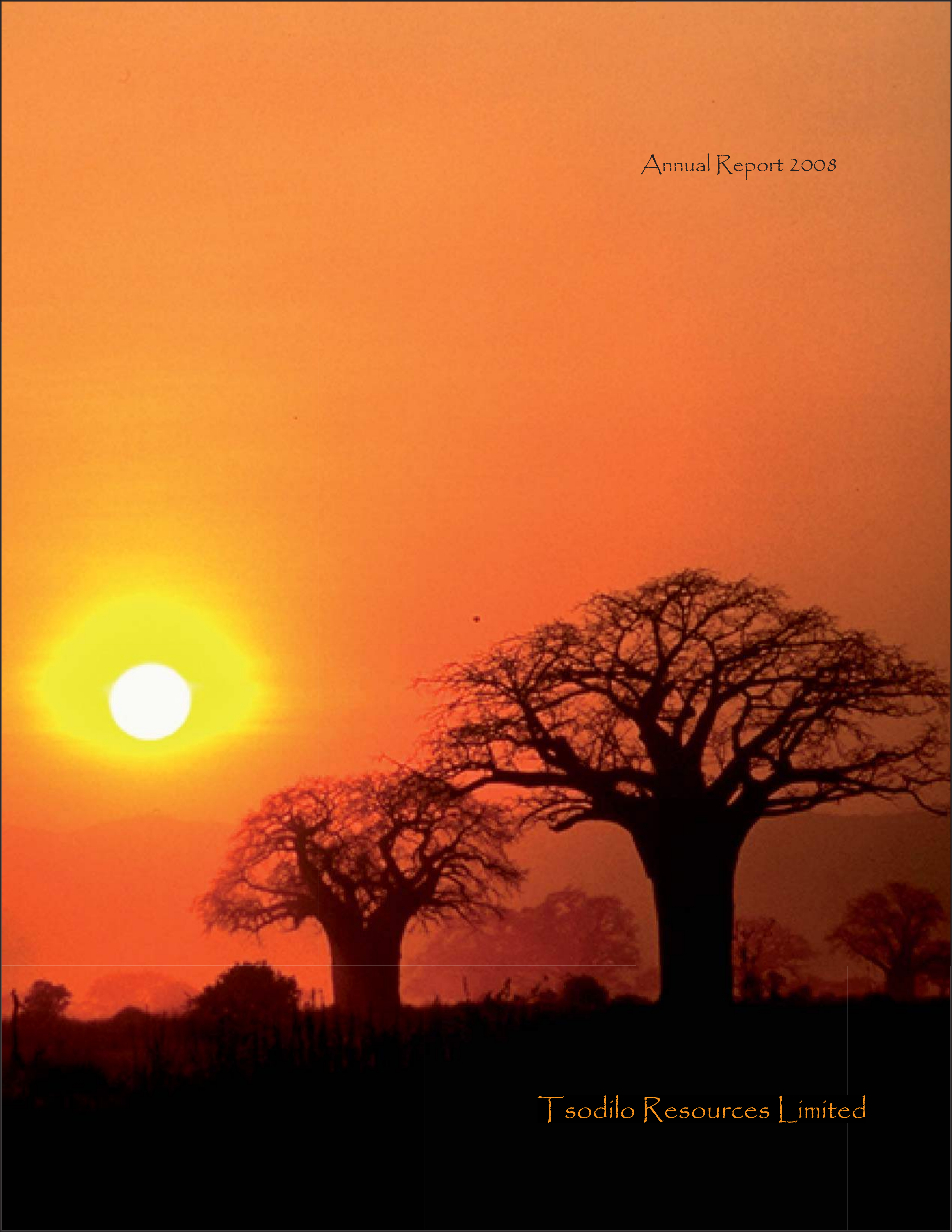
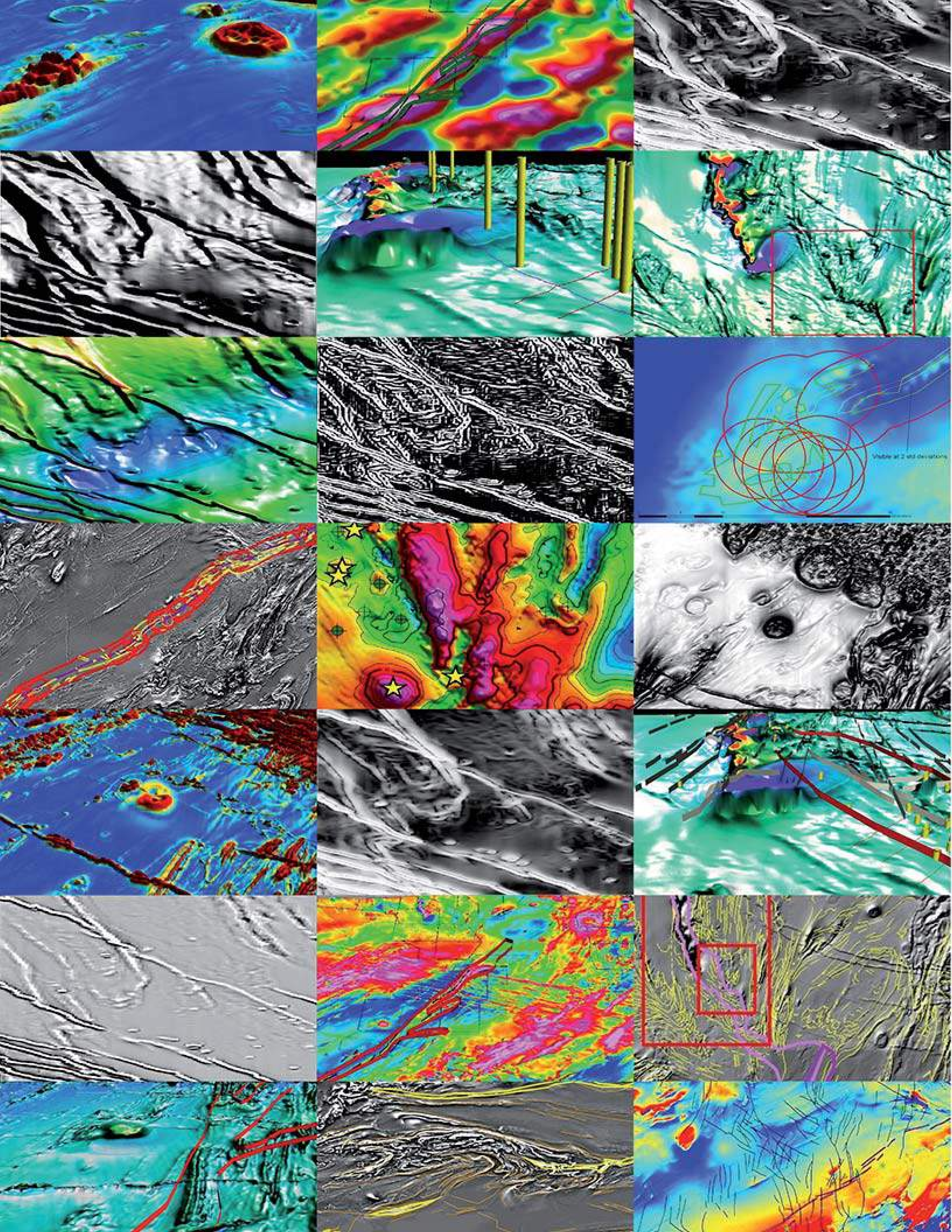


Annual Report 2008

Tsodilo Resources Limited


Visible at 2 std deviations

President's Message

Fellow Shareholders,

On behalf of the board of directors, I am pleased to provide this report of Tsodilo Resources Limited ("Tsodilo" or the "Company") progress together with the audited financials for the year ended December 31, 2008.

December of 2008, if not most of 2008, will be a period we will all remember for some time. The revelation that the United States, the world's economic engine, had been in recession since December of 2007 along with the fact that U.S. manufacturing had hit a 26-year low was enough reason to add velocity to the already declining equity markets throughout the world. The credit crunch that began in 2007 became an economic disaster in 2008. The economy in 2008 will be referred to as a global financial "meltdown". All segments of the mining industry were affected from international mining conglomerates to junior mining companies. Commodity prices have declined, mines have closed and many exploration companies have effectively ceased to exist.

I am pleased to announce that as a result of our prior year's decision to purchase our own drill rig and geophysical survey equipment, we were able to conduct our exploration program without interruption throughout the year. The chemical analysis of kimberlite indicator minerals was completed on our most prospective kimberlites and those results are currently being reviewed and interpreted. We have made tremendous strides in our base metals projects and drilling in 2008 has intersected massive sulfides containing confirmed copper – nickel – cobalt mineralization throughout our licenses blocks.

During the past year, the Company funded exploration activity by raising funds in the capital markets through the successful issuance of stock by way of private placements. This process will continue in the coming year. Our current share base consists of 16,151,794 issued and outstanding (19,733,893 on a fully diluted basis) common shares. Tsodilo has a 94% interest in our Botswana Newdico (Pty) Limited project and a 100% interest in our Botswana Gcwihaba Resources (Pty) Limited projects.

The world's economies will recover as equity and credit markets strengthen. The price of commodities including diamond will rise from their recent lows as market conditions improve and demand increases. The Company is well positioned to meet the challenges in the upcoming year and for the years' thereafter.

We are looking forward to an exciting year ahead as we make progress in the exploration for an economic kimberlite and the discovery of an economic deposit of base and precious metal. Please follow our progress carefully and remain informed by regular visits to our website, **www.TsodiloResources.com.**

On behalf of the board,

James M. Bruchs
President and Chief Executive Officer
March 27, 2009

Contents

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the Consolidated Annual Financial Statements for the year ended December 31, 2008 and comments on the factors that affected the Company's performance during the periods covered by the Consolidated Annual Financial Statements as well as the Company's financial condition and future prospects. The Company's functional and reporting currency is United States dollars and all amounts stated are in United States dollar unless otherwise noted. This management's discussion and analysis has been prepared as at March 27, 2009.

OVERVIEW

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

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 March 27, 2009, 16,151,794 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 1,935,000 options remain outstanding of which 1,536,250 are exercisable at exercise prices ranging from CAD $0.70 - $1.85. If all options were vested and exercised, 1,935,000 common shares of the Company would be issued.

As of March 27, 2009, 2,374,800 warrants are outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company at purchase prices ranging from Canadian $0.70 - $0.80 for a period of two years from the date of issuance (5/18/2009 – 2/23/2011). If all warrants were converted, 2,374,800 common shares of the Company would be issued.

Principal Shareholders of the Company

The largest shareholder of the Company is its President and Chief Executive Officer, James M. Bruchs, who currently owns, controls or directs 2,695,983 or 16.69%

of the issued and outstanding common shares as of March 27, 2009. The SSRedmond Trust, currently owns, controls or directs 2,505,931 or 15.51% of the issued and outstanding shares as of March 27, 2009; the Firebird Global Master Fund, Ltd. controls 1,875,630 or 11.61% of the issued and outstanding shares as of March 27, 2009; and, David J. Cushing, a director of the Company, currently owns, controls or directs 1,774,994 or 10.98% of the issued and outstanding shares of the Company.

Subsidiaries

The Company has a 94% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds prospecting licenses and applications covering approximately 9,400 square kilometers in northwest Botswana on which there is encouragement for the existence of undiscovered kimberlites in at least three separate areas of the property. The Company's minority partner (6%) in this project, Trans Hex Group, is an established South African diamond mining company.

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gcwihaba Resources (Proprietary) Limited ("Gcwihaba"), which has diamond prospecting licenses covering approximately 4,300 square kilometers and base and precious metal licenses covering 11,000 square kilometers.

Exploration Activities

Diamond Projects

The Company's Botswana licenses are proximal to two major unexplained surface concentrations of diamonds and G10 garnets across the border in Namibia, one near the village of Tsumkwe and another in the area known as Omatako. The characteristics of these kimberlite pathfinder mineral anomalies indicate that they are secondary concentrations derived from respective primary high-grade kimberlite sources located elsewhere. The geomorphological model envisages that the Tsumkwe and Omatako pathfinder anomalies were formed by ancient rivers transporting diamonds and garnets derived from kimberlites located in the Company's license blocks. Prior to the deposition of the superficial Kalahari sand that covers much of Ngamiland, this area formed a topographic high. Rivers rising off this high ground flowed westward into a major inland sea located in the north of present-day Namibia. The Company's diamond targets cover former headwaters of this ancient river system and lie within the southern margin of the Congo craton.

Base and Precious Metals Project

In 2005, the Company initiated an internal investigation with respect to the location of the sulphides-rich Matchless Amphibolite Belt ("MAB") comprising mineralized meta-ophiolites that stretches from Namibia into Botswana and most likely beyond. Copper (Cu), cobalt (Cu) and nickel (Ni) mineralization along this Matchless Belt has been known for more than a century. Our work has indicated that the MAB tranverses our license blocks in northwest Botswana linking the Damaran Belt to the Lufilian Arc. The Lufilian Arc, better known as the Zambian copper belt (>25 million tons of copper produced in Zambia), and its extension into Katanga (Democratic Republic of Congo), is a major source of mineral wealth that has captured the minds of exploration geologists and mining magnates ever since the discovery of this huge metallogenic province revealed its copper, cobalt and uranium riches, more than 80 years ago. Drilling in 2008 located a large mineralized zone containing Cu, Ni and Co similar to the Zambian copper-cobalt fields and the mafic- ultramafic rocks of the Matchless-Mwembshi Belt as well as the marked similarities that characterize all major Proterozoic polymetalic stratiform deposits in Africa, Australia and North America. The Company's new discovery in northwest Botswana has a rich potential for an extensive new base metal field.

General

During the year, the Company formalized its stewardship membership with AEON (Africa Earth Observatory Network) at the University of Cape Town, Cape Town, South Africa. AEON under the direction of Dr. Maarten de Wit is a center for Earth-systems science that provides a research and educational environment for consilience between earth and life sciences, engineering, resource economics and the human sciences. AEON is developing earth stewardship as a science and cultivates cutting-edge globally competitive research and analytical learning, using advanced tools and technologies to promote an interdisciplinary view and exploration of our Earth and society, particularly in Africa. The AEON science advisory group comprises 18 members spread across four continents, five South African universities and from industry.

NEWDICO (Pty) Limited ("Newdico")

Summary of work completed in 2008 and to date

◊ Electron microprobe analysis on over 4,000 kimberlite indicator minerals ("KIM") from kimberlites A41, C15, A36, 1821C16, PD07, PD25, B1, B2, B3, B4, B5, B6, B7, B8 and B9 as well as those from A15 was completed in early 2009. The KIM's chemical compositions are being examined to establish their suitability for the purpose of aiding the Company's decision in determining which if any kimberlites in the Nxau Nxau should be examined for macro-diamond.

◊ A detailed petrography study is ongoing on core samples from these kimberlites for the purpose of determining their diamond-carrying potential.

◊ A complete study of the kimberlites in the Company's Nxau Nxau kimberlite field for the purposing of selecting kimberlites for macro diamond analysis is expected to be completed in the 2nd quarter.

◊ Eight exploration licenses totaling 7,396 square kilometers were relinquished during the year while ten licenses totaling 9,400 square kilometers were retained.

◊ See, **Combined Work Program** below.

Planned Exploration Program for 2009

The program is based on our strategy of using a combination of indicator mineral sampling, magnetic and gravity data to generate individual targets for drill evaluation and our regional strategy of evaluating possible transport corridors giving rise to the alluvial secondary kimberlite indicator minerals ("KIM") and diamond deposits at Tsumkwe and Omatako. Our program for 2009 will include the following:

◊ Drill testing of approximately ten magnetic target anomalies to the east / northeast of the Nxau Nxau kimberlite field will commence in the 2nd quarter.

◊ Completion of a ground magnetic geophysical survey covering approximately 300 square kilometers has commenced and will be completed in the 2nd quarter.

◊ Our study of the linkages between magnetotellurics, other geophysical variables and kimberlite occurrences and it's applicability to our license areas in northwest Botswana will continue in 2009. Work to date shows that there is a correlation of certain values for diamondiferous kimberlites as shown by the Resistivity and Temperature maps at a 200 kilometer depth in relation to high resistivity value areas and low temperature. This will assist us in prioritizing our drill target selection.

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

GCWIHABA Resources (Pty) Limited ("Gcwihaba")

Diamond Licenses

Summary of work completed in 2008 and to date

◊ Core samples from priority targets have been submitted for petrography review.

◊ Four exploration licenses totaling 3,875 square kilometers were relinquished during the year and five exploration licenses comprising 3,325 square kilometers were granted.

◊ See, **Combined Work Program** below.

Planned Exploration Program for 2009

◊ Drill testing of priority 1 and 2 target anomalies will continue during the year.

◊ A ground magnetic geophysical survey covering approximately 2,500 square kilometers has commenced and will be completed in the 3rd quarter.

Base and Precious Metals Licenses

Summary of work completed in 2008 and to date

◊ Two exploration licenses totaling 1,842 square kilometers were relinquished during the year while twelve licenses comprising 9,000 square kilometers were granted.

◊ Twenty exploratory holes were drilled in license blocks PL049/2008 and 050/2008. Fifteen holes intersect disseminate and massive mineralized sulfides.

◊ An examination of geochemical and geophysical variations in the Ngamiland area and the application of these observations to constrain areas of possible economic interest on a regional scale continued. Amongst the data types compared are: aeromagnetics, geology, soil geochemistry degree of exposure and detailed geophysics data interpretations

◊ See, **Combined Work Program** below.

Planned Exploration Program for 2009

◊ Contined drilling of base metals targets to define the mineralized structures discovered in 2008.

◊ Develop an operating program to implement the requirements of NI 43-101 for stating mineral reserves and mineral resources on the Gcwihaba base and precious metal license blocks.

Combined Newdico and Gcwihaba Work Program

Summary of work completed in 2008 and to date

◊ A total of 63 kilometers of roads were cleared in Newdico and Gcwihaba license blocks and made accessible for the ground geophysical survey crew and drill equipment.

◊ A total of 4,378 kilometers of geophysical ground magnetic surveys were completed in Newdico and Gcwihaba license blocks.

◊ 4,000 meters of diamond core drilling were completed over twenty-three Newdico and Gcwihaba priority targets.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2008, the Company had negative net working capital of ($471,355) (2007: $207,155), which included cash and equivalents $61,827 (2007: $53,197). 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 completed a private placement for an additional $405,000 in February 2009, see discussion in Financing Activities below. The Company does not hedge its activities or otherwise use derivatives. At year end, the Company did not have any material contractual obligations. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of December 31, 2008, the expenditure requirements if held to their full term and exclusive of license fees are:

Newdico	1,500,000 BWP	$193,335
Gcwihaba - Diamond	2,060,000 BWP	$265,513
Gcwihaba - Base and Precious Metals	4,400,000 BWP	$567,116

Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments. The company does not hold financial derivatives. 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 decreased from $254,392 in fiscal December 31, 2007 to $164,324 for the year ended December 31, 2008. The decrease was due to a decrease in stock based compensation; the allocation of salaries to the Company's Botswana subsidiaries; and, management's decision to lower expenses pending completion of research and analysis with respect to the prioritization of drill targets.

ANNUAL INFORMATION

(in US dollars)	Fiscal Year Dec. 31 2008	Fiscal Year Dec. 31 2007
Total Revenues	--	--
Loss before Non-controlling Interest	(363,486)	(504,075)
Basic and diluted loss per share	($0.02)	($0.04)
Non-controlling Interest	--	--
Net Loss for the Year	(363,486)	(504,075)
Basic and diluted loss per share	($0.02)	($0.04)
Total Assets	4,725,290	4,050,815
Total long term liabilities	214,854	228,395
Cash dividends declared	--	--

QUARTERLY INFORMATION

(in US Dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4*
Fiscal Year 2007 (ended December 31, 2007)				
Total Revenues	--	--	--	--
Loss for the period	(97,193)	(239,086)	(42,114)	(125,682)
Basic and diluted loss per share	($0.01)	($0.02)	($0.00)	($0.01)
Total Assets	3,491,244	3,779,683	3,904,928	4,050,815
Total long term liabilities	225,763	225,236	229,607	228,395
Fiscal Year 2008 (ended December 31, 2008)				
Total Revenues	--	--	--	--
Loss for the period	(163,734)	(234,045)	(111,688)	145,981
Basic and diluted loss per share	($0.01)	($0.02)	($0.01)	$0.02
Total Assets	4,246,648	4,220,483	4,337,120	4,725,290
Total long term liabilities	228,395	228,395	228,395	214,854

See accompanying notes to the consolidate financial statements

Investing Activities

Cash flow applied in investing activities decreased to $682,200 for the year ended December 31, 2008 (2007: $748,789).

Total expenditures of $820,118 on exploration properties for the period ended December 31, 2008 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 7.14% to 6.36% attributed to the Trans Hex Group for the Newdico project. There were no material disposals of capital assets or investments during the year.

In December 2008, the board of directors of Newdico approved an exploration program and budget for the period January 1, to December 31, 2009 that calls for expenditures totaling approximately Pula 8.65 million (approximately $1.15 million as of December 31, 2008). The 2009 budget envisions a mini-bulk sampling program for macro-diamond analysis on one or more kimberlites. To date, no kimberlite has been selected for such testing. Trans Hex Group is presently responsible for funding 6% of the expenses of this company. The approved exploration program includes provision for additional drilling, soil sampling, ground geophysical surveys, processing and analysis.

Financing Activities

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

During the year ended December 31, 2008 the Company received gross proceeds in the amount of $600,000 from the issuance of units consisting of one common share and one warrant related to private placements.

Private Placement Date	No. of Units	Price per Unit	Proceeds
March 11, 2008	457,901	$0.71	$325,000
November 14, 2008	463,492	$0.59	$275,000

Additional proceeds in the amount of $85,000 were received from the advance subscription on the issuance of common shares for the offering February 26, 2009.

Subsequent to the fiscal period end, the Company issued, through a non-brokered private placement 728,061 units at a price of $0.71 (CAD$0.70) per unit for gross proceeds of $405,000. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of C$0.70 for a period of two years. The common shares, warrants and warrant shares are subject to a hold period of 12 months, as agreed to by the parties, expiring on February 26, 2010.

Tsodilo expects to raise the amounts required to fund its 94% share of the Newdico project, the Gcwihaba projects and corporate general and administration expenses, by way of non-brokered private placements.

RESULTS OF OPERATIONS

On a consolidated basis, Tsodilo recorded a net loss of $363,486 in the fiscal year ended December 31, 2008 ($0.02 cents per common share) compared to a net loss of $504,075 in the fiscal period ended December 31, 2007 ($0.04 cents per common share). The Company experienced decreases in travel, investor relations and office and admin expenses reflecting general corporate activity. The decrease in stock option expense reflects the timing of option grants.

Exploration expenditures on all projects amounted to $820,118 during the year ended December 31, 2008 compared to $914,757 for the year ended December 31, 2007. Exploration expenditures incurred on the Newdico project for the year ended December 31, 2008 was $685,235 compared to $908,321 for the year ended December 31, 2007. The principal components of the Newdico exploration program were: (a) additional soil sampling and the completion of the processing and analysis of the soil samples; (b) commissioning of further ground magnetic surveys of selected aeromagnetic anomalies; (c) analyzing detailed proprietary aeromagnetic maps covering the target areas; and (d) commencement of a diamond core drilling program on selected targets. Exploration expenditures incurred on the Gcwihaba project for the year ended December 31, 2008 were $134,883 compared to $6,436 for the year ended December 31, 2007.

PERSONNEL

At December 31, 2008, the Company and its subsidiaries employed twenty-three (23) individuals compared to twenty (20) at December 31, 2007, including senior officers, administrative and operations personnel including those on a short-term service basis.

FOURTH QUARTER – 2008

The fourth quarter was a normal operating period for a quarter and year end. Having acquired drilling equipment and geophysical equipment in 2006 and an additional magnetometer during the current year, the Company was able to continue its drilling program and its geophysical surveys to the end of the year without interruption. Operating expenses were at normal levels for the last quarter of the year.

RISKS AND UNCERTAINTIES

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

Capital Requirements

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

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financing arrangements., such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instrument obligations or any obligations that trigger liquidity market or credit risk to the Company.

Exploration Risks

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

CRITICAL RISK FACTORS

Currency Risks

The Company's financing has generally been received in United States Dollars (USD) while significant portions of its operating expenses has been and will be incurred in Botswana Pula (BWP). The current USD / BWP currency exchange rate has never been more favorable to the Company. While currency fluctuations will certainly occur throughout 2009 as the world economic and credit crisis seeks stabilization, it is anticipated that the USD / BWP exchange rate will remain advantageous to the Company on a historical basis in 2009.

Key Personnel

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

ACCOUNTING STANDARDS

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

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

ADOPTION OF NEW ACCOUNTING STANDARDS

New Accounting Pronouncements

Effective January 1, 2008 the Company is required to adopt the following new Canadian accounting pronouncements:

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

(ii) Capital disclosures- Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

(iii) Financial Instruments – Sections 3862 & 3863 – Disclosures and Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The adoption of Sections 1400, 1535, 3862 and 3863 did not have a material impact on the consolidated financial statements of the Company.

Future Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") to commence in 2011 for publicly accountable profit-oriented enterprises.

IFRS will replace Canada's Generally Accepted Accounting Principles ("GAAP") and the official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company's Botswana subsidiaries already report using IFRS and Tsodilo Resources Limited will adopt IFRS according to requirements outlined by the AcSB, and is in the process of preparing for the adoption of IFRS on January 1, 2011.

Impact of Adoption of International Financial Reporting Standards ("IFRS")

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure.

The Company's IFRS conversion project consists of four phases: raise awareness; assessment; design; and implementation. The Company is currently in the process of identifying the significant differences between Canadian GAAP and IFRS as it relates to Tsodilo Resources Limited.

As the Company continues to evaluate the impact of adoption on its processes and accounting policies it will provide updated disclosure where appropriate.

Business combinations and related sections

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations".

RELATED PARTY TRANSACTIONS

During the year, the Company borrowed funds from a person who is an officer and director of the Company. The loans are interest free, payable upon demand and have no other terms of repayment. The amount of borrowing and repayment for fiscal years 2008 and 2007 are as follows:

	Total Amount Borrowed	Total Amount Repaid	Amount Outstanding at year end
2008	$55,000	$75,000	$105,000
2007	$145,000	$20,000	$125,000

During the years ended December 31, 2006, 2007 and 2008, the company incurred accrued annual salary (2006: $8,650, 2007: $130,000, 2008: $156,000) and leave benefits (2008: $19,024) payable to an officer and director of the company amounting to $313,674. In 2007, accrued leave benefits in the amount of $87,192 was offset by an officer and director for the exercise of options (exercise cost $20,203) on December 7, 2007 and participation (97,102 units for a value of $66,989) in the Company's December 2007 private placement.

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

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

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

As of December 31, 2008, TSDB holds a 94% (2007: 93%) interest in Newdico while THD holds 6% (2007: 7%). The change in the parties' respective interest in the project is attributed to the dilution of THD's interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

Loan from Tsodilo Resources Bermuda Limited	Primary	$ 3,982,821
	Secondary	$ 705,244
Total Loan Outstanding Eliminated in Consolidation		$ 4,668,065
Loan from Trans Hex Diamonds Ltd (Minority Interest)	Primary	$ 214,854

OUTLOOK

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

ADDITIONAL INFORMATION

Additional information relating to Tsodilo Resources Limited is available at **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.

Gary Bojes

Gary A. Bojes
Chief Financial Officer
March 27, 2009

THIS PAGE INTENTIONALLY LEFT BLANK

Financial Reporting Responsibility of Management

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

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

The financial statements for the period ended December 31, 2008, have been audited by Ernst & Young, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

James M. Bruchs
President and Chief Executive Officer
March 27, 2009

Gary A. Bojes
Chief Financial Officer
March 27, 2009

Auditors' Report

To the Shareholders,

Tsodilo Resources Limited

We have audited the consolidated balance sheet of Tsodilo Resources Limited as at December 31, 2008 and the consolidated statements of operations and comprehensive loss, deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements at December 31, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 21, 2008.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada
March 27, 2009

Tsodilo Resources Limited

Consolidated Balance Sheets

As at December 31, 2008 and 2007

(in United States dollars)

	2008	2007
ASSETS		
Current		
Cash	61,827	53,197
Accounts receivable and prepaid expenses	19,491	33,294
	81,318	86,491
Exploration Properties *(note 3)*	4,158,993	3,338,875
Property, Plant and Equipment *(note 4)*	484,979	625,449
	4,725,290	4,050,815
LIABILITIES		
Current		
Accounts payable and accrued liabilities	362,673	168,646
Notes Payable (*note 8*)	105,000	125,000
Capital Subscriptions *(note 13)*	85,000	--
	552,673	293,646
Non-Controlling Interest *(note 3 and 8)*	214,854	228,395
SHAREHOLDERS' EQUITY		
Share Capital *(note 5)*	27,862,864	27,423,585
Warrants *(note 5b)*	417,815	1,194,742
Contributed Surplus *(note 5c)*	7,798,255	6,668,132
Accumulated Other Comprehensive Income	(837,425)	(837,425)
Deficit	(31,283,746)	(30,920,260)
	3,957,763	3,528,774
	4,725,290	4,050,815

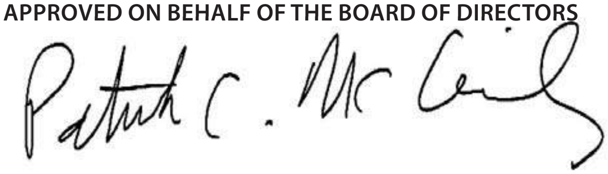
Going Concern *(note 1)*

Subsequent events *(note 13)*

Commitments *(note 11)*

See accompanying notes to the consolidate financial statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS



Patrick C. McGinley
Chairman of the Audit Committee

James M. Bruchs
Director

Tsodilo Resources Limited
Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2008 and 2007

(in United States dollars)

	2008	2007
Expenses		
Corporate remuneration	25,026	123,624
Corporate travel and subsistence	784	8,233
Investor relations	13,924	52,159
Legal and audit	42,519	44,397
Filings & Regulatory Fees	23,390	39,780
Office and administration	80,344	9,067
Amortization	2,552	2,926
Foreign exchange gain	(21,663)	(22,868)
Stock-based compensation *(note 5)*	196,610	246,757
Loss before non-controlling interest	(363,486)	(504,075)
Non-controlling interest	-	-
Loss and comprehensive loss for the year	(363,486)	(504,075)
Basic and diluted loss per share - cents (note 7)	$(0.02)	$(0.04)

See accompanying notes to the consolidate financial statements

Tsodilo Resources Limited
Consolidated Statements of Deficit

For the years ended December 31, 2008 and 2007

(in United States dollars)

	2008	2007
Deficit – Beginning of period	(30,920,260)	(30,416,185)
Loss for the year	(363,486)	(504,075)
Deficit - End of year	(31,283,746)	(30,920,260)

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

Tsodilo Resources Limited

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(in United States dollars)

	2008	2007
Cash provided by (used in):		
Operating Activities		
Loss for the year	(363,486)	(504,075)
Adjustments for non-cash items:		
Amortization	2,552	2,926
Stock-based compensation *(note 5)*	196,610	246,757
	(164,324)	(254,392)
Net change in non-cash working capital balances *(note 12)*	207,829	87,046
	43,505	(167,346)
Investing Activities		
Exploration properties	(659,714)	(735,774)
Additions to property, plant and equipment	(22,486)	(13,015)
	(682,200)	(748,789)
Financing Activities		
Shareholder Loan issued	55,000	125,000
Shareholder Loan redeemed	(75,000)	--
Capital Subscriptions	85,000	--
Issue of common shares	595,866	660,251
Change in non-controlling interest	(13,541)	(17,096)
	647,325	768,155
Change in cash - For the year	8,630	(147,980)
Cash - Beginning of year	53,197	201,177
Cash - End of year	61,827	53,197

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 recovery of the Company's investment in mineral properties and the attainment of profitable operations are dependent upon the discovery, development and sale of ore reserves, and the renewal of licenses, the ultimate outcome of which cannot presently be determined as they are contingent on future events. The Company along with its subsidiaries operates internationally with projects in continental Africa. These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which assumes continuity of operations, realization of assets, and settlement of liabilities in the normal course of business.

As at December 31, 2008, the Company reported an accumulated deficit of $31,283,746 [2007: $30,920,260] and negative net cash outflows from operations of $164,324 [2007: $254,392] for the year then ended. The cash position of the Company is insufficient to finance continued exploration. As an exploration stage company, it is currently unable to self-finance its operations. Management believes that it will be able to secure the necessary financing through a combination of the issue of new equity or debt instruments, the entering into of joint venture arrangements or the exercise of warrants and options for the purchase of common shares. However, there is no assurance that the Company will be successful in these actions.

As at December 31, 2008, the Company had cash of $61,827 [2007: $53,197] and received $320,000 [2007: $325,000] subsequent to year end.

These financial statements do not reflect the adjustments, which could be material, to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate.

The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position at December 31, 2008 and its results of operations and its cash flows for the period then ended and for all such periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the consolidated financial statements

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

Group Companies as at December 31

	2008	2007
Tsodilo Resources Bermuda Limited	100%	100%
Gcwihaba Resources (Proprietary) Ltd ("Gcwihaba") [Botswana]	100%	100%
Newdico (Proprietary) Limited ("Newdico") [Botswana]	94% (note 3)	93% (note 3)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

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

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The most significant estimates are related to the valuation of warrants and options, the recoverability of exploration expenditures, and property, plant and equipment. There are no contingencies. Actual results could differ from those estimates.

Exploration properties

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

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

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

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

Mineral properties are reviewed for impairment and if deemed impaired, an impairment loss is measured and recorded based on the net recoverable value of the asset.

Property, Plant and Equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

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

Income Taxes

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

Stock-Based Compensation Plans

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

Asset Retirement Obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur and/or in which a reasonable estimate of such costs can be made using the total undiscounted cash flows required to settle estimated obligations, estimated expected timing of cash flow payments required to settle the obligations and estimated credit-adjusted risk free discount rates and inflation rates. As at December 31, 2008, the Company did not have any asset retirement obligations.

Financial Instruments

Effective January 1, 2007, the Company adopted a new standard, the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Under the new standard, all financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

Comprehensive Income, Section 1530

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

ADOPTION OF NEW ACCOUNTING STANDARDS

New Accounting Pronouncements

Effective January 1, 2008 the Company is required to adopt the following new Canadian accounting pronouncements:

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

(ii) Capital disclosures- Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

(iii) Financial Instruments – Sections 3862 & 3863 – Disclosures and Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The adoption of Sections 1400, 1535, 3862 and 3863 did not have a material impact on the consolidated financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") to commence in 2011 for publicly accountable profit-oriented enterprises.

IFRS will replace Canada's Generally Accepted Accounting Principles ("GAAP") and the official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company's Botswana subsidiaries already report using IFRS and Tsodilo Resources Limited will adopt IFRS according to requirements outlined by the AcSB, and is in the process of preparing for the adoption of IFRS on January 1, 2011.

Impact of Adoption of International Financial Reporting Standards ("IFRS")

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure.

The Company's IFRS conversion project consists of four phases: raise awareness; assessment; design; and implementation. The Company is currently in the process of identifying the significant differences between Canadian GAAP and IFRS as it relates to Tsodilo Resources Limited.

As the Company continues to evaluate the impact of adoption on its processes and accounting policies it will provide updated disclosure where appropriate.

Business combinations and related sections

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011 unless they are early adopted at the same time as Section 1582 "Business Combinations".

3. EXPLORATION PROPERTIES

Exploration properties are summarized as follows:

	Newdico Botswana	Gcwihaba Botswana	Total
Balance at December 31, 2006	**$ 2,193,446**	**$ 230,672**	**$ 2,424,118**
Jan. to Dec 2007 expenditures	908,321	6,436	914,757
Balance at December 31, 2007	**3,101,767**	**237,108**	**3,338,875**
Jan. to Dec 2008 expenditures	685,235	134,883	820,118
Balance at December 31, 2008	**$ 3,787,002**	**$ 371,991**	**$ 4,158,993**

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

Newdico (Proprietary) Limited (“Newdico”) - Botswana

Newdico holds prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 1999, 2001 and 2003. In 2005, the Company was reissued its prospecting licenses for an initial term of three years expiring June 30, 2008, renewable for 2 two year periods upon application and have a final expiry of 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 determine to be non-prospective for an economic kimberlite discovery. The relinquishment of this portion of the overall licenses will not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The balance of the licenses totaling 9,400 square kilometers were renewed for 2 two year periods. The terms of the licenses require Newdico to spend a minimum of Botswana Pula 1.5 million (approximately $193,335 as at 12/31/08) exclusive of license fees in the first two year period if the licenses were retained for their full award term.

Originally, Newdico was held 75% by Tsodilo and 25% by Trans Hex Group Limited (“THG”), with Tsodilo being the operator. THG has funded or been attributed to its proportionate share of expenditure and these amounts have been reflected as non-controlling interest of $214,854 (2007: $228,395) in the financial statements. During the year ended December 31, 2008, THG decided not to fund its proportionate share of expenditures on cash calls and therefore as of December 31, 2008, the Company’s interest in Newdico had effectively increased from 75% to 94% (2007: 93%) in accordance with the exploration agreement between the two parties.

Trans Hex Group has also advanced funds amounting to $124,567 (2007: $205,591) to Newdico, relating to exploration properties which have been written off in earlier years. This liability has not been recorded in these financial statements as it is repayable only from Trans Hex Group’s share of any future earnings of Newdico after repayment of loans relating to the Newdico Project.

3. EXPLORATION PROPERTIES (CONTINUED)

GCWIHABA RESOURCES (PROPRIETARY) LIMITED ("GCWIHABA") – BOTSWANA

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

Diamond Exploration

Gcwihaba holds prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 2003, 2006 and 2008. The combined area totaled approximately 7,543 square kilometers as of December 31, 2007. In June 2008, the licenses were evaluated and the Company relinquished various licenses totaling 3,230 square kilometers as those areas were determine to be non-prospective for an economic kimberlite discovery. The terms of the remaining licenses require Gcwihaba to spend a minimum of Botswana Pula 2.06 million (approximately $265,513 as at 12/31/08) exclusive of license fees in the period ending January 1, 2011, if the licenses were retained for their full award term.

Base and Precious Metal Exploration

Gcwihaba holds base and precious metals prospecting licenses in the Ngamiland District of northwest Botswana. The Company acquired the various licenses in 2005 and 2008. In total the company holds fourteen licenses totaling 10,978 square kilometers. Two of the licenses are in their first two year renewal period while the remaining licenses are in their initial three grant period. During the year, the Company did not renew the licenses on two blocks as after evaluation they were determined to be non prospective for containing a economic deposit of base or a precious metal. The terms of the remaining licenses require Gcwihaba to spend a minimum of Botswana Pula 4.40 million (approximately $567,116 as at 12/31/08) exclusive of license fees in the period ending September 31, 2011, if the licenses were retained for their full award term.

General

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of permits and the potential for problems arising from government conveyance accuracy, prior unregistered agreements or transfers, native land claims, confirmation of physical boundaries, and title may be affected by undetected defects. The Company does not carry title insurance. The Company has evaluated title to all of its mineral properties and believes, to the best of its knowledge, that evidence of title is adequate and acceptable given the current stage of exploration.

4. PROPERTY, PLANT AND EQUIPMENT

	Depreciation Rate in Years	Cost	Accumulated amortization	Book value
December 31, 2008				
Vehicles	5 Years	$ 887,855	$ 436,503	$ 451,352
Furniture and Equipment	3 Years	111,094	77,467	33,627
		$ 998,949	**$ 513,970**	**$ 484,979**
December 31, 2007				
Vehicles	5 Years	$ 887,855	$ 293,688	$ 594,167
Furniture and Equipment	3 Years	88,608	57,326	31,282
		$ 976,463	**$ 351,014**	**$ 625,449**

For the year ended 2008, an amount of $160,404 (2007: $172,546) of amortization has been capitalized under exploration properties.

5. SHARE CAPITAL

(a) Common Shares

Authorized

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

Issued and outstanding

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

	Shares (number)	Amount $
Issued and outstanding at December 31, 2006	13,435,838	27,024,564
On private placement for cash in 2007 See (i) to (v) below	866,502	615,858
Ascribed to exercise of Options	200,000	44,392
Ascribed to warrants issued in 2007		(261,229)
Issued and outstanding at December 31, 2007	14,502,340	27,423,585
On private placement for cash (v)	457,901	325,000
On private placement for cash (vi)	463,492	275,000
Cost of Issuance 2008		(4,135)
Ascribed to warrants issued in 2008	-	(156,586)
Issued and outstanding at December 31, 2008	15,423,733	27,862,864

5. SHARE CAPITAL (CONTINUED)

(i) Private Placement

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

(ii) Private Placement

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

(iii) Private Placement

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

(iv) Private Placement

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

(v) Private Placement

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

(vi) Private Placement

On November 14, 2008, the Company issued, through a non-brokered private placement, 463,492 units of the Company at a price of $0.59 (C$0.70) per unit for gross proceeds to the Company of $275,000. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$0.70) for a period of two years.

5. SHARE CAPITAL (CONTINUED)

(b) Warrants

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

		Number of Warrants			Value		
Expiry	Exercise Price	Opening	Issued [Exercised] (Expired)	Closing	Opening (dollars)	Issued [Exercised] (Expired)	Closing (dollars)
January 27, 2008	C$1.00	468,776	(468,776)	--	146,788	146,788	--
February 21, 2008	C$1.00	319,108	(319,108)	--	109,988	109,988	--
May 4, 2008	C$0.70	649,984	(649,984)	--	167,886	167,886	--
July 19, 2008	C$0.70	161,586	(161,586)	--	49,643	49,643	--
September 21, 2008	C$0.70	791,339	(791,339)	--	459,208	459,208	--
February 13, 2009	C$0.80	141,516		141,516	55,047	--	55,047
May 18, 2009	C$0.80	167,146		167,146	40,408	--	40,408
June 29, 2009	C$0.80	231,714		231,714	67,829	--	67,829
December 19, 2009	C$0.70	326,126		326,126	97,945	--	97,945
March 10, 2010	C$0.70	--	457,901	457,901	--	104,958	104,958
November 14, 2010	C$0.70	--	463,852	463,852	--	51,628	51,628
		3,257,295	(1,469,040)	1,788,255	1,194,742	776,927	417,815

During the year ended December 31, 2008, 921,753 warrants were issued and a value of $156,586 was attributed as at December 31, 2008 (2007: 866,502 issued and a value of $261,229 was attributed). During the year ended December 31, 2008, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 101% to 116% (2007: 99 to131%), a risk-free interest rate of approximately 2% (2007: 4%), a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company.

(c) Contributed Surplus

As at December 31, 2006	6,336,205
Relating to the expiry of warrants	85,170
Relating to stock based compensation	246,757
As at December 31, 2007	6,668,132
Relating to the expiry of warrants	933,513
Relating to stock based compensation	196,610
As at December 31, 2008	7,798,255

5. SHARE CAPITAL (CONTINUED)

(d) Stock Option Plan

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

Expiry	Price	Outstanding December 31, 2006	Granted [Cancelled] (Exercised)	Outstanding December 31, 2007	Granted	[Cancelled] (Exercised)		Outstanding December 31, 2008	Exercisable December 31, 2008
June 24, 2007	C$0.15	100,000	(100,000)	0		0	(i)		0
September 18, 2007	C$0.23	100,000	[50,000] (50,000)	0		0	(i)		0
December 31, 2007	C$0.41	50,000	(50,000)	0		0	(ii)		0
July 8, 2008	C$0.50	100,000		100,000		[100,000]	(ii)	0	0
January 1, 2009	C$0.75	50,000		50,000			(ii)	50,000	50,000
August 31, 2009	C$0.75	200,000		200,000			(ii)	200,000	200,000
January 3, 2010	C$1.85	60,000		60,000		[10,000]	(ii)	50,000	50,000
August 15, 2010	C$1.25	260,000		260,000		[100,000]	(ii)	160,000	160,000
January 3, 2011	C$1.25	60,000		60,000		[10,000]	(ii)	50,000	50,000
April 24, 2011	C$0.70	300,000		300,000		[150,000]	(ii)	150,000	150,000
August 15, 2011	C$0.70	65,000		65,000		0	(ii)	65,000	65,000
November 1, 2011	C$1.00	50,000	[50,000]	0			(ii)	0	0
January 2, 2012	C$1.00	-	85,000	85,000		[10,000]	(ii)	75,000	75,000
May 8, 2012	C$0.80	-	550,000	550,000		[150,000]	(ii)	400,000	400,000
January 2, 2015	C$0.70	-			210,000		(ii)	210,000	105,000
May 8, 2015	C$0.70	-			350,000		(ii)	350,000	175,000
Total		1,395,000	335,000	1,730,000	560,000	[530,000]		1,760,000	1,480,000

Options exercisable at end of year	873,375	1,396,250	1,480,000
Weighted average exercise price			
- issued	C$0.76	C$0.79	C$0.83
- outstanding	C$0.80	C$0.88	C$0.91
- exercisable	C$0.79	C$0.90	C$0.94

All options have a term of five years.

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

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

(iii) The Company recognized an expense of $196,610 (2007: $246,757) relating to the fair value of options granted and vesting during the year. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility ranging from 105% to 117%, a risk-free interest rate of approximately 3.5%, a term equivalent to the life of the option, and reinvestment of all dividends in the Company.

6. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rate of approximately 33.50% (Dec. 2007 – 36.12%) to income before taxes as follows:

	Dec-31 2008	Dec-31 2007
Net loss for the period	(363,486)	(504,075)
Income tax (recovery) provision at Canadian statutory	33.50%	36.12%
Income tax rates	(121,768)	(182,072)
Effect of statutory tax rate change	254,534	92,943
Permanent differences	65,864	89,129
Change in valuation allowances	(666,424)	-
Expiry of tax losses	484,232	-
Other	(16,438)	-
Provision for (recovery of) income taxes	-	-

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

	Dec-31 2008	Dec-31 2007
Property, Plant and Equipment	29,000	8,000
Exploration & Development - Canada	20,000	93,000
Exploration & Development - Botswana	(1,348,000)	(1,206,002)
Losses carried forward - Canada	539,000	1,197,000
Losses carried forward - Botswana	1,480,000	1,294,426
Other	35,000	35,000
Subtotal – future income tax asset	755,000	1,421,424
Valuation allowance	(755,000)	(1,421,424)
Net future income tax asset recorded	-	-

At December 31, 2008, the Company has Canadian net operating losses carried forward that expire as follows:

Loss	Year of Expiry
322,000	2009
383,000	2013
505,000	2014
198,000	2015
227,000	2026
210,000	2027

Total assessable losses relating to the activity in Botswana as at December 31, 2008 was $5,148,331 (December 31, 2007: $3,209,762).

7. LOSS PER SHARE

Loss per share is computed on the basis of the loss of ($363,486) for the year ended December 31, 2008 [2007: ($504,075)] and the weighted average number of common or equivalent shares outstanding during period, December 31, 2008: 14,993,408 (2007: 13,889,166). The effects of stock options and warrants in computing diluted per share amounts for December 31, 2008 and December 31, 2007 are anti-dilutive.

8. RELATED PARTY TRANSACTIONS

During the year, the Company borrowed funds from a person who is an officer and director of the Company. The loans are interest free, payable upon demand and have no other terms of repayment. The amount of borrowing and repayment for fiscal years 2008 and 2007 are as follows:

	Total Amount Borrowed	Total Amount Repaid	Amount Outstanding at year end
2008	$55,000	$75,000	$105,000
2007	$145,000	$20,000	$125,000

During the years ended December 31, 2006, 2007 and 2008, the company incurred accrued annual salary (2006: $8,650, 2007: $130,000, 2008: $156,000) and leave benefits (2008: $19,024) payable to an officer and director of the company amounting to $313,674.

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

Of the outstanding loan amounting to C$1,611,058 as at 31 March 2002, C$1,149,078 shall constitute a secondary loan, deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof and such secondary loans shall only be repayable after the primary loans have been repaid to TSDB and THD in full. These secondary loans shall be repayable before any additional secondary loans, which shall be repaid in the proportions in which they have been advanced. Thereafter, as to the secondary loans which existed as of March 31, 2002, in proportion after the additional secondary loans have been repaid, C$461,981 shall be deemed to have been advanced to the company by TSDB as to 75% thereof and THD as to 25% thereof ("the primary loan"). The primary loans shall be repayable in full before any parts of the secondary loans are repayable.

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

As of December 31, 2008, TSDB holds a 94% (2007: 93%) interest in Newdico while THD holds 6% (2007: 7%). The change in the parties' respective interest in the project is attributed to the dilution of THD's interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

Loan from Tsodilo Resources Bermuda Limited	Primary	$ 3,982,821
	Secondary	705,244
Total Loan Outstanding Eliminated in Consolidation		$ 4,668,065
Loan from Trans Hex Diamonds Limited (Minority Interest)	Primary	$214,854

9. SEGMENTED INFORMATION

Materially all of the Company's property plant and equipment is presently located in North America ($1,862) and Botswana ($483,117). The geographic distribution of the property acquisition costs and exploration expenditures is outlined in note 3.

10. FINANCIAL INSTRUMENTS

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents (classified by the Company as held for trading), accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments. The company does not have any financial derivatives.

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 Risk Management

The Company manages it capital to safeguard the Company's ability to continue as a going concern, to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in the shareholder's equity as capital. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders.

b. Liquidity Risk

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

c. Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet it contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents and short term investment are held with major Canadian based financial institutions.

10. FINANCIAL INSTRUMENTS (continued)

d. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents. The Company's practice has been to invest cash at floating rates of interest, in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash and cash equivalents as they are generally held with large financial institutions.

11. COMMITMENTS

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

The aggregate minimum lease payments are $41,980 as follows:

2009	$20,478
2010	$21,502

The lease commitment is for storage space in Maun, Botswana at an annual rental of BWP 158,880 per year for 2009 and BWP 166,824 for 2010 converted at an exchange rate as of December 31, 2008 to US dollar.

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

12. NOTES TO THE CASH FLOW

	2008	2007
Net change in non-working Capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	$ 13,803	$ 19,761
Increase in accounts payable and accrued liabilities	194,026	67,295
Total	$ 207,829	$ 87,046

13. SUBSEQUENT EVENTS

Private Placement

On February 26, 2009, the Company issued, through a non-brokered private placement, 728,061 units of the Company at a price of $0.79 (C$0.70) per unit for gross proceeds to the Company of $405,000, $85,000 of this amount was received prior to December 31, 2008. Each unit consists of one common share of the Company and one warrant of the Company, each warrant entitling the holder to purchase one common share of the Company at a price of (C$0.70) for a period of two years.

Warrants

On February 13, 2009, 141,516 warrants expired. On February 26, 2009, 728,061 warrants were issued pursuant to the private placement of the same date.

Stock Option Plan

On January 2, 2009, the Company issued 225,000 options at C$0.70 under its Stock Option Plan to persons who are officers and employees of the Company.

Corporate Information

DIRECTORS

James M. Bruchs
Washington, DC
Appointed as director in 2002

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

R. Stuart Angus
Vancouver, British Columbia
Appointed as director in 2004

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

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

OFFICERS

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

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

Gail McGinley
Corporate Secretary
Appointed in 2005

CORPORATE HEAD OFFICE

Canada Trust Tower - BCE Place
161 Bay Street, Box 508
Toronto, Ontario M5J 2S1

Telephone: (416) 572-2033
Facsimile: (416) 987-4369

Website: **www.TsodiloResources.com**
E-Mail: **info@TsodiloResources.com**

AUDITORS

Ernst & Young, LLP
Vancouver, Canada

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Toronto, Ontario

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: TSD