

## **Management's Discussion and Analysis**

This management's discussion and analysis ("MD&A") should be read in conjunction with the Consolidated Quarterly Financial Statements for the Quarter ended March 31, 2008 together with the Annual Report for the year ended December 31, 2007. This interim report is intended to provide the reader with a review of the factors that affected the Company's performance during the three month period ending March 31, 2008 and those factors reasonably expected to impact on future operations and results. The unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles applicable in Canada. This management's discussion and analysis has been prepared as of May 15, 2008.

## **OVERVIEW**

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

## **Outstanding Share Data**

As of May 15, 2008, 14,960,241 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 1,990,000 options remain outstanding of which 1,323,750 are exercisable at exercise prices ranging from Canadian \$0.50 - \$1.85. If all options were vested and exercised, 1,990,000 common shares of the Company would be issued.

As of May 15, 2008, 2,277,328 warrants are outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company at purchase prices ranging from Canadian \$0.70 - \$0.80 for a period of two years from the date of issuance (7/20/2006 – 03/12/08). If converted, 2,277,328 common shares of the Company would be issued.

## **Principal Shareholders of the Company**

The largest shareholder of the Company is its President and Chief Executive Officer, James M. Bruchs, who currently owns, controls, or directs 2,695,983 or 18.02 % of the issued and outstanding common shares as of May 15, 2008. The SSRedmond Trust, currently controls 2,434,024 or 16.27% of the issued and outstanding shares as of May 15, 2008 and the Firebird Global Master Fund, Ltd. Controls 1,875,630 or 12.54% of the issued and outstanding shares as of March 21, 2008.

## **Subsidiaries**

The Company has a 93% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited (“Newdico”), which holds prospecting licenses and applications covering approximately 16,800 square kilometers in northwest Botswana on which there is encouragement for the existence of undiscovered kimberlites in at least three separate areas of the property. The Company’s minority partner (7%) in this project, Trans Hex Group, is an established South African diamond mining company.

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gwihaba Resources (Proprietary) Limited (“Gwihaba”), which has diamond prospecting licenses covering approximately 7,543 square kilometers and base and precious metal licenses covering 5,348 square kilometers.

## **Exploration Activities**

### **Diamond Projects**

The Company’s Botswana licenses are proximal to two major unexplained surface concentrations of diamonds and G10 garnets across the border in Namibia, one near the village of Tsumkwe and another in the area known as Omatako. The characteristics of these kimberlite pathfinder mineral anomalies indicate that they are secondary concentrations derived from respective primary high-grade kimberlite sources located elsewhere.

The geomorphological model envisages that the Tsumkwe and Omatako pathfinder anomalies were formed by ancient rivers transporting diamonds and garnets derived from kimberlites located in the Company’s license blocks. Prior to the deposition of the superficial Kalahari sand that covers much of Ngamiland, this area formed a topographic high. Rivers rising off this high ground flowed westward into a major inland sea located in the north of present-day Namibia. The Company’s diamond targets cover former headwaters of this ancient river system and lie within the southern margin of the Congo craton.

## **Base and Precious Metals Project**

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

### **NEWDICO (Pty) Limited (“Newdico”)**

#### **Summary of work completed in First Quarter 2008 and to date**

- ◇ Over 4,000 kimberlite indicator minerals (“KIM”) from kimberlites A41, C15, A36, 1821C16, PD07, PD25, B1, B2, B3, B4, B5, B6, B7, B8 and B9 as well as those from A15 are undergoing electron microprobe analysis to establish their chemical composition.
- ◇ A detailed petrography study is ongoing on core samples from these kimberlites for the purpose of determining their diamond-carrying potential.
- ◇ A complete study of the kimberlites in the Company’s Nxau Nxau kimberlite field for the purpose of selecting kimberlites for macro diamond analysis is expected to be completed in the 3<sup>rd</sup> quarter.
- ◇ Geophysical ground surveys (magnetic) were conducted over one hundred twenty line kilometers.
- ◇ Sixty kilometers of roads and bush clearing took place during the quarter for the purpose of gaining access to priority target sites.
- ◇ Drill testing of priority 1 magnetic target anomalies commenced on May 8, 2008.
- ◇ The Company filed its renewal and relinquishment reports with the Botswana Department of Geological survey as required.

#### **Planned Exploration Program for Quarters 2 – 4, 2008**

The program is based on our strategy of using a combination of indicator mineral sampling, magnetic and gravity data to generate individual targets for drill evaluation and our regional strategy of evaluating possible transport corridors giving rise to the alluvial secondary

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

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

◇ A ground magnetic geophysical survey covering approximately 400 square kilometers has commenced and will be completed in the 2<sup>nd</sup> quarter.

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

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

## **GCWIHABA Resources (Pty) Limited (“Gcwihaba”)**

### **Diamond Licenses**

#### **Summary of work completed in First Quarter - 2008 and to date**

◇ Geophysical ground surveys (magnetic) were conducted totaling 180 line kilometers.

◇ Five Prospecting License (“PL”) Nos. 046 / 2007 – No. 050 / 2007 encompassing 3,325 square kilometers were granted to the Company in the 1<sup>st</sup> Quarter 2008.

◇ Drill testing of priority 1 magnetic target anomalies commenced on May 8, 2008.

◇ The Company filed its renewal and relinquishment reports with the Botswana Department of Geological survey as required.

#### **Planned Exploration Program for Quarters 2-4, 2008**

◇ Drill testing of priority 1 and 2 target anomalies will take place in the second and third quarter of 2008.

## **Base and Precious Metals Licenses**

### **Summary of work completed in 2008 and to date**

◇ Work continued on analyzing the data collected on the base metals projects from previous quarters.

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

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

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

#### **Planned Exploration Program for 2008**

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2008, the Company had negative net working capital of (\$81,509) (positive \$94,555; March 31, 2007) which included cash of \$142,020 (\$109,597; March 31, 2007). These funds are managed in-house in accordance with specific investment criteria approved by the board of directors, the primary objective being the preservation of capital to assure funding for exploration activities. The Company has completed a private placement for an additional \$325,000 in March 2008, see discussion in Financing Activities below. The Company does not hedge its activities or otherwise use derivatives. At quarter end the Company did not have any material contractual obligations. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of March 31, 2008, the expenditure requirements exclusive of license fees are:

Newdico	3,780,000 BWP	\$580,483 USD
Gcwihaba – Diamond	885,000 BWP	\$135,907 USD
Gcwihaba – Base and Precious Metals	720,000 BWP	\$110,568 USD

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

## **Financial Instruments**

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

## **Operating Activities**

Cash outflow used in operating activities increased from (\$16,397) in the quarter ended March 31, 2007 to (\$48,104) for the quarter ended March 31, 2008. This increase is due to operating losses in this first quarter.

## ANNUAL INFORMATION

(in US dollars)	Quarter Ended March 31 2008	Fiscal Year Dec.31 2007	Fiscal Year Dec.31 2006
Total Revenues		--	--
Loss before Non-controlling Interest	(163,734)	(504,075)	(554,547)
Basic and diluted loss per share	(\$0.01)	(\$0.04)	(\$0.04)
Non-controlling Interest		--	--
Net Loss for the Year	(163,734)	(504,075)	(554,547)
Basic and diluted loss per share	(\$0.01)	(\$0.04)	(\$0.04)
Total Assets	4,246,648	4,050,815	3,472,693
Total long term liabilities	228,395	228,395	245,491
Cash dividends declared	--	--	--

## QUARTERLY INFORMATION

(in US dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Fiscal Year 2006 (ended December 31, 2006)</b>				
Total Revenues	--	--	--	--
Loss for the period	(156,252)	(234,194)	(89,720)	(74,381)
Basic and diluted loss per share	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.00)
Total Assets	2,689,555	2,891,225	3,278,118	3,472,693
Total long term liabilities	289,490	235,769	219,441	245,491
<b>Fiscal Year 2007 (ended December 31, 2007)</b>				
Total Revenues	--	--	--	--
Loss for the period	(97,193)	(239,086)	(42,114)	(125,682)
Basic and diluted loss per share	(\$0.01)	(\$0.02)	(\$0.00)	(\$0.01)
Total Assets	3,491,244	3,779,683	3,904,928	4,050,815
Total long term liabilities	225,763	225,236	229,607	228,395
<b>Fiscal Year 2008 (quarter ended March 31, 2008)</b>				
Total Revenues				
Loss for the period	(163,734)			
Basic and diluted loss per share	(\$0.01)			
Total Assets	4,246,648			
Total long term liabilities	228,395			

## **Investing Activities**

Cash flow applied in investing activities increased to \$163,163 for the quarter ended March 31, 2008 (March 2007: \$151,392).

Total expenditures of \$98,376 on exploration properties for the period ended March 31, 2008 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share of 7.45% attributed to the Trans Hex Group for the Newdico project. There were no material disposals of capital assets or investments during the year.

In December 2007, the board of directors of Newdico approved an exploration program and budget for the period January 1, to December 31, 2008 that calls for expenditures totaling approximately Pula 7.76 million (approximately \$1.2 million as of March 31, 2008). Trans Hex Group is presently responsible for funding 7% of the expenses of this company. The approved exploration program includes provision for additional drilling, soil sampling, ground geophysical surveys, processing and analysis.

## **Financing Activities**

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

During the first quarter of 2008, the Company issued, through a non-brokered private placement 457,901 units at a price of \$0.71 (C\$0.70) per unit for gross proceeds of \$325,000. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of C\$0.70 for a period of two years. The common shares, warrants and warrant shares are subject to a hold period of 12 months, as agreed to by the parties, expiring on March 11, 2009

During the year ended December 31, 2007 the Company received proceeds in the amount of \$615,858 from the issuance of units consisting of one common share and one warrant related to private placements. Additional proceeds in the amount of \$44,393 were received from the issuance of common shares upon the exercise of options during fiscal year 2007.

Tsodilo expects to raise the amounts required to fund its 93% share of the Newdico project, the Gcwihaba projects and corporate general and administration expenses, by way of non-brokered private placements.



## **RESULTS OF OPERATIONS**

On a consolidated basis Tsodilo recorded a net loss of \$163,734 in the quarter ended March 31, 2008 (\$0.01 cents per common share) compared to a net loss of \$97,193 in the quarter ended March 31, 2007 (\$0.01 cents per common share). The Company experienced increases in corporate remuneration, legal, audit, filing fees, stock and office and administration fees including reflecting general corporate activity. The increase in stock option expense reflects the timing of option grants.

Exploration expenditures on all projects amounted to \$98,376 during the quarter ended March 31, 2008 compared to \$194,994 for the quarter ended March 31, 2007. Exploration expenditures incurred on the Newdico project for the quarter ended March 31, 2008 was \$73,956 compared to \$193,540 for the quarter ended March 31, 2007. 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. Exploration expenditures incurred on the Gcwihaba project for the quarter ended March 31, 2008 were \$24,420 compared to \$1,454 for the quarter ended March 31, 2007.

## **PERSONNEL**

At March 31, 2008 the Company and its subsidiaries employed twenty (20) individuals as compared to eighteen (18) at March 31, 2007, including senior officers, administrative and operations personnel including those on a short-term service basis.

## **FIRST QUARTER - 2008**

The first quarter was a normal operating period for a quarter and year end. Operating expenses were at normal levels for the first quarter.

## **RISKS AND UNCERTAINTIES**

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

parcel of diamonds are necessary to make an accurate determination of these parameters. At any stage in the process, the results may indicate that the deposit lacks the required economic value.

### **Capital Requirements**

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

### **Off-Balance Sheet Arrangements**

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

### **Exploration Risks**

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

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

## Currency Risks

The Company's financing has generally been received in United States dollars while significant portions of its operating expenses has been and will be incurred in Botswana Pula.

## Key Personnel

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

## ACCOUNTING STANDARDS

Tsodilo follows Canadian generally accepted accounting principles. The Company has adopted the policy of deferring property specific acquisition and exploration costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate, are written off in the year such assessment is made (no such write-offs were incurred in 2008 and 2007). If Tsodilo adopted a policy of expensing all exploration costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different.

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

## SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation and preparation of the consolidated financial statements

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

Group Companies: March 31, 2008 and 2007

	<b>2008</b>	2007
Tsodilo Resources Bermuda Limited	<b>100%</b>	100%
Gcwihaba Resources (Proprietary) Ltd (Botswana) ("Gcwihaba")	<b>100%</b>	100%
Newdico (Proprietary) Limited (Botswana) ("Newdico")	<b>93%</b>	91%

## **Earnings per share**

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

## **Use of estimates**

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

## **Exploration properties**

All costs relating to the acquisition, exploration and development of non-producing mining properties are capitalized as incurred. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

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

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

The company evaluates its license properties on a project basis versus treating each individual license block as separate projects.

## **Property, Plant and Equipment**

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

## **Foreign currency translation**

The Company's functional and reporting currency is the US dollar. The Company's subsidiaries are accounted for as integrated foreign operations. Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items are denominated in foreign currencies, which are translated to US dollar at exchange rates in effect at the balance sheet dates, and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expense items are translated at the average rate prevailing during the year except for depreciation, depletion, amortization and write-downs, which are translated at the same exchange rates as the assets to which they relate. Foreign exchange gains and losses are included in the statement of operations.

## **Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded against any future income to an asset if it is more than likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted. The Company does not have deferred tax liabilities or current tax provisions.

## **Stock-Based Compensation Plans**

Tsodilo has a Stock Option Plan (refer to note 5). Under the Stock Option Plan, the Company may grant options to directors, officers and employees for up to 2,715,471 shares of common stock. The exercise price is determined by the Chairman of the Compensation Committee and the President and CEO in consultation with the board of directors, but is not less than the market price of the Company's stock on the date of the grant. An option's maximum term is 5 years. The Company uses the fair value method of accounting for stock options. Under the fair value method stock-based payments are measured at the fair value of

the equity investments and are amortized over the vesting period. Consideration paid on exercise of stock options is credited to common share capital.

## **ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING DEVELOPMENTS**

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

### **Financial instruments**

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

### **Financial Instruments – Recognition and Measurement, Section 3855**

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

### **Hedges, Section 3865**

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

### **Comprehensive Income, Section 1530**

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

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

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

### **Financial Instruments – Disclosures, Section 3862**

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

### **Financial Instruments – Presentations, Section 3863**

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

### **Capital Disclosures – Section 1535**

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

### **Inventories – Section 3031**

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

The adoption of Sections 3862, 3863, 1535 and 3031 did not have a significant impact on our financial statements.

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

## **RELATED PARTY TRANSACTIONS**

As of December 31, 2007, the Company borrowed \$125,000 from a person who is an officer and director of the Company. \$25,000 of this amount was repaid during the quarter ended March 31, 2008. The \$100,000 demand loan balance remaining March 31, 2008 has no interest rate, no maturity date, and no additional terms of repayment.

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

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

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

As of March 31, 2007, TSDB holds a 93% (March 31, 2007: 91%) interest in Newdico while THD holds 7% (March 31, 2007: 90%). The change in the parties’ respective interest in the project is attributed to the dilution of THD’s interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

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



## **OUTLOOK**

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

## **ADDITIONAL INFORMATION**

Additional information relating to Tsodilo Resources Limited is available on its website [www.TsodiloResources.com](http://www.TsodiloResources.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING STATEMENTS**

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

# **TSODILO RESOURCES LIMITED**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTH PERIOD  
ENDED MARCH 31, 2008**

**(expressed in United States dollars)**

**Unaudited – Prepared by Management**

### ***CONTENTS:***

*Balance Sheet*

Statement of Deficit

Statement of Operations

Statement of Cash Flows

Notes to Financial Statements

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

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

# Tsodilo Resources Limited

## Consolidated Balance Sheets

As at March 31, 2008

(in United States dollars)

(unaudited - Management prepared)

	March 31	March 31
	2008	2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	142,020	109,597
Amounts receivable and prepaid expenses	66,023	13,109
	208,043	122,688
<b>Exploration Properties (note 3)</b>	3,437,251	2,619,112
<b>Property, Plant and Equipment (note 4)</b>	601,354	749,744
	4,246,648	3,491,244
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	189,552	28,133
Shareholder's loan	100,000	0
Total current liabilities	289,552	28,133
<b>NON-CONTROLLING INTEREST (note 8)</b>	228,395	225,763
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (note 5)</b>	27,651,148	27,088,200
<b>Warrants (note 5)</b>	1,035,402	965,746
<b>Contributed Surplus (note 5)</b>	6,989,536	6,473,374
<b>Cumulative Translation (note 2)</b>	(837,425)	(837,425)
<b>Deficit</b>	(31,109,960)	(30,452,547)
	3,728,701	3,237,348
	4,246,648	3,491,244

**Going Concern (note 1)**

**Commitments (note 11)**

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

**Tsodilo Resources Limited**  
**Consolidated Statements of Operations**  
**As at March 31, 2008**

(in United States dollars)  
(unaudited - Management prepared)

	<b>For the 3 Month Period</b>	
	<b>March 31</b>	March 31
	<b>2008</b>	2007
<b>Expenses</b>		
Corporate remuneration	<b>33,256</b>	26,000
Corporate travel and subsistence	<b>485</b>	428
Investor relations	<b>2,195</b>	7,146
Legal and audit	<b>22,535</b>	1,779
Filing and regulatory fees	<b>15,438</b>	11,115
Office and administration	<b>42,382</b>	3,886
Amortization	<b>88,882</b>	1,297
Foreign exchange gain	<b>(106,067)</b>	(6,458)
Stock-based compensation ( <i>note 5</i> )	<b>64,628</b>	52,000
	<b>163,734</b>	97,193
Loss before non-controlling interest	<b>(163,734)</b>	(97,193)
Non-controlling interest	-	-
Loss for the period	<b>(163,734)</b>	(97,193)
	<b>\$</b>	<b>\$</b>
Basic and diluted loss per share - cents ( <i>note 7</i> )	<b>(0.01)</b>	<b>(0.01)</b>

**Consolidated Statements of Deficit**  
(in United States dollars)  
(unaudited - Management prepared)

	<b>For the 3 Month Period</b>	
	<b>March 31</b>	March 31
	<b>2008</b>	2007
Deficit – Beginning of period	<b>(30,946,226)</b>	(30,355,354)
Loss for the period	<b>(163,734)</b>	(97,193)
Deficit - End of Period	<b>(31,109,960)</b>	(30,452,547)

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

**Tsodilo Resources Limited**  
**Consolidated Statements of Cash Flows**  
**As at March 31, 2008**  
(in United States dollars)  
(unaudited - Management prepared)

For the 3 Month Period

	March 31	March 31
	2008	2007
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Loss for the period	(163,734)	(97,193)
Adjustments for non-cash items:		
Foreign exchange adjustment (gain)	(25,966)	
Amortization	88,882	1,297
Stock-based compensation ( <i>note 5</i> )	64,628	52,000
	(36,190)	(43,896)
Net change in non-cash working capital balances	(11,824)	27,549
	(48,014)	(16,347)
<b>Investing Activities</b>		
Exploration properties	(98,376)	(150,232)
Disposals of / (Additions to) Property, Plant and Equipment	(64,787)	(1,160)
	(163,163)	(151,392)
<b>Financing Activities</b>		
Issue of common shares	325,000	95,869
Contribution from non-controlling interest	-	(19,728)
Shareholders' loan	(25,000)	
	300,000	76,141
<b>Change in cash and equivalents - For the period</b>	<b>88,823</b>	<b>(91,598)</b>
<b>Cash and equivalents - Beginning of period</b>	<b>53,197</b>	<b>201,177</b>
<b>Cash and equivalents - End of period</b>	<b>142,020</b>	<b>109,579</b>

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

# **Tsodilo Resources Limited**

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

For the quarter ended March 31, 2008

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Tsodilo Resources Limited is an exploration stage company (“Tsodilo” or “The Company”) which is engaged principally in the acquisition, exploration and development of mineral properties in the Republic of Botswana. The recovery of the Company’s investment in mineral properties and the attainment of profitable operations are dependent upon the discovery, development and sale of ore reserves, the ultimate outcome of which cannot presently be determined as they are contingent on future events. The Company along with its subsidiaries and joint ventures operates internationally with projects in continental Africa. These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which assumes continuity of operations, realization of assets and settlement of liabilities in the normal course of business.

As at March 31, 2008, the Company reported an accumulated deficit of \$31,109,960 (March 31, 2007: \$30,452,547) and negative cash outflows from operations (\$48,014) [2007: (\$16,347)] for the period then ended. The cash position of the Company is insufficient to finance continued exploration. As a development stage company, it is currently unable to self-finance its operations. Management believes that it will be able to secure the necessary financing through a combination of the issue of new equity or debt instruments, the entering into of joint venture arrangements or the exercise of warrants and options for the purchase of common shares. However, there is no assurance that the Company will be successful in these actions. These financial statements do not reflect the adjustments, which could be material, to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of consolidation and preparation of the consolidated financial statements**

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

## Group Companies: March 31, 2008 and 2007

	<b>2007</b>	<b>2008</b>
Tsodilo Resources Bermuda Limited	100%	100%
Gcwihaba Resources (Proprietary) Ltd (Botswana) (“Gcwihaba”)	100%	100%
Newdico (Proprietary) Limited (Botswana) (“Newdico”)	93% (note 8)	93% (note 8)

### **Earnings per share**

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

### **Use of estimates**

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

### **Exploration properties**

All costs relating to the acquisition, exploration and development of non-producing mining properties are capitalized as incurred. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

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

amount at the time the determination is made. Proceeds from the sale of exploration properties are credited to the costs of the relevant property.

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

The company evaluates its license properties on a project basis versus treating each individual license block as separate projects.

### **Property, Plant and Equipment**

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

### **Foreign currency translation**

The Company's functional and reporting currency is the US dollar. The Company's subsidiaries are accounted for as integrated foreign operations. Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items are denominated in foreign currencies, which are translated to US dollar at exchange rates in effect at the balance sheet dates, and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expense items are translated at the average rate prevailing during the year except for depreciation, depletion, amortization and write-downs, which are translated at the same exchange rates as the assets to which they relate. Foreign exchange gains and losses are included in the statement of operations.

### **Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded against any future income to an asset if it is more than likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using tax rates in effect for the period in which those temporary



differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted. The Company does not have deferred tax liabilities or current tax provisions.

### **Stock-Based Compensation Plans**

Tsodilo has a Stock Option Plan (refer to note 5). Under the Stock Option Plan, the Company may grant options to directors, officers and employees for up to 2,715,471 shares of common stock. The exercise price is determined by the Chairman of the Compensation Committee and the President and CEO in consultation with the board of directors, but is not less than the market price of the Company's stock on the date of the grant. An option's maximum term is 5 years. The Company uses the fair value method of accounting for stock options. Under the fair value method stock-based payments are measured at the fair value of the equity investments and are amortized over the vesting period. Consideration paid on exercise of stock options is credited to common share capital.

## **ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING DEVELOPMENTS**

### **Financial instruments**

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

### **Financial Instruments – Recognition and Measurement, Section 3855**

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

### **Hedges, Section 3865**

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section

1650 “Foreign Currency Translation”, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

### **Comprehensive Income, Section 1530**

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

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

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

### **Financial Instruments – Disclosures, Section 3862**

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

### **Financial Instruments – Presentations, Section 3863**

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

### **Capital Disclosures – Section 1535**

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

### **Inventories – Section 3031**

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

The adoption of Sections 3862, 3863, 1535 and 3031 did not have a significant impact on our financial statements.

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

### **3. EXPLORATION PROPERTIES**

These may be summarized as follows:

	<b>Newdico Botswana</b>	<b>Gcwihaba Botswana</b>	<b>Total</b>
	\$	\$	\$
<b>Balance at December 31, 2005</b>	<b>1,500,052</b>	<b>179,564</b>	<b>1,679,616</b>
Jan. to Dec. 2006 expenditures	693,394	51,108	744,502
<b>Balance at December 31, 2006</b>	<b>2,193,446</b>	<b>230,672</b>	<b>2,424,118</b>
Jan. to Dec. 2007 expenditures	908,321	6,436	914,757
<b>Balance at December 31, 2008</b>	<b>3,101,767</b>	<b>237,108</b>	<b>3,338,875</b>
Jan to March 2008 expenditures	73,956	24,420	98,376
<b>Balance at March 31, 2008</b>	<b>3,175,723</b>	<b>261,528</b>	<b>3,437,251</b>

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

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

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

Newdico holds prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 1999, 2001 and 2003. In 2005, the Company was reissued its prospecting licenses for an initial term of three years, and are renewable for 2 two year periods upon application and have a final expiry of 2012. The terms of the licenses also require Newdico to spend a minimum of Botswana Pula 8.6 million (approximately \$1.4 million) on prospecting over this period, inclusive of the renewals.

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

Trans Hex Group has also advanced funds amounting to \$205,591 to Newdico, relating to exploration properties which have been written off in earlier years. This liability has not been recorded in these financial statements as it is repayable only from Trans Hex Group’s share of any future earnings of Newdico after repayment of loans relating to the Newdico Project.

### **Gcwihaba Resources (Proprietary) Limited – Botswana**

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

### **Diamond Exploration**

The terms of the licenses grant Gcwihaba the right to prospect for a total of three years to 2006, and were renewed for 2 two year period with a final expiry of 2010. The terms require Gcwihaba to spend a minimum of Botswana Pula 675,000 (approximately \$104,947 as of March 31, 2008) exclusive of license fees during the first renewal grant period.

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

### **Base and Precious Metal Exploration**

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

### **4. PROPERTY, PLANT AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Book value</b>
<b>December 31, 2006</b>			
Vehicles	<b>887,855</b>	<b>132,387</b>	<b>755,468</b>
Furniture and Equipment	<b>76,484</b>	<b>37,609</b>	<b>38,875</b>
	<b>964,339</b>	<b>169,996</b>	<b>794,343</b>
<b>December 31, 2007</b>			
Vehicles	<b>887,855</b>	<b>293,688</b>	<b>594,167</b>
Furniture and Equipment	<b>88,608</b>	<b>57,326</b>	<b>31,282</b>
	<b>976,463</b>	<b>351,014</b>	<b>625,449</b>
<b>March 31, 2008</b>			
Vehicles	<b>906,882</b>	<b>331,268</b>	<b>575,614</b>
Furniture and Equipment	<b>88,608</b>	<b>62,868</b>	<b>25,740</b>
	<b>995,490</b>	<b>394,136</b>	<b>601,354</b>

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

## 5. SHARE CAPITAL

### Common Shares

#### Authorized

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

#### Issued and outstanding

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

	<b>Shares (number)</b>	<b>Amount \$</b>
<b>Issued and outstanding at December 31, 2005</b>	11,045,045	26,218,172
On private placement for cash in 2006 See (i) to (v) below	2,390,793	1,739,907
Ascribed to warrants issued in 2006	-	(933,515)
<b>Issued and outstanding at December 31, 2006</b>	13,435,838	27,024,564
On private placement for cash (vi)	141,516	95,869
On private placement for cash (vii)	167,146	120,000
On private placement for cash (viii)	231,714	175,000
On private placement for cash (vi)	235,024	158,000
On private placement not for cash (ix)	91,102	66,989
Ascribed to Exercise of Options	200,000	44,392
Ascribed to warrants issued in 2007	-	(261,229)
<b>Issued and outstanding at December 31, 2007</b>	14,502,340	27,423,585
<b>On private placement for cash (x)</b>	457,901	325,000
<b>Ascribed to warrants issued in 2008</b>	-	(97,436)
<b>Issued and outstanding at March 31, 2008</b>	14,960,241	27,651,149

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

**(i) Private Placement**

In January 2006, the Company issued, through a non-brokered private placement, 468,776 units of the Company at a price of \$1.07 (C\$1.25) per unit for gross proceeds to the Company of \$499,990. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of \$0.87 (C\$1.00) for a period of two years.

**(ii) Private Placement**

In February 2006, the Company issued, through a non-brokered private placement, 319,108 units of the Company at a price of \$0.78 (C\$0.90) per unit for gross proceeds to the Company of \$248,828. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of \$0.87 (C\$1.00) for a period of two years.

**(iii) Private Placement**

In May 2006, the Company issued, through a non-brokered private placement 649,984 units of the Company at a price of \$0.63 (C\$0.70) per unit for gross proceeds to the Company of \$405,441. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.62 (C\$0.70) for a period of two years.

**(iv) Private Placement**

In July 2006, the Company issued, through a non-brokered private placement 161,586 units of the Company were issued at a price of \$0.62 (C\$0.70) per Unit for proceeds to the Company of \$100,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.62 (C\$0.70) for a period of two years.

**(v) Private Placement**

In September 2006, the Company issued, through a non-brokered private placement 791,339 units of the Company at a price of \$0.63 (C\$0.70) per Unit for gross proceeds to the Company of \$485,648. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.63 (C\$0.70) for a period of two years. The Company has negotiated finder's fees of \$13,875, payable in accordance with the policies of the TSX Venture Exchange with respect to 500,000 units of the placement.

**(vi) Private Placement**

On February 13, 2007, the Company completed a non-brokered private placement. 141,516 units of the Company (the "Units") were issued at a price of \$0.68 (C\$0.80) per Unit for proceeds to the Company of \$95,869. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.80 for a period of two years.

**(vii) Private Placement**

On May 18, 2007, the Company completed a non-brokered private placement. 167,146 units of the Company (the "Units") were issued at a price of \$0.72 (C\$0.80) per Unit for proceeds to the Company of \$120,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.80 for a period of two years.

**(viii) Private Placement**

On June 29, 2007, the Company completed a non-brokered private placement. 231,714 units of the Company (the "Units") were issued at a price of \$0.75 (C\$0.80) per Unit for proceeds to the Company of \$175,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.80 for a period of two years.

**(ix) Private Placement**

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

**(x) Private Placement**

On March 11, 2008, the Company completed a non-brokered private placement. 457,901 units of the Company (the "Units") were issued at a price of \$0.71 (C \$0.70) per Unit for proceeds to the Company of \$325,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.70 for a period of two years.



**(b) Warrants**

As at March 31, 2008, the following warrants were outstanding:

Expiry	Exercise Price	Number of Warrants			Value		
		Opening	Issued/ [Exercised] (Expired)	Closing	Opening (dollars)	Issued/ [Exercised] (Expired)	Closing (dollars)
January 27, 2008	C\$1.25	468,776	(468,776)	-	146,788	(146,788)	-
February 21, 2008	C\$0.90	319,108	(319,108)	-	109,988	(109,988)	-
May 4, 2008	C\$0.70	649,984	---	649,984	167,886	---	167,886
July 19, 2008	C\$0.70	161,586	---	161,586	49,643	---	49,643
September 21, 2008	C\$0.70	791,339	---	791,339	459,208	---	459,208
February 13, 2009	C\$0.80	141,516	---	141,516	55,047	---	55,047
May 18, 2009	C\$0.80	167,146	---	167,146	40,408	---	40,408
June 29, 2009	C\$0.80	231,714	---	231,714	67,829	---	67,829
December 19, 2009	C\$0.70	326,126	---	326,126	97,945	---	97,945
March 11, 2010	C\$0.70		457,901	457,901	---	97,436	97,436
		3,257,295	(329,983)	2,927,312	1,194,742	(159,340)	1,035,402

Subsequent to March 31, 2008, 649,984 warrants expired on May 4, 2008.

**(c) Contributed Surplus**

As at December 31, 2006	6,336,204
Relating to the expiry of warrants	85,170
Relating to stock based compensation	246,757
As at December 31, 2007	6,668,131
Relating to the expiry of warrants	256,776
Relating to stock based compensation	64,628
As at March 31, 2008	6,989,535

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

#### d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at December 31, 2007 and March 31, 2008 were as follows:

Expiry	Price	Outstanding December 31, 2007	Granted	(Cancelled) (Exercised)	Outstanding March 31 2008	Exercisable March 31 2008
July 8, 2008	C\$0.50	100,000			100,000	100,000
January 1, 2009	C\$0.75	50,000			50,000	50,000
August 31, 2009	C\$0.75	250,000			250,000	250,000
January 3, 2010	C\$1.85	10,000			10,000	10,000
August 19, 2010	C\$1.25	260,000			260,000	260,000
January 3, 2011	C\$1.25	60,000			60,000	60,000
April 27, 2011	C\$0.70	300,000			300,000	300,000
August 18, 2011	C\$0.70	65,000			65,000	65,000
January 3, 2012	C\$1.00	85,000		(i)	85,000	63,750
May 7, 2012	C\$0.80	550,000		(ii)	550,000	275,000
January 2, 2013	C\$0.70		210,000	(iii)	210,000	52,500
		1,730,000	210,000	-	1,940,000	1,486,250

Options exercisable at end of period	1,486,250
Weighted average exercise price	
- issued	C\$0.86
- outstanding	C\$0.86
- exercisable	C\$0.89

All options have a term of five years.

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

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

(iii) The Company recognized an expense of \$64,628 (2007: \$246,757) relating to the fair value of options granted or vesting during the year. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility of 93% and a risk-free interest rate of approximately 2.6%, a term equivalent to the life of the option, and reinvestment of all dividends in the Company.

## 6. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rate of approximately 36.12% to income before taxes as follows:

	Dec-31 2007
Net loss for the period	(504,075)
Income tax (recovery) provision at Canadian statutory income tax rates	(182,072)
Current year losses not recognized	92,943
Permanent differences	89,129

Provision for (recovery of ) income taxes -

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

	Dec-31 2007
Property, Plant and Equipment	8,000
Exploration & Development - Canada	93,000
Exploration & Development - Botswana	(1,206,002)
Losses carried forward - Canada	1,197,000
Losses carried forward - Botswana	1,294,426
Other	35,000
Subtotal – future income tax asset	1,421,424
Valuation allowance	(1,421,424)
Net future income tax asset recorded	-

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

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

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

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

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

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

## **7. LOSS PER SHARE**

Loss per share is computed on the basis of the loss of \$163,734 for the quarter ended March 31, 2008 and the weighted average number of common or equivalent shares outstanding during period March 31, 2008 of 14,960,241. The effects of stock options and warrants in computing diluted per share amounts for March 31, 2008 and 2007 are anti-dilutive.

## **8. RELATED PARTY TRANSACTIONS**

As of December 31, 2007, the Company borrowed \$125,000 from a person who is an officer and director of the Company. \$25,000 of this amount was repaid during the quarter ended March 31, 2008. The \$100,000 demand loan balance remaining March 31, 2008 has no interest rate, no maturity date, and no additional terms of repayment.

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

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

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

31, 2002, in proportion after the additional secondary loans have been repaid, \$461,980.67 shall be deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof (“the primary loan”). The primary loans shall be repayable in full before any parts of the secondary loans are repayable.

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

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

**Long-Term:**

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

**9. SEGMENTED INFORMATION**

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. Materially all of the Company’s property plant and equipment is presently located in Canada (\$3,291) and Botswana (\$598,063). The geographic distribution of the property acquisition costs and exploration expenditures is outlined in note 4.

**10. FINANCIAL INSTRUMENTS**

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments.

## 11. COMMITMENTS

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

The aggregate minimum lease payments are \$52,374 as follows:

2008	\$26,187
2009	\$26,187

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

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