TSODILO RESOURCES LIMITED

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 September 30, 2009 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 October 30, 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 October 30, 2009, 16,684,699 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 2,095,000 options remain outstanding of which 1,625,000 are exercisable at exercise prices ranging from CAD $0.70 - $1.85. If all options were vested and exercised, 2,095,000 common shares of the Company would be issued.

As of October 30, 2009, 2,508,795 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 a purchase price of Canadian $0.70 for a period of two years from the date of issuance (12/19/2007 – 8/5/2009). If all warrants were converted, 2,508,795 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 16.16% of the issued and outstanding common shares as of October 30, 2009. The SSRedmond Trust, currently owns, controls or directs 2,505,931 or 15.02% of the issued and outstanding shares as of October 30, 2009; David J. Cushing, a director of the Company, currently owns, controls or directs 1,966,366 or 11.78% of the issued and outstanding shares of the Company as of October 30, 2009; and, the Firebird Global Master Fund, Ltd. controls 805,898 or 4.90% of the issued and outstanding shares as of October 30, 2009.

Subsidiaries

The Company has a 95% 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 (5%) 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 6,856 square kilometers and base and precious metal licenses covering 13,400 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 and precious metal field.

NEWDICO (Pty) Limited ("Newdico")

Summary of work completed in the 3rd Quarter 2009 and to date

◊ Samples from kimberlite 2181A, 21521A and 21641A were prepared and sent off to vendors for heavy mineral separation in preparation of kimberlite indicator mineral ("KIM") recovery. Samples were also prepared for detailed petrography analysis to determine their diamond carrying potential

◊ A 10 x 10 kilometer ground magnetic grid survey was initiated over target anomaly 22761A . A 3 x 3 kilometer grid previously completed over this target produced a model signature similar to the Lomonosov kimberlites in Russia but because of the size of the target, it could not be accurately modeled. The enlarged grid survey will be completed in the 4th quarter.

General

◊ 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, B9 and A15 was completed in the 1st quarter of 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 4th quarter.

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 and Base Metals Licenses

Summary of work completed in the 3rd Quarter 2009 and to date

◊ A total of eight holes were drilled in the Gcwihaba base and diamond licensed areas totaling 1,725 meters. Five of these holes encountered massive and disseminated sulphide mineralization (pyrite-chalcopyrite-chalcocite).

◊ Magnetic surveys in Gcwihaba base metal licence areas PL387/2008 and 388/2009 (also covering Gcwihaba diamond licence areas PL049/2008 and PL050/2008) commenced in mid-July and continues to date. The survey is being performed at 20 meter line spacing and a station spacing equivalent to a frequency on one reading every 5 seconds is being employed. A total of 2,104 kilometers were completed during the quarter.

◊ Target prioritization utilizing magnetic data, VTEM data and soil sampling is ongoing.

General

◊ Drilling of base metals targets to define the mineralized structures discovered in 2008 will continue in the 4th quarter.

◊ The development of 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 is ongoing.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2009, the Company had negative net working capital of ($615,645) (2008: $304,754), which included cash and equivalents $23,985 (2008: $17,840). 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, $200,000 in June 2009 and $121,400 in August 2009, see discussion in Financing Activities below. The company currently has subscriptions for an additional private place expected in November 2009 for approximately $400,000. The Company does not hedge its activities or otherwise use derivatives. As at September 30, 2009, 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 September 30, 2009, the expenditure requirements (as of 12.31.08), if held to their full term and exclusive of license fees are:

Newdico	1,500,000 Botswana Pula	$193,335 USD as of 12.31.08
Gcwihaba - Diamond	2,060,000 Botswana Pula	$265,513 USD as of 12.31.08
Gcwihaba - Base and Precious Metals	4,400,000 Botswana Pula	$567,116 USD as of 12.31.08

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 increased from $76,379 in period ended September 30, 2008 to $117,618 for the period ended September 30, 2009. The increase was due management's decision to lower expenses pending completion of research and analysis with respect to the prioritization of drill targets offset by an increase in the change in working capital requirements from advances under subscriptions for anticipated stock issuance in November 2009.

ANNUAL INFORMATION

(in US dollars)	September 30 2009	Fiscal Period June 30 2009	Fiscal Year Dec.31 2008
Total Revenues		--	--
Loss before Non-controlling Interest	(351,050)	(243,551)	(363,486)
Basic and diluted loss per share		($0.02)	($0.02)
Non-controlling Interest		--	--
Net Loss for the Year	(351,050)	(243,551)	(363,486)
Basic and diluted loss per share		($0.02)	($0.02)
Total Assets	5,339,383	5,151,428	4,725,290
Total long term liabilities	277,661	262,361	214,854
Cash dividends declared	--	--	

QUARTERLY INFORMATION

(in US Dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4*
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
Fiscal Year 2009 (ended December 31, 2009)				
Total Revenues	--	--		
Loss for the period	(82,214)	(161,337)	(101,449)	
Basic and diluted loss per share	($0.00)	($0.01)	($0.01)	
Total Assets	4,989,799	5,151,428	5,339,383	
Total long term liabilities	211,615	262,361	277,661	

See accompanying notes to the consolidate financial statements

Investing Activities

Cash flow applied in investing activities increased to $739,431 for the period ended September 30, 2009 (2008: $463,978).

Total expenditures of $4,882,436 on exploration properties for the period ended September 30, 2009 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share 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 5.78% of the expenses of this company as at June 30, 2009. 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 nine month period ended September 30, 2009, the Company received gross proceeds in the amount of $726,400 from the issuance of units consisting of one common share and one warrant related to private placements. Prior to September 30, 2009, the Company received gross proceeds in the amount of $115,000 and subsequently an additional $250,000 through the date of this report as deposits related to a private placement to be completed in November.

Private Placement Date	No. of Units	Price per Unit	Proceeds
February 26, 2009	728,061	$0.71	$405,000
June 3, 2009	331,386	$0.60	$200,000
August 5, 2009	201,519	$0.60	$121,400

Tsodilo expects to raise the amounts required to fund its 95% 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 $351,050 in the period ended September 30, 2009 ($0.02 cents per common share) compared to a net loss of $509,467 in the fiscal period ended September 30, 2008 ($0.02 cents per common share). The Company experienced decreases in corporate remuneration and stock-based compensation expenses reflecting general corporate activity. The decrease in stock option expense reflects the timing of option grants.

Exploration expenditures on all projects amounted to $723,443 during the period ended September 30, 2009 compared to $439,277 for the period ended September 30, 2008. Exploration expenditures incurred on the Newdico project for the period ended September 30, 2009 was $503,869. 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 September 30, 2009 were $219,574.

PERSONNEL

At September 30, 2009, the Company and its subsidiaries employed twenty-three (23) individuals compared to twenty (20) at September 30, 2008, including senior officers, administrative and operations personnel including those on a short-term service basis.

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

As of September 30, 2009, 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 2009, 2008 and 2007 are as follows:

	Total Amount Borrowed	Total Amount Repaid	Amount Outstanding at year end
2009	-	-	$105,000
2008	$55,000	$75,000	$105,000
2007	$145,000	$20,000	$125,000

During the years ended December 31, 2007, 2008 and the quarter ending September 30, 2009, the company incurred accrued annual salary (2007: $130,000, 2008: $156,000, and the 1st, 2nd & 3rd Q2009: $117,000) and leave benefits (2008: $19,024; 1st, 2nd & 3rd Q2009: $14,268) payable to an officer and director of the company amounting to $436,290.

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, 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$461,980.67 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 September 30, 2009, TSDB holds a 95% (June 30, 2008: 93%) interest in Newdico while THD holds 5% (June 30, 2008: 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	$277,661

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 on its website **www.TsodiloResources.com** or through SEDAR at **www.sedar.com**.

FORWARD-LOOKING STATEMENTS

The Second Quarter 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
President and Chief Executive Officer
October 30, 2009

/s/
Gary A. Bojes
Chief Financial Officer
October 30, 2009

TSODILO RESOURCES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2009

(expressed in United States dollars)

Unaudited – Prepared by Management

CONTENTS:

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

Financial Reporting Responsibility of Management

The quarterly 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 September 30, 2009 have not been audited. The consolidated financial statements for the year 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.

/s/
James M. Bruchs
President and Chief Executive Officer
October 30, 2009

/s/
Gary A. Bojes
Chief Financial Officer
October 30, 2009

Tsodilo Resources Limited

Consolidated Balance Sheets

As at September 30

(in United States dollars)

	2009	2008
ASSETS		
Current		
Cash	**23,985**	17,840
Accounts receivable and prepaid expenses	**40,275**	24,961
	64,260	42,801
Exploration Properties *(note 4)*	**4,882,436**	3,778,152
Property, Plant and Equipment *(note 5)*	**392,687**	516,167
	5,339,383	4,337,120
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**459,905**	268,744
Notes Payable (*note 9*)	**105,000**	125,000
Stock Subscriptions	**115,000**	
	679,905	393,744
Non-Controlling Interest *(note 3 and 9)*	**277,661**	228,395
SHAREHOLDERS' EQUITY		
Share Capital *(note 6)*	**28,279,307**	27,831,148
Warrants *(note 6b)*	**564,488**	358,665
Contributed Surplus *(note 6c)*	**8,010,243**	7,792,320
Accumulated Other Comprehensive Income	**(837,425)**	(837,425)
Deficit	**(31,634,796)**	(31,429,727)
	4,381,817	3,714,981
	5,339,383	4,337,120

Going Concern *(note 1)*

Subsequent events *(note 14)*

Commitments *(note 12)*

See accompanying notes to the consolidate financial statements

Tsodilo Resources Limited

Consolidated Statements of Operations

As at September 30, 2009

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

	For the 3 Months		For the 9 Month Period	
	2009	2008	**2009**	2008
Expenses				
Corporate remuneration	**1,756**	34,258	**11,268**	63,768
Corporate travel and subsistence	**--**	300	**--**	785
Investor relations	**168**	2,444	**4,528**	12,174
Legal and audit	**248**	5,227	**7,058**	6,169
Filing and regulatory fees	**4,441**	4,073	**22,839**	23,839
Office and administration	**50,275**	24,764	**104,586**	80,422
Amortization	**38,308**	44,255	**108,280**	133,983
Foreign exchange gain	**12,303**	(3,849)	**43,786**	(2,348)
Stock-based compensation	**--**	216	**48,705**	190,675
Subtotal of Expenses	**107,499**	111,688	**351,050**	509,467
Loss before non-controlling interest	**(107,499)**	(111,688)	**(351,050)**	(509,467)
Non-controlling interest	**-**	-	**-**	-
Loss for the period	**(107,499)**	(111,688)	**(351,050)**	(509,467)
Basic and diluted loss per share - cents (note 8)	**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.03)

Consolidated Statements of Deficit

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

	For the 3 Months		For the 9 Month Period	
	2009	2008	**2009**	2008
Deficit – Beginning of period	**(31,527,297)**	(31,318,039)	**(31,283,746)**	(30,920,260)
Loss for the period	**(107,499)**	(111,688)	**(351,050)**	(509,467)
Deficit - End of Period	**(31,634,796)**	(31,429,727)	**(31,634,796)**	(31,429,727)

See accompanying notes to the consolidate financial statements

Tsodilo Resources Limited
Consolidated Statements of Cash Flows
As at September 30, 2009
(in United States dollars)

(unaudited - Management prepared)	**For the 3 Months**		**For the 9 Months**	
	2009	2008	**2009**	2008
Cash provided by (used in):				
Operating Activities				
Loss for the period	**(107,499)**	(111,688)	**(351,050)**	(509,467)
Adjustments for non-cash items:	**-**	-	**-**	-
Foreign exchange adjustment (gain)	**-**	(1,501)	**-**	-
Amortization	**38,308**	44,255	**108,280**	133,983
Stock-based compensation *(note 6)*	**-**	216	**48,705**	190,675
	(69,191)	(68,718)	**(194,605)**	(184,809)
Net change in non-cash working capital balances	**62,062**	65,550	**76,447**	108,430
	(7,129)	(3,168)	**(117,618)**	(76,379)
Investing Activities				
Exploration properties	**(267,497)**	(180,083)	**(723,443)**	(439,277)
Disposals of / (Additions to) Property, Plant and Equipment	**(16,301)**	(3,212)	**(15,988)**	(24,701)
	(283,798)	(183,295)	**(739,431)**	(463,978)
Financing Activities				
Issue of common shares	**121,400**	180,000	**726,400**	505,000
Capital Subscriptions	**115,000**	-	**30,000**	-
Contribution from non-controlling interest	**15,300**		**62,807**	-
	251,700	180,000	**819,207**	505,000
Change in cash and equivalents - For the period	**(39,227)**	(6,463)	**(37,842)**	(35,357)
Cash and equivalents - Beginning of period	**63,212**	24,303	**61,827**	53,197
Cash and equivalents - End of period	**23,985**	17,840	**23,985**	17,840

See accompanying notes to the consolidate financial statements

Notes to the Consolidated Financial Statements

For the period ended September 30, 2009 and 2008

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 September 30, 2009, the Company reported a net annual deficit of $351,050 [2008: $509,467] and negative net cash outflows from operations of $117,618 [2008: $76,379] 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 September 30, 2009, the Company had cash of $23,985 [2008: $17,840].

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 September 30, 2009 and its results of operations and its cash flows for the period then ended and for all such periods presented.

2. NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

National Instrument 51-102 “Continuous Disclosure Requirements”, Part 4, Subsection 4.3(3) requires: (a) If an auditor has not performed a review of the interim financial statements required to be filed under subsection (1), the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor, Ernst & Young LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor except for those sections relevant to the December 31, 2008 annual audited financial statements.

3. 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 September 30, 2009

	2009	2008
Tsodilo Resources Bermuda Limited	100%	100%
Gcwihaba Resources (Proprietary) Limited [Botswana]	100%	100%
Newdico (Proprietary) Limited [Botswana]	95% (note 3)	93% (note 3)

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.

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 September 30, 2009, 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 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.

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".

4. EXPLORATION PROPERTIES

Exploration properties are summarized as follows:

	Newdico Botswana	**Gcwihaba Botswana**	**Total**
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**
Jan. to Sept. 2009 expenditures	503,869	219,574	723,443
Balance at September 30, 2009	**$ 4,290,871**	**$ 591,565**	**$ 4,882,436**

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 $262,361 (2008: $228,395) in the financial statements. During the period ended September 30, 2009, THG decided not to fund its proportionate share of expenditures on cash calls and therefore as of September 30, 2009, the Company's interest in Newdico had effectively increased from 75% to 95% (2008: 93%) in accordance with the exploration agreement between the two parties.

Trans Hex Group has also advanced funds amounting to C$287,270, relating to exploration properties which have been written off in earlier years. This liability has not been recorded in these financial statements as it is repayable only from Trans Hex Group's share of any future earnings of Newdico after repayment of loans relating to the Newdico Project.

Gcwihaba Resources (Proprietary) Limited ("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 30, 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.

5. PROPERTY, PLANT and EQUIPMENT

	Depreciation Rate in Years	Cost	Accumulated amortization	Book value
September 30, 2009				
Vehicles	5 Years	$ 887,855	$ 531,688	$ 356,167
Furniture and Equipment	3 Years	123,368	86,848	36,520
		$ 1,011,223	**$ 618,536**	**$ 392,687**
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**

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

6. 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, 2007	14,502,340	27,423,585
On private placement for cash (i)	457,901	325,000
On private placement for cash (ii)	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
On private placement for cash (iii)	728,061	405,000
On Private Placement for cash (iv)	331,386	200,000
On Private Placement for cash (v)	201,519	121,400
Cost of Issuance 2009	-	-
Ascribed to warrants issued in 2009	-	(309,957)
Issued and outstanding at September 30, 2009	16,684,699	28,279,307

(i) 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.

(ii) 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.

(iii) 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.

(iv) Private Placement

On June 3, 2009, the Company issued, through a non-brokered private placement, 331,386 units of the Company at a price of $0.60 (C$0.70) per unit for gross proceeds to the Company of $200,000. 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.

(v) Private Placement

On August 5, 2009, the Company issued, through a non-brokered private placement, 201,519 units of the Company at a price of $0.60 (C$0.70) per unit for gross proceeds to the Company of $121,400. 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.

(b) Warrants

As at September 30, 2009, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry	**Exercise Price**	**Opening**	**Issued [Exercised] (Expired)**	**Closing**	**Opening (dollars)**	**Issued [Exercised] (Expired)**	**Closing (dollars)**
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
February 26, 2011	C$0.70	--	728,061	728,061		157,751	157,751
June 3, 2011	C$0.70	--	331,386	331,386		92,165	92,165
August 4, 2011	C$0.70	--	201,519	201,159		60,041	60,041
		1,788,255	720,590	2,307,326	417,815	146,673	564,488

On February 13, 2009, 141,516 warrants expired. On May 18, 2009, 167,146 warrants expired. On June 29, 2009, 231,714 warrants expired. During the period ended June 30, 2009, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 101% to 116% (2008: 101% to 116%), a risk-free interest rate of approximately 2% (2008: 2%), a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company.

(c) Contributed Surplus

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**
Relating to the expiry of warrants	163,284
Relating to stock based compensation	48,705
As at September 30, 2009	**8,010,244**

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at September 30, 2009, were as follows:

Expiry	Price	Outstanding December 31, 2007	Granted [Cancelled] (Exercised)	Outstanding December 31, 2008	Granted	[Cancelled] (Exercised)		Outstanding September 30, 2009	Exercisable September 30, 2009
July 8, 2008	C$0.50	100,000	[100,000]	0			(ii)	0	0
January 1, 2009	C$0.75	50,000	[50,000]	50,000		[50.000]	(ii)	0	0
August 31, 2009	C$0.75	200,000	-	200,000		[200,000]	(ii)	0	200,000
January 3, 2010	C$1.85	60,000	[10,000]	50,000			(ii)	50,000	50,000
August 15, 2010	C$1.25	260,000	[100,000]	160,000			(ii)	160,000	160,000
January 3, 2011	C$1.25	60,000	[10,000]	50,000			(ii)	50,000	50,000
April 24, 2011	C$0.70	300,000	[150,000]	150,000			(ii)	150,000	150,000
August 15, 2011	C$0.70	65,000	0	65,000			(ii)	65,000	65,000
January 2, 2012	C$1.00	85,000	[10,000]	75,000			(ii)	75,000	75,000
May 8, 2012	C$0.80	550,000	[150,000]	400,000			(ii)	400,000	400,000
January 2, 2013	C$0.70	-	210,000	210,000			(ii)	210,000	210,000
May 8, 2013	C$0.70	-	350,000	350,000			(ii)	350,000	262,500
January 2, 2014	C$0.70	-	-	-	225,000		(iii)	225,000	112,500
May 3, 2014	C$0.70	-	-	-	360,000		(iii)	360,000	90,000
Total		1,730,000	30,000	1,760,000	585,000	[250,000]		2,095,000	1,625,000

Options exercisable at end of year	1,396,250	1,480,000	1,625,000
Weighted average exercise price			
- issued	C$0.79	C$0.83	C$0.70
- outstanding	C$0.88	C$0.91	C$0.71
- exercisable	C$0.90	C$0.94	C$0.85

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) On January 2, 2009 and May 4, 2009, the Company issued 225,000 options and 360,000 options respectfully, at C$0.70 under its Stock Option Plan to persons who are officers and employees of the Company.

The Company recognized an expense of $48,705 (2008: $196,610) 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.

7. 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
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).

8. LOSS PER SHARE

Loss per share is computed on the basis of the loss of ($351,050) for the period ended September 30, 2009 [2008: ($509,467)] and the weighted average number of common or equivalent shares outstanding during period, September 30, 2009: 16,311,377 (2008: 14,993,408). The effects of stock options and warrants in computing diluted per share amounts for September 30, 2009 and September 30, 2008 are anti-dilutive.

9. RELATED PARTY TRANSACTIONS

As of September 30, 2009, 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 2009, 2008 and 2007 are as follows:

	Total Amount Borrowed	**Total Amount Repaid**	**Amount Outstanding at year end**
2009	-	-	$105,000
2008	$55,000	$75,000	$105,000
2007	$145,000	$20,000	$125,000

During the years ended December 31, 2007, 2008 and the quarter ending September 30, 2009, the company incurred accrued annual salary (2007: $130,000, 2008: $156,000, and the 1st, 2nd & 3rd Q2009: $117,000) and leave benefits (2008: $19,024; 1st, 2nd & 3rd Q2009: $14,268) payable to an officer and director of the company amounting to $436,290.

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 September 30, 2009, TSDB holds a 95% (2008: 93%) interest in Newdico while THD holds 5% (2008: 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	$277,661

10. SEGMENTED INFORMATION

Materially all of the Company's property plant and equipment is presently located in North America ($1,862) and Botswana ($449,730). The geographic distribution of the property acquisition costs and exploration expenditures is outlined in note 3.

11. 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.

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.

12. 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.

13. NOTES TO THE CASH FLOW

For the period ended September 30	**2009**
Net change in non-working Capital balances	
Decrease / (Increase) in accounts receivable and prepaid expenses	($20,784)
Increase in accounts payable and accrued liabilities	97,231
Total	$76,447

14. SUBSEQUENT EVENTS

Stock Issuance

The company expects to issue in November 2009, through a non-brokered private placement, additional common and warrant units. Each unit will 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$0.55) for a period of two years. Prior to September 30, 2009, the Company received gross proceeds in the amount of $115,000 and subsequently an additional $250,000 through the date of this report as deposits related to a private placement to be completed in November