



TSODILO RESOURCES LIMITED

Management's Discussion and Analysis

**FOR THE THREE AND NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2013**

**The Management's Discussion and Analysis has been authorized for
release by the Company's Board of Directors on November 26, 2013**

TSODILO RESOURCES LIMITED

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the periods ended September 30, 2013 and 2012. 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 November 26, 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 (TSX-V) 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 November 26, 2013, 30,471,878 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 3,245,000 options remain outstanding of which 2,790,000 are exercisable at exercise prices ranging from CAD \$0.55 - \$2.23.

As of November 26, 2013, 6,793,610 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. 2,272,727 warrants expiring on April 22, 2015 are priced at USD \$1.21, 2,702,702 warrants expiring on June 29, 2015 are priced at CAD \$2.17 and 1,818,181 warrants expiring on September 7, 2015 are priced at USD \$1.21. If all warrants were converted, 6,793,610 common shares of the Company would be issued.

Principal Shareholders of the Company

The principal shareholders (greater than 5%) of the Company as of November 26, 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 | 16.39% |
| International Finance Corporation | Member of the World Bank Group | 4,520,883 | 14.83% |
| David J. Cushing | Director | 2,460,501 | 8.07% |
| First Quantum Minerals | Global Mining Company | 2,272,727 | 7.45% |
| James M. Bruchs | Director and CEO | 2,232,119 | 7.33% |

Subsidiaries

The Company has a 98% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited, which holds one prospecting license covering approximately 851 km² in 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 \$6,883,142 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 3rd Q 2013

1. Diamond Projects

The Company holds 5 Prospecting Licences (3,255 km²) under the names of local companies Newdico (Pty) Ltd. ("Newdico") and Gcwihaba Resources (Pty) Ltd. ("Gcwihaba") for precious stones. The diamond licenses held by Gcwihaba are summarized in Table 1. Newdico has one license (PL 64/2005) covering 895 square kilometres that expired June 30, 2012 and is currently being considered for renewal by the government. A two year renewal application for PL 64/2005 has been submitted in order to continue and complete the first stage evaluation program for K10 and K11 and to resolve target B7 (THC10). The application was made in April 2012 and an acknowledgement of receipt was received from the Department of Geological Survey (Reference number PLI9042012103322-2010) in the same month. The DGS requested additional information which the Company provided in April.

Table 1. Gcwihaba Diamond License Areas as at September 30, 2013

| PL numbers | Km ² | 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 9.30. 2013 |
| PL 046/2008 | TBD | 4/01/11 | 3/31/13 | in renewal | TBD | TBD | TBD | TBD |
| PL 047/2008 | TBD | 4/01/11 | 3/31/13 | in renewal | TBD | TBD | TBD | TBD |
| PL 195/2012 | 494 | 7/01/12 | 7/01/15 | Initial Grant | 2,470 | 100,000 | 307,410 | 36,251 |
| Total | 494 | | | | | | 307,410 | 36,251 |

The interest in these kimberlites is driven by the two unexplained surface concentrations of both diamonds and high-interest (G10) garnets across the border in Namibia - the *Tsumkwe* and the *Omatoko* targets. It was suggested that the diamonds and garnets from these targets have been derived from one of the diamond-bearing kimberlites in the Nxau Nxau field or from an undiscovered kimberlite(s) associated with airborne magnetic targets in the Company's licence blocks that remain to be drilled north of the Nxau Nxau field.

The geological interpretation of the Southern African Magnetotelluric Experiment (SAMTEX) project which shows, among others, that the Company's northern licences are underlain by the Congo Craton (Khoza et al., in press; Muller and Jones, 2007). Archaean ages obtained from granite/gneiss samples from two boreholes drilled by the Company in the general area - L9590/7 (2,641 Ma) and L9660/5 (2,548 Ma) confirm this interpretation. This means that any kimberlites occurring in these prospecting licences and within the boundaries of the Congo Craton should be the most interesting from a diamond perspective.

Recent microdiamond work on K10 produced 14 stones from 229 kg of kimberlites material (61.23 stones per ton). Because of the relative limited number of stones to produce a grade curve with some level of confidence more

diamonds are required from K10. This will be considered once more information on the other two bodies is available. Sampling for microdiamonds has been completed for kimberlite K11 and will be submitted to the microdiamond laboratory as soon as the application for a renewal period has been accepted. K11's mineral chemistry signature is similar to K10 and is approximately 2.5 ha in size. Finally, a third magnetic target B7 directly south of and almost adjacent to K10 and K11, appears to be very similar and is likely a third kimberlite in this tight cluster. Once the application has been approved this body will be drilled.

The three airborne magnetic targets (TOD 17 – a Grade 6 target, and TOD 29 and 30 - both Grade 5 targets), which have been covered by ground magnetic surveys, are ready to be drilled. These targets resemble kimberlite magnetic targets in the Company's most northern Gcwihaba Prospecting Licences, PL 46/2008 and PL 47/2008, and will be drilled once the renewal application has been approved. Again discussions were held recently with the Department of Mines who were requesting more details for this renewal application and another letter of motivation was sent. Target TOD017 is closely associated with a wide Ni soil anomaly generally associated with ultrabasic rocks (Fig. 1), whilst TOD 030 has Zn/Cr and some Ni in soil samples collected during the government Ngamiland Geochemical Soil sampling program in 1999.

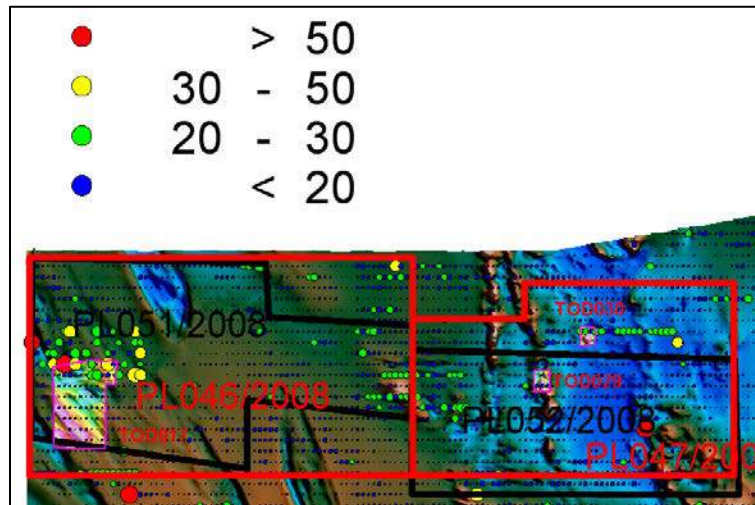


Figure 1. Targets TOD 017, 029 and 030 over PL 046/2008 and PL 47/2008. Coloured dots represent Ni concentration (ppm).

The detailed follow up loam deflation sampling program over Gcwihaba's latest Prospecting Licence PL95/2012 has been completed (Fig. 2). The objective of this step is to confirm presence of kimberlitic minerals and to upgrade the chemistry of these minerals that have been reported by De Beers when they had access to this ground between 1995 and 2002. Several kimberlites were discovered by De Beers north of PL95/2012 during that period. However the heavy mineral target on PL 95/2012 was never explained.

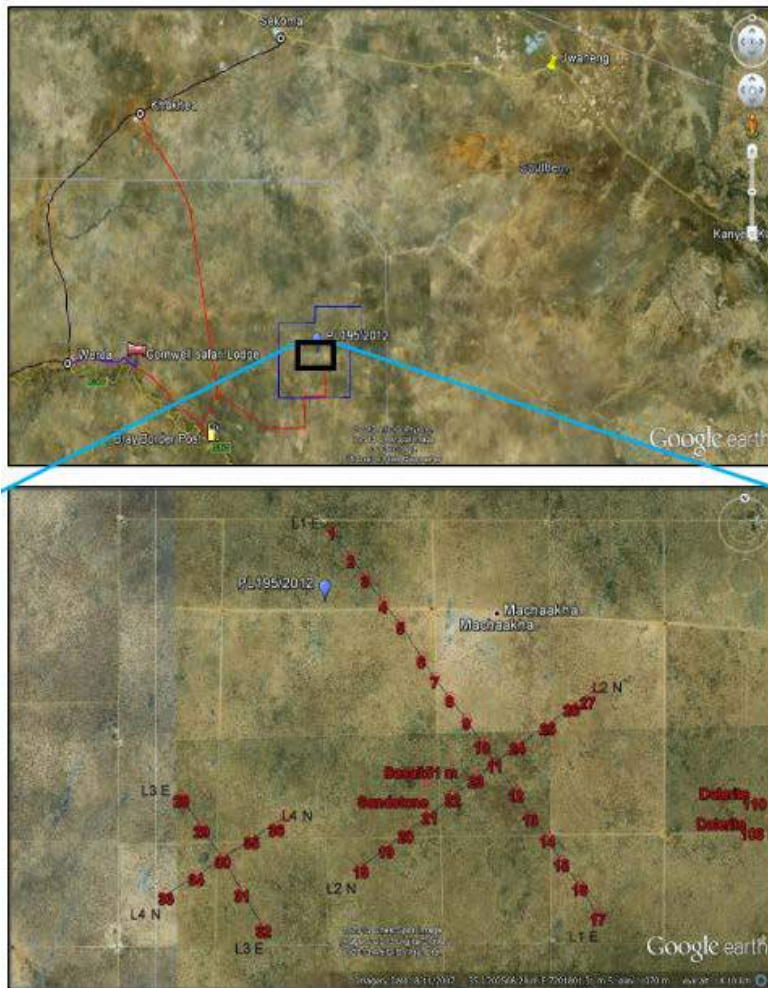


Figure 2. Location map of PL 195/2012 (top) and sampling points (bottom) in the area SW of Jwaneng

The samples have been re-screened in Maun through a wet screening process. The reason for this step is to optimize the sorting coefficient in each size fraction so that fractions going through the jig are all uniform in grain size enhancing the recovery of heavy minerals. Most of the grain sizes of the sands in that area are smaller than 0.5 mm and the samples were therefore screened in the minus 0.425 mm and + 0.300 mm fraction, and this is a tricky fraction to concentrate by mechanical means. All samples were treated through the Zambian Jig at the Maun Base. Since the jig concentrates were still too large for mineral sorting these were subsequently sent to Scientific Services in Cape Town where they were passed through the heavy liquid TBE (Tetrabromoethane – s.g. 2.96 g/ml) to separate all the quartz from the heavy minerals. These concentrates have since been sent to Afrid Kimberlitic Mineral Services for sorting.

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 (Table 2). Most of the ground was covered by the 1st drilling phase which was completed in 2011 (Phase 1). The main objective of Phase 1 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.

Table 2. Gcwihaba – Metal License Areas as at September 30, 2013

| PL numbers | Km ² | Grant Date | Expiry Renewal date | Current Stage | Expenditure | | Total Expenditure From Grant and if held to Full License Term | |
|--------------|------------------|------------|---------------------|-------------------------|----------------------------|------------------------------|---|----------------------|
| | | | | | Rental Fee Per Annum (BWP) | Work Program Per Annum (BWP) | BWP | USD as at 9.30. 2013 |
| PL 119/2005 | TBD | 10/01/10 | 10/01/12 | in renewal | TBD | TBD | TBD | TBD |
| PL 051/2008 | TBD | 07/01/11 | 07/01/13 | in renewal | TBD | TBD | TBD | TBD |
| PL 052/2008 | TBD | 07/01/11 | 07/01/13 | in renewal | TBD | TBD | TBD | TBD |
| PL 386/2008 | 570.00 | 01/01/12 | 01/01/15 | 1 st Renewal | 2,850 | 100,000 | 205,700 | 24,257 |
| PL 387/2008 | 964.90 | 01/01/12 | 01/01/15 | 1 st Renewal | 4,825 | 100,000 | 209,650 | 24,723 |
| PL 388/2008 | 317.10 | 01/01/12 | 01/01/15 | 1 st Renewal | 1,590 | 100,000 | 203,180 | 23,960 |
| PL 389/2008 | 978.60 | 01/01/12 | 01/01/15 | 1 st Renewal | 4,895 | 100,000 | 209,790 | 24,739 |
| PL 390/2008 | 807.30 | 01/01/12 | 01/01/15 | 1 st Renewal | 4,040 | 100,000 | 208,080 | 24,538 |
| PL 391/2008 | 454.50 | 01/01/12 | 01/01/15 | 1 st Renewal | 2,275 | 100,000 | 204,550 | 24,121 |
| PL 392/2008 | 828.10 | 01/01/12 | 01/01/15 | 1 st Renewal | 4,145 | 100,000 | 208,290 | 24,562 |
| PL 393/2008 | 937.50 | 01/01/12 | 01/01/15 | 1 st Renewal | 4,690 | 100,000 | 209,380 | 24,691 |
| PL 394/2008 | 649.20 | 01/01/12 | 01/01/15 | 1 st Renewal | 3,250 | 100,000 | 206,500 | 24,351 |
| PL 395/2008 | 971.40 | 01/01/12 | 01/01/15 | 1 st Renewal | 4,860 | 100,000 | 209,720 | 24,731 |
| 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 | 19,636 |
| PL 094/2012 | 679.80 | 04/01/12 | 04/01/15 | Initial Grant | 3,400 | * | 170,200 | 20,071 |
| PL 095/2012 | 421.60 | 04/01/12 | 04/01/15 | Initial Grant | 2,110 | * | 166,330 | 19,614 |
| PL 096/2012 | 676.50 | 04/01/12 | 04/01/15 | Initial Grant | 3,385 | * | 170,155 | 20,065 |
| PL 097/2012 | 599.30 | 04/01/12 | 04/01/15 | Initial Grant | 3,000 | * | 169,000 | 19,929 |
| TOTAL | 11,158.50 | | | | 53,830 | | 2,917,035 | 343,988 |

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

The Company's exploration work had initially indicated that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverse the Company's southern licences in northwest Botswana in an area where the Damara Belt connects with the Lufilian Arc. Petrology, geochemistry and geochronology work by conducted by AEON's (Africa Earth Observatory Network) research group now located at the NMMU (Nelson Mandela Metropolitan University) in Port Elizabeth, South Africa has identified Archaean granite-gneisses between 2.548 and 2.641 Ma in age (see above) in Ngamiland. Paleoproterozoic granites (ca. 2,000 Ma) have been tectonically interlayered with Lufilian Arc-equivalent metasediments (including graphitic schist, carbonates and diamictites) and metabasites and gabbros (ca. 540 Ma). These tectonic contacts, which are mainly major thrust zones, and graphitic schists are mineralized and have been targeted for further work. The two billion year old granites can be correlated either with the nearby Quangwadum and Okwa Complex in Botswana, suggesting the possibility of a large cryptic mineralized mafic intrusion in the region, or with the Kibaran granitic basement (ca. 2,050 Ma) to the Katangan Supergroup beneath the Lufilian Arc in the DRC.

The Pan African metabasites in Ngamiland yield an age of ca. 535 Ma. This is younger than the meta-basalts of MAB and Katanga (ca. 765 Ma), but similar to the age of peak metamorphism and deformation in the MAB and Lufilian Arc (ca. 530 Ma). This age difference can be accounted for through the higher degrees of Pan African deformation and metamorphism found in Ngamiland (e.g. the new age is a tectonically reset age rather than a

magmatic age) and/or that the meta-basalts of Ngamiland represent subducted basaltic MAB-like oceanic crust that has been recycled as island-arc basalts.

During the phase 1 drilling program three separate mineralisation domains were identified in different parts of the licence area. These are areas with sulphide mineralisation associated with Neoproterozoic metasediments, base and precious metals and REE showings associated with skarns linked to late stage basic intrusions, and a large mineral deposit of magnetite which the Company is presently evaluating (Table 3).

Table 3

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

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

During the quarter, both diamond core drill rigs were positioned over the northern part of this deposit to refine the geological model and also to sample the ironstone rocks on regular intervals. This work will form the basis of a resource model the first of which the Company anticipates to have completed during Q2 in 2014. Folds and probably thrusts have complicated the geology but the combination of high resolution ground magnetic surveys, airborne Spectrem data, and drilling is continuously upgrading the details of the geology of this area.

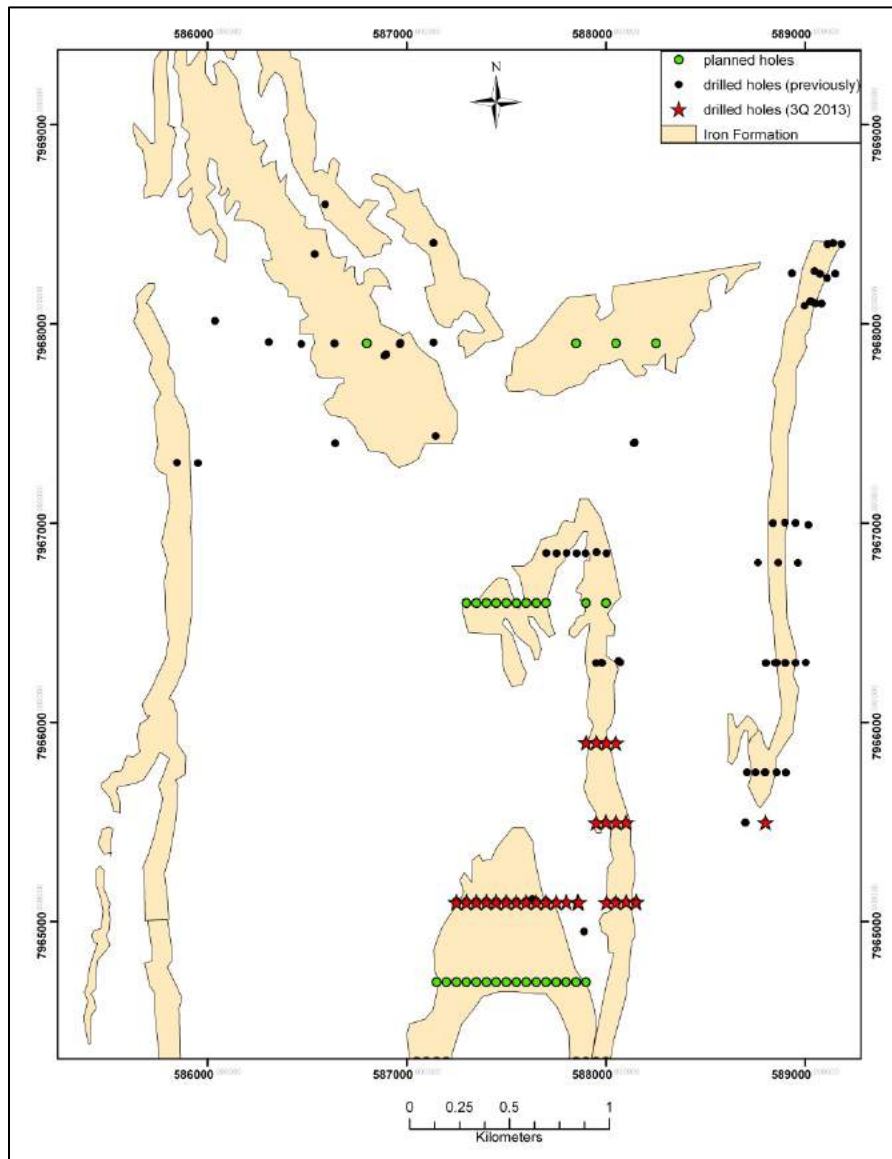


Figure 3. Location of the boreholes drilled on the northern limb of the Xaudum Iron Ore formation (red) and those planned for the next two months (black).

Evaluation drilling of the Xaudum Iron Formation continued with both of the company's rigs drilling on the most northerly part of the deposit. Holes are drilled every 50 m on east-west orientated lines perpendicular to the strike of the Iron Formation. These east-west orientated lines are 400 m apart and each 'fence' line requires between 6 and 8 holes to model the complexities of each section and to sample the ironstone on a regular interval. Holes are drilled inclined to the east, west or vertical, depending on the requirement (Fig. 3). The fence section or diagrams are then modelled using the Company's in-house software Gocad, to project and calculate the ironstone volumes between the respective fences. During the quarter 22 holes were completed (Table 4) of which one was a repeat hole. Sixteen holes intersected magnetite bearing rocks either, massive magnetite, banded magnetite or magnetic diamictite. The use of the Reflex Gyro instruments, capable of recording core orientation and down-the-hole drill direction was applied to ten holes and magnetic susceptible readings were collected from 12 holes. The 22 diamond drill holes completed in the 3rd Q achieved a cumulative depth of 3,483.90 meters while 3,115.70 meters of core were recovered (Table 4). Detailed logging is ongoing.

Table 4

| Holes drilled in 3rd Quarter 2013 | | | |
|---|--------------------|-----------------|---|
| Hole No | Drilled (m) | Core (m) | Main Lithology |
| 1821B117E75AN | 206.20 | 184.20 | Grand Conglomerate diamictite with thin bands of magnetite at 150.00 - 170.00m depth. |
| 1821B117E75AM | 127.00 | 107.00 | Magnetic Grand Conglomerate diamictite with thin magnetite interbeds at 115.00m depth. |
| 1821B117E75AL | 179.00 | 161.00 | Magnetic Grand Conglomerate diamictite with thin magnetite interbeds at 80.00m depth. |
| 1821B117E75AK | 105.00 | 87.00 | Magnetic Grand Conglomerate diamictite with no massive intersection of magnetite. |
| 1821B118W83V | 125.00 | 110.00 | Tectonised Grand Conglomerate diamictite rich in dolomite lenses. |
| 1821B120E83AL | 203.50 | 186.00 | Stratified (clast-poor) diamictite to massive diamictite rich in granite and dolomite clasts, with 9m thick interbedded banded magnetite. |
| 1821B120E83AJ | 154.90 | 122.90 | Stratified to massive diamictite rich in granite and dolomite pebbles. |
| 1821B120E83AM | 200.50 | 173.50 | Stratified (magnetic) to massive diamictite interlayered with 8m thick banded magnetite. |
| 1821B120E83AK | 194.50 | 164.50 | Stratified (magnetic) to massive diamictite interlayered with 4m thick banded magnetite. |
| 1821B121E91AI | 83.60 | 53.60 | Massive diamictite with carbonate clasts |
| 1821B121E91AJ | 150.90 | 122.90 | Interbedded stratified to massive diamictite. |
| 1821B121E91AR | 179.80 | 171.10 | Magnetic diamictite interlayered with 3m thick banded magnetite and massive diamictite. |
| 1821B121E91AQ | 149.70 | 140.70 | Magnetic diamictite interlayered with massive diamictite. |
| 1821B121E91BA | 151.00 | 144.00 | 8m thick banded magnetite within highly magnetic diamictite. |
| 1821B121E91AZ | 135.00 | 124.00 | 6m thick banded magnetite within highly magnetic diamictite. |
| 1821B121E91AY | 191.90 | 182.90 | 20m thick banded magnetite within highly magnetic diamictite. |
| 1821B121E91AW | 209.00 | 201.00 | 10m thick banded magnetite interlayered with the highly magnetic diamictite and underlain by none-magnetic massive diamictite. |
| 1821B121E91AP | 158.70 | 149.70 | Banded magnetite interbedded with highly magnetic diamictite and underlain by thicker none-magnetic diamictite layer at the bottom of the hole. |
| 1821B121E91AO1 | 84.00 | 71.00 | Massive none-magnetic diamictite. |
| 1821B121E91AO2 | 152.70 | 140.70 | Massive none-magnetic diamictite. |
| 1821B121E91AL | 152.90 | 140.90 | Banded magnetite interbedded with highly magnetic diamictite and thicker none-magnetic diamictite layer at the bottom of the hole. |
| 1821B121E91AV | 189.10 | 177.10 | Banded magnetite interbedded with highly magnetic diamictite and underlain with thicker none-magnetic diamictite layer at the bottom of the hole. |
| Total | 3,483.90 | 3,115.70 | |

The copper and gold showings of skarn-type targets, south-east of this banded magnetite iron deposit and central to the prospecting area, are associated with meta-basic rocks (garnet-epidote-scapolite-albite amphibolite and gabbros) and indicate that the mineralization model here could be associated with **Iron Oxide Copper Gold** ore deposits (“**IOCG**”) and Skarns. So far several of these bodies have been identified and include 1822C26, 1822C27 and 1822C10. The high intensity ground geophysics indicates that several more bodies exist, particularly in the Sepopa area, and these will be drilled in the future. Elevated assay results for U received during the quarter

are particularly interesting for boreholes 1822C27 and 1821 B120/AV1 (see table 6), both of which are interpreted to be linked to an IOCG model. In addition, further results received during the quarter from borehole 1822C27/8 (different to 1822C27) returned 0.06% Ni (Nickel) over 51 m intersection with a high of 0.1% Ni over 6 m, and elevated values for Cu, Co and Ag (Copper, Cobalt and Silver). These are believed to be linked with 'gabbroic' intrusions and Skarn mineralization. Target 1822C10, which has 49.1% Fe over 12 m intersection and up to 0.03% Ni and 0.01%Co with 5 g/t Ag, is surrounded by boreholes which contain anomalous Cu values in some of the core samples.

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

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

The main activity during the 3rd Quarter, besides drilling, was to continue to collect high resolution ground magnetic data over the Xaudum Magnetite body, mainly infilling lines and adding to the peripheral of the Ironstone Formation (Fig. 4). During the Quarter, 637.6 line-kilometers of ground magnetic data were collected. This was leveled and interpreted by the Company's in-house geophysical unit. This translates to a coverage of 44.4 km² on lines with 50 m spacing.

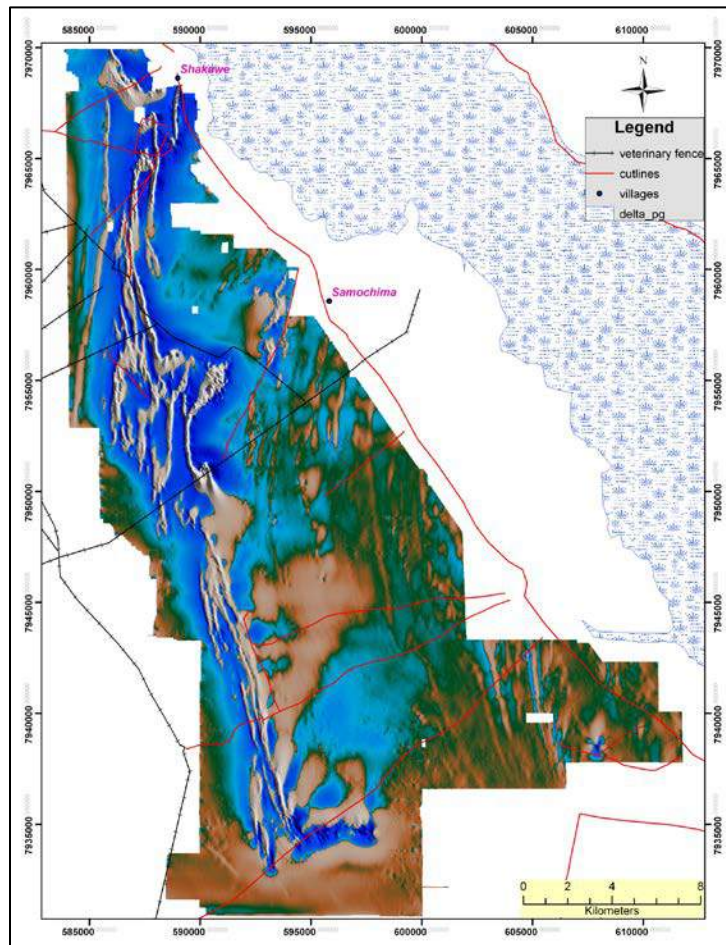


Figure 4. Magnetic 1st Vertical Derivative image of the Xaudum Iron Formation (XIF) as at the end of 3rd Q 2013.

A total of 455 samples were consigned to the assay laboratory (ALS) during the quarter mainly focused on the iron ore in line with the terms of its partnership with First Quantum. In addition, 36 heavy mineral samples were sent for TBE treatment and kimberlitic mineral sorting. At the same time the Company is also auditing its sample submission procedures and has collected a large bulk sample of clean river sand that will be used as blanc samples in each Ironstone consignment. The assay laboratory provided 730 sample results during the quarter. Petrographic descriptions for 11 core samples from six boreholes were received during the Quarter.

First Quantum Minerals (FQM) continued with the re-logging of the Tsodilo drill core and has now re-logged some 34,750 m which will be entered into the FQM's SQL database.

Results of the multi-element geochemistry assays from the orientation sample grids around Sepopa have been received and returned values generally below 3ppm with a maximum of 10ppm which is extremely low. The results are associated with the different soil types that have been mapped during the sampling program. However due to the blanketing effect of the Kalahari Group and Okavango Delta sediments, the effectiveness of geochemical sampling is greatly reduced.

FQM started their drilling program with both diamond and Reverse Circulation (RC) drilling, using Titan Drilling as their contractor. The first six holes that FQM have planned with the diamond drills will be drilled to between 700

and 800 m in order to complete the geological model at depth and will be supplemented with the Tsodilo drill results (Fig. 5). The objective of the RC work drilling is to sample the Kalahari sediments for geochemical anomalies but more importantly to sample the base of the Kalahari at the bedrock/Kalahari contact (Fig. 5).

During the quarter drilling of the first 2 diamond holes started and reached a cumulative depth of 850.65 m. The RC drilling has been problematic as sample recovery has proved to be difficult as soon as the drill rods intersect ground water and so far only 4 holes to a combined depth of 214 m have been drilled.

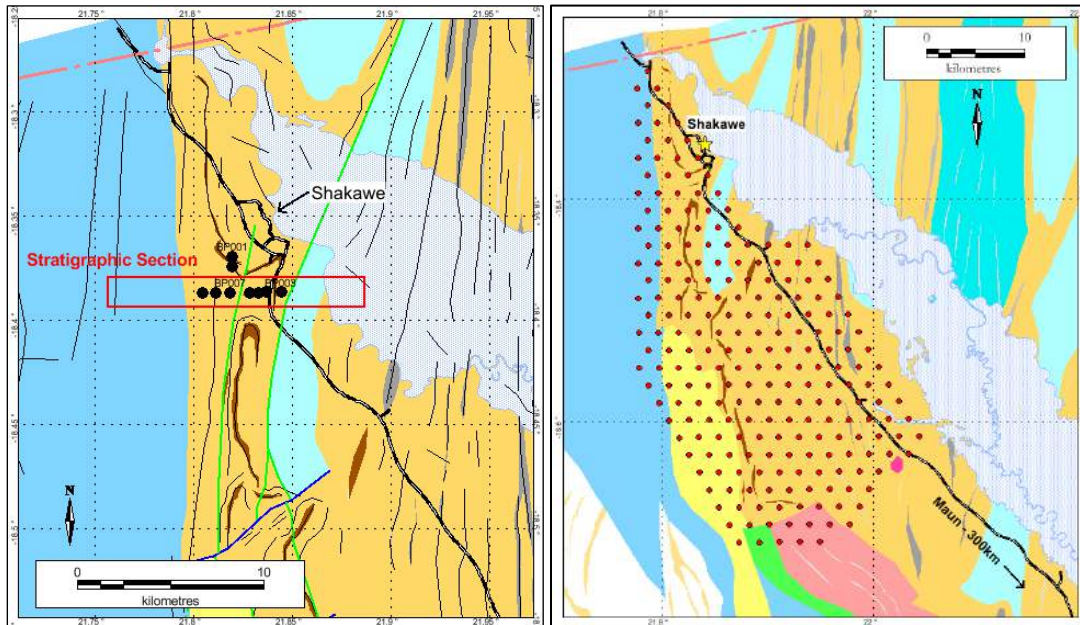


Figure 5. FQM drill program: six deep diamond holes across the main structural trend (left) and the regional RC program to cover most of the area of interest on the right.

The petrographic of 24 rock samples from the Tsodilo cores that were collected by FQM was completed and the results can be summarised as follows:

- Metamorphic assemblages are consistent with lower amphibolite facies P-T conditions.
- Early kyanite has been variably replaced by sericite/muscovite, indicating that fluid-migration continued after formation of the kyanite.
- The Tsodilo Hills grab sample of quartz conglomerate was found to contain kyanite in the matrix.
- Diamictites contain detrital feldspar, giving them an arenite matrix. Re-crystallisation and shearing of detrital feldspar grains and granite clasts might give a feldspar altered appearance to the diamictite.
- Meta-granitoid rocks have been confirmed in seven samples, including several that were previously suggested to be feldspar-altered metasediments.
- Rocks logged as syenite interfingering with mafics are confirmed to be a mafic intrusive with xenoliths of syenitic crystals.
- Electron Microprobe Analysis (EPMA) of green mica confirmed it is chromium-bearing (fuchsite).

Results of the geochronological and geochemical studies are still outstanding.

Spectrem started with an Airborne EM survey over the main Prospecting Licences on behalf of FQM. At the end of the quarter 87% of the area was covered and 5,267 line kilometres were flown (Fig.6). The central part of the area, also referred to as the infill area has been flown on a 200 m line spacing while the remainder is been flown on a 1,000m line spacing.

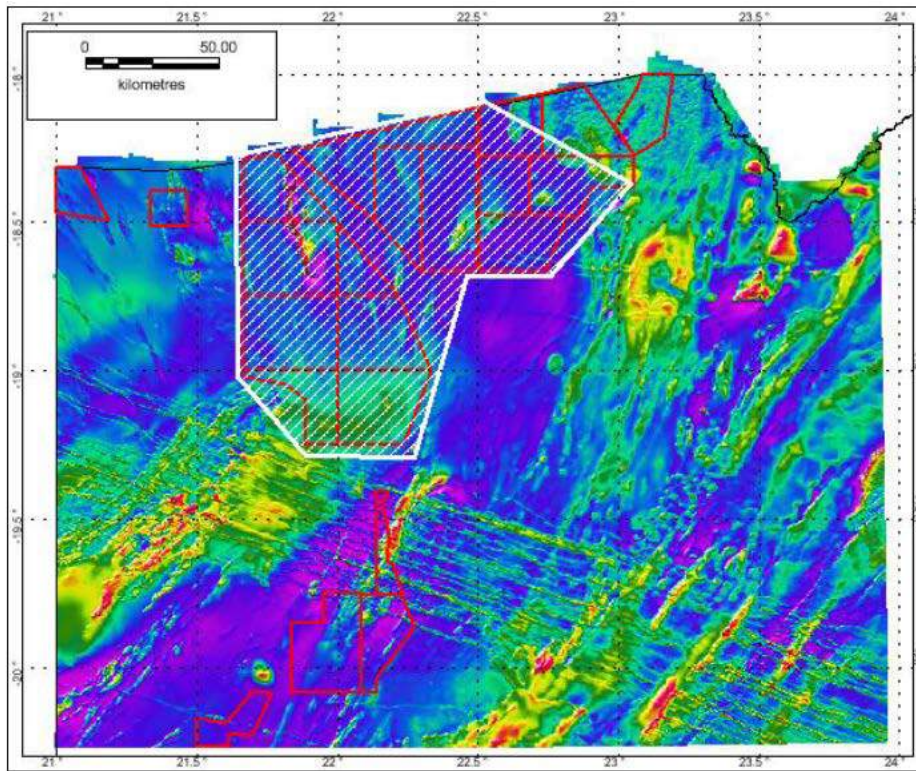


Figure 6. Proposed area for 500 m spaced airborne gravity and 1000 m spaced airborne EM surveys.

The proposed 500 m line spaced gravity survey will commence during the last quarter of 2013 and will be flown by Gyrolog.

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 5) and overlaps with some of the Gcwihaba diamond and metal permits.

Table 5. Gcwihaba – Radioactive License Areas as at September 30, 2013

| PL numbers | Km ² | Grant Date | Renewal date | Current Stage | Expenditure | | Total Expenditure From Grant and if held to Full License Term | |
|--------------|-----------------|------------|--------------|---------------|----------------------------|-------------------------------|---|----------------------|
| | | | | | Rental Fee Per Annum (BWP) | Work Program Per Annum* (BWP) | BWP | USD as at 9.30. 2013 |
| PL 150/2010 | TBD | 07/01/10 | 07/01/13 | in renewal | TBD | TBD | TBD | TBD |
| PL 151/2010 | TBD | 07/01/10 | 07/01/13 | in renewal | TBD | TBD | TBD | TBD |
| PL 045/2011 | 1,000.00 | 01/01/11 | 01/01/14 | Initial Grant | 5,000 | * | 198,000 | 23,349 |
| PL 046/2011 | 846.80 | 01/01/11 | 01/01/14 | Initial Grant | 4,235 | * | 192,702 | 22,724 |
| PL 047/2011 | 906.80 | 01/01/11 | 01/01/14 | Initial Grant | 4,535 | * | 193,602 | 22,830 |
| PL 048/2011 | 768.00 | 01/01/11 | 01/01/14 | Initial Grant | 3,845 | * | 191,520 | 21,406 |
| PL 049/2011 | 973.40 | 01/01/11 | 01/01/14 | Initial Grant | 4,870 | * | 194,610 | 22,949 |
| PL 050/2011 | 1,000.00 | 01/01/11 | 01/01/14 | Initial Grant | 5,000 | * | 195,000 | 22,995 |
| TOTAL | 5,495 | | | | 27,485 | | 1,165,434 | 137,434 |

* 1year 50,000; 2nd year 60,000 : and 3rd year 70,000

The Company has reviewed the exploration results from Union Carbide Exploration Corporation which had secured many prospecting licences in west and northwest Botswana for uranium. They explored northwest Botswana (Ngamiland) from 1977 until 1980, and of particular interest are their findings of anomalous uranium within what they called the Khaudom and Chadum palaeo-drainages. High counts of uranium in both calcrete and water samples and anomalous counts of vanadium from the water samples were obtained. Up to 30 m thick valley calcrete (the target calcrete) were drilled with geochemical anomalous concentration of uranium in certain trap environments. However at the time, no ore-bodies were delineated, but Union Carbide concluded “that there is definitely uranium in the system as is evident by some very high uranium contents in the water samples” (Union Carbide Final report 1980 by DJ Jack). Research on the age and origin of these types of calcretes further south has been incorporated in a research project conducted by AEON, NMMU University in Port Elizabeth, South Africa.

The Company’s strategy is two-fold. First it has conducted a geomorphological study of the area using remote sensing techniques. This was followed by a sedimentological study of the valley calcretes in collaboration with AEON. Dr Linol from AEON spent a month in the field in Ngamiland and made on the basis of this work the following field observations:

1. The presence of two units. Firstly a 3 m thick silcrete in the Groot Laagte drainage, south of the Kuke fence. This silcrete is slightly radioactive (1500 cpm) and also occurs in the Tsodilo-1 borehole (between -41 m and -47 m depth) and secondly a 10 to 30 m thick calcrete in the Chadum drainage, west of Nxau Nxau (Fig. 7).

These two units, which occur at the base of the Kalahari Group represent good potential hosts for uranium, similarly to the well-known Langer Heinrich and Klein Trekkopje uranium deposits in Namibia which have developed within Tertiary paleo-channel systems of the Namid Desert (Iluende, 2012). The silcrete and calcrete are groundwater and not pedogenic in origin and both are complex because of multiple phases of precipitation and dissolution. Samples from the field and from borehole Tsodilo-1 and KPH-4 (Fig. 7) have been collected for more detailed analysis.

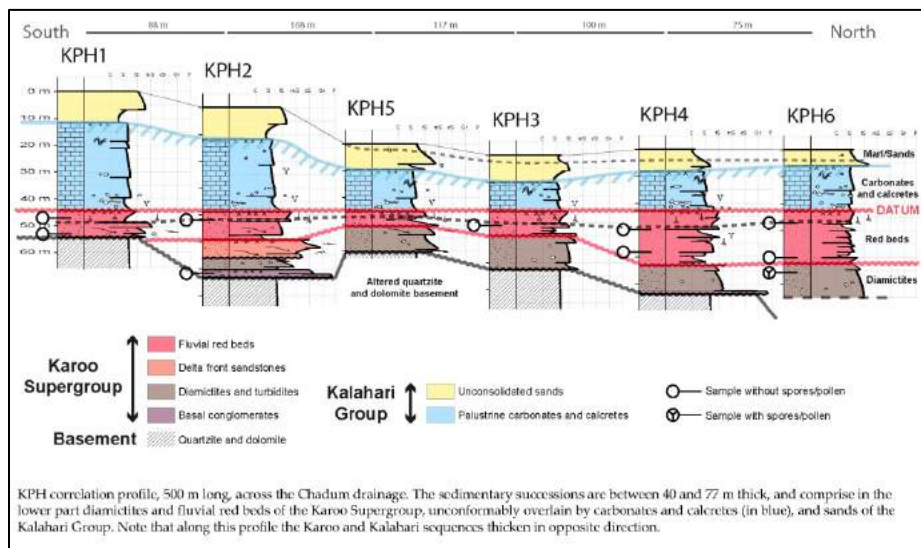


Figure 7. KPH profile across the Chadum drainage showing the 10 to 30 m thick calcrete

2. Uranium-rich soils (3000-6000 cpm) in the Chadum and Kkhaudum drainages. Radiocarbon (¹⁴C) dating of these uppermost lignitic soils can determine the minimum age of depositional activity in the systems

and thus constrain the age of uranium enrichments. This will be compared to the other records of paleoclimate (wetter periods) in the Kalahari such as at Lake Ngami, where drilling has recovered black carbon rich muds/soils at depth (below -60 m).

Secondly, recent diamond drilling conducted by Gcwihaba (Pty) Ltd. on overlapping metal licences have returned anomalous uranium assay results in some of the Proterozoic meta-sedimentary units that are overlain by the Kalahari Group sediments.

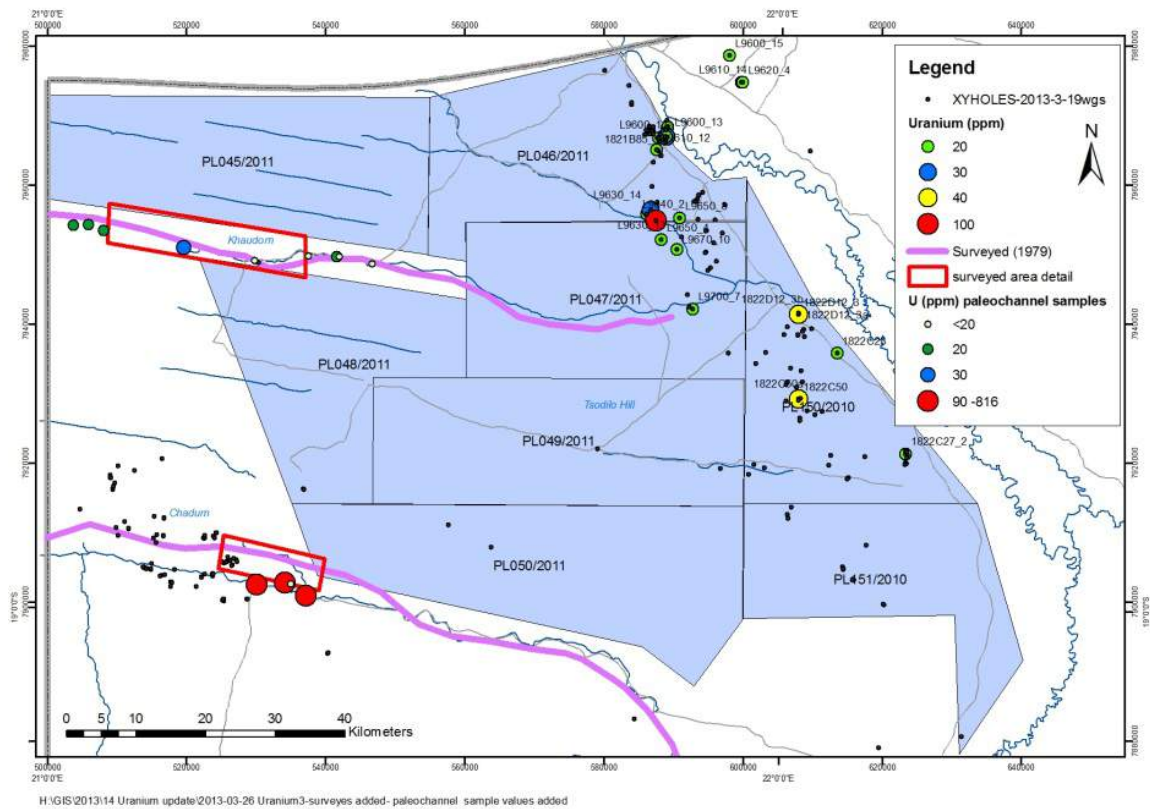


Figure 8. Uranium results per sample obtained through the 3rd Q 2013 from boreholes in the Proterozoic metasediments in the east in relation to the Union Carbide results in the Khaudom and Chadum drainages in the west.

The assay results received during the quarter included several samples over 20 ppm U from different boreholes (Fig. 8 and Table 6) and these are particularly encouraging because of the presence of up to 100 and 40 ppm Uranium in some other cores in the immediate vicinity. The link between these anomalous meta-sedimentary rocks and the surface uranium anomalies in the Kalahari calcretes is yet to be established. Table 6 lists all samples that have assay results equal or exceeding 15 ppm U.

Table 6

| Anomalous Uranium results (15ppm +) from the Proterozoic metasediments | | |
|---|----------------------------------|--------------|
| Hole | Sample number | U ppm |
| 1821B90E/56AP | 16 | 20 |
| 1821B120/AV1 | 84, 109, 117, 137, 148, 165, 168 | 15 |
| | 52, 69, 138, 142, 143, 154, | 16 |
| | 34, 130, 132, 141, 166 | 17 |
| | 163 | 19 |
| 1822 C7 | 10, 31, 33, 34, 45, 47 | 15 |
| | 6, 48 | 16 |
| | 13, 14 | 17 |
| | 4, 8 | 18 |
| L9600/11V/26O | 130, 136 | 15 |
| | 16, 105 | 16 |
| | 112, 141 | 17 |
| | 11 | 20 |
| | 127 | 21 |
| | 140 | 23 |
| L960011W/25Q | 70 | 15 |
| | 7, 108 | 16 |
| | 69 | 21 |
| | 59 | 23 |
| | 78 | 24 |

Exploration and Evaluation Additions

The Company owns and operates its own diamond core drill rigs and provides support to its drilling operations with a fleet of eight 6 x 6 heavy trucks and eight light trucks. Geophysical magnetic surveys are conducted by the company's employees using company owned magnetometers. Exploration and evaluation additions for the period ended September 30, 2013 are summarized as follows:

| | Newdico Botswana | | Gcwihaba Botswana | | Subtotal | Total |
|---|-----------------------------|----------------------------|------------------------------|---------------------------------------|--------------------|--------------------|
| | Precious Stones | Precious Stones | Metals | Radio- Active Minerals | | |
| Drilling Expenditures | \$3,072 | \$90,615 | \$419,232 | \$89,970 | \$599,817 | \$602,889 |
| Amortization Drill Rigs, Vehicles & Trucks | 7,983 | 22,753 | 106,181 | 22,753 | 151,687 | 159,670 |
| GIS & Geophysics | 4,616 | 1,522 | 17,036 | 957 | 19,515 | 24,131 |
| Lab Analyses & Assays | -0- | 5 | 219,632 | 10,460 | 230,097 | 230,097 |
| License Fees | -0- | 3,112 | 5,647 | 921 | 9,680 | 9,680 |
| Office, Maintenance, & Consumables | 21,607 | 14,175 | 48,719 | 15,076 | 77,970 | 99,577 |
| Salaries, Wages & Services | 37,444 | 85,422 | 419,544 | 78,398 | 583,364 | 620,808 |
| Balance at September 30, 2013 | \$74,722 | \$217,604 | \$1,235,991 | \$218,535 | \$1,672,130 | \$1,746,852 |

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2013, the Company had a working capital surplus of \$1,048,767 [September 2012: 289,569], which included cash of \$1,204,485 (September 2012: \$1,836,871). 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 options for cash proceeds of \$284,441, \$35,506, \$35,285 and \$34,094 in May 2012, December 2012, January 2013, and April 24, 2013 respectively. The Company issued units (common shares & warrants) for additional net cash proceeds in September 2012 (net of share issue cost) of \$2,008,780, and in April 2013 (net of issue cost) of \$2,419,537; see discussion in Financing Activities below. The Company does not hedge its activities. At period end, the Company did not have any material contractual obligations except for minimum spending requirements on exploration licenses. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current and not in renewal as of September 30, 2013, 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 | 307,470 | \$36,251 |
| Gcwihaba - Metals | 2,917,035 | \$343,988 |
| Gcwihaba - Radioactive Minerals | 1,165,434 | \$137,434 |

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 September 30, 2013 for those warrants is \$202,514 (September 2012: \$1,525,137). The Company is not required to pay cash to the holders of the warrants to settle this liability. Due to the nature of the Company's operations, there is no significant credit or interest rate risk.

Operating Activities

Cash outflow used in operating activities before working capital adjustment increased from (\$190,716) for the period ended September 30 2012 to (\$505,357) for the period ended September 30, 2013. There were no material differences in this period.

| Annual Information (in US Dollars) | Fiscal Year December 31, 2012 | |
|--|--|----|
| Net income (loss) for the year | (\$293,095) | |
| Basic income (loss) per share | (\$0.01) | |
| Basic diluted income (loss) per share | (\$0.01) | |
| Total other comprehensive income (loss) | (\$462,409) | |
| Total comprehensive income (loss) for the year | (\$755,504) | |
| Basic comprehensive income (loss) per share | (\$0.03) | |
| Diluted comprehensive income (loss) per share | (\$0.03) | |
| Total assets | \$13,047,693 | |
| Total long term liabilities | -- | -- |
| Cash dividend | -- | -- |

| Quarterly Information (in US Dollar) | 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 | - | - | - | - |

| Quarterly Information (in US Dollars) | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 |
|--|------------------|------------------|------------------|------------------|
| Fiscal Period ended September 30, 2013 | | | | |
| Net income (loss) for the year | \$30,658 | \$126,591 | (\$461,724) | |
| Basic income (loss) per share | \$0.00 | \$0.01 | (\$0.02) | |
| Diluted basic income (loss) per share | \$0.00 | \$0.01 | (\$0.02) | |
| Comprehensive income (loss) for the year | (\$670,413) | (\$462,546) | (\$391,720) | |
| Basic comprehensive income (loss) for the year | (\$0.03) | (\$0.01) | (\$0.01) | |
| Diluted comprehensive income (loss) per share | (\$0.02) | (\$0.02) | (\$0.01) | |
| Total assets | \$12,366,937 | \$14,087,792 | \$13,805,179 | |
| Total long term liabilities | - | | | |

Investing Activities

Cash flow applied in investing activities decreased to \$1,663,053 for the period ended September 30, 2013 (September 2012: \$1,771,604).

Total expenditures of \$1,746,852 on exploration properties for the period ended September 30, 2013 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 2.48% to 2.43% 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 period.

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. During the period January 1, 2013 to May 10, 2013, the Company received proceeds of \$2,510,359 from the exercise of Stock Options and 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 |
| April 22, 2013 | 2,272,727 | C\$1.10 | \$2,440,980 |
| 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\$0.70 | \$35,506 |
| January 2, 2013 | 50,000 | C\$0.70 | \$35,285 |
| April 24, 2013 | 50,000 | C\$0.70 | \$34,094 |

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 (\$1,524,679) for the period ended September 30, 2013 (\$0.05 per common share) compared to a net loss of (\$993,688) for the period ended September 30, 2012 (\$0.04 per common share). The change from the gain to the loss in 2013 was due primarily due to increases in

corporate remuneration and stock-based compensation expenses, and due to increase in foreign currency translation losses offset by an increase in the unrealized gain (loss) on the warrants.

Cumulative exploration expenditures including amortization of property, plant and equipment used in exploration activities on all projects amounted to \$11,844,757 as at September 30, 2013 compared to \$10,559,253 as at September 30, 2012. Cumulative exploration expenditures incurred on the Newdico project as at September 30, 2013 was \$6,883,142 compared to \$7,222,987 as at September 30, 2012. The principal components of the Newdico exploration program were: (a) additional soil sampling and the completion of the processing and analysis of the soil samples; (b) commissioning of further ground magnetic surveys of selected aeromagnetic anomalies; (c) analyzing detailed proprietary aeromagnetic maps covering the target areas; and (d) commencement of a diamond core drilling program on selected targets. Cumulative exploration expenditures incurred on Gcwihaba's projects as at September 30, 2013 were \$4,961,615 compared to \$3,336,266 as at September 30, 2012.

PERSONNEL

At September 30, 2013, the Company and its subsidiaries employed forty (40) individuals compared to thirty-eight (38) at September 30, 2012, including senior officers, administrative and operations personnel including those on a short-term service basis.

THIRD QUARTER - 2013

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

RISKS AND UNCERTAINTIES

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

Renewal of Newdico License

A two year renewal application for PL 64/2005, Newdico's remaining license covering 851 km² has 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 \$7,317,748 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 period ended September 30, 2013, and have not been applied when preparing these interim condensed consolidated financial statements. The Company's assessment of the impact of these new standards and interpretations is set forth 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 ventures) 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 statements 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 did not have a significant impact on the Company's interim condensed consolidated financial statements, and certain additional disclosures thereof are included in these statements.

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 13 is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 13 did not have a significant impact on the Company's methodologies in determining fair values.

STRATEGIC PARTNERSHIP

Strategic Exploration and Evaluation Partner

On November 20, 2013, Tsodilo announced that, further to its April 17, 2013 Memorandum Of Understanding with First Quantum Minerals Ltd. (TSX:FM)(LSE:FQM) ("**First Quantum**"), the Company, its wholly-owned subsidiary Gcwihaba Resources (Pty) Ltd. ("**Gcwihaba**"), First Quantum and First Quantum's wholly-owned subsidiary Faloxia (Proprietary) Limited ("**FQM Subco**") have entered into a definitive Earn-In Option Agreement (the "**Option Agreement**") pursuant to which First Quantum (which term for the purposes of this section includes FQM Subco) has acquired the right to earn up to a 70% interest in metals prospecting licences in Botswana granted to Gcwihaba insofar as they cover base, precious and platinum group metals and rare earth minerals by meeting certain funding and other obligations as set forth below. The interests that may be earned by First Quantum specifically exclude any rights to iron held by Gcwihaba.

Under the terms of the Option Agreement, First Quantum can earn either a 51% participating interest or a 70% participating interest in designated projects within the overall license area covered by the Option Agreement (the "**Project Area**") by satisfying the following requirements:

- ◇ funding exploration expenditures within the Project Area in the aggregate amount of US\$6 million by November 20, 2015 (the "Tranche 1 Funding Commitment");
- ◇ funding an additional US\$9 million in exploration expenditures within the Project Area by November 20, 2017; and
- ◇ completing a technical report ("**Technical Report**") on a designated area within the Project Area prepared in compliance with National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators and that meets certain requirements with respect to resources as described below.

The Tranche 1 Funding Commitment is a firm commitment by First Quantum and must be satisfied irrespective of whether First Quantum elects to pursue the other requirements to earn an interest in Gcwihaba's licences.

In the event that First Quantum satisfies the funding obligations as set forth above but a Technical Report has not been completed by the end of the fourth year following the execution of the earn-in option agreement, First Quantum may maintain the earn-in option for up to an additional three years by continuing to spend a minimum of \$2 million per year on exploration and evaluation studies on the Project Area.

If the Technical Report delineates a "**Major Defined Project**" (being a designated project within the Project Area with respect to which the Technical Report delineates a measured, indicated and inferred mineral resource within the Project Area of not less than 2,000,000 tonnes of copper), First Quantum will be deemed to have earned a 70% interest in the property that is the subject of such report. If the Technical Report delineates a "**Minor Defined Project**" (being a designated project within the Project Area with respect to which the Technical Report delineates a measured, indicated and inferred mineral resource within the Project Area of less than 2,000,000 tonnes of copper, or another base, precious or platinum group metal and rare earth mineral), First Quantum will be deemed to have earned a 51% interest in the property that is the subject of such report; provided, however, that it may elect to retain an option for up to five years to convert such property into a Major Defined Project. If First Quantum makes such election, it will be responsible for all further costs and expenses associated with the Minor Defined Project, including for operations and capital expenditures, until the earliest of: (a) the completion of a Technical Report for a Major Defined Project, in which event the Minor Defined Project will be deemed to be converted into a Major Defined Project and First Quantum will be deemed to have earned a vested 70% participating interest therein; (b) written notice from First Quantum to the Company that First Quantum no longer wishes to retain the option to convert such Minor Defined Project into a Major Defined Project; and (c) five years after the date of the original vesting of a 51% interest in the Minor Defined Project. If First Quantum fails to satisfy the requirements to convert a Minor Defined Project into a Major Defined Project it will retain a vested 51% participating interest in the Minor Defined Project.

Upon First Quantum's participating interest in a defined project being crystallized at either 51% or 70%, Gcwihaba and First Quantum will enter into a joint venture agreement for such project. Under the terms of each such joint

venture agreement, Gcwihaba's participating interest in each joint venture will be carried until the commencement of construction of a mine for the project. Accordingly, all costs and expenses associated with the defined project until such time, including for operations and capital expenditures, will be funded by First Quantum.

RELATED PARTY TRANSACTIONS

As of September 30, 2013, the Company has incurred leave benefits payable to an officer and director of the Company.

Remuneration of Key Management Personnel of the Company

| | 2013 | 2012 |
|---|-------------------|------------|
| Short term employee remuneration and benefits | \$ 278,334 | \$ 270,000 |
| Stock based compensation | 185,017 | 158,458 |
| Post Employment Benefits* | 48,952 | 18,621 |
| Total compensation paid to key management personnel | \$ 512,303 | \$ 447,079 |

*Post employment benefits include \$21,552 of accrued leave 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.

"s"

James M. Bruchs
Chairman and Chief Executive Officer
November 26, 2013

"s"

Gary A. Bojes
Chief Financial Officer
November 26, 2013

TSODILO RESOURCES LIMITED

INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIOD ENDED

September 30, 2013

(expressed in United States dollars)

Unaudited – Prepared by Management

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These interim condensed consolidated financial statements have been authorized for release by the Company’s Board of Directors on November 26, 2013.

CONTENTS:

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

Management's Responsibility for Interim Consolidated Financial Statements

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

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

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

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

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

DATED this 26th day of November, 2013.

TSODILO RESOURCES LIMITED

"s"

James M. Bruchs
Chairman and Chief Executive Officer
November 26, 2013

"s"

Gary A. Bojes
Chief Financial Officer
November 26, 2013

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

(In United States dollars)

| | September 30 2013 | September 30 2012 | December 31 2012 |
|--|----------------------|----------------------|---------------------|
| ASSETS | | | |
| Current | | | |
| Cash | \$1,204,485 | \$1,836,871 | \$ 982,051 |
| Accounts receivable and prepaid expenses | 145,217 | 86,698 | 109,031 |
| | 1,349,702 | 1,923,569 | 1,091,082 |
| Exploration and Evaluation Assets (note 3) | 11,844,757 | 10,559,253 | 11,150,180 |
| Property, Plant and Equipment (note 4) | 610,720 | 814,933 | 762,761 |
| Deposits on Equipment (note 4) | | -- | 43,670 |
| | \$13,805,179 | \$13,297,755 | \$13,047,693 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | \$98,421 | \$108,863 | \$ 113,968 |
| Warrants (note 5b) | 202,514 | 1,525,137 | 884,212 |
| Total Liabilities | 300,935 | 1,634,000 | 998,180 |
| SHAREHOLDERS' EQUITY | | | |
| Share Capital (note 5a) | 40,040,395 | 37,410,455 | 37,525,377 |
| Contributed Surplus | 9,638,732 | 9,178,910 | 9,174,340 |
| Foreign Currency Reserve | (3,129,652) | (1,839,686) | (1,909,448) |
| Deficit | (33,251,844) | (33,300,939) | (32,946,552) |
| Equity attributable to Owners of the Parent | 13,297,631 | 11,448,740 | 11,843,717 |
| Non-controlling Interest (note 3) | 206,613 | 215,015 | 205,796 |
| Total Equity | 13,504,244 | 11,663,755 | 12,049,513 |
| Total Liabilities and Equity | \$13,805,179 | \$13,297,755 | \$13,047,693 |

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

"s"

David J. Cushing
Chairman, of the Audit Committee

"s"

James M. Bruchs
Chairman

Tsodilo Resources Limited
Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In United States dollars)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September | September | September | September |
| | 30 | 30 | 30 | 30 |
| | 2013 | 2012 | 2013 | 2012 |
| Administrative Expenses | | | | |
| Corporate remuneration | 235,356 | \$22,556 | \$270,636 | \$67,671 |
| Corporate travel and subsistence | 3,595 | 8,667 | 19,794 | 27,937 |
| Investor relations | 15,000 | 4,750 | 31,533 | 19,560 |
| Legal and audit | (1,563) | (282) | 77,825 | 45,009 |
| Filings and regulatory fees | 8,095 | 7,122 | 24,786 | 21,457 |
| Administrative expenses | 40,310 | 43,886 | 101,805 | 143,738 |
| Amortization | 1,345 | 1,512 | 4,853 | 4,534 |
| Stock-based compensation (note 5c) | 181,032 | 88,618 | 420,638 | 329,325 |
| | 483,170 | \$176,829 | \$951,870 | \$659,231 |
| Other Income (Expense) | | | | |
| Other expense | | | -- | -- |
| Interest Income | 177 | -- | 382 | -- |
| Unrealized gain (loss) on warrants (Note 5b) | 25,397 | 12,575 | 681,698 | (24,371) |
| Foreign exchange (loss) | (4,128) | (14,264) | (34,686) | 37,243 |
| | 21,446 | (1,689) | 647,394 | 12,872 |
| Net Income (Loss) for period | (461,724) | (178,518) | (304,475) | (646,359) |
| Other Comprehensive Income (Loss) | | | | |
| Foreign currency translation | 70,004 | (79,960) | (1,220,204) | (347,329) |
| Total Other Comprehensive Income (Loss) | 70,004 | (79,960) | (1,220,204) | (347,329) |
| Total Comprehensive Income (Loss) for the period | (\$391,720) | (\$258,478) | (\$1,524,679) | (\$993,688) |
| | | | | |
| Net Income (Loss) attributable to shareholders of the parent | (\$463,017) | (179,518) | (305,292) | (\$646,987) |
| Non-controlling interest | 1,293 | 1,000 | 817 | 628 |
| | (\$461,724) | (\$178,518) | (\$304,475) | (\$646,359) |
| | | | | |
| Total Comprehensive Income (Loss) attributable to owners of the parent | (\$394,537) | (\$259,478) | (\$1,525,496) | (\$994,316) |
| Non-controlling Interest | 2,817 | 1,000 | 817 | 628 |
| | (\$391,720) | (\$258,478) | (\$1,524,679) | (\$993,688) |
| | | | | |
| Basic income (loss) per share attributable to owners of the parent (note 7) | (\$0.02) | (\$0.00) | (\$0.01) | (\$0.02) |
| Fully diluted income (loss) per share attributable to the owners of the parent (note 7) | (\$0.02) | (\$0.00) | (\$0.01) | (\$0.02) |
| | | | | |
| Basic comprehensive income (loss) per share attributable to the owners of the parent (note 7) | (\$0.01) | (\$0.01) | (\$0.05) | (\$0.04) |
| Fully diluted comprehensive income (loss) per share attributable to the owners of the parent (note 7) | (\$0.01) | (\$0.01) | (\$0.05) | (\$0.04) |

See accompanying notes to the interim condensed consolidated financial statements

Tsodilo Resources Limited

Interim Condensed Consolidated Statements of Shareholders' Equity

(In United States dollars except for shares)

| | Share Capital | | 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, 2013 | 28,099,151 | \$37,525,377 | \$9,174,340 | (\$1,909,448) | (\$32,946,552) | \$11,843,717 | \$205,796 | \$12,049,513 |
| Units Issued | 2,272,727 | 2,419,537 | -- | -- | -- | 2,419,537 | -- | 2,419,537 |
| Exercised Options | 100,000 | 95,481 | (26,102) | -- | -- | 69,379 | -- | 69,379 |
| Stock Based Compensation | -- | -- | 490,494 | -- | -- | 490,494 | -- | 490,494 |
| Comprehensive Income (loss) | -- | -- | -- | (1,220,204) | (305,292) | (1,525,496) | 817 | (1,524,679) |
| Balance September 30, 2013 | 30,471,878 | \$40,040,395 | \$9,638,732 | (\$3,129,652) | (\$32,251,844) | \$13,297,631 | \$206,613 | \$13,504,244 |

See accompanying notes to the interim condensed consolidated financial statements.

Tsodilo Resources Limited

Interim Condensed Consolidated Statements of Shareholders' Equity

(In United States dollars except for shares)

| | Share Capital | | Contributed Surplus | Foreign Currency Reserve | Deficit | Total attributable to equity holder of the parent | Non-Controlling Interest | Total |
|----------------------------------|-------------------|---------------------|---------------------|--------------------------|-----------------------|---|--------------------------|---------------------|
| | 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 interim condensed consolidated financial statements.

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

(In United States dollars)

| | Period Ended September 30 | |
|--|----------------------------------|--------------|
| | 2013 | 2012 |
| Cash provided by (used in): | | |
| Operating Activities | | |
| Net Income (Loss) for the period | (\$ 304,475) | \$ (646,359) |
| Adjustments for non-cash items: | | |
| Unrealized (gain) loss on warrants | (681,698) | 24,371 |
| (Gain) loss on disposal of equipment | -- | -- |
| Amortization | 4,853 | 4,534 |
| Foreign Exchange Loss | 34,686 | -- |
| Stock-based compensation | 420,637 | 329,325 |
| | (525,997) | (288,129) |
| | | |
| Net change in non-cash working capital balances <i>(note 12)</i> | 20,640 | 97,412 |
| | (505,357) | (190,717) |
| | | |
| Investing Activities | | |
| (Additions) reductions to exploration properties | (1,506,480) | (1,784,693) |
| (Additions) reductions to deposit on equipment | 43,670 | -- |
| Proceed received from disposal of equipment | -- | -- |
| (Additions) reductions to property, plant and equipment | (200,243) | 13,089 |
| | (1,663,053) | (1,771,604) |
| | | |
| Financing Activities | | |
| Shares and warrants issued for cash, net of cost | 2,488,915 | 2,293,227 |
| | 2,488,915 | 2,293,227 |
| | | |
| Impact of Exchange on cash and cash equivalents | (98,071) | -- |
| | | |
| Change in cash - For the period | 222,434 | 330,906 |
| Cash - beginning of period | 982,051 | 1,505,965 |
| Cash - end of period | \$ 1,204,485 | \$ 1,836,871 |

See accompanying notes to the interim condensed consolidated financial statements

Tsodilo Resources Limited

Notes to the Interim Condensed Consolidated Financial Statements

For the periods ended September 30, 2013 and 2012

(All amounts are in U.S. dollars unless otherwise noted)

1. NATURE OF OPERATIONS

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

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

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

These interim condensed consolidated financial statements have been authorized for release by the Company's Board of Directors on November 26, 2013.

(b) Basis of Preparation

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

| | 2013 | 2012 |
|---|------|------|
| 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% | 98% |
| All intercompany transactions have been eliminated on consolidation | | |

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

(c) Significant Accounting Judgments, Estimates and Assumptions

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

Accounts that require estimates as the basis for determining the stated amounts include 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) Earnings (Loss) per Common Share

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

Diluted earnings per share calculations are based on the net income attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period 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 period (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 period. 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 period divided by the weighted average number of common shares issued and outstanding during the period ended 2013.

(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.

(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. 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. Severance is earned at the rate of one day per month for an employee with less than five years of service and two days per month for employees with greater than five years of service. The specifics and benefits of the severance program mandated in Botswana is extended to full-time employees residing and working outside of Botswana. 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. During the period ending September 30, 2013, \$65,985 in costs relating to severance benefits were incurred. Portions of the severance expenses are capitalized to exploration and evaluation assets.

(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 restoration activities include dismantling and removing structures, rehabilitating mines and tailings dams, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of Botswana where the potential mines would operate, the requirements

could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

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

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

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

The Company had no asset retirement obligations as of September 30, 2013, September 30, 2012 and December 31, 2012.

(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 September 30, 2013, September 30, 2012 and December 31, 2012, 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.

(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 adopted on January 1, 2013

The following new standards and issued amendments to standards and interpretations are not yet effective for the period ended September 30, 2013 and have not been applied when preparing these interim condensed 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 statements 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 did not have a significant impact on the Company’s interim condensed consolidated financial statements, and certain additional disclosures thereof are included in these statements.

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 13 is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS

13 did not 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 | | Subtotal | Total |
|--------------------------------------|--------------------|--------------------|--------------------|-----------------------|--------------------|---------------------|
| | Precious Stones | Precious Stones | Metals | Radio-Active Minerals | | |
| 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 | 2,827,291 |
| Net Exchange Differences | (297,926) | (49,749) | (63,388) | (40,705) | (153,842) | (451,768) |
| Balance at December 31, 2012 | \$7,518,224 | \$2,048,700 | \$1,039,199 | \$544,057 | \$3,631,956 | \$11,150,180 |
| Additions | 74,722 | 217,604 | 1,235,991 | 218,535 | 1,672,130 | 1,746,852 |
| Net Exchange Differences | (709,804) | (44,568) | (253,145) | (44,758) | (342,471) | (1,052,275) |
| Balance at September 30, 2013 | \$6,883,142 | \$2,221,736 | \$2,022,045 | \$717,834 | \$4,961,615 | \$11,844,757 |

Exploration and Evaluation **additions** for the period ended September 30, 2013 are summarized as follows:

| | Newdico Botswana | | Gcwihaba Botswana | | Subtotal | Total |
|--|------------------|------------------|--------------------|-----------------------|--------------------|--------------------|
| | Precious Stones | Precious Stones | Metals | Radio-Active Minerals | | |
| Drilling Expenditures | \$3,072 | \$90,615 | \$419,232 | \$89,970 | \$599,817 | \$602,889 |
| Amortization Drill Rigs, Vehicles & Trucks | 7,983 | 22,753 | 106,181 | 22,753 | 151,687 | 159,670 |
| GIS & Geophysics | 4,616 | 1,522 | 17,036 | 957 | 19,515 | 24,131 |
| Lab Analyses & Assays | -0- | 5 | 219,632 | 10,460 | 230,097 | 230,097 |
| License Fees | -0- | 3,112 | 5,647 | 921 | 9,680 | 9,680 |
| Office, Maintenance, & Consumables | 21,607 | 14,175 | 48,719 | 15,076 | 77,970 | 99,577 |
| Salaries, Wages & Services | 37,444 | 85,422 | 419,544 | 78,398 | 583,364 | 620,808 |
| Balance at September 30, 2013 | \$74,722 | \$217,604 | \$1,235,991 | \$218,535 | \$1,672,130 | \$1,746,852 |

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 \$6,883,142 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.

Originally, as a result of an agreement completed on June 30, 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 97.57% at September 30, 2013.

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 three (3) precious stone – diamond prospecting licenses as at September 30, 2013. Two licenses in renewal are in the North-West District of Botswana and one license covering 494 square kilometers in the Kgalagadi District in southern Botswana. PL 195/2012 has an initial expiry date of July 1, 2015 and requires a minimum spending commitment of Botswana Pula 397,410 (US\$36,969) if held to its full term. As of September 30, 2013 the Company believes it has fulfilled most of the spending requirements associated with this license.

Metal Exploration

Gcwihaba holds twenty-two (22) metal (base, precious, platinum group, and rare earth) prospecting licenses inclusive of 7 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 / renewal dates of the 14 current licenses range from December 31, 2014 to April 1, 2015 and require a minimum spending commitment of Botswana Pula 2,917,035 (US \$343,988) over the term of the licenses, if held to their full-term. The Company has fulfilled the spending commitments associated with these licenses.

First Quantum Minerals Ltd. has reported that expenditures in the third quarter amounted to \$495,745 (Botswana Pula 1,912,350), see **Strategic Exploration and Evaluation Partner below**.

Radioactive Minerals

As at September 30, 2013, Gcwihaba holds eight (8) radioactive mineral licenses including PL's 150 and 151 / 2010 currently in renewal in the North-West District of Botswana covering 5,495 square kilometers. The current licenses have expiry dates of December 31, 2014 and require a minimum spending commitment of Botswana Pula 1,165,434 (US \$136,710), if held to their full-term. Renewal applications have been filed for all eight (8) radioactive mineral licenses. The Company has fulfilled 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.

Strategic Exploration and Evaluation Partner

On November 20, 2013, Tsodilo announced that, further to its April 17, 2013 Memorandum Of Understanding with First Quantum Minerals Ltd. (TSX:FM)(LSE:FQM) ("**First Quantum**"), the Company, its wholly-owned subsidiary Gcwihaba Resources (Pty) Ltd. ("**Gcwihaba**"), First Quantum and First Quantum's wholly-owned subsidiary Faloxia (Proprietary) Limited ("**FQM Subco**") have entered into a definitive Earn-In Option Agreement (the "**Option Agreement**") pursuant to which First Quantum (which term for the purposes of this section includes FQM Subco) has acquired the right to earn up to a 70% interest in metals prospecting licences in Botswana granted to Gcwihaba insofar as they cover base, precious and platinum group metals and rare earth minerals by meeting certain funding and other obligations as set forth below. The interests that may be earned by First Quantum specifically exclude any rights to iron held by Gcwihaba.

Under the terms of the Option Agreement, First Quantum can earn either a 51% participating interest or a 70% participating interest in designated projects within the overall license area covered by the Option Agreement (the "**Project Area**") by satisfying the following requirements:

- ◇ funding exploration expenditures within the Project Area in the aggregate amount of US\$6 million by November 20, 2015 (the "Tranche 1 Funding Commitment");
- ◇ funding an additional US\$9 million in exploration expenditures within the Project Area by November 20, 2017; and
- ◇ completing a technical report ("**Technical Report**") on a designated area within the Project Area prepared in compliance with National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators and that meets certain requirements with respect to resources as described below.

The Tranche 1 Funding Commitment is a firm commitment by First Quantum and must be satisfied irrespective of whether First Quantum elects to pursue the other requirements to earn an interest in Gcwihaba's licences.

In the event that First Quantum satisfies the funding obligations as set forth above but a Technical Report has not been completed by the end of the fourth year following the execution of the earn-in option agreement, First Quantum may maintain the earn-in option for up to an additional three years by continuing to spend a minimum of \$2 million per year on exploration and evaluation studies on the Project Area.

If the Technical Report delineates a "**Major Defined Project**" (being a designated project within the Project Area with respect to which the Technical Report delineates a measured, indicated and inferred mineral resource within the Project Area of not less than 2,000,000 tonnes of copper), First Quantum will be deemed to have earned a 70% interest in the property that is the subject of such report. If the Technical Report delineates a "**Minor Defined Project**" (being a designated project within the Project Area with respect to which the Technical Report delineates a measured, indicated and inferred mineral resource within the Project Area of less than 2,000,000 tonnes of copper, or another base, precious or platinum group metal and rare earth mineral), First Quantum will be deemed to have earned a 51% interest in the property that is the subject of such report; provided, however, that it may elect to retain an option for up to five years to convert such property into a Major Defined Project. If First Quantum makes such election, it will be responsible for all further costs and expenses associated with the Minor Defined Project, including for operations and capital expenditures, until the earliest of: (a) the completion of a Technical Report for a Major Defined Project, in which event the Minor Defined Project will be deemed to be converted into a Major Defined Project and First Quantum will be deemed to have earned a vested 70% participating interest therein; (b) written notice from First Quantum to the Company that First Quantum no longer wishes to retain the option to convert such Minor Defined Project into a Major Defined Project; and (c) five years after the date of the original vesting of a 51% interest in the Minor Defined Project. If First Quantum fails to satisfy the requirements to convert a Minor Defined Project into a Major Defined Project it will retain a vested 51% participating interest in the Minor Defined Project.

Upon First Quantum's participating interest in a defined project being crystallized at either 51% or 70%, Gcwihaba and First Quantum will enter into a joint venture agreement for such project. Under the terms of each such joint venture agreement, Gcwihaba's participating interest in each joint venture will be carried until the commencement of construction of a mine for the project. Accordingly, all costs and expenses associated with the defined project until such time, including for operations and capital expenditures, will be funded by First Quantum.

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

Property, Plant, and Equipment

| Cost | 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 |

| | Vehicles | Furniture and Equipment | Total |
|--------------------------|-----------------|------------------------------------|--------------|
| As at December 31, 2012 | \$ 1,642,022 | \$ 223,705 | \$ 1,865,727 |
| Additions | 64,647 | 29,726 | 94,373 |
| Disposals | -- | -- | -- |
| Net Exchange Difference | (155,025) | (16,719) | (171,744) |
| As at September 30, 2012 | \$ 1,551,644 | \$ 236,712 | \$ 1,788,356 |

Accumulated Depreciation

| | 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 |

| | Vehicles | Furniture and Equipment | Total |
|--------------------------|-----------------|------------------------------------|--------------|
| As at December 31, 2012 | \$916,774 | \$ 186,192 | \$ 1,102,966 |
| Depreciation | 149,204 | 23,243 | 172,447 |
| Disposals | -- | -- | -- |
| Net Exchange Difference | (86,553) | (11,224) | (97,777) |
| As at September 30, 2013 | \$ 979,425 | \$ 198,211 | \$ 1,177,636 |

Net book value

| | | | |
|--------------------------|------------|-----------|-------------|
| As at December 31, 2011 | \$945,403 | \$72,535 | \$1,017,938 |
| As at December 31, 2012 | \$ 725,248 | \$ 37,513 | \$ 762,761 |
| As at September 30, 2013 | \$ 572,219 | \$ 38,501 | \$ 610,720 |

Deposits on Equipment

| | | | |
|--------------------------|----------|----|----------|
| As at December 31, 2011 | | -- | |
| As at December 31, 2012 | \$43,670 | -- | \$43,670 |
| As at September 30, 2013 | \$ 0 | -- | \$ 0 |

For the nine months ended September 30, 2013, an amount of \$170,517 (September 30, 2012: \$185,383) of amortization has been capitalized under exploration properties.

The deposits December 31, 2012 relate to the purchase of three trucks delivered in April 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: 30,471,878 Common Shares as at September 30, 2013 (December 31, 2012: 25,099,151)

a) During the period ending September 30, 2013:

- i. On January 3, 2013, 50,000 options were exercised at a price of C\$0.70 for proceeds to the Company of \$35,285 (C\$35,000). The fair value of the option associated with the exercised options that were reclassified to share capital was \$20,130.
- ii. On April 22, 2013, 2,272,727 Units were issued at a price of C\$1.10 for net proceeds to the Company of \$2,419,537 (C\$2,500,000). Each unit includes one common share and one warrant entitling the holder to purchase one common share of the Company for a period until the close of business on April 22, 2013 at USD\$1.21. \$14,973 of issuance costs were netted against the proceeds.
- iii. On April 24, 2013, 50,000 options were exercised at a price of C\$0.70 for proceeds to the Company of \$34,094 (C\$35,000). The fair value of the option associated with the exercised options that were reclassified to share capital was \$5,972.

b) 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.

(b) Warrants

As September 30, 2013, the following warrants were outstanding:

| Expiry | Number of Warrants - Units | | | | | |
|-------------------|----------------------------|-------------------|-----------|-----------|---------|--------------------|
| | Exercise Price | December 31, 2012 | Issued | Exercised | Expired | September 30, 2013 |
| June 29, 2015 | C\$2.17 | 2,702,702 | -- | -- | -- | 2,702,702 |
| September 7, 2015 | USD\$1.21 | 1,818,181 | -- | -- | -- | 1,818,181 |
| April 22, 2015 | USD\$1.21 | -- | 2,272,727 | -- | -- | 2,272,727 |
| | | 4,520,883 | 2,272,727 | -- | -- | 6,793,610 |

On September 7, 2012, the Company issued 1,818,181 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 April 22, 2013, the Company issued 2,272,727 warrants with an exercise price of USD\$1.21, expiring on April 22, 2015, 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.

Under IFRS, warrants having a strike price other than the functional currency of the issuer are a derivative liability and are marked to market as the end of each reporting period. For the period ended September 30, 2013 the Company recorded a mark to market gain of \$681,698 (September 30, 2012 - loss \$24,371) on the revaluation of warrants. As at September 30, 2013, the outstanding liability portion of the warrants have a fair value of \$202,514 (2012: \$1,525,137) which is determined using the Black-Scholes Option Pricing Model with an expected volatility of 68.72%, expected life of 1.99 years at a risk free rate of 1.22%.

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

| | Warrant Liability | |
|-----------------------------------|-------------------|-------------------------------------|
| | Number of Units | Valuation for Canadian Denomination |
| Balance December 31, 2011 | 2,702,702 | \$1,500,766 |
| Additions | -- | -- |
| Exercise | -- | -- |
| Expiry | -- | -- |
| Valuation Change | -- | (616,554) |
| Balance December 31, 2012 | 2,702,702 | \$884,212 |
| Additions | -- | -- |
| Exercise | -- | -- |
| Expiry | -- | -- |
| Valuation Change | -- | (681,698) |
| Balance September 30, 2013 | 2,702,702 | \$202,514 |

c) Stock Option Plan

The Company has a stock option plan providing for the issuance of options that cannot exceed 5,629,830 shares of common stock. The Company may grant options to directors, officers, employees, and contractors, and other personnel of the Company or its subsidiaries. The exercise price of each option cannot be lower than the market price of the shares being the closing price of the Company's common shares on the Toronto Stock Exchange the day before the grant date. Options generally vest ratably over eighteen-month period, beginning with the date of issuance and every 6 months thereafter, and expire in five years from the date of grant as determined by the Board of Directors.

The following Table summarizes the Company's stock option plan as at September 30, 2013:

| | Number of Shares | Weighted average exercise price (C\$) |
|--------------------------------------|-----------------------------|--|
| 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 |
| Granted | 685,000 | C\$1.09 |
| Exercised | (100,000) | C\$0.70 |
| Cancelled | (25,000) | C\$1.00 |
| Expired | (360,000) | C\$.0.70 |
| Outstanding as at September 30, 2013 | 3,245,000 | C\$1.18 |

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.

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).

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).

On January 3, 2013, 110,000 stock options at C\$0.70 expired.

On March 22, 2013, the Company issued 450,000 options at C\$1.04 under its Stock Options Plan to persons who are officers and employees of the Company.

On April 24, 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 \$34,094).

On May 7, 2013, 250,000 stock options at C\$0.70 expired.

On May 23, 2013, 25,000 stock options at C\$1.00 were cancelled.

The following table summarizes the stock option compensation expense and capitalized stock compensation for the period ended September 30, 2013 and 2012.

| | 2013 | 2012 |
|--|-------------------|------------|
| Stock-based compensation expense | \$ 420,638 | \$ 329,325 |
| Capitalized Stock-based compensation expense | 69,855 | 200,563 |
| | \$490,493 | \$529,888 |

The following assumptions were used in the Black Scholes option pricing model to fair value of the stock options granted during the period ended September 30, 2013 and 2012:

| | 2013 | 2012 |
|--|-------------------------|------------------|
| Expected lives | 3.1 to 4.7 years | 3.0 to 4.6 years |
| Expected volatilities (based on Company's historical prices) | 93.8% - 147.8% | 111.4% - 158.0% |
| Expected dividend yield | 0% | 0% |
| Risk free rates | 0.42% - 0.73% | 0.41% - 0.92% |
| Weighted average fair value of option | \$0.82 | \$0.80 |

The following table summarizes stock options outstanding as at September 30, 2013:

| 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 | 1.09 | 100,000 | C\$0.55 | 1.09 |
| C\$0.70 | 460,000 | C\$0.70 | 0.45 | 460,000 | C\$0.70 | 0.45 |
| C\$0.90 | 235,000 | C\$0.90 | 3.26 | 235,000 | C\$0.90 | 3.26 |
| C\$1.00 | 580,000 | C\$1.00 | 3.01 | 467,500 | C\$1.00 | 2.89 |
| C\$1.03 | 750,000 | C\$1.03 | 3.70 | 525,000 | C\$1.03 | 3.37 |
| C\$1.19 | 335,000 | C\$1.19 | 3.83 | 217,500 | C\$1.19 | 3.60 |
| C\$1.25 | 285,000 | C\$1.25 | 2.26 | 285,000 | C\$1.25 | 2.26 |
| C\$2.23 | 500,000 | C\$2.23 | 1.59 | 500,000 | C\$2.23 | 1.59 |
| | 3,245,000 | C\$1.18 | 2.56 | 2,790,000 | C\$1.19 | 2.30 |

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% (2011: 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 Income tax rates | 26.5% (77,670) | 28.25% 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:

| | 2013 | 2012 |
|--|---------------------|--------------|
| Period ended September 30 | | |
| Net income (loss) for the period | (\$ 304,475) | (\$ 993,688) |
| Effect of Dilutive Securities | | |
| Stock options and warrants | -- | -- |
| Diluted net earnings (loss) for the period | (\$ 304,475) | (\$ 993,688) |

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

| | 2013 | 2012 |
|---|-------------------|------------|
| Basic weighted-average number of shares outstanding | 29,154,182 | 26,174,519 |
| Effect of dilutive securities: | | |
| Stock Options | 144,011 | 398,222 |
| Warrants | -- | -- |
| Diluted weighted-average number of shares outstanding | 29,298,193 | 26,572,741 |

The gain per share is the same as the basic gain per share for the period ended September 30, 2013 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 period ended September 30, 2013, was 10,038,610, of which 9,894,599 were anti-dilutive.

8. RELATED PARTY TRANSACTIONS

During the periods ended September 30, 2013 and 2012, the Company incurred leave benefits payable to an officer and director of the Company, however all amounts for 2012 were paid by year end.

Remuneration of Key Management Personnel of the Company

| | 2013 | 2012 |
|---|-------------------|------------------|
| Short term employee remuneration and benefits | \$ 278,334 | \$ 270,000 |
| Stock based compensation | 185,017 | 158,458 |
| Post Employment Benefits* | 48,952 | 18,621 |
| Total compensation paid to key management personnel | \$ 512,303 | \$447,079 |

*Post employment benefits include \$21,552 of accrued leave benefits.

There are no other related party transactions.

9. SEGMENTED INFORMATION

The Company is operating in one industry. As at September 30, 2013 the Company's Plant, Property and equipment in the United States was \$5,407 (2012: \$7,162) and in Botswana was \$605,313 (2012: \$1,076,734). 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 (2012: nil) and in Botswana of \$11,844,757.

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 than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

Risk Exposure and Management

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

(a) Capital Management

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

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand. In 2013, 2012 and 2011 the Company raised cash capital as shown in note 5(a) in the amount of \$2,419,537, \$2,328,727 and \$1,926,547, respectively. It is anticipated that the Company cash of \$1,204,485 will be substantial enough to continue operations for the ensuing twelve months and longer.

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 its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and accounts receivable, there are no amounts at risk. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. There are no allowances for doubtful accounts required.

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

(d) Interest Rate Risk

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

(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 \$113,450 impact to 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 September 30, 2013, 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 \$8,961 impact the Company's net income (loss).

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:

| | |
|-------|-----------|
| 2014 | 20,656 |
| 2015 | 20,656 |
| Total | \$ 41,312 |

The lease commitment is for storage space in Maun, Botswana at an annual rental of Pula 175,165 for years 2014 and 2015 plus taxes converted at an exchange rate as at September 30, 2013 to US dollars.

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

12. NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | September 30 2013 | September 30 2012 |
|---|----------------------|----------------------|
| Net change in noncash working capital balances | | |
| Decrease / (Increase) in accounts receivable and prepaid expenses | \$36,186 | \$92,654 |
| Increase / (Decrease) in accounts payable and accrued liabilities | (15,546) | 4,758 |
| Total | \$20,640 | \$ 97,412 |

13. SUBSEQUENT EVENTS

None