program on the ironstones. The aim is to complete the high resolution ground magnetics over the whole area containing the large magnetic anomaly associated with the Iron stones.

During the Quarter, 1529 line-kilometers of ground magnetic data were collected. This was leveled and interpreted by the Company's in-house geophysical unit. It represents coverage of some 81.1 km<sup>2</sup> at 50 meter line spacing. Some of this work was over kimberlite target TOD 17 which coincides with a large Ni target from the Ngamiland Government Geochem sampling program.

Assay results for 1126 (ICP 23-33 elements and ICP 61-precious metals) core samples were obtained from ALS Minerals in Johannesburg, South Africa and Set Point Laboratories in Francistown, Botswana (prep) and Johannesburg, South Africa (assay). In addition, assay results from 120 core samples for REE (MS81) were also received. Many of the results relate to the Magnetite BIF deposit. In addition, petrographic descriptions for 8 core samples from 3 boreholes were received during the Quarter. Nine hundred twenty-nine core samples were consigned for assaying during the quarter

### 3. Radioactive licenses

The Company presently holds 8 Prospecting Licences for radioactive minerals through its wholly owned subsidiary Gcwihaba Resources (Pty) Ltd in northwest Botswana. The licenses cover 6,925 km<sup>2</sup> (see Table 5) and overlap the Company's diamond and metal licenses.

**Table 5**

<b>GCWIHABA – RADIOACTIVE LICENSE AREAS AS AT SEPTEMBER 30, 2012</b>								
<b>PL numbers</b>	<b>Km<sup>2</sup></b>	<b>Grant Date</b>	<b>Renewal date</b>	<b>Current Stage</b>	<b>Expenditure</b>		<b>Total Expenditure From Grant and if held to Full License Term</b>	
					<b>Rental Fee Per Annum (BWP)</b>	<b>Work Program Per Annum* (BWP)</b>	<b>BWP</b>	<b>USD as at 9.30.2012</b>
PI 150/2010	719	07/01/10	07/01/13	Initial Grant	3,595	60,000	190,785	25,222
PL 151/2010	711	07/01/10	07/01/13	Initial Grant	3,555	60,000	190,665	25,207
PL 045/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	50,000	195,000	25,780
PL 046/2011	847	01/01/11	01/01/14	Initial Grant	4,235	50,000	192,705	25,476
PL 047/2011	907	01/01/11	01/01/14	Initial Grant	4,535	50,000	193,605	25,595
PL 048/2011	769	01/01/11	01/01/14	Initial Grant	3,845	50,000	191,535	25,322
PL 049/2011	974	01/01/11	01/01/14	Initial Grant	4,870	50,000	194,610	25,728
PL 050/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	50,000	195,000	25,780
<b>TOTAL</b>	<b>6,927</b>				<b>34,635</b>		<b>1,543,905</b>	<b>204,110</b>
* 1 <sup>st</sup> year 50,000; 2 <sup>nd</sup> year 60,000 : and 3 <sup>rd</sup> year 70,000								

The Company has reviewed the exploration results from Union Carbide Exploration Corporation which had secured many prospecting licences in west and northwest Botswana for uranium. The exploration program in northwest Botswana (Ngamiland) started in 1977 and continued until 1980, and of particular interest are their findings of anomalous uranium within what they called the Khaudum and Chadum palaeo-drainages. 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). Research on the age and origin of these type of calcretes further south has been incorporated in a research project conducted by Aeon, the results of which will be available during the third quarter.

The Company's strategy is two-fold, first to conduct a geomorphological study of the area using remote sensing techniques and sediment thickness maps from drill data. This is to be linked to buried paleo-channels that have been identified while interpreting the most recent government Airborne Magnetic data. There is uncertainty as to the origin and flow direction of these channels and more detailed geomorphological studies have been scheduled to resolve this.

Secondly, diamond drilling conducted by Gcwihaba Resources (Pty) Ltd. on overlapping metal licences have returned anomalous uranium assay results in some of the Proterozoic meta-sedimentary units underlain by the Kalahari Group sediments. The assay results received during the quarter included one sample of 20ppm U from borehole 1821B85V (Table 6) and these are particularly encouraging because of the presence of up to 100 and 40 ppm Uranium in some other cores in the immediate vicinity. The link between these anomalous meta-sedimentary rocks and the surface uranium anomalies in the Kalahari calcretes is yet to be established. The assay requests for all holes sent for analysis to the ALS laboratory include Uranium.

**Table 6**

<b>Anomalous Uranium results from the Proterozoic meta-sediments</b>		
<b>Hole</b>	<b>Sample number</b>	<b>U ppm</b>
1822 C50	47	20
1822 C50	331	40
1822 D12/3	111,112,113, 123	20
1822 D12/3	114	30
1822 D12/3	115,124	40
L9600/13	120	30
L9600/15	46	20
L9610/12	81, 147,148	20
L9610/14	29, 61,63,211,212,213,214,219,233,238, 296	20
L9620/4	86	20
L9630/14	124	30
L9640/2	8	100
L9650/4	228	20
L9650/8	154	20
L9670/10	186	20
L9700/7	54	20
L9630/13	76	20
1821B85V	102, 108, 113, 123, 127, 133, 143, 147.	20

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2012, the Company had working capital of \$289,569 [September 2011: (\$1,773,507)], which included cash and equivalents \$1,836,871, (September 2011: \$1,107,993). 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. The Company had exercises of options for additional cash proceeds of \$284,441 in May 2012, and issued units (common shares & warrants) for additional cash proceeds of \$2,008,787; 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 and not in renewal as of September 30, 2012, the expenditure requirements inclusive of license fees from the date of grant to and if held to their full terms are as follows:

Project Description	Required Expenditure	
	BWP	USD
Newdico – Diamond	-	-
Gcwihaba - Diamond	746,510	\$98,692
Gcwihaba - Metals	3,606,150	\$422,284
Gcwihaba - Radioactive Minerals	1,543,905	\$204,110

### **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. Certain of the Company's warrants are classified as derivative liabilities and are recorded at their estimated fair value. The liability recognized at September 30, 2012 for those warrants is \$1,525,137 (September 2011: \$2,976,047). 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 decreased from \$541,851 for the period ended September 30, 2011 to \$190,716 for the period ended September 30, 2012. The decrease in 2012 was due primarily to a decrease from 2011 in corporate remuneration, and unrealized loss (gains) on warrants.

<b>Annual Information</b> <b>(in US Dollars)</b>	<b>Fiscal Year</b> <b>December 31, 2011</b>			
---	--	--	--	--

Net income (loss) for the year	\$1,179,246
Basic income (loss) per share	\$0.07
Basic diluted income (loss) per share	\$0.07
Total other comprehensive income (loss)	(\$1,810,035)
Total comprehensive income (loss) for the year	(\$90,789)
Basic comprehensive income (loss) per share	\$0.00
Diluted comprehensive income (loss) per share	\$0.00
Total assets	\$11,477,912
Total long term liabilities	-
Cash dividend	-

<b>Quarterly Information</b> <b>(in US Dollar)</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
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<b>Fiscal Year ended December 31, 2011</b>				
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	-	-	-	-

<b>Quarterly Information</b> <b>(in US Dollars)</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
--	------------------	------------------	------------------	------------------

<b>Fiscal Year ended September 30, 2012</b>				
Net income (loss) for the year	(\$157,954)	(\$309,887)	(\$178,518)	
Basic income (loss) per share	(\$0.01)	(\$0.01)	(\$0.00)	
Diluted basic income (loss) per share	(\$0.01)	(\$0.01)	(\$0.00)	
Comprehensive income (loss) for the year	\$57,066	(\$792,276)	(\$258,478)	
Basic comprehensive income (loss) for the year	(\$0.00)	(\$0.03)	(\$0.01)	
Diluted comprehensive income (loss) per share	(\$0.00)	(\$0.03)	(\$0.01)	
Total assets	\$11,662,096	\$11,366,904	\$13,297,755	
Total long term liabilities	-			

### Investing Activities

Cash flow applied in investing activities decreased to \$1,771,604 for the period ended September 30, 2012 (2011: \$1,861,884).

Total expenditures of \$2,002,135 on exploration properties for the period ended September 30, 2012 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 2.43% 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. To date in 2012, the Company received proceeds of \$284,441 from the exercise of Stock Options.

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
Options Exercised Date	No. of Shares	Price per Share	Proceeds
May 1, 2012	250,000	C\$0.80	\$204,071
May 7, 2012	100,000	C\$0.80	\$80,368
September 7, 2012	1,818,181	C\$1.10	\$2,045,510

Tsodilo expects to raise the amounts required to fund its 98% 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 loss of \$993,688 for the period ended September 30, 2012 (\$0.04 cents per common share) compared to a net income of \$31,016 for the period ended September 30, 2011 (\$0.00 cents per common share). The decrease in 2012 was due primarily to a decrease from 2011 in corporate remuneration, and warrants loss (gains). The decrease in stock based compensation expense reflects changes to share price. The

unrealized gain (loss) on warrants decreased from an unrealized loss of (\$24,371) in September 30, 2012 to an unrealized gain of \$1,889,445 in September 30, 2011.

Cumulative exploration expenditures including amortization of property, plant and equipment used in exploration activities on all projects amounted to \$10,559,253 as at September 30, 2012 compared to \$8,754,387 as at September 30, 2011. Cumulative exploration expenditures incurred on the Newdico project as at September 30, 2012 was \$7,222,987 compared to \$6,534,947 as at September 30, 2011. 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 September 30, 2012 were \$3,336,266 compared to \$2,219,400 as at September 30, 2011.

## **PERSONNEL**

At September 30, 2012, the Company and its subsidiaries employed thirty-eight (38) individuals compared to thirty (30) at September 30, 2011, including senior officers, administrative and operations personnel including those on a short-term service basis.

## **THIRD QUARTER - 2012**

The third quarter was a normal operating period for a quarter. Operating expenses were at normal levels for the third 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**

#### **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. There were no additional significant impacts on the Company.

##### **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. There were no additional significant impacts on the Company.

#### **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 Interim Condensed Consolidated financial statements.

##### **IFRS 10 – Interim Condensed 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 carries 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 Interim Condensed 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 interests 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 – Interim Condensed 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 Interim 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.

## RELATED PARTY TRANSACTIONS

As of September 30, 2012 the Company has incurred leave benefits payable to an officer and director of the Company amounting to \$18,621.

### Remuneration of Key Management Personnel of the Company

	2012	2011
Short term employee remuneration and benefits	\$ 270,000	\$ 394,633
Stock based compensation	158,458	343,060
Total compensation paid to key management personnel	<u>\$ 428,458</u>	<u>\$ 737,693</u>

There are no other related party transactions.

## OUTLOOK

Precious stones, metals and radio-active materials 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](http://www.TsodiloResources.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

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

"s"

James M. Bruchs  
Chairman and Chief Executive Officer  
November 16, 2012

"s"

Gary A. Bojes  
Chief Financial Officer  
November 16, 2012

# **TSODILO RESOURCES LIMITED**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIOD ENDED  
SEPTEMBER 30, 2012**  
(expressed in United States dollars)

**Unaudited – Prepared by Management**

**These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent 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 interim condensed consolidated financial statements have been authorized for release by the Company’s Board of Directors on November 16, 2012.**

### ***CONTENTS:***

Interim Condensed Consolidated:  
Statement of Financial Position  
Statement of Operations  
Statements of Shareholders’ Equity  
Statement of Cash Flows

## **Management's Responsibility for Interim Condensed Consolidated Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Tsodilo Resources Limited, ("Tsodilo" or the "Company") of management and the Board of Directors.

The unaudited interim condensed consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim condensed consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions, which were not complete at the balance sheet date. In the opinion of management, the unaudited interim condensed consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited interim condensed consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited interim condensed consolidated financial statements and (ii) the unaudited interim condensed consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim condensed consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim condensed consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.

DATED this 16<sup>th</sup> day of November, 2012

TSODILO RESOURCES LIMITED

"s"

James M. Bruchs  
Chairman and Chief Executive Officer  
November 16, 2012

"s"

Gary A. Bojes  
Chief Financial Officer  
November 16, 2012

**Tsodilo Resources Limited****Interim Condensed Consolidated Statements of Financial Position**

(In United States dollars)

	September 30 2012	September 30 2011	December 31 2011
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$1,836,871	\$ 1,107,993	\$ 1,505,965
Accounts receivable and prepaid expenses	86,698	114,174	179,352
	1,923,569	1,222,167	1,685,317
<b>Exploration and Evaluation Assets (note 3)</b>	<b>10,559,253</b>	<b>8,754,347</b>	<b>8,774,657</b>
<b>Property, Plant and Equipment (note 4)</b>	<b>814,933</b>	<b>1,089,942</b>	<b>1,017,938</b>
	<b>\$13,297,755</b>	<b>\$11,066,456</b>	<b>\$ 11,477,912</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$108,863	\$19,627	\$ 104,105
Warrants (note 5b)	1,525,137	2,976,047	1,500,766
<b>Total Liabilities</b>	<b>1,634,000</b>	<b>2,995,674</b>	<b>1,604,871</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital (note 5a)	36,406,062	33,221,778	35,056,638
Warrants Equity (note 5b)	1,004,393	--	--
Stock Option Reserves (note 5c)	9,178,910	8,621,899	8,711,103
Foreign Currency Reserves	(1,839,686)	(689,410)	(1,455,134)
Deficit	(33,300,939)	(33,296,750)	(32,653,953)
<b>Equity attributable to Owners of the Parent</b>	<b>11,448,740</b>	<b>7,857,517</b>	<b>9,658,654</b>
Non-controlling Interest (note 3)	215,015	213,265	214,387
<b>Total Equity</b>	<b>11,663,755</b>	<b>8,070,782</b>	<b>9,873,041</b>
<b>Total Liabilities and Equity</b>	<b>13,297,755</b>	<b>\$11,066,456</b>	<b>\$ 11,477,912</b>

**Commitments (note 11)****Subsequent events (note 13)***See accompanying notes to the interim condensed consolidated financial statements***APPROVED ON BEHALF OF THE BOARD OF DIRECTORS**

"s"

David J. Cushing  
Chairman, of the Audit Committee

"s"

James M. Bruchs  
Chairman

**Tsodilo Resources Limited**  
**Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**  
(In United States dollars)

	Three Months Ended		Nine months Ended	
	September 2012	September 2011	September 2012	September 2011
<b>Administrative Expenses</b>				
Corporate remuneration	\$22,557	\$45,022	\$67,671	\$133,223
Corporate travel and subsistence	8,667	12,315	27,937	14,738
Investor relations	4,750	4,221	19,560	13,411
Legal and audit	(282)	42,515	45,009	53,907
Filings and regulatory fees	7,122	5,238	21,457	25,944
Administrative expenses	43,886	42,962	143,738	128,282
Amortization	1,511	1,511	4,534	3,335
Stock-based compensation (note 5c)	88,618	127,116	329,325	394,633
	<b>\$176,829</b>	<b>\$280,900</b>	<b>\$659,231</b>	<b>\$767,473</b>
<b>Other Income (Expense)</b>				
Other expense	--	--	--	--
Warrant issue cost	--	--	--	--
Unrealized gain (loss) on warrants (Note 5b)	12,575	(131,966)	(24,371)	1,889,445
Foreign exchange (loss)	(14,264)	(44,787)	37,243	(45,523)
	<b>(1,689)</b>	<b>(176,753)</b>	<b>12,872</b>	<b>1,843,922</b>
<b>Net Income (Loss) for period</b>	<b>(178,518)</b>	<b>(457,653)</b>	<b>(646,359)</b>	<b>1,076,449</b>
Other Comprehensive Income (Loss)	--	--	--	--
Foreign currency translation	(79,960)	(711,369)	(347,329)	(1,045,433)
<b>Total Other Comprehensive Income (Loss)</b>	<b>(79,960)</b>	<b>(711,369)</b>	<b>(347,329)</b>	<b>(1,045,433)</b>
<b>Total Comprehensive Income (Loss) for the period</b>	<b>(\$258,478)</b>	<b>\$(1,169,022)</b>	<b>(\$993,688)</b>	<b>\$31,016</b>
Net Income (Loss) attributable to shareholders of the parent	(179,518)	(457,653)	(646,987)	\$1,076,449
Non-controlling interest	1,000		628	--
	<b>(\$178,518)</b>	<b>\$(457,653)</b>	<b>(\$646,359)</b>	<b>\$1,076,449</b>
Total Comprehensive Income (Loss) attributable to owners of the parent	(259,478)	(1,169,022)	(994,316)	\$68,115
Non-controlling Interest	1,000		628	(37,099)
	<b>(\$258,478)</b>	<b>\$(1,169,022)</b>	<b>(\$993,688)</b>	<b>\$31,016</b>
Basic income (loss) per share attributable to owners of the parent (note 7)	(\$0.00)	\$(0.02)	(\$0.02)	\$0.05
Fully diluted income (loss) per share attributable to the owners of the parent (note 7)	(\$0.00)	\$(0.02)	(\$0.02)	\$0.04
Basic comprehensive income (loss) per share attributable to the owners of the parent (note 7)	(\$0.01)	\$(0.01)	(\$0.04)	\$0.00
Fully diluted comprehensive income (loss) per share attributable to the owners of the parent (note 7)	(\$0.01)	\$(0.01)	(\$0.04)	\$0.00

See accompanying notes to the interim condensed consolidated financial statements



**Tsodilo Resources Limited**

**Interim Condensed Consolidated Statements of Shareholders' Equity**

(In United States dollars except for shares)

	Share Capital		Stock Option Reserve	Warrants Equity	Foreign Currency Reserve	Deficit	Total attributable to equity holder of the parent	Non-Controlling Interest	Total Equity
	Shares Issued	Amount							
<b>Balance January 1, 2012</b>	<b>25,880,970</b>	<b>\$35,056,638</b>	<b>\$8,711,103</b>	--	<b>(\$1,455,134)</b>	<b>(\$32,653,953)</b>	<b>\$9,658,654</b>	<b>214,387</b>	<b>\$9,873,041</b>
Units Issued	<b>1,818,181</b>	<b>1,004,393</b>		<b>1,004,393</b>			<b>2,008,786</b>	--	<b>2,008,786</b>
Exercised Options Stock Based Compensation	<b>350,000</b>	<b>345,031</b>	<b>(60,590)</b>				<b>284,441</b>		<b>284,441</b>
Comprehensive Income (loss) 2012	--	--	<b>528,397</b>		--	--	<b>528,397</b>	--	<b>528,397</b>
Balance September 30, 2012	<b>28,049,151</b>	<b>\$36,406,062</b>	<b>\$9,178,910</b>	<b>\$1,004,393</b>	<b>(\$1,839,686)</b>	<b>(\$33,300,939)</b>	<b>\$11,448,740</b>	<b>215,015</b>	<b>\$11,663,755</b>

See accompanying notes to the interim condensed consolidated financial statements.

**Tsodilo Resources Limited**

**Interim Condensed 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						
<b>Balance January 1, 2011</b>	<b>22,647,340</b>	<b>\$32,038,044</b>	<b>\$7,884,206</b>	<b>\$318,924</b>	<b>(\$34,373,199)</b>	<b>\$5,867,975</b>	<b>\$250,364</b>	<b>\$6,118,339</b>
Exercised Warrants Stock Based Compensation	<b>3,233,630</b>	<b>3,018,594</b>	--	--	--	<b>3,018,594</b>	--	<b>3,018,594</b>
Comprehensive Income (loss)	--	--	<b>826,897</b>	--	--	<b>826,897</b>	--	<b>826,897</b>
Comprehensive Income (loss)	--	--	--	<b>(1,774,058)</b>	<b>1,719,246</b>	<b>(54,812)</b>	<b>(35,977)</b>	<b>(90,789)</b>
<b>Balance December 31, 2011</b>	<b>25,880,970</b>	<b>\$35,056,638</b>	<b>\$8,711,103</b>	<b>(\$1,455,134)</b>	<b>(\$32,653,953)</b>	<b>\$9,658,654</b>	<b>\$214,387</b>	<b>\$9,873,041</b>

See accompanying notes to the interim condensed consolidated financial statements.

**Tsodilo Resources Limited****Interim Condensed Consolidated Statements of Cash Flows**

(In United States dollars)

	Quarter Ended September 30	
	2012	2011
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net Income (Loss) for the year	\$ (646,359)	\$ 1,076,449
Adjustments for non-cash items:		
Unrealized (gain) loss on warrants	24,371	(1,889,445)
Amortization	4,534	3,335
Stock-based compensation	329,325	394,633
	<b>(288,129)</b>	<b>(415,028)</b>
Net change in non-cash working capital balances (note 12)	<b>97,412</b>	<b>(126,823)</b>
	<b>(190,717)</b>	<b>(541,851)</b>
<b>Investing Activities</b>		
Additions to exploration properties	(1,784,693)	(1,626,117)
Deposit on equipment	--	--
Additions to property, plant and equipment	13,089	(235,768)
	<b>(1,771,604)</b>	<b>(1,861,885)</b>
<b>Financing Activities</b>		
Shares and warrants issued for cash, net of cost	2,293,227	783,034
	<b>2,293,227</b>	<b>783,034</b>
<b>Change in cash - For the Quarter</b>	<b>330,906</b>	<b>(1,620,702)</b>
<b>Cash - beginning of Quarter</b>	<b>1,505,965</b>	<b>2,728,695</b>
<b>Cash - end of Quarter</b>	<b>\$ 1,836,871</b>	<b>\$ 1,107,993</b>

*See accompanying notes to the interim condensed consolidated financial statements*

## **Tsodilo Resources Limited**

### **Notes to the Interim Condensed Consolidated Financial Statements**

For the quarters ended September 30, 2012 and 2011  
(All amounts are in U.S. dollars unless otherwise noted)

#### **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 Interim Condensed 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 Interim Condensed Consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the Interim Condensed Consolidated statement of operations and comprehensive income (loss), and Interim Condensed 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 Interim Condensed 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 Interim Condensed Consolidated financial statements have been authorized for release by the Company's Board of Directors on November 16, 2012.

**(b) Basis of Preparation**

These Interim Condensed 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 Interim

Condensed Consolidated financial statements are presented in United States dollars and include the accounts of the Company and the following direct and indirect subsidiaries:

	2012	2011
<b>Tsodilo Resources Bermuda Limited (Bermuda)</b>	100%	100%
Bosoto (Proprietary) Limited ("Bosoto") [Botswana]	100%	100%
Gcwihaba Resources (Proprietary) Limited ("Gcwihaba") [Botswana]	100%	100%
Newdico (Proprietary) Limited ("Newdico") [Botswana]	98%	97%
All intercompany transactions have been eliminated on consolidation		

The accounting policies set out below have been applied consistently to all periods presented.

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

The preparation of the Interim Condensed Consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies 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 period ended 2012. Stock options and share purchase warrants are included in the computation of comprehensive income (loss) and income per share for the period ended September 30, 2012.

(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.

**(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 Resources (Pty) Limited	Botswana Pula
Newdico (Pty) Limited	Botswana Pula
Bosoto (Pty) Limited	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 restoration 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 September 30, 2012, September 30, 2011 and December 31, 2011.

**(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 September 30, 2012, and September 30, 2011, 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.

**(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. There were 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. There were no additional significant impacts on the Company.

## **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. There were no additional significant impacts on the Company.

## **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 Interim Condensed Consolidated financial statements.

### **IFRS 10 – Interim Condensed 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 carries 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 Interim Condensed 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 interests 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 – Interim Condensed 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 Interim 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 is currently considering the potential impact of the adoption of IFRS 13.

### 3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are summarized as follows:

	Newdico Botswana		Gcwihaba Botswana		Subtotal	Total
	Precious Stones	Precious Stones	Metals	Radio-Active Minerals		
<b>Balance at December 31, 2010</b>	<b>\$ 6,057,490</b>	<b>\$ 1,349,858</b>	<b>\$ 86,543</b>	<b>\$ -0-</b>	<b>\$ 1,436,401</b>	<b>\$ 7,493,891</b>
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)
<b>Balance at December 31, 2011</b>	<b>\$6,291,558</b>	<b>\$1,677,187</b>	<b>\$565,829</b>	<b>\$240,083</b>	<b>\$2,483,099</b>	<b>\$8,774,657</b>
Additions	1,087,698	312,785	389,581	212,071	914,437	2,002,135
Net Exchange Differences	(156,269)	(20,957)	(26,103)	(14,210)	(61,270)	(217,539)
<b>Balance at September 30, 2012</b>	<b>\$7,222,987</b>	<b>\$1,969,013</b>	<b>\$929,307</b>	<b>\$437,944</b>	<b>\$ 3,336,266</b>	<b>\$ 10,559,253</b>

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

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

Newdico's Prospecting Licenses ("PL's") are located 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. A relinquishment report for PL's 062 - 063/2005 and 065 - 071/2005 was filed during the Quarter. These licenses were the subject of extensive exploration during their license terms and were determine not to be prospective for an economic kimberlite. The relinquishment of these licenses will not have an adverse impact on the Ngamiland 's kimberlite exploration program. A two year renewal application for PL 64/2005 (Table 1) has been submitted in order to continue and complete the first stage evaluation program for K10 and K11 and to resolve target THC10. An acknowledgement of receipt has been received from the Botswana Department of Geological Survey (Reference number PLI9042012103322-2010) and the renewal application is currently being reviewed.

**Table 1**

NEWDICO DIAMOND LICENSES AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From Date of Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 9.30.2012
PL 064 /2005	851	7/01/10	7/01/12	In Renewal	-	-	NA	NA

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 97.32% at September 30, 2012.

## Gcwihaba Resources (Proprietary) Ltd (“Gcwihaba”) – Botswana

Gcwihaba, a wholly owned subsidiary of the Company, holds prospecting licenses in the North-West and Kgalagadi Districts in Botswana.

### Diamond Exploration

Gcwihaba holds seven (7) precious stone – diamond prospecting licenses of which three are currently in renewal.. Six licenses are in the North-West District of Botswana covering 3,728 square kilometers and 1 license covering 494 square kilometers in the Kgalagadi District in southern Botswana (Table 2). The Company acquired the various licenses in 2007, 2008, 2009 and 2012. 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 746,510 (US\$ 98,692) as at September 30, 2012, inclusive of license fees from the date of grant to and if held to their full-term.

**Table 2**

GCWIHABA DIAMOND LICENSES AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From Date of Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 06.30.2012
PL 046/2008	709	6/01/11	1/01/13	1 <sup>st</sup> Renewal	3,545	70,000	147,090	19,575
PL 047/2008	491	6/01/11	1/01/13	1 <sup>st</sup> Renewal	2,455	70,000	144,910	19,285
PL 049/2008	710	1/01/11	1/01/13	1 <sup>st</sup> Renewal	3,550	70,000	147,100	19,576
PL 641/2009	923	7/01/09	7/01/12	Initial Grant	4,615	-	-	-
PL 642/2009	839	7/01/09	7/01/12	Initial Grant	4,195	-	-	-
PI 643/2009	786	7/01/09	7/01/12	Initial Grant	3,930	-	-	-
PL 195/2012	494	7/01/12	6/30/12	Initial Grant	2,470	100,000	307,410	40,910
TOTAL	4,456				22,290	310,000	746,510	98,692

### Metal Exploration

Gcwihaba holds twenty-two (22) metal (base, precious, platinum group, and rare earth) prospecting licenses in the North-West District of Botswana covering 14,914 square kilometers (Table 3). The Company initially acquired the various licenses in 2005, 2008, 2009 and 2012. 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 3,606,150 (US \$422,284 as at September 30, 2012) inclusive of license fees from the date of grant to and if held to their full-term.

**Table 3**

GCWIHABA – METAL LICENSE AREAS AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From date of Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 9.30.2012
PL 119/2005	827	10/01/10	10/01/12	In Renewal	-	-	NA	NA
PL 051/2008	487	07/01/11	07/01/13	1 <sup>st</sup> Renewal	2,435	70,000	144,870	19,152
PL 052/2008	382	07/01/11	07/01/13	1 <sup>st</sup> Renewal	1,910	70,000	143,820	19,013
PL 386/2008	570	01/01/12	01/01/14	1 <sup>st</sup> Renewal	2,850	100,000	205,700	27,194
PL 387/2008	965	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,825	100,000	209,650	27,716
PL 388/2008	318	01/01/12	01/01/14	1 <sup>st</sup> Renewal	1,590	100,000	203,180	26,861
PL 389/2008	979	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,895	100,000	209,790	27,735
PL 390/2008	808	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,040	100,000	208,080	27,509
PL 391/2008	455	01/01/12	01/01/14	1 <sup>st</sup> Renewal	2,275	100,000	204,550	27,042
PL 392/2008	829	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,145	100,000	208,290	27,537
PL 393/2008	938	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,690	100,000	209,380	27,681
PL 394/2008	650	01/01/12	01/01/14	1 <sup>st</sup> Renewal	3,250	100,000	206,500	27,300
PL 395/2008	972	01/01/12	01/01/14	1 <sup>st</sup> Renewal	4,860	100,000	209,720	27,726
PL 595/2009	320	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PL 596/2009	925	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PL 597/2009	514	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PL 588/2009	796	07/01/09	07/01/12	In Renewal	-	-	NA	NA
PI 093/2012	434	04/01/12	04/01/15	Initial Grant	2,170	50,000 *	166,510	22,013
PI 094/2012	679	04/01/12	04/01/15	Initial Grant	2,895	50,000 *	168,685	22,301
PI 095/2012	422	04/01/12	04/01/15	Initial Grant	2,110	50,000 *	166,330	21,989
PI 096/2012	677	04/01/12	04/01/15	Initial Grant	3,385	50,000 *	160,155	21,173
PI 097/2012	600	04/01/12	04/01/15	Initial Grant	3,000	50,000 *	169,000	22,342
<b>TOTAL</b>	<b>14,547</b>				<b>61,295</b>	<b>1,590,000</b>	<b>3,606,150</b>	<b>422,284</b>

\* 1<sup>st</sup> year 50,000; 2<sup>nd</sup> year 50,000 : and 3<sup>rd</sup> year 60,000

### Radioactive Minerals

As at September 30, 2012, Gcwihaba holds eight (8) radioactive mineral licenses in the North-West District of Botswana covering 6,927 square kilometers. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 1,543,905 (US\$ 204,110 as at September 30, 2012) inclusive of license fees, from the date of initial grant to and if held to their full-term.

**Table 4**

GCWIHABA – RADIOACTIVE LICENSE AREAS AS AT SEPTEMBER 30, 2012								
PL numbers	Km <sup>2</sup>	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 9.30.2012
PI 150/2010	719	07/01/10	07/01/13	Initial Grant	3,595	60,000	190,785	25,390
PL 151/2010	711	07/01/10	07/01/13	Initial Grant	3,555	60,000	190,665	25,374
PL 045/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	50,000	195,000	25,951
PL 046/2011	847	01/01/11	01/01/14	Initial Grant	4,235	50,000	192,705	25,645
PL 047/2011	907	01/01/11	01/01/14	Initial Grant	4,535	50,000	193,605	25,765
PL 048/2011	769	01/01/11	01/01/14	Initial Grant	3,845	50,000	191,535	25,489
PL 049/2011	974	01/01/11	01/01/14	Initial Grant	4,870	50,000	194,610	25,899
PL 050/2011	1,000	01/01/11	01/01/14	Initial Grant	5,000	50,000	195,000	25,951
<b>TOTAL</b>	<b>6,927</b>				<b>34,635</b>		<b>1,543,905</b>	<b>204,110</b>

\* 1<sup>st</sup> year 50,000; 2<sup>nd</sup> year 60,000 : and 3<sup>rd</sup> year 70,000

**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

##### Property, Plant, and Equipment

<b>Cost</b>	<b>Vehicles</b>	<b>Furniture and Equipment</b>	<b>Total</b>
As at December 31, 2010	\$ 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 December 31, 2011	\$ 1,704,620	\$ 220,371	\$ 1,924,991

  

	<b>Vehicles</b>	<b>Furniture and Equipment</b>	<b>Total</b>
As at December 31, 2011	\$ 1,704,620	\$ 220,371	\$ 1,924,991
Additions	8,535	3,369	11,904
Net Exchange Difference	(42,339)	(4,441)	(46,780)
As at September 30, 2012	\$ 1,670,816	\$ 219,299	\$ 1,890,115

##### Accumulated Depreciation

	<b>Vehicles</b>	<b>Furniture and Equipment</b>	<b>Total</b>
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

  

	<b>Vehicles</b>	<b>Furniture and Equipment</b>	<b>Total</b>
As at December 31, 2011	\$759,217	\$ 147,836	\$ 907,053
Depreciation	157,520	32,398	189,917
Net Exchange Difference	(18,858)	(2,931)	(21,788)
As at September 30, 2012	\$ 897,879	\$ 177,303	\$ 1,075,182

##### Net book value

As at December 31, 2010	\$ 214,817	\$ 108,599	\$ 323,416
As at December 31, 2011	\$ 945,403	\$ 72,535	\$ 1,017,938
As at September 30, 2012	\$ 772,937	\$ 41,996	\$ 814,933

For the period ended September 30, 2012, an amount of \$185,383 (September 30, 2011: \$200,312) of amortization has been capitalized under exploration properties.



## 5. SHARE CAPITAL

### (a) Common Shares

#### Authorized, Issued and outstanding

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

**Issued and outstanding: 28,049,151 Common Shares as at September 30, 2012 (September 30, 2011 – 23,787,814)**

#### a) During the period ending September 30, 2012:

- (i) On May 1, 2012, 250,000 options were exercised at a price of C\$0.80 for proceeds to the Company of \$204,073 (C\$200,000). The fair value of the option associated with the exercised options that were reclassified to share capital was \$37,475.
- (ii) On May 7, 2012, 100,000 options were exercised at a price of C\$0.80 for proceeds to the Company of \$ (C\$80,000). The fair value of the option associated with the exercised options that were reclassified to share capital was \$23,115.
- (iii) On September 7, 2012, 1,818,181 Units were issued at a price of C\$1.10 for proceeds to the Company of \$2,045,510 (C\$2,000,000). Each unit includes one common share and one warrant entitling the holder to purchase one common share of the Company for a period until the close of business on June 29, 2015 at USD\$1.21.

#### b) 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) Warrants**

As September 30, 2012, the following warrants were outstanding:

<b>Number of Warrants - Units</b>						
	<b>Exercise Price</b>	<b>December 31, 2011</b>	<b>Issued</b>	<b>Exercised</b>	<b>Expired</b>	<b>September 30, 2012</b>
<b>Expiry</b>						
January 20, 2012	C\$1.00	465,245	--	--	(465,245)	--
June 29, 2015	C\$2.17	2,702,702	--	--	--	2,702,702
June 29, 2015	USD\$1.21		1,818,181	--	--	1,818,181
		3,167,947	1,818,181	--	(465,245)	4,520,883

On September 7, 2012, 1,818,181 warrants were issued with an exercise price of USD\$1.21, expiring on June 29, 2015.

On January 20, 2012, 465,245 warrants with an exercise price of C\$1.00 expired.

Under IFRS, warrants having a strike price other than the functional currency of the issuer are a derivative liability and are marked to market as the end of each reporting period. For the period ended September 30, 2012 the Company recorded a mark to market loss of (\$24,371) (September 30, 2011 – gain \$1,889,545) on the revaluation of warrants. As at September 30, 2012, the outstanding warrants have a fair value of \$ 1,525,137 (September 30, 2011 - \$2,976,047) which is determined using the Black-Scholes Option Pricing Model with an expected volatility of 120.13%, expected life of 3.4 years at a risk free rate of 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 ratably 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.

The following Table summarizes the Company's stock option plan as at September 30, 2012:

	Number of Shares	Weighted average exercise price (C\$)
Outstanding as at December 31, 2010	2,725,000	C\$1.06
Granted	710,000	C\$1.15
Exercised	--	--
Cancelled	(420,000)	C\$0.98
Expired	(215,000)	C\$0.83
Outstanding as at December 31, 2011	2,800,000	C\$1.11
Granted	710,000	C\$0.97
Exercised	(350,000)	C\$0.80
Cancelled	--	--
Expired	(65,000)	C\$1.00
Outstanding as at September 30, 2012	3,095,000	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.

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

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.

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.

On May 1, 2012, the Company issued 250,000 options at C\$0.80 under its Stock Option Plan to persons who are officers and employees of the Company.

On May 7, 2011, the Company issued 100,000 options at C\$0.80 under its Stock Option Plan to persons who are officers and employees of the Company.

On May 1, 2012, 250,000 options granted under its Stock Option Plan ("SOP") were exercised pursuant to the SOP at C\$0.80 for total proceeds of C\$200,000.00 (USD \$204,072.50 as at April 30, 2012).

On May 7, 2012, 100,000 options granted under its Stock Option Plan ("SOP") were exercised pursuant to the SOP at C\$0.80 for total proceeds of C\$80,000.00 (USD \$80,368.10 as at May 6, 2012).

The following table summarizes the stock option compensation expense and capitalized stock compensation for the period ended September 30, 2012 and 2011.

	2012	2011
Stock-based compensation expense	\$ 329,325	\$ 394,633
Capitalized Stock-based compensation expense	200,563	343,060
	\$529,888	\$ 737,693

The following assumptions were used in the Black Scholes option pricing model to fair value of the stock options granted during the year ended September 30, 2012 and 2011:

	2012	2011
Expected lives	3.0 to 4.6 years	3.8 years
Expected volatilities	111.4% - 158.0%	166.9%
Expected dividend yield	0%	0%
Risk free rates	0.41% - 0.92%	1.41%
Weighted average fair value of option	\$0.80	\$1.11

The following table summarizes stock options outstanding as at September 30, 2012:

Exercise Price (C\$)	Options Outstanding			Options Exercisable		
	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	2.09	100,000	C\$0.55	2.09
C\$0.70	970,000	C\$0.70	.93	970,000	C\$0.70	.93
C\$0.90	235,000	C\$0.90	4.26	117,500	C\$0.90	4.26
C\$1.00	605,000	C\$1.00	4.03	248,750	C\$1.00	4.03
C\$1.03	300,000	C\$1.03	3.55	225,000	C\$1.03	3.55
C\$1.19	100,000	C\$1.19	3.82	75,000	C\$1.19	3.82
C\$1.25	285,000	C\$1.25	3.26	285,000	C\$1.25	3.26
C\$2.23	500,000	C\$2.23	2.59	500,000	C\$2.23	2.59
	3,095,000			2,366,250		

## 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:

	<b>December 31, 2011</b>	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:

	<b>December 31, 2011</b>	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:

<b>Loss</b>	<b>Year of Expiry</b>
<b>275,000</b>	2015
<b>335,000</b>	2016
<b>235,000</b>	2027
<b>213,000</b>	2028
<b>136,000</b>	2029
<b>307,000</b>	2030
<b>456,000</b>	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:

Nine months ended September 30	2012	2011
Net income (loss) for the period	<b>(\$ 993,688)</b>	\$ 1,076,449
Effect of Dilutive Securities		
Stock options and warrants	--	--
Diluted net earnings (loss) for the period	<b>(\$ 993,688)</b>	\$ 1,076,449

Net earnings per share from continuing operations and net earnings per share for the period ended September 30 were calculated based on the following:

	2012	2011
Basic weighted-average number of shares outstanding	26,174,519	23,169,458
Effect of dilutive securities:		
Stock Options	398,222	525,276
Warrants	--	1,164,340
Diluted weighted-average number of shares outstanding	26,572,741	24,859,074

The loss per share is the same as the basic loss per share for the nine month period ended September 30, 2012 because the stock options and warrants were anti-dilutive. In addition, the weighted average number of stock options and warrants outstanding during the nine months ended September 30, 2012, was 6,104,105 of which 398,222 were dilutive and included in the above tables. The effect of the remaining 5,705,883 million stock options and warrants was anti-dilutive because the underlying exercise prices exceeded the average market price of the underlying common shares of C1.00.

## 8. RELATED PARTY TRANSACTIONS

During the quarter ended September 30, 2012, the Company incurred leave benefits payable to an officer and director of the Company amounting to \$18,621.

Remuneration of Key Management Personnel of the Company

	2012	2011
Short term employee remuneration and benefits	\$ 270,000	\$ 394,633
Stock based compensation	158,458	343,060
Total compensation paid to key management personnel	<b>\$ 428,458</b>	<b>\$ 737,693</b>

There are no other related party transactions.

## 9. SEGMENTED INFORMATION

The Company is operating in one industry. As at September 30, 2012 the Company's long-term assets in the United States were \$7,162 (September 30, 2011 - \$13,208) and in Botswana of \$807,771 (September 30, 2011 - \$1,076,734). 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 than 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 and 2012 the Company raised cash capital as shown in note 5(a) in the amount of \$1,926,547 and \$284,441, respectively.

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 its 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 September 30, 2012, a 10% change in the USD/Pula exchange rate would not have material impact the Company's earnings. The risk range from a 10% reduction in exchange rate is \$31,996 to a 10% increase in exchange rate is \$42,489.



## 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	\$ 0 *
2013	23,157
2014	23,157
2015	23,157
Total	\$ 69,471

\* 2012 obligation has been paid

The lease commitment is for storage space in Maun, Botswana at an annual rental of Pula 175,165 for years 2013 through 2015 plus taxes converted at an exchange rate as at September 30, 2012 to US dollars.

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 INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30 2012	September 30, 2011
Net change in noncash working capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	\$92,654	(\$49,003)
Increase / (Decrease) in accounts payable and accrued liabilities	4,758	(77,822)
Total	\$97,412	(\$126,823)

## 13. SUBSEQUENT EVENTS

None