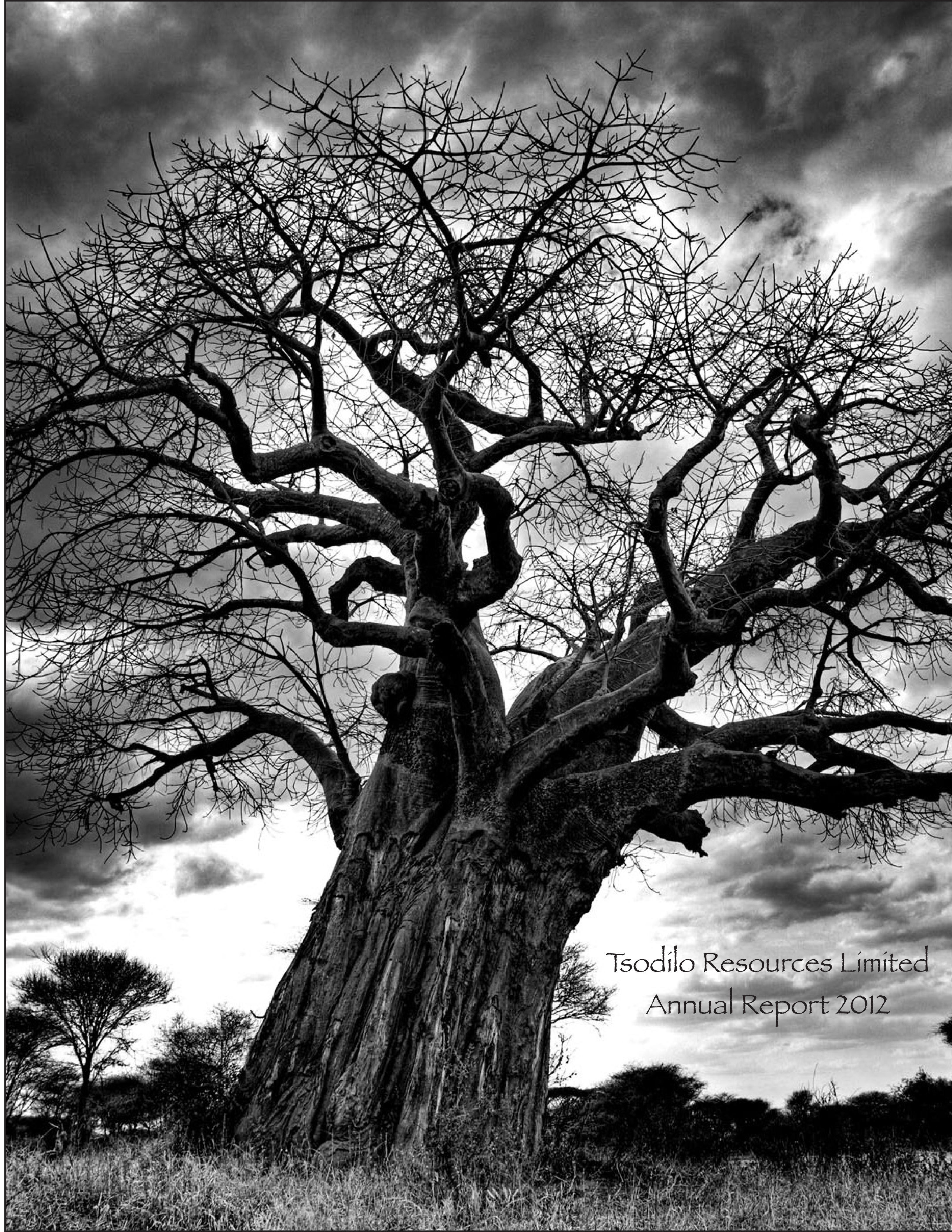


Tsodilo Resources Limited
Annual Report 2012

President's Message
Dear Shareholders,

On behalf of the board of directors, I am pleased to provide the annual report of Tsodilo Resources Limited ("Tsodilo" or the "Company") recording the Company's progress together with the audited financials for the year ending December 31, 2012.

Although the outlook of the metal commodity markets was reasonably positive in 2012, funding for exploration is still limited and mainly focused on brownfields evaluation projects. Despite these circumstances the Company was able to commence an evaluation program over one of its more interesting projects. A more detailed drilling program, referred to as Phase 2, is focused on three of its metal mineral projects that were identified by its Phase 1 reconnaissance drilling program. The latter was completed in 2011. The objective of Phase 2 is to refine the geological models and mineralization styles of these targets. These steps will form the basis to develop the first resource model for the Company's most advanced project, which is the Iron Ore Magnetite project.

The prices of rough diamonds, after an initial upswing, were again negatively affected during the course of the year and hence the general appetite for greenfields diamond exploration remains low. However, the Company will continue the exploration for new kimberlites and was recently granted a prospecting license close to Jwaneng, the richest diamond mine in the world, in the south of Botswana. We also plan to complete a first-stage evaluation and analysis of an additional kimberlite in the Nxau Nxau kimberlite field.

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

Sample preparation is ongoing and split cores are sent to an accredited laboratory in Johannesburg on a continuous basis and the turn-around time is generally less than two months. The advanced computer modeling program that the Company installed two years ago has being used effectively to upload and model new data and results as these become available. This provides the Company with capabilities to review its geological database in 3D.

Exploration activities were accelerated late in 2011 with the arrival of the second drill rig and this continued in 2012 as positive results continue to advance our programs.

Our current share capital consists of 28,149,151 issued and outstanding (35,790,034 on a fully diluted basis) common shares. Tsodilo has a 98% interest in our Botswana (Newdico (Pty) Limited project and a 100% interest in our Gcwihaba Resources (Pty) Limited projects.

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

On behalf of the board,

Dr. Michiel C.J. de Wit
President and COO
February 18, 2013

Contents

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the years ended December 31, 2012 and 2011. The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The Company's functional and reporting currency is United States dollars and all amounts stated are in United States dollar unless otherwise noted. In addition, the Company has two operating subsidiaries, Newdico and Gcwihaba which have a functional currency of the Botswana Pula. This management's discussion and analysis has been prepared as at February 18, 2013.

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. 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.

Tsodilo 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.

The Company is also actively reviewing additional diamond and base and precious metal opportunities within southern Africa.

Corporate

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

Outstanding Share Data

As of February 18, 2013, 28,149,151 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, 2,995,000 options remain outstanding of which 2,615,000 are exercisable at exercise prices ranging from CAD $0.55 - $2.23.

As of February 18, 2013, 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 February 18, 2013 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	Member of the World Bank Group	4,522,883	16.12%
David J. Cushing	Director	2,460,501	8.77%
James M. Bruchs	Director and CEO	2,232,119	7.96%

Subsidiaries

The Company has a 98% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited, which holds one prospecting license covering approximately 851 km²in northwest Botswana that expired on June 30, 2012. Prior to expiry, the Company submitted a two year renewal application in order to continue and complete the first stage exploration and evaluation program of kimberlites identified in this license area. The acknowledgement of receipt has been received from the Botswana Department of Geological Survey and the renewal application is currently being reviewed by the government. If the license is not renewed, the carrying value of Newdico's exploration and evaluation assets of $7,518,224 will be written off.

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gcwihaba Resources (Proprietary) Limited, which has four diamond prospecting licenses covering approximately 2,404 km², twenty-two metal (base, precious, platinum group, and rare earth) licenses covering 11,159 km² (not including 1,339km² of licenses currently in renewal) and eight radioactive minerals licenses covering 6,925 km².

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

Exploration Activities for the Year 2012

1. Diamond Projects

The Company holds 4 Prospecting Licences (3,255 km²) under the names of local companies Newdico (Pty) Ltd. ("Newdico") and Gcwihaba Resources (Pty) Ltd. ("Gcwihaba") for precious stones. As previously described, Newdico has one license covering 895 square kilometres that expired June 30, 2012 and is currently being considered for renewal by the government. The diamond licenses held by Gcwihaba are summarized in Table 1. In 2012, the Company continued with its exploration program by focusing on two specific kimberlites within the Nxau Nxau cluster and also exploring the northern area of the same kimberlites cluster. The exploration was driven on the geological interpretation of the Southern African Magnetotelluric Experiment (SAMTEX) project which indicates that the Congo Craton, of which the southern margin extends into Ngamiland, thickens northwards. This MT data images the three-dimensional regional-scale geometry of the electrical conductivity of the continental lithosphere below southern Africa. The results of this program has among others shown that the Company's northern licences are underlain by the Congo Craton (Muller and

Jones 2007) and this suggests that kimberlites occurring in the most northern licences should be the most interesting from a diamond perspective.

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

Table 1. Gcwihaba Diamond License Areas as at December 31, 2012

PL numbers	Km²	Grant Date	Expiry date	Current Stage	Expenditure		Total Expenditure From Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2012
PL 46/2008	709	4/01/11	3/31/13	1st Renewal	3,545	70,000	147,090	19,223
PL 47/2008	491	4/01/11	3/31/13	1st Renewal	2,455	70,000	144,910	18,938
PL 49/2008	710	1/01/11	3/31/13	1st Renewal	3,550	70,000	147,100	19,224
PL 195/2012	494	7/01/12	7/01/15	Initial Grant	2,470	100,000	307,410	40,175
Total	2,404						746,510	97,560

The interest level remains as there are two major unexplained surface concentrations of both diamonds and high-interest (G10) garnets across the border in Namibia – the Tsumkwe and the Omatako targets. It has been suggested that the diamonds and garnets from these targets have been derived from diamond-bearing kimberlites within or proximal to the licence blocks presently held by the Company to the east. In addition, during the exploration phase for base metals basement granites and granite/gneisses were intersected in boreholes L9590/7 and L9660/5 respectively. These have been dated and Archaean ages have been obtained for the granite (2,641±82Ma) (Witbooi 2011) and granite/gneiss (2,548±65Ma) (Gaisford 2010). This is highly significant in terms of target selection and greatly enhances the prospectivity and diamond potential of the region and supports the significance of the presence of the Tsumkwe and Omatako targets. Detailed drilling over and in the vicinity of the Tsumkwe target has indicated that the high-interest grains found in the Tsumkwe anomaly not only have surface textures that indicate a proximal source but also occur at the base of the Kalahari Group sediments.

The Company's kimberlites in the Nxau Nxau field, just east of the Botswana/Namibia border, are part of a larger kimberlite province referred to as the Xaudum province and 40 kimberlites have so far been identified in this province on both sides of the border - 12 in Namibia and 28 in Botswana. Whilst working through the existing kimberlite database of the kimberlites in the Xaudum Province the mineral chemistry of the indicator minerals of these kimberlites do not match the chemical signature of the minerals associated with the Tsumkwe and Omatako. Recent detailed work on the Nxau Nxau kimberlites identified several crustal xenoliths that resemble basal Kalahari rocks. This means that the age of the basal Kalahari is older than the known kimberlites and that the presence of the high interest minerals at the very base of the Kalahari Group might be from an older source than the known kimberlites and this has a major implication for exploration.

In addition, the geophysical data of the area covered by the Precious Stones licences were subjected to a rigorous review by a very reputable geophysical company, specialised in kimberlites, in order to identify any other kimberlite targets for drilling. Several targets had been identified in the northern licence blocks that warrant detailed ground work and these were was completed in the year. Targets TOD 17, TOD 29 and TOD 30 were covered. TOD 29 and 30 were covered by 2 x 1.5 km ground geophysical blocks. TOD 17, which is associated with a Ni-anomaly, produced by the 1997-1999 Government Ngamiland Geochemical sampling program, was covered by a large ground magnetic block measuring 98.8km². Since kimberlites generally produce Ni in the overlying soil formations this was regarded as a priority target. No drilling has been conducted to date.

The review of the petrography, mineral chemistry, micro-diamond and geophysical databases of the known kimberlites in the Nxau Nxau field is on-going. This review resulted in the decision to submit samples of the three most interesting pipes (K4 – PD07, K10 – B5, K20 – A15) in terms of size and mineral chemistry, for micro-diamond work in order to obtain a first-pass grade valuation for these bodies. The results of this work, conducted by the Geo-analytical Laboratories Diamond Services of the Saskatchewan Research Council, produced 14 micro-diamonds from 221 kg from kimberlite K10 (B5). This is highly significant for the area and although K10 is unlikely to develop into an economic deposit it does provide confidence in a small group of 3 kimberlites – K10, K11 and a third yet untested magnetic anomaly. K11 was sampled for mineral chemistry and core samples have been prepared to be submitted for micro-diamond analysis. The Company also plans to drill the third magnetic target within this small group.

In 2012, certain licenses of both Newdico and Gcwihaba were relinquished (Tables 2 and 3). All of these were the subject of extensive exploration during their license term and were determined 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.

Table 2. Newdico Diamond License Areas relinquished during 2012

PL Number	Km²	Grant Date	Relinquishment Date
PL 62/2005	797	7/01/10	6/30/2012
PL 63/2005	718	7/01/10	6/30/2012
PL 65/2005	194	7/01/10	6/30/2012
PL 66/2005	621	7/01/10	6/30/2012
PL 67/2005	229	7/01/10	6/30/2012
PL 68/2005	220	7/01/10	6/30/2012
PL 69 /2005	181	7/01/10	6/30/2012
PL 71/2005	138	7/01/10	6/30/2012
TOTAL	3,098		

Table 3. Gcwihaba Diamond License Areas relinquished during 2012

PL Number	Km²	Grant Date	Relinquishment Date
PL 641/2009	923	7/01/12	6/30/2012
PL 642/2009	839	7/01/12	6/30/2012
Pl 643/2009	785	7/01/12	6/30/2012
TOTAL	2,547		

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

The Company's Prospecting Licences have evolved with time into a package which covers some 11,159 km² (Tables 4 and 5). Most of the ground has been covered by the 1st drilling phase which was completed during the 3rd Quarter of 2011 (Phase 1). The main objective of this phase was to cover the ground on a reconnaissance basis in order to highlight areas of interest for more detailed follow-up work scheduled during Phase 2. So far the drilling has identified mineralisation in several parts of the licence area representing a variety of geological settings with different mineralisation styles.

The Company's exploration work had initially indicated that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverse the Company's southern licences in north-west Botswana, in an area where the Damara Belt in Namibia, to the west of the Company's project area, links up with the Lufilian Arc located in Zambia/DRC to the northeast of Ngamiland. In addition, more recent petrology, geochemistry and geochronology work by AEON's research group associated with the NMMU University in Port Elizabeth, has highlighted the presence of Archean granite-gneisses (ca. 2,641 and 2,550 Ma) in Ngamiland.

Table 4. Gcwihaba – Metal License Areas as at December 2012

PL numbers	Km^2	Grant Date	Expiryenewal date	Current Stage	Expenditure		Total Expenditure From Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum (BWP)	BWP	USD as at 12.31.2012
PL 119/2005	TBD	10/01/10	10/01/12	in renewal	TBD	TBD	TBD	TBD
PL 051/2008	485.00	07/01/11	07/01/13	1st Renewal	2,435	70,000	144,870	18,933
PL 052/2008	384.00	07/01/11	07/01/13	1st Renewal	1,910	70,000	143,820	18,796
PL 386/2008	570.00	01/01/12	01/01/14	1st Renewal	2,850	100,000	205,700	26,883
PL 387/2008	964.90	01/01/12	01/01/14	1st Renewal	4,825	100,000	209,650	27,399
PL 388/2008	317.10	01/01/12	01/01/14	1st Renewal	1,590	100,000	203,180	26,553
PL 389/2008	978.60	01/01/12	01/01/14	1st Renewal	4,895	100,000	209,790	27,417
PL 390/2008	807.30	01/01/12	01/01/14	1st Renewal	4,040	100,000	208,080	27,194
PL 391/2008	454.50	01/01/12	01/01/14	1st Renewal	2,275	100,000	204,550	26,732
PL 392/2008	828.10	01/01/12	01/01/14	1st Renewal	4,145	100,000	208,290	27,221
PL 393/2008	937.50	01/01/12	01/01/14	1st Renewal	4,690	100,000	209,380	27,364
PL 394/2008	649.20	01/01/12	01/01/14	1st Renewal	3,250	100,000	206,500	26,987
PL 395/2008	971.40	01/01/12	01/01/14	1st Renewal	4,860	100,000	209,720	27,408
PL 595/2009	TBD	07/01/09	07/01/12	in renewal	TBD	TBD	TBD	TBD
PL 596/2009	TBD	07/01/09	07/01/12	in renewal	TBD	TBD	TBD	TBD
PL 597/2009	TBD	07/01/09	07/01/12	in renewal	TBD	TBD	TBD	TBD
PL 588/2009	TBD	07/01/09	07/01/12	in renewal	TBD	TBD	TBD	TBD
PL 093/2012	433.70	04/01/12	04/01/15	Initial Grant	2,170	*	166,510	21,761
PL 094/2012	679.80	04/01/12	04/01/15	Initial Grant	3,400	*	170,200	22,243
PL 095/2012	421.60	04/01/12	04/01/15	Initial Grant	2,110	*	166,330	21,734
PL 096/2012	676.50	04/01/12	04/01/15	Initial Grant	3,385	*	170,155	22,237
PL 097/2012	599.30	04/01/12	04/01/15	Initial Grant	3,000	*	169,000	22,086
TOTAL	11,158.50				53,830		3,205,725	418,949

* 1year 50,000; 2nd year 50,000 : and 3rd year 60,000

Table 5. Gcwihaba Metal License Areas relinquished during 2012

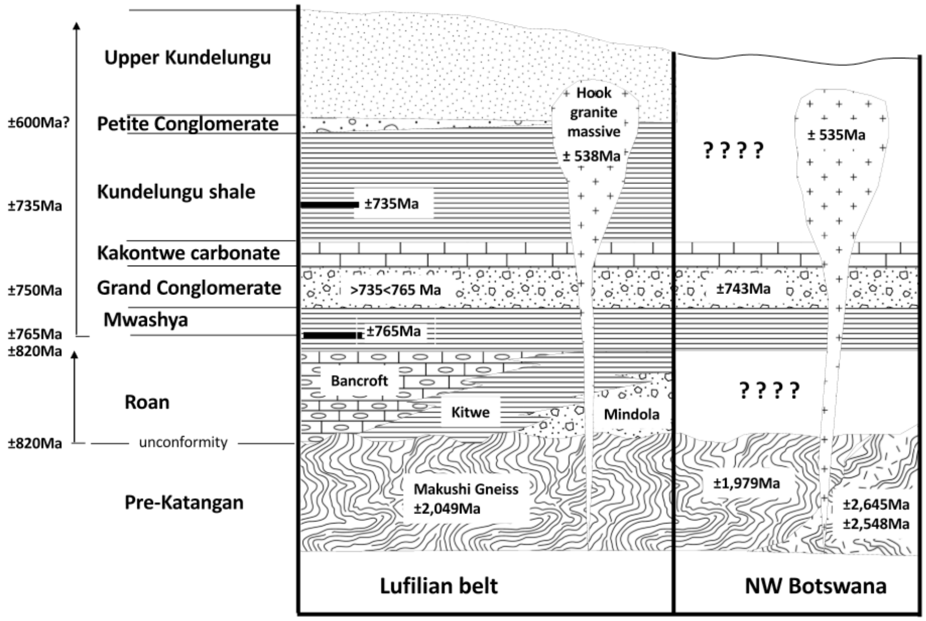
PL Number	Km²	Grant Date	Relinquishment Date
PL 118/2005	367	10/01/10	9/30/12
TOTAL	367		

This is the first time that Archean basement rocks have been discovered in this north-western part of Botswana. This development also supports the geophysical Magnetotelluric work that has been conducted in the region and identified the presence of the southern part of the Congo Craton. Paleoproterozoic granites (ca. 2,000 Ma), which have been tectonically interlayered with Pan-African meta-sediments (including graphitic schist, carbonates, diamictites and meta-basites ca. 540 Ma), These have also been dated by AEON's research program. These tectonic contacts and graphitic schists are mineralized and have been targeted for further work. These 2 Billion year old granites can be correlated either with the nearby Quangwadum and Okwa Complex in Botswana, suggesting the possibility of a large cryptic mineralized mafic intrusion in the region, or with the Kibaran granitic basement (ca. 2,050 Ma) to the Katangan Supergroup beneath the Lufilian Arc in the DRC.

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

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

The meta-sediments are composed of meta-pelites, schists, black shales, diamictites, carbonates and evaporaites. The lithologies and stratigraphic relationships are identical to those of the Central African Copper Belt (Fig. 1) and are supported by the Company's obtained geochronology. Mineralisation has been observed throughout these rocks and the finer-gained facies below the diamictites (*Grand Conglomerate* equivalent) has been compared to the Mwashya Subgroup (Fig. 1) which houses some world-class base metal deposits in Zambia and DRC.



Modified after Johnson *et al*. (2006)

Figure 1. Stratigraphic comparison of the lithologies in Ngamiland (right) and the Lufilian belt in Zambia/DRC (left)

The Banded Iron Formation ("BIF") Magnetite mineralisation is closely associated with the diamictites. These rocks are equivalent to the 'Grand Conglomerates' in the Central African Copper Belt and several small magnetite bodies have been described both in Namibia and Zambia. In Ngamiland and close to Shakawe the Company has moved into a phase of detailed drilling in order to obtain a resource model for this magnetite.

The meta-basites described above have intruded the Mwashya Subgroup, that occurs straitgraphically below the BIF, and have remobilised some of the metals to form what is referred to as (Endo) skarn deposits. These skarns have developed around these intrusions, and typically contain massive magnetite, which differ chemically from the BIF Magnetite, and has strong showings of copper, gold, silver, some nickel and various REE. This association with meta-basic rocks (epidote-scapolite-albite amphibolite), indicates that the mineralization model of these types of settings can be referred to as an Iron Oxide Copper Gold ore deposit ("IOCG"), and in this case the Ngamiland IOCG.

The main activities during the year were driven by ground geophysical surveys and diamond drilling. The former is to upgrade and focus the regional geophysical dataset for more accurate drill positions on the various targets, and the latter as a continuation of the Phase 2 drilling program.

During the year 5,454 line-kilometers of ground magnetic data was collected. This was levelled and interpreted by the Company's in-house geophysical unit. This represents a coverage of some 320 km² on a 50-meter line spacing. This data was successfully used to position new drill holes on the often magnetic (due to the presence of pyrrhotite in the meta-sediments) zones identified as conductors from the electromagnetic data (VTEM). The main objective in the year was to complete the ground coverage of the BIF Magnetite formation. However, due to commitments of various other blocks outside the BIF Magnetite, such as the TOD 17, 29 and 30 kimberlite targets, the magnetic surveys will now be completed during Q1 of 2013.

In 2012, 53 diamond drill holes were drilled to a cumulative depth of 11,709 meters. This has produced 9,959 meters of core (Table 6) increasing the company's asset of core to almost 35km. The objective of the Phase 1 drilling program was to cover all the prospecting licenses on a wide grid in order to identify potential mineralized deposits and was completed in 2011. Phase 2 of the drilling program started Q4 of 2011 and the main areas of focus were BIF Magnetite and the IOCG targets 1822C26 and 1822C27.

Table 6. Holes drilled in 2012 during the Reconnaissance Phase 2 drilling program

Hole No	Depth	Core	Main rock type	Drill	Hole Direction
1821B59.	191.50	132.65	Diamictite, Schist	D1	Vertical
1821B59/1	68.50	8.70	Diamictite	D1	Vertical
1821B59/A	338.50	279.50	Schist, diamictite	D1	Vertical
1821B59/B	370.00	311.20	Schist, diamictite	D1	Vertical
1821B81/1	215.50	167.40	Schist, diamictite	D1	Vertical
1821B81/C	113.00	75.00	Schist, diamictite	D1	Inclined 60° W
1821B81/D	188.50	137.00	Schist, diamictite	D1	Vertical
1821B81/E	203.50	149.50	Schist, diamictite, magnetitie	D1	Inclined 60° E
1821B81/D (cnt)	114.00	114.00	Diamictite, Magnetite	D1	Vertical
1821B81/G	273.40	211.20	Diamictite, Magnetite, Schist	D2	60°NE
1821B80/W	113.40	47.90	Diamictite, Magnetite	D2	60°W
1821B80/V	250.40	188.20	Diamictite, Magnetite	D2	Vertical
1821B111/V	209.40	175.40	Diamictite, Magnetite	D1	Vertical
1821B81/F	266.50	211.90	Diamictite	D1	60W
1821B85_W	275.00	263.00	Diamictite, Magnetite	D2	60W
1821B85_E	164.50	152.50	Diamictite	D2	60E
1821B85_V	245.50	239.48	Schist, Magnetite	D2	Vertical
1822C10_3	183.60	141.70	Dol shales (some sulphides)	D1	Vertical
1822C10_5	248.60	203.60	Black shales, Magnetite	D1	Vertical
1821B83_V	278.50	245.50	Diamictite/Magnetite	D1	Vertical
1821B83_W	138.00	99.00	Diamictite	D1	60W
1821B112_V	500.40	484.60	Magnetite, pebbly schist	D2	Vertical
1821B83A_W	224.50	186.50	Diamictite	D1	60W
1821B83A_W	224.50	188.50	Magnetite/ Diamictite	D1	60W
1821B112_V	500.40	484.26	Magnetite/ Diamictite	D2	Vertical
1821B112_E	371.50	349.50	Magnetite/ Diamictite	D2	60E
1821B90_V	205.50	174.00	Magnetite/ Diamictite	D2	Vertical
1821B90_W	203.50	165.50	Magnetite/ Diamictite	D1	60W
1821B90_E	173.40	144.00	Magnetite (mixed and massive), Diamictite	D1	60E
1821B90E_56AO	170.40	128.40	Magnetite (mixed and massive), Diamictite	D1	60E
1821B112_W	321.50	297.50	Magnetite (massive), Diamictite	D2	60W
L9600_10E	174.40	168.40	Magnetite (massive), schist, Diamictite	D2	60E
L9600_10W	188.40	159.00	Magnetite (mixed and massive), Diamictite	D2	60W
1821B90E_56AQ	131.50	85.50	Massive 'Grand conglomerate' inter-bedded with BIF.	D1	-60E
1821B90E_56AP	172.44	128.44	Poor 'Grand conglomerate' above the BIF; massive diamictite below.	D1	-60E
1822C27_6	352.50	291.00	Fine-grained schist, greenish mafics, skarn (epidote, pyroxene and big garnets) and coarse crystalline dolomite.	D2	-90

Table 6 (cont'd)					
L9600_10E_31S	155.40	153.4	Massive BIF inter-bedded with clast-poor diamictite. Massive diamictite at the bottom of the hole.	D2	-60E
L9600_11W _25P	178.05	164.65	Massive BIF inter-bedded with the 'Grand conglomerate'.	D2	-60W
1822C27_8	425.90	361.74	Skarnified meta-sediments	D2	-90
L9600_11W_25O	164.50	150.30	Siderite and silica facies interbedded with oxide facies (massive magnetite), diamictite with quartz and dolomite clasts.	D1	-60W
1822C27_7	224.50	146.50	Quartz-biotite-phlogopite-amphibole schist, with skarn garnets-epidote-pyroxene?	D2	-65 SSW
L9600_11V_25O	260.50	255.85	Siderite facies (carbonate matrix+ amphibole + garnets + magnetite matrix) interbedded with oxide facies, and diamictite.	D1	-90
L9600_11W_25Q	148.66	139.66	Siderite, silica and oxide facies, diamictite.	D2	-60W
1821B85W_28O	213.84	202.84	Diamictite interbedded with siderite, silica and oxide facies (BIF).	D1	-60W
1821B120/AV	140.40	110.40	Siderite facies interbedded with grand conglomerate diamictite,amphibole schist.	D2	-90
1821B120/AV1	233.50	204.50	Siderite facies interbedded with grand conglomerate diamictite, greenish amphibole schist.Mwasha formation sediments at the base	D2	-90
1821B85W/28Q	158.50	155.50	Diamictite interbedded with magnetite (mostly siderite facies).	D1	-65W
L9600_10W_31P	260.50	255.85	Mixtite interbedded with magnetite and diamictite.	D1	-65W
1821B120/BV	245.50	212.50	Diamictite interbedded with magnetite with dolomites.	D2	-90
1821B120/CV	87.00	57.00	Diamictite, black shales and carbonates	D2	-90
L9600_10W_31Q	281.50	273.50	Diamictite interbedded with massive and banded magnetite.	D1	-60W
L9600_13W_53S	242.50	227.50	Stratified diamictite interbedded with banded magnetite.	D1	-60W
L9600/13W/53T	252.50	239.50	Diamictite interbedded with the banded and massive magnetite.	D1	-60W
L9600/13W/53U	230.50	218.50	Banded magnetite with massive garnets-amphibole interbeds and diamictite.	D2	-60W
1821B90E/56AQ	177.00	132.00	Diamictite and magnetite.	D2	-60E
Total Meters	**11,709**	**9,959**			

Laboratory services for the assaying of core samples were obtained from ALS Minerals and Set Point Laboratories in Johannesburg, South Africa. During the year 8,552 samples were assayed using a variety of methods as listed in Table 7. In addition, 69 samples from 18 boreholes have been sent to Mircrosearch in Johannesburg for petrographic work.

Table 7. Assay results received during the year 2012

LABORATORY	ME ICP61/4AD-ICP (Major elements)	PGM ICP23/ Fire assay ICP (Au/Pt/Pd)	ME MS81 (REE)	ME ICP81 (Si)	ME OG62 / Fused disk XRF (Fe)	Total
ALS /Set Point Labs	3,357	3,357	1,471	278	89	**8,552**

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

1. Xaudum BIF Magnetite deposit

The Xaudum BIF Magnetite deposit in the north of the Company's prospecting area is associated with a very strong north-south orientated magnetic anomaly (Fig. 2). The BIF Magnetite deposit stretches over a distance of approximately 35 km and the width of the zone containing the various BIF units is up to 3 km wide with wider areas possible associated with NE-SW trending faults (Fig. 2). This BIF target is restricted to PL 386/2008 and PL 387/2008.

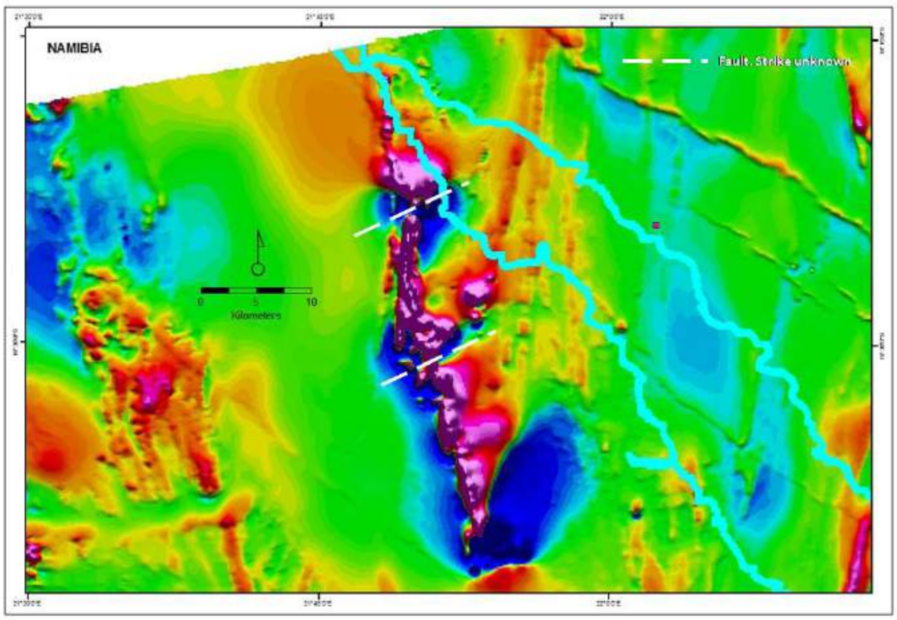


Figure 2. Strong magnetic anomaly assoicated with the Xaudum BIF Magnetic deposit

Drilling has intersected banded, massive and mixtite units of magnetite always closely associated with the diamictites (Grand Conglomerate) (Fig. 3). Initially it was felt that the magnetite was part of the basal part of the diamictites but more detailed work has shown that the magnetite can occur throughout the diamictite formation and can occur as multiple layers of magnetite.

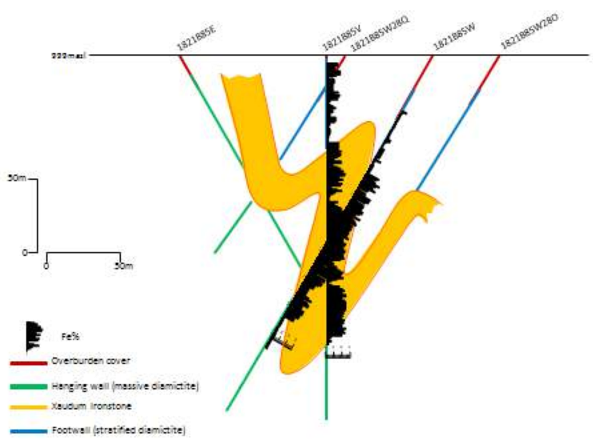


Figure 3. Example of cross-section of one of the magnetite bands with the Fe assay values in black

Assay results for selected intersections of some of the holes on the layered magnetic BIF rocks are listed in Table 8. These are the averages of the various intersections based on 1 meter samples. Iron values of well over 35% have been intersected repeatedly over tens of meters. Petrographically most of the opaque minerals are magnetite. The assay results are very encouraging and indicate extensive mineralization closely associated with the ground geophysical anomaly. The analytical technique for Si is part of a different flow stream and these results are presently outstanding.

Table 8. Iron (Fe) Assay Results for Selected Sample Intervals

	From sample	To sample	Intersection (m)	Fe%	Al2O3%	P%
1821B53	1	36	36	37.0	1.75	0.27
1821B81/D	19	26	7	41.2	1.34	0.35
1821B85V	59	71	12	37.8	1.99	0.32
	80	114	35	42.2	1.16	0.36
	80	92	12	47.1	0.84	0.38
	133	168	36	44.1	0.96	0.35
1821B85W	30	116	86	39.0	1.18	0.27
1821B112V	338	390	53	43.7	1.12	0.35
1821B85W28O	32	97	66	42.2	1.00	0.22
1821B85W28Q	1	32	32	39.3	0.75	0.21
	54	77	24	44.2	0.65	0.28
1821B90/56AO	1	58	58	40.3	1.04	0.21
1821B90E	1	53	53	41.6	0.90	0.19
1821B90V	1	39	39	40.5	1.10	0,22
1821B90W	2	56	55	40.0	0.93	0.20
1821B112W	21	99	79	41.8	1.17	0.24

In addition to the presence of iron, mainly in the form of magnetite, anomalous values of Cu, V and Co have also been acquired in some of the sections.

2. The Central Shale Basin

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

Sediments are mainly composed of black shales, meta-pelites, meta-arenites, and dolomites, with interbedded evaporites. These are equivalent to the Mwashya meta-sediments and occur just above the Roan Group. Most lithologies are mineralisased with pyrite, pyrrhotite, and chalcopyrite.

Analysis of the geophysics combined with the lithological and assay information of the various boreholes in on going. Several target zones have been identified for detailed drilling during the Phase 2 of the project.

3. Skarn Deposit

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

The meta-basites at 1822C26/1 were dated at 535±36 Ma and have been interpreted as subducted tholeiitic oceanic crust which has been rejuvenated before being extruded as island arc alkaline magmas (Gaisford 2010). These rocks are of similar age to the Pan African granites in Namibia and the Hook Rhyolite in the Zambian Copper Belt. Mineralization here is characterized by Ni, Cu, V and some REE (Table 9). Elevated Ni values with an average of 644 ppm Ni over a 44m intersection associated with V and REE have been obtained from 1822C27 - a large magnetic dipole and gravity target. This geophysical target is linked to an intermediate (quartz diorite and microdiorite) to basic (metabasite – biotite pyroxenite or even lamprophyre) intrusion that has been metamorphosed to amphibolite facies.

Table 9. Various Assay Values Over Selected Intersection based on 1 meter samples for several bore holes on the Skarn deposits

		From sample	To sample	Intersection (m)	%
1822C10	Ni	12	24	12	0.034
	V	12	24	12	0.16
	Ce	12	24	12	0.017
	Y	12	24	12	0.015
1822C23	V	185	193	8	0.03
	Cu	112	112	1	0.12
	Zn	119	119	1	0.1
1822C27/3	V	1	131	131	0.02
	V	241	285	44	0.02
	Ni	241	264	23	0.05
1822C27/5	V	1	172	172	0.02
1822C27/6	Ni	221	225	5	0.04
	Ce	81	83	3	0.46
	La	81	83	3	0.38
	U	81	83	3	14ppm
	Cu	179	179	1	0.15
1822C27/8	Ni	81	141	60	0.07
1822C50	U	331	331	1	40ppm

The Copper, Zink and Uranium showings of these rocks (1822C10, 1822C23, 1822C27 and 1822C50) all associated with some sort of meta-basite and the presence of elevated values of precious metals (0.1 ppm Au and 1.2 ppm Ag in C50; 0.03 ppm Pt, 0.08ppm Pd and 5.1 ppm Ag in C27; 0.01ppm Au, 0.02 ppm Pt and 2,1 ppm Ag in C10) suggests that the mineralization model of these deposits could be associated with an Iron Oxide Copper Gold ore deposit (IOCG). The skarns closely associated with these intrusions are calc-silicate exoskarns.

3. Radioactive licenses

The Company holds eight prospecting permits for radioactive minerals through its wholly owned subsidiary Gcwihaba Resources (Pty) Ltd in the north-west of Botswana directly west of the Okavango River. This covers an area of 6,925 km² (Table 10) and overlaps with some of the Gcwihaba diamond and metal permits.

Table 10. Gcwihaba – Radioactive License Areas as at December 31, 2012

PL numbers	Km²	Grant Date	Renewal date	Current Stage	Expenditure		Total Expenditure From Grant and if held to Full License Term	
					Rental Fee Per Annum (BWP)	Work Program Per Annum* (BWP)	BWP	USD as at 12.31.2012
PL 150/2010	719.00	07/01/10	07/01/13	Initial Grant	3,595	*	190,785	24,933
PL 151/2010	711.00	07/01/10	07/01/13	Initial Grant	3,555	*	190,665	24,917
PL 045/2011	1,000.00	01/01/11	01/01/14	Initial Grant	5,000	*	198,000	25,876
PL 046/2011	846.80	01/01/11	01/01/14	Initial Grant	4,235	*	192,702	25,184
PL 047/2011	906.80	01/01/11	01/01/14	Initial Grant	4,535	*	193,602	25,301
PL 048/2011	768.00	01/01/11	01/01/14	Initial Grant	3,845	*	191,520	25,029
PL 049/2011	973.40	01/01/11	01/01/14	Initial Grant	4,870	*	194,610	25,433
PL 050/2011	1,000.00	01/01/11	01/01/14	Initial Grant	5,000	*	195,000	25,484
TOTAL	6,925.00				34,635		1,543,905	202,161
* 1year 50,000; 2nd year 60,000 : and 3rd year 70,000								

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

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

The Company’s strategy is two-fold. First, it is to complete a geomorphological study of the area using remote sensing techniques with field checking. Among others buried palaeo-channels of Tertiary age that have been identified by geophysics while interpreting the most recent government Airborne Magnetic data in the search for kimberlites on overlapping Gcwihaba diamond prospecting licences and these will be tested for Uranium. Second, recent diamond drilling conducted by Gcwihaba mainly on the eastern part of the licences have returned anomalous uranium assay results in some of the Proterozoic meta-sedimentary units underlying the Kalahari Group sediments (Table 11). It is still unclear what the relationship is of the Uranium that occurs in these meta-sediments and the Uranium in the surficial calcretes.

Table 11. Uranium Assay Values of Samples with more than 15 ppm

Borehole Number	Sample Number	U ppm
1822C27/4	14	15
L9600/11W/25O	59, 78, 79	22.7, 29.3, 15.9
L9600/11V/25O	127, 140	28.5, 22.7
1821/B85V	108, 113, 123, 127,133,143,147,162	All 20
1822C23	41	20
1822C27/6	81-83	Average 14
1822C50	47, 145, 331, 322	20, 15, 52, 16
L9630/13	76	20
L9670/10	186	20

During the year, 4,449 samples were assayed for Uranium using the ME ICP61, ME MS81 (both in the ALS Laboratory, Johannesburg) and ICP-MS (in the Set Point Laboratory, Johannesburg) geochemical assay techniques. The anomalous results of samples in excess of 15ppm have been listed in Table 11. These samples were derived from the boreholes drilled during the year.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company had a working capital surplus of $92,902 (2011: $80,446), which included cash of $982,051 (2011: $1,505,965). 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, $35,506 and $35,285 in May 2012, December 2012 and January 2013 respectively, and issued units (common shares & warrants) for additional net cash proceeds (net of share issue cost) of $2,008,780; 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 December 31, 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	$97,560
Gcwihaba - Metals	3,205,725	$418,949
Gcwihaba - Radioactive Minerals	1,543,905	$202,161

Financial Instruments

The carrying amounts reflected in the consolidated Statement of Financial Position for cash, accounts receivable, 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 December 31, 2012 for those warrants is $884,212 (2011: $1,500,766). 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 $521,442 for the year ended December 31 2011 to $506,702 for the year ended December 31, 2012. The decrease in 2012 was due primarily to a decrease from 2011 in corporate remuneration, and to increases in legal and audit, and general and administrative expenses.

Annual Information (in US Dollars)	**Fiscal Year December 31, 2012**	**Fiscal Year December 31, 2011**
Net income (loss) for the year	($293,095)	$1,719,246
Basic income (loss) per share	($0.01)	$0.07
Basic diluted income (loss) per share	($0.01)	$0.07
Total other comprehensive income (loss)	($462,409)	($1,810,035)
Total comprehensive income (loss) for the year	($755,504)	($90,789)
Basic comprehensive income (loss) per share	($0.03)	$0.00
Diluted comprehensive income (loss) per share	($0.03)	$0.00
Total assets	$13,047,693	$11,477,912
Total long term liabilities	--	--
Cash dividend	--	--

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

Quarterly Information (in US Dollars)	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**
Fiscal Year ended December 31, 2012				
Net income (loss) for the year	($157,954)	($309,887)	($178,518)	$353,264
Basic income (loss) per share	($0.01)	($0.01)	($0.00)	$0.01
Diluted basic income (loss) per share	($0.01)	($0.01)	($0.00)	$0.01
Comprehensive income (loss) for the year	$57,066	($792,276)	($258,478)	$238,184
Basic comprehensive income (loss) for the year	($0.00)	($0.03)	($0.01)	$0.01
Diluted comprehensive income (loss) per share	($0.00)	($0.03)	($0.01)	$0.01
Total assets	$11,662,096	$11,366,904	$13,297,755	$13,047,693
Total long term liabilities	--	--	--	--

Investing Activities

Cash flow applied in investing activities decreased to $2,406,909 for the year ended December 31, 2012 (2011: $2,520,331).

Total expenditures of $2,392,142 on exploration properties for the year ended December 31, 2012 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 2.89% to 2.48% attributed to the Trans Hex Group for the Newdico project. Trans Hex Group has a 2% 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. During the year ended December 31 2012, the Company received proceeds of $319,947 from the exercise of Stock Options, and $2,008,780 from the issuance of Units in private placements.

Private Placement Date	No. of Units	Price per Unit	Net Proceeds USD
September 7, 2012	1,181,181	C$1.10	$2,008,780
Warrant Exercise Date	**No. of Shares**	**Price per Share**	**Proceeds USD**
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 USD**
May 1, 2012	250,000	C$0.80	$204,073
May 7, 2012	100,000	C$0.80	$80,368
December 19, 2012	50,000	C$.070	$35,506

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, the Company recorded a net loss of ($293,095) for the year ended December 31, 2012 ($0.01) per common share) compared to a net income of $1,719,246 for the year ended December 31, 2011 ($0.07) per common share). The change from the gain to the loss in 2012 was due primarily to a decrease in the unrealized gain on the warrants from $2,673,378 to $616,554 and an increase in legal and audit expenses. These increases were partially offset by decreases in corporate remuneration and a decrease in stock based compensation expense. The decrease in stock based compensation expense reflects changes to amount of options issued and share price.

Cumulative exploration expenditures including amortization of property, plant and equipment used in exploration activities on all projects amounted to $11,150,180 as at December 31, 2012 compared to $8,774,657 as at December 31, 2011. Cumulative exploration expenditures incurred on the Newdico project as at December 31, 2012 was $7,518,224 compared to $6,291,558 as at December 31, 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 December 31, 2012 were $3,631,957 compared to $2,483,099 as at December 31, 2011.

PERSONNEL

At December 31, 2012, the Company and its subsidiaries employed thirty-eight (38) individuals compared to thirty-five (35) at December 31, 2011, including senior officers, administrative and operations personnel including those on a short-term service basis.

FOURTH QUARTER - 2012

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

RISKS AND UNCERTAINTIES

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

Renewal of Newdico License

A two year renewal application for PL 64/2005, Newdico's remaining license covering 851 km^2has been submitted in order to continue and complete the first stage exploration and 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 and the renewal application is currently being reviewed by the government. If the government does not renew this license, the carrying value of Newdico's exploration and evaluation assets of $7,518,224 will be written off as an impairment loss in the Statement of Operations and Comprehensive Income (Loss) upon notification from the government that the license has not been renewed.

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 Standards, Amendments and interpretations not yet adopted

The following new standards and issued amendments to standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied when preparing these consolidated financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9, Financial Instruments, issued in November 2009

This standard is the first step in the process to replace IAS 39, *Financial Instruments: Recognition & Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets. IFRS 9 establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held for maturity, available for sale, loans and receivables and other financial liabilities categories. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 has an effective date of January 1 2015, with early adoption permitted. The Company continues to monitor and assess the impact of this standard.

In May 2011, the IASB published five new and amended standards addressing the accounting for consolidation, joint arrangements and disclosures related to involvement with other entities, each of which is highlighted below:

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements* and Standing Interpretations Committee ("SIC") Interpretation 12, *Consolidation – Special Purpose Entities*, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether and investor has: 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31, Interest in Joint Ventures. IFRS 11 focuses on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). It addresses the inconsistencies in the reporting of joint arrangements by requiring a single method to account for all joint arrangements. This new standard principally addresses two aspects of IAS 31: first, that the structure of the arrangement was the only determinant of the accounting and, second, that an entity had a choice of accounting treatment for joint arrangements. Accordingly, IFRS 11 removes the options to apply the proportional consolidation method and classifies joint arrangements into two types – Joint operations and joint ventures. A joint operation is where the parties have control of the arrangement (i.e. joint operators) and have rights to the assets and obligations relating to the arrangement. A joint venture is where the parties have joint control of the arrangement (i.e. joint venturers) and have rights to the net assets of the arrangements.

IFRS 12, Disclosures of Involvement with Other Entities

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including joint arrangements, associations, special purpose vehicles and other off-balance sheet vehicles.

IAS 27, Separate Financial Statements

The requirements relating to separate financial statement s are unchanged and included in the amended IAS 27. The consolidation guidance currently included in IAS 27 is replaced by IFRS 10.

IAS 28, Investment in Associates and Joint Ventures

IAS 28 is amended to conform to changes resulting from issuance of IFRS 10, IFRS 11, and IFRS 12.

Each of the above five standards has an effective date for annual periods beginning on or after January 1, 2013. The adoption of these standards is not expected to have a significant impact on the Company's consolidated financial statements, but will require certain additional disclosures.

IFRS 13, Fair Value Measurement, issued May 2011

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 13 is not expected to have a significant impact on the Company's methodologies in determining fair values.

RELATED PARTY TRANSACTIONS

As of December 31, 2012 the Company has incurred leave benefits payable to an officer and director of the Company, however all amounts were paid by year end.

Remuneration of Key Management Personnel of the Company

	2012	2011
Short term employee remuneration and benefits	$ 453,118	$ 419,861
Stock based compensation	586,813	522,963
Post Employment Benefits*	166,463	--
Total compensation paid to key management personnel	$ 1,206,394	$ 942,824

*Post employment benefits include $17,496 of accrued benefits.

There are no other related party transactions.

OUTLOOK

Precious stones, metals and radio-active materials exploration remain 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.

The company does not invest in financial instruments, nor does it do any hedging transactions.

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

James M. Bruchs
Chairman and Chief Executive Officer
February 18, 2012

Gary A. Bojes
Chief Financial Officer
February 18, 2012

Financial Reporting Responsibility of Management

The annual report and consolidated financial statements have been prepared by management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on informed judgments and best estimates. The financial information presented in this annual report is consistent with the consolidated financial statements. Management acknowledges responsibility for the fairness, integrity and objectivity of all information contained in the annual report including the consolidated financial statements. Management is also responsible for the maintenance of financial and operating systems, which include effective controls to provide reasonable assurance that assets are properly protected and that relevant and reliable financial information is produced. Our independent auditors have the responsibility of auditing the consolidated financial statements and expressing an opinion on them.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is composed of three directors, all of whom qualify as unrelated directors and are independent of management and free from any interest or business relationship which could, or could be perceived to materially interfere with their ability to act in the best interests of the Company. This committee meets periodically with management and the external auditors to review accounting, auditing, internal control and financial reporting matters. The Audit Committee reviews the annual financial statements before they are presented to the Board of Directors for approval and considers the independence of the auditors.

The consolidated financial statements for the years ended December 31, 2012 and 2011 have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

James M. Bruchs
Chairman and Chief Executive Officer
February 18, 2013

Gary A. Bojes
Chief Financial Officer
February 18, 2013

Independent Auditors' Report

To the Shareholders of Tsodilo Resources Limited:

We have audited the accompanying consolidated financial statements of Tsodilo Resources Limited, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tsodilo Resources Limited as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada
February 18, 2013

Tsodilo Resources Limited

Consolidated Statements of Financial Position

(In United States dollars)

	December 31 2012	December 31 2011
ASSETS		
Current		
Cash	**$ 982,051**	$ 1,505,965
Accounts receivable and prepaid expenses	**109,031**	179,352
	1,091,082	1,685,317
Exploration and Evaluation Assets *(note 3)*	**11,150,180**	8,774,657
Property, Plant and Equipment *(note 4)*	**762,761**	1,017,938
Deposits on Equipment *(note 4)*	**43,670**	--
	$13,047,693	$11,477,912
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 113,968**	$ 104,105
Warrants *(note 5b)*	**884,212**	1,500,766
Total Liabilities	**998,180**	1,604,871
SHAREHOLDERS' EQUITY		
Share Capital *(note 5a)*	**37,525,377**	35,056,638
Contributed Surplus *(note 5c)*	**9,174,340**	8,711,103
Foreign Currency Reserve	**(1,909,448)**	(1,455,134)
Deficit	**(32,946,552)**	(32,653,953)
Equity attributable to Owners of the Parent	**11,843,717**	9,658,654
Non-controlling Interest *(note 3)*	**205,796**	214,387
Total Equity	**12,049,513**	9,873,041
Total Liabilities and Equity	**$13,047,693**	$11,477,912

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

See accompanying notes to the consolidated financial statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

David J. Cushing
Chairman, of the Audit Committee

James M. Bruchs
Chairman

Tsodilo Resources Limited

Consolidated Statements of Operations and Comprehensive Income (Loss)

(In United States dollars)

	Year Ended December 31	
	2012	2011
Administrative Expenses		
Corporate remuneration	**$ 90,228**	$ 148,624
Corporate travel and subsistence	**33,920**	27,264
Investor relations	**22,310**	16,911
Legal and audit	**147,449**	134,876
Filings and regulatory fees	**35,080**	30,303
Administrative expenses	**177,715**	164,046
Amortization	**6,465**	4,846
Stock-based compensation (note 5c)	**375,646**	427,864
	888,813	954,734
Other Income (Expense)		
Other expense	**--**	3,077
Gain on disposal of assets	**13,225**	--
Unrealized gain on warrants (Note 5b)	**616,554**	2,673,378
Foreign exchange (loss)	**(34,061)**	(2,475)
	595,718	2,673,980
Net Income (Loss) for year	**(293,095)**	1,719,246
Other Comprehensive Income (Loss)		
Foreign currency translation	**(462,409)**	(1,810,035)
Total Other Comprehensive Income (Loss)	**(462,409)**	(1,810,035)
Total Comprehensive Income (Loss) for the year	**($ 755,504)**	($ 90,789)
Net Income (Loss) attributable to shareholders of the parent	**(292,599)**	$1,719,246
Non-controlling interest	**(496)**	--
	($293,095)	$1,719,246
Total Comprehensive Income (Loss) attributable to owners of the parent	**($ 746,913)**	($ 54,812)
Non-controlling Interest	**(8,591)**	(35,977)
	($755,504)	($ 90,789)
Basic income (loss) per share attributable to owners of the parent (note 7)	**($0.01)**	$0.07
Fully diluted income (loss) per share attributable to the owners of the parent (note 7)	**($0.01)**	$0.07
Basic comprehensive income (loss) per share attributable to the owners of the parent (note 7)	**($0.03)**	($0.00)
Fully diluted comprehensive income (loss) per share attributable to the owners of the parent (note 7)	**($0.03)**	($0.00)

See accompanying notes to the consolidated financial statements

Tsodilo Resources Limited

Consolidated Statements of Shareholders' Equity

(In United States dollars except for shares)

	Share Capital		Contributed Surplus	Foreign Currency Reserve	Deficit	Total attributable to equity holder of the parent	Non-Controlling Interest	Total Equity
	Shares Issued	Amount						
Balance January 1, 2012	**25,880,970**	**$35,056,638**	**$8,711,103**	**($1,455,134)**	**($32,653,953)**	**$9,658,654**	**$214,387**	**$9,873,041**
Units Issued	**1,818,181**	**2,008,780**				**2,008,780**	**--**	**2,008,780**
Exercised Options	**400,000**	**459,959**	**(140,012)**			**319,947**		**319,947**
Stock Based Compensation	**--**	**--**	**603,249**	**--**	**--**	**603,249**	**--**	**603,249**
Comprehensive Income (loss) 2012	**--**	**--**	**--**	**(454,314)**	**(292,599)**	**(746,913)**	**(8,591)**	**(755,504)**
Balance December 31, 2012	**28,099,151**	**$37,525,377**	**$9,174,340**	**($1,909,448)**	**($32,946,552)**	**$11,843,717**	**$205,796**	**$12,049,513**

See accompanying notes to the consolidated financial statements.

Tsodilo Resources Limited

Consolidated Statements of Shareholders' Equity

(In United States dollars except for shares)

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

See accompanying notes to the consolidated financial statements.

Tsodilo Resources Limited

Consolidated Statements of Cash Flows

(In United States dollars)

	Year Ended December 31	
	2012	2011
Cash provided by (used in):		
Operating Activities		
Net Income (Loss) for the year	**$ (293,095)**	$ 1,719,246
Adjustments for non-cash items:		
Unrealized (gain) loss on warrants	**(616,554)**	(2,673,378)
(Gain) loss on disposal of equipment	**(13,225)**	
Amortization	**6,465**	4,846
Foreign Exchange Loss	**34,061**	--
Stock-based compensation	**375,646**	427,864
	(506,702)	(521,422)
Net change in non-cash working capital balances *(note 12)*	**80,183**	(107,524)
	(426,519)	(628,946)
Investing Activities		
Additions to exploration properties	**(2,342,142)**	(2,270,342)
Deposit on equipment	**(46,052)**	--
Proceed received from disposal of equipment	**13,225**	
Additions to property, plant and equipment	**(31,940)**	(249,989)
	(2,406,909)	(2,520,331)
Financing Activities		
Shares and warrants issued for cash, net of cost	**2,328,727**	1,926,547
	2,328,727	1,926,547
Impact of Exchange on cash and cash equivalents	**(19,213)**	--
Change in cash - For the year	**(523,914)**	(1,222,730)
Cash - beginning of year	**1,505,965**	2,728,695
Cash - end of year	**$ 982,051**	$ 1,505,965

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 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 consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Company has sufficient cash (as well as no debt obligations outside of normal course accounts payable and accrued liabilities) to continue operating for the ensuing twelve months. Accordingly, these consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the consolidated statement of operations and comprehensive income (loss), and consolidated statement of financial position classifications that would be necessary were the going concern assumption not appropriate. However, the Company's failure to raise additional funds could result in the delay in the work performed on the Company's exploration properties and may lead to an impairment charge on the Company's exploration and evaluation assets.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance with International Financial Reporting Standards

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

These consolidated financial statements have been authorized for release by the Company's Board of Directors on February 18, 2013.

(b) Basis of Preparation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

	2012	2011
Tsodilo Resources Bermuda Limited (Bermuda)	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) <u>Significant Accounting Judgments, Estimates and Assumptions</u>

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

Accounts that require estimates as the basis for determining the stated amounts include warrant liability, contributed surplus, stock-based compensation expense, and amortization expense. The amounts estimated for the warrant liability and stock based compensation are calculated using the Black-Scholes Merton valuation model, which requires significant estimates with respect to the expected life and volatility of such instruments. The estimated depreciation is influenced primarily by the estimate of the estimated life of the Company's Property, Plant & Equipment.

Significant judgments are required with respect to the carrying value of the Company's exploration and evaluation assets, its determination of the functional currency of the Company's subsidiaries and the recoverability of the Company's deferred tax assets. In particular, the carrying value of the Company's exploration and evaluation assets is dependent upon the Company's determination with respect to the future prospects of its exploration and evaluation assets and the ability of the Company to successfully complete the renewal process for its exploration properties as required.

(d) <u>Earnings (Loss) per Common Share</u>

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

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

Diluted earnings per share calculations are based on the net comprehensive income (loss) and income attributable to common shareholders for the year divided by the weighted average number of common shares issued and outstanding during the year ended 2012.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and drilling equipment	5 Years
Furniture and equipment	3 Years

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

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

(g) *Cash*

Cash consists of cash held in banks.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) ***Foreign Currency Translation***

(i) *Functional and presentation currency*

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

Tsodilo Resources Bermuda Limited	U.S. Dollar
Gcwihaba 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 recognized in Other Comprehensive Income and accumulated in the foreign currency reserve. On consolidation, exchange differences arising from the translation of the net investments in Gcwihaba, Newdico and Bosoto are taken Other Comprehensive Income and accumulated in the Foreign Currency Reserve.

If Gcwihaba, Newdico and Bosoto were sold, the amount recognized in the foreign currency reserve would be realized and reflected in the Statement of Operations and Comprehensive Income (Loss) as part of the gain and loss on disposal.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(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) ***Severance Benefits***

Under Botswana law, the Company is required to pay severance benefit upon the completion of 5 years of continued service or upon the termination of employment. The cost of these severance benefits is recognized immediately to the extent that the benefits are amortized on a straight line basis over the period of service until the benefit becomes payable. The charge is made to exploration and evaluation assets. During the year, $209,545 (2011: - nil) in costs relating to severance benefits were incurred.

(l) ***Decommissioning, Restoration and Similar Liabilities (Asset Retirement Obligation or "ARO")***

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

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

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

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

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

The Company had no asset retirement obligations as of December 31, 2012, and 2011.

(m) Financial Assets

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

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's cash and accounts receivable are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains or losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At December 31, 2012 and 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.

(n) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) *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.

(p) *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.

(q) *New Standards, Amendments and Interpretations not yet adopted*

The following new standards and issued amendments to standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied when preparing these consolidated financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, *Financial Instruments*, issued in November 2009

This standard is the first step in the process to replace IAS 39, *Financial Instruments: Recognition & Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets. IFRS 9 establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held for maturity, available for sale, loans and receivables and other financial liabilities categories. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 has an effective date of January 1 2015, with early adoption permitted. The Company continues to monitor and assess the impact of this standard.

In May 2011, the IASB published five new and amended standards addressing the accounting for consolidation, joint arrangements and disclosures related to involvement with other entities, each of which is highlighted below:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 10, *Consolidated Financial Statements*

IFRS 10 replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements* and Standing Interpretations Committee ("SIC") Interpretation 12, *Consolidation – Special Purpose Entities*, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether and investor has: 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11, *Joint Arrangements*

IFRS 11 replaces IAS 31, Interest in Joint Ventures. IFRS 11 focuses on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). It addresses the inconsistencies in the reporting of joint arrangements by requiring a single method to account for all joint arrangements. This new standard principally addresses two aspects of IAS 31: first, that the structure of the arrangement was the only determinant of the accounting and, second, that an entity had a choice of accounting treatment for joint arrangements. Accordingly, IFRS 11 removes the options to apply the proportional consolidation method and classifies joint arrangements into two types – Joint operations and joint ventures. A joint operation is where the parties have control of the arrangement (i.e. joint operators) and have rights to the assets and obligations relating to the arrangement. A joint venture is where the parties have joint control of the arrangement (i.e. joint venturers) and have rights to the net assets of the arrangements.

IFRS 12, *Disclosures of Involvement with Other Entities*

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including joint arrangements, associations, special purpose vehicles and other off-balance sheet vehicles.

IAS 27, *Separate Financial Statements*

The requirements relating to separate financial statement s are unchanged and included in the amended IAS 27. The consolidation guidance currently included in IAS 27 is replaced by IFRS 10.

IAS 28, *Investment in Associates and Joint Ventures*

IAS 28 is amended to conform to changes resulting from issuance of IFRS 10, IFRS 11, and IFRS 12.

Each of the above five standards has an effective date for annual periods beginning on or after January 1, 2013. The adoption of these standards is not expected to have a significant impact on the Company's consolidated financial statements, but will require certain additional disclosures.

IFRS 13, *Fair Value Measurement*, issued May 2011

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 13 is not expected to have a significant impact on the Company's methodologies in determining fair values.

3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are summarized as follows:

	Newdico Botswana	**Gcwihaba Botswana**				**Total**
	Precious Stones	**Precious Stones**	**Metals**	**Radio-Active Minerals**	Subtotal	
Balance at December 31, 2010	**$ 6,057,490**	**$ 1,349,858**	**$ 86,543**	**$ -0-**	**$ 1,436,401**	**$ 7,493,891**
Additions	1,461,647	456,415	668,300	334,763	1,459,478	2,921,125
Net Exchange Differences	(1,227,579)	(129,086)	(189,014)	(94,680)	(412,780)	(1,640,359)
Balance at December 31, 2011	**$6,291,558**	**$1,677,187**	**$565,829**	**$240,083**	**$2,483,099**	**$8,774,657**
Additions	1,524,592	421,262	536,758	344,679	1,302,699	
Net Exchange Differences	(297,926)	(49,749)	(63,388)	(40,705)	(153,842)	2,827,291 (451,768)
Balance at December 31, 2012	**$7,518,224**	**$2,048,700**	**$1,039,199**	**$544,057**	**$ 3,631,956**	**$ 11,150,180**

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 three remaining licenses totaling 3,949 square kilometers were renewed for a two-year period and expired in June 2012. During the year, two of the three remaining licenses were relinquished. These licenses totalled 3,098 square kilometres and 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 Newdico's remaining license covering 851 square kilometres has been submitted in order to continue and complete the first stage exploration and evaluation program. An acknowledgement of receipt has been received from the Botswana Department of Geological Survey and the renewal application is currently being reviewed by the government. If the government does not renew this license, the carrying value of $7,518,224 will be written off as an impairment loss in the Statement of Operations and Comprehensive Income (loss), upon notification from the government that the license has not been renewed.

3. EXPLORATION AND EVALUATION ASSETS (continued)

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 97.52% at December 31, 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 currently holds four (4) precious stone – diamond prospecting licenses. Three licenses are in the North-West District of Botswana covering 1,910 square kilometers and one license covering 494 square kilometers in the Kgalagadi District in southern Botswana. The licenses have expiry dates ranging from March 31, 2013 to July 1, 2015 and require a minimum spending commitment of Botswana Pula 746,510 (US$97,560) if held to their full term. As at December 31, 2012 the Company believes it has fulfilled most of the spending requirements associated with these licenses.

Metal Exploration

Gcwihaba holds twenty-two (22) metal (base, precious, platinum group, and rare earth) prospecting licenses inclusive of 5 licenses currently in renewal in the North-West District of Botswana. The current licenses cover 11,158.50 square kilometers. 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. In 2012, PL118 was relinquished in its entirety. The relinquishment of the aforementioned licenses or portions thereof 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 expiry dates of the 17 licenses range from July 1, 2013 to April 1, 2015 and require a minimum spending commitment of Botswana Pula 3,205,725 (US $418,949) over the term of the licenses, if held to their full-term. As at December 31, 2012, the Company believes is has fulfilled most of the spending commitments associated with these licenses.

Radioactive Minerals

As at December 31, 2012, Gcwihaba holds eight (8) radioactive mineral licenses in the Northwest District of Botswana covering 6,925 square kilometers. The licenses have expiry dates ranging from July 1, 2013 through January 1, 2017 and require a minimum spending commitment of Botswana Pula 1,543,905 (US$ 202,161) , if held to their full-term. As at December 31, 2012 the Company believes is has fulfilled most of the spending requirements associated with these licenses.

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

Cost	Vehicles	Furniture and Equipment	Total
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

	Vehicles	Furniture and Equipment	Total
As at December 31, 2011	$ 1,704,620	$ 220,371	$ 1,924,991
Additions	22,134	9,806	31,940
Disposals	(25,556)	--	(25,556)
Net Exchange Difference	(59,176)	(6,472)	(65,648)
As at December 31, 2012	$ 1,642,022	$ 223,705	$ 1,865,727

Accumulated Depreciation

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

	Vehicles	Furniture and Equipment	Total
As at December 31, 2011	$759,217	$ 147,836	$ 907,053
Depreciation	219,585	44,426	264,011
Disposals	(25,556)	--	(25,556)
Net Exchange Difference	(36,472)	(6,070)	(42,542)
As at December 31, 2012	$ 916,774	$ 186,192	$ 1,102,966

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 December 31, 2012	$ 725,248	$ 37,513	$ 762,761

Deposits on Equipment

As at December 31, 2010	$ 870,805	--	$ 870,805
As at December 31, 2011	--	--	--
As at December 31, 2012	$ 43,670	--	$ 43,670

For the year ended December 31, 2012, an amount of $257,546 (2011: $219,135) of amortization has been capitalized under exploration properties.

The $870,805 of drilling equipment was received during the third quarter, 2011. The deposit at December 31, 2012 relate to the purchase of three trucks to be delivered in 2013.

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: 28,099,151 Common Shares as at December 31, 2012 (2011: 25,880,970)

During the year ending December 31, 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 $85,630.

(ii) On May 7, 2012, 100,000 options were exercised at a price of C$0.80 for proceeds to the Company of $80,368 (C$80,000). The value of the option associated with the exercised options that were reclassified to share capital was $34,252.

(iii) On September 7, 2012, 1,818,181 Units were issued at a price of C$1.10 for net proceeds to the Company of $2,008,780 (C$1,963,779). 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. $36,730 of issuance costs were netted against the proceeds.

(iv) On December 19, 2012, 50,000 options were exercised at a price of C$0.70 for proceeds to the Company of $35,506 (C$35,000). The fair value of the option associated with the exercised options that were reclassified to share capital was $20,130.

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.

5. SHARE CAPITAL (CONTINUED)

(b) Warrants

As December 31, 2012, the following warrants were outstanding:

		Number of Warrants - Units				
	Exercise Price	December 31, 2011	Issued	Exercised	Expired	December 31, 2012
Expiry						
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. As the strike price of these warrants is in U.S. Dollars, the warrants were classified as equity instruments. The value of the Units equals the value of the Common Shares, and no amount was allocated to the warrants.

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

Under IFRS, warrants having a strike price other that the functional currency of the issuer are a derivative liability and are marked to market as the end of each reporting period. For the year ended December 31, 2012 the Company recorded a mark to market gain of $616,554 (2011: $2,673,378) on the revaluation of warrants. As at December 31, 2012, the outstanding liability portion of the warrants have a fair value of $884,212 (2011: $1,500,766) which is determined using the Black-Scholes Option Pricing Model with an expected volatility of 70.5%, expected life of 2.5 years at a risk free rate of 1.17%.

	Warrant Liability	
	Number of Units	Valuation
Balance December 31, 2010	2,702,702	**$5,266,191**
Additions	--	**--**
Exercise	--	**--**
Expiry	--	**--**
Valuation Change	--	(3,765,425)
Balance December 31, 2011	2,702,702	**$1,500,766**
	--	--
	--	--
	--	--
	--	(616,554)
Balance December 31, 2012	2,702,702	**$884,212**

5. SHARE CAPITAL (CONTINUED)

(c) Stock Option Plan

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

The following Table summarizes the Company's stock option plan as at December 31, 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	(400,000)	C$0.78
Cancelled	--	--
Expired	(65,000)	C$1.00
Outstanding as at December 31, 2012	3,045,000	C$1.13

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 2, 2012, 65,000 stock options at C$1.00 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 April 2, 2012, the Company issued 475,000 options at C$1.00 under its Stock Option Plan to persons who are officers and employees of the Company.

5. SHARE CAPITAL (CONTINUED)

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 (USD $204,073).

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 (USD $80,368).

On December 19, 2012, 50,000 options granted under its Stock Option Plan ('SOP') were exercised pursuant to the SOP at C$0.70 for total proceeds of C$35,000 (USD $35,506).

The following table summarizes the stock option compensation expense and capitalized stock compensation for the year ended December 31, 2012 and 2011.

	2012	2011
Stock-based compensation expense	$ 375,646	$ 427,864
Capitalized Stock-based compensation expense	227,603	399,033
	$603,249	$ 826,897

The following assumptions were used in the Black Scholes option pricing model to fair value of the stock options granted during the year ended December 31, 2012 and 2011:

	2012	2011
Expected lives	3.0 to 4.5 years	3.0 to 4.5 years
Expected volatilities (based on Company's historical prices)	111.4% - 158.0%	158.4% - 176.0%
Expected dividend yield	0%	0%
Risk free rates	0.41% - 0 .92%	0.68% - 1.90%
Weighted average fair value of option	$0.82	$1.05

The following table summarizes stock options outstanding as at December 31, 2012:

Options Outstanding				**Options Exercisable**		
Exercise Price (C$)	Number of Outstanding Options	Weighted Average Exercise Price (C$)	Weighted Average Remaining Contractual Life (Years)	Number of Exercisable Options	Weighted Average Exercise Price (C$)	Weighted Average Remaining Contractual Life (Years)
C$0.55	100,000	C$0.55	1.83	100,000	C$0.55	1.83
C$0.70	920,000	C$0.70	0.75	920,000	C$0.70	0.75
C$0.90	235,000	C$0.90	4.01	117,500	C$0.90	4.01
C$1.00	605,000	C$1.00	3.77	367,500	C$1.00	3.47
C$1.03	300,000	C$1.03	3.29	300,000	C$1.03	3.29
C$1.19	100,000	C$1.19	3.56	75,000	C$1.19	3.56
C$1.25	285,000	C$1.25	3.01	285,000	C$1.25	3.01
C$2.23	500,000	C$2.23	2.34	500,000	C$2.23	2.34
	3,045,000	C$1.13	2.48	2,665,000	C$1.14	2.2

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 26. 5% (2010: 28.25%) to net income (loss) before income taxes as follows:

	December 31, 2012	December 31 2011
Net Income (Loss) for the year	($293,095)	$1,719,246
Income tax recovery at Canadian statutory	26.5%	28.25%
Income tax rates	(77,670)	485,687
Effect of statutory tax rate change	36,853	(4,261)
Foreign operation taxed at lower rates	3,233	4,545
Permanent differences	(65,396)	(634,357)
Change in valuation allowances	88,980	(63,615)
Expiry of tax losses	--	163.847
Changes in estimate and foreign exchange	5,273	49.040
Other	(82,383)	(886)
Provision for (recovery of) income taxes	$ --	$ --

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

	December 31, 2012	December 31, 2011
Losses carried forward - Botswana	$2,602,000	$2,026,000
Other	--	45,000
Exploration & Development - Botswana	(2,470,000)	(2,026,000)
Property, Plant and Equipment - Botswana	(132,000)	(45,000)
Net future income tax asset recorded	$ --	$ --

As at December 31, 2012 the following deferred taxes have not been recognized :

	December 31, 2012	December 31, 2011
Losses carried forward - Botswana	$138,000	$244,000
Losses carried forward - Canadian	632,000	493,000
Property Plant & Equipment	23,000	18,000
Reserve Properties - Canadian	80,000	76,000
Other	54,000	--
	$927,000	$831,000

As at December 31, 2012, the Company has Canadian net operating losses carried forward that expire as follows:

Loss	Year of Expiry
275,000	2015
335,000	2016
235,000	2027
213,000	2028
136,000	2029
307,000	2030
456,000	2031
464,000	2032

Total assessable losses relating to the activity in Botswana as at December 31, 2012 was $10,961,093 (2011: $9,107,576).

7. EARNINGS (LOSS) PER SHARE

Net earnings per share were calculated based on the following:

Year ended December 31	**2012**	2011
Net income (loss) for the year	($ 293,095)	$ 1,719,246
Effect of Dilutive Securities		
Stock options and warrants	--	(7,937)
Diluted net earnings (loss) for the year	($ 293,095)	$ 1,711,309

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

	2012	2011
Basic weighted-average number of shares outstanding	26,722,663	23,508,532
Effect of dilutive securities:		
Stock Options	--	1,193,343
Warrants	--	459,220
Diluted weighted-average number of shares outstanding	26,772,663	25,161,095

The loss per share is the same as the basic loss per share for the year ended December 31, 2012 because the stock options and warrants that were dilutive did not have a material impact on the EPS calculation. In addition, the number of stock options and warrants outstanding as at year ended December 31, 2012, was 7,565,883 all of which were anti-dilutive.

8. RELATED PARTY TRANSACTIONS

During the year ended December31, 2012, the Company incurred leave benefits payable to an officer and director of the Company, however all amounts were paid by year end.

Remuneration of Key Management Personnel of the Company

	2012	2011
Short term employee remuneration and benefits	$ 453,118	$ 419,861
Stock based compensation	586,813	522,963
Post Employment Benefits*	166,463	--
Total compensation paid to key management personnel	$ 1,206,394	$ 942,824

*Post employment benefits includes $17,496 of accrued benefits.

There are no other related party transactions.

9. SEGMENTED INFORMATION

The Company is operating in one industry. As at December 31, 2012 the Company's Plant, Property and equipment in the United States was $10,260 (2011: $11,696) and in Botswana was $752,501 (2011: $1,006,242). No revenues or expenses were realized for Exploration and Evaluation Properties that are detailed in note 3 above. Segment long term Exploration and Evaluations properties in the United States were zero (2011: nil) and in Botswana of $11,150,180.

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	Loans and receivables	Level 1 & Level 2
Accounts receivable	Loans and receivables	n/a
Accounts payable and accrued liabilities	Other financial liabilities	n/a
Warrants	Fair value through Profit and Loss	Level 3

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

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

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

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

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

Risk Exposure and Management

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

(a) Capital Management

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

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand. In 2012 and 2011 the Company raised cash capital as shown in note 5(a) in the amount of $2,328,727 and $1,926,547, respectively. It is anticipated that the Company cash of $982,051 will be substantial enough to continue operations for the ensuing twelve months.

10. FINANCIAL INSTRUMENTS (CONTINUED)

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. However, there is no guarantee that such financing will be available when required.

(b) Liquidity Risk

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

(c) Credit Risk

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

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

(d) Interest Rate Risk

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

(e) Foreign Exchange Risk

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. A ten percentage change in the exchange rate would result in a $92,490 impact the Company's net income (loss).

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

Based on the net Pula denominated asset and liability exposures as at December 31, 2012, a 10% change in the USD/Pula exchange rate would not materially impact the Company's earnings. A ten percentage change in the exchange rate would result in a $310 impact the Company's net income (los).

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:

2013	21,133
2014	22,190
2015	22,190
Total	$ 65,513

The lease commitment is for storage space in Maun, Botswana at an annual rental of Pula 166,824 for year 2013 and 175,165 for years 2014 and 2015 plus taxes converted at an exchange rate as at December 31, 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 CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31 2012	December 31 2011
Net change in noncash working capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	$70,320	($114,181)
Increase / (Decrease) in accounts payable and accrued liabilities	9,863	6,657
Total	$80,183	($107,524)

13. SUBSEQUENT EVENTS

On January 3, 2013, the Company issued 235,000 options at C$1.20 under its Stock Option Plan to persons who are officers and employees of the Company.

On January 3, 2013, 50,000 options granted under its Stock Option Plan ('SOP') were exercised pursuant to the SOP at C$0.70 for total proceeds of C$35,000 (USD $35,285).

Corporate Information

DIRECTORS

James M. Bruchs, Chairman
McLean, VA
Appointed as director in 2002

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

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

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

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

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

OFFICERS

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

Michiel C. J. de Wit, Ph.D.
Irene, South Africa
President and Chief Operating Officer
Appointed in 2010

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

Gail McGinley
Corporate Secretary
Appointed in 2005

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Toronto, Ontario

STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: TSD