Annual Report 2010

tsodilo resources limited

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, 2010.

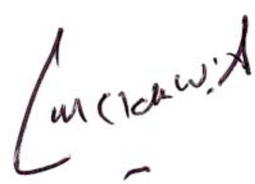
2010 was a challenging yet defining year for the Company. During the year we focused on positioning the Company for the future by diligently executing the strategic initiatives outlined in the beginning of the year. The recession receded in 2010 and a renewed interest globally in the resource sector rejuvenated the industry during the year. Commodity prices recovered strongly during the year and some increased exploration expenditure was evident especially towards the latter part of the year. Diamonds however lagged behind and although rough diamond was achieving prices as before the recession and many advanced projects were resurrected during the year, funding for exploration remained slim. However, our decision in 2006 to acquire our own drill rig and geophysical survey equipment allowed us to continue our exploration activities without delay or interruption during these difficult economic times. The acquisition of our second drill rig will enable us to accelerate our efforts.

We expect to accelerate our exploration, analysis and evaluation activities in 2011. The acquisition of an additional drill rig will allow us to more than double our current meters drilled. We expect to focus on the more promising base metal targets that were generated during the first phase drilling program with at least one of the drill rigs and based on our most recent micro-diamond results also re-examine one or two more kimberlites. Sample preparation, petrography and assaying are all ongoing on our metals projects and an aggressive exploration program is planned for 2011.

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. Of particular note, was the significant investment by IFC, a member of the World Bank Group. IFC is our "Partner of Choice," and their participation, professionalism, guidance, and expertise add instant value to our program and will ensure that the development of our project proceeds in a manner consistent with the highest industry standards.

Our current share capital consists of 23,370,431 issued and outstanding (32,159,041 on a fully diluted basis) common shares. Tsodilo has a 96% interest in our Botswana Newdico (Pty) Limited project and a 100% interest in our Botswana Gcwihaba Resources (Pty) Limited projects.

The Company is a much stronger organization now than it was a year ago and we are confident in our ability to meet the challenges in the upcoming year and for the years' thereafter. Please follow our progress carefully and remain informed by regular visits to our website, **www.TsodiloResources.com**.



Michiel C.J. de Wit
President and Chief Operating Officer
March 15, 2011

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, 2010 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 15, 2011.

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 15, 2011, 23,370,431 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, 2,985,000 options remain outstanding of which 1,827,500 are exercisable at exercise prices ranging from CAD $0.55 - $2.23.

As of March 15, 2011, 5,803,610 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 $0.55 - $2.17 for a period of two to five years from the date of issuance. If all warrants were converted, 5,803,610 common shares of the Company would be issued.

Principal Shareholders of the Company

The principal shareholders of the Company as of March 15, 2011 are as follows:

Name	Description	Shares - Owns, Controls or Directs	% of the Issued and Outstanding Shares
Preston Trust	Private Investment Vehicle	3,995,902	17.09%
International Finance Corporation	Division of the World Bank	2,702,702	11.56%
David J. Cushing	Director	2,295,223	9.82%
James M. Bruchs	Chairman & CEO	2,256,519	9.66%

Subsidiaries

The Company has a 96% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds nine prospecting licenses covering approximately 3,949 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 (4%) 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 six diamond prospecting licenses covering approximately 3,728 square kilometers, eighteen metals (base, precious, platinum group, and rare earth) licenses covering 12,097 square kilometers and eight radioactive minerals licenses covering 6,925 square kilometers.

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

EXPLORATION ACTIVITIES - 2010

1. Diamond Projects

The company presently holds 15 Prospecting Licences ("PL's") both under the name of Newdico and Gcwihaba for precious stones (Table 1). PL070/2005, PL062/2007, PL48/2008 and 050/2008 were relinquished during the year. The objectives of the Company's diamond strategy in the area are two-fold. First, there are two major unexplained surface concentrations of both diamonds and high-interest (G10) garnets across the border in Namibia, the Tsumkwe and the Omatako targets. It has been suggested that the diamonds and garnets from these targets have been derived from diamond-bearing kimberlites in the licence blocks presently held by the Company to the east.

Table 1. Summary of the Company's prospecting permits for precious stones

PL numbers	PL's	Km²	Commodity	Renewal dates mm/dd/yyyy	Stage	Company
PL 62-69 & 71/2005	9	3,949.0	Precious Stones	07/01/2012	2nd Renewal	Newdico
PL 46-47 & 49/2008	3	1,182.0	Precious Stones	01/01/2011	1st Renewal	Gcwihaba
PL 641-643/2009	3	2,546.2	Precious Stones	01/07/2012	Initial Grant	Gcwihaba
Total	15	7 ,677.2				

Second, the Company's kimberlites in the Nxau Nxau field, just east of the Botswana/Namibia border, are situated in the regional headwaters of the paleo-drainages which generally feed these anomalies. The Company has been working through the existing kimberlite database to try to match the mineral chemistry of the indicator minerals of these two anomalies with those from kimberlites in the Nxau Nxau cluster. In addition, the geophysical data of the area covered by the Precious Stones licences were subjected to a rigorous review by a very reputable geophysical company, specialised in kimberlites, in order to identify any other kimberlite targets for drilling. Not only have more first-grade targets been identified within and immediately around the existing cluster, other targets have also been identified in other parts of the licence blocks that warrant detailed ground work and drilled scheduled for 2011.

The review of the petrography, mineral chemistry, micro-diamond and geophysical databases of the known kimberlites in the Nxau Nxau field has been on-going. Selected samples were submitted for additional mineral chemistry and petrographic analyses. The results of this review resulted in the decision to submit samples of three of the six most interesting pipes (K4, K10 and K20) in terms of size and mineral chemistry, for micro-diamond work in order to obtain first-pass grade values for these bodies. These are all classical dipole targets and previous micro-diamond analysis, which returned some positive results, was however not qualitative. Roughly 200 kg of core from each kimberlite was submitted for analysis to the SRC laboratory in Canada. Two of the three kimberlites submitted had positive micro-diamond recoveries as follows:

Number of Diamonds per Sieve Size (mm square Mesh sieve)							
Kimberlite # Sample ID	**Total Sample Weight (kg)**	**Total Number of Diamonds**	**0.106 mm**	**0.150 mm**	**0.212 mm**	**0.300 mm**	**0.425 mm**
K4 05/26	8	1	1	0	0	0	0
K4 18/26	8	1	0	0	0	0	1
		2					
K10 09/29	8	1	1	0	0	0	0
K10 15/29	8	2	0	1	1	0	0
K10 19/29	8	2	1	1	0	0	0
K10 20/29	8	1	1	0	0	0	0
K10 25/29	8	3	2	0	1	0	0
K10 26/29	8	3	2	1	0	0	0
K10 27/29	8	2	1	1	0	0	0
		14					
	72	16	9	4	2	0	1

Geological interpretation of the Southern African Magnetotelluric Experiment (SAMTEX) project data was completed during the year. This data produced the first pseudo 3-dimensional electrical resistivity map of the crustal and mantle lithosphere beneath the Damara-Ghanzi-Chobe belt and its surrounding Kalahari and Congo tectonic blocks. The Congo and Kalahari cratons are characterised by very thick and resistive lithosphere, approximately 220km and 240km respectively, which from a diamond perspective is encouraging.

The results of this program have, among others, shown that the Company's northern licences are underlain by the Angolan Craton (Khoza et al in press, Muller and Jones 2007) and this means that kimberlites occurring in the most northern licences should be the most interesting from a diamond perspective.

Based on these tectonic reconstructions, diamond exploration activities for 2011 will therefore focus kimberlites K17, K18, and K19 which are the most northerly bodies so far discovered in the Nxau Nxau cluster but for which the company has very little information. Furthermore, some kimberlite targets that have been identified in the northern licences will be targeted for drilling. Finally and based on the most recent micro-diamond results but depending on the interpretation of these data, kimberlite K11, which is proximate to K10 and approximately 2.5ha in size, will also be sampled for micro-diamond content.

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

The Company's Prospecting Licences have evolved with time into a package which covers some 12,106.6 km² (Table 2). Most of the ground has been covered by the Phase 1 drilling program which will be completed during the 1st Quarter of

2011. The main objective of this phase is to cover the ground on a wide grid to identify the areas of interest for more detailed follow-up work scheduled as Phase 2. To date, the drilling has returned mineralised rocks in several parts of the licence area representing a variety of geological settings with different mineralisation styles.

Table 2. Summary of the Company's prospecting permits for metals

PL numbers	PL's	Km²	Commodity	Renewal dates mm/dd/yyyy	Stage	Company
PL 118-119/2005	2	1, 194.0	Metals	10/01/2012	2nd Renewal	Gcwihaba
PL 051-052/2008	2	869.0	Metals	01/01/2011	1st Renewal	Gcwihaba
PL 386-395/2008	10	7, 478.6	Metals	10/01/2011	Initial Grant	Gcwihaba
PL 588,595-597/2009	4	2 ,555.0	Metals	07/01/2012	Initial Grant	Gcwihaba
Total	**18**	**12, 096.6**				

The Company's exploration work had initially indicated that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverse the Company's southern licences in northwest Botswana in an area where the Damara Belt connects with the Lufilian Arc. Recent petrology, geochemistry and geochronology work by AEON's (Africa Earth Observatory Network) research group located at the University of Cape Town, South Africa highlights the presence in Ngamiland of Archean granite-gneisses (ca. 2550 Ma). This is the first time Archean-Paleoproterozoic basement rocks have been discovered in northwest Botswana. Paleoproterozoic granites (ca. 2000 Ma), which have been tectonically interlayered with Pan-African meta-sediments (including graphitic schist, carbonates, diamictites and meta-basites (ca. 540 Ma), have also been dated. These tectonic contacts and graphitic schists are mineralized and have been targeted for further work. The 2 billion year old granites can be correlated either with the nearby Quangwadum and Okwa Complex in Botswana and the granites of the Bushveld intrusion in South Africa, suggesting the possibility of a large cryptic mineralized mafic intrusion in the region, or with the Kibaran granitic basement (ca. 2050 Ma) to the Katangan Supergroup beneath the Lufilian Arc in the DRC. The Pan African meta-basites in Nagamiland yield an age of ca. 535 Ma. This is younger than the metabasalts of MAB and Katanga (ca 765 Ma), but similar to the age of peak metamorphism and deformation in the MAB and Lufilian Arc (ca. 530 Ma). This difference can be accounted for through the higher degrees of Pan African deformation and metamorphism found in Ngamiland (e.g. the new age is a tectonically reset age rather than a magmatic age) and/or that the metabasalts of Ngamiland represent subducted basaltic MAB-like oceanic crust that has been recycled as island-arc basalts. Either way, the new dates strengthen the previous suggestions by Tsodilo of a correlation between the mineralized Pan African rocks and basement in Ngamiland with those in the Central African Copper Belt, and those in the MAB. Work with AEON is on-going to refine the geological models.

The presence of the layered and massive magnetite units associated with the Xaudum Magnetic Anomaly in the northern part of the area and the copper and gold showings east of the banded magnetite associated with meta-basic rocks (epidote-scapolite-albite amphibolite) on the central part of the area indicates that the mineralization model of Ngamiland is highly likely associated with an **Iron Oxide Copper Gold** ore deposit ("**IOCG"**), also referred to as the Ngamiland IOCG.

The main activities during the year were driven by ground geophysical surveys and diamond drilling. The former to upgrade and focus the regional geophysical dataset to more accurately position drill targets and the latter as a continuation of the first-phase drilling program.

During 2010 and to date, 7,362 and 1,115 line-kilometers of ground magnetic data respectively was collected. This was leveled and interpreted by the Company's in-house geophysical unit. This represents coverage of some 367 km² at 50 meter line spacing. An additional magnetometer was purchased in 2010, in order to increase the coverage. This data was successfully used to position new drill holes on the often magnetic (due to the presence of pyrrhotite in the meta-sediments) conductive zones.

Table 3. Holes drilled in 2010 during the reconnaissance Phase 1 drilling program			
Hole No	**Drilled meters**	**Core meters**	**Main Lithologies**
L9660/05	317.7	291.2	Metaquartzite; shist; metadolerite
L9660/08	194.8	147.9	Metaquartzite; shist; black shale; metapelites
L9670/07	356.4	318.2	Garnet-rich metapelite; shabkwa; quartzite
L9670/09	335.5	263.5	Garnet-rich metapelite
L9680/11	359.6	316.1	Garnet-rich metapelites; coarse meta-quartzite
L9690/08	336.6	265.3	Garnet-rich metapelites; carbonate; shist
L9690/09	327.4	268.6	Carbonate; metapelites; folding black shale
L9690/10	309.7	247.7	Garnet-rich shist; carbonate
L9700/07	292.4	241.6	Micaceous quartzite (Gneiss texture); shist; black shale; evaporite
L9650/04	409.6	368.8	Mica-schist; shist; metapelite; shale
L9650/06	404.6	372.3	Black shale; mudrock; evaporite; siltstone
TOD 003	113.5	98.7	Talc rich serpentenite; schist; quartzite
TOD 004	135.8	85.8	Talc schist; magnetite-rich; gneiss; schist
TOD 007	115.3	88.8	Talc schist; serpentenite; metabasite
TOD 008	89.2	65.6	Serpentenite; magnetite-rich
L9640/02	385.9	324	Metapelite; black carbonaceous shale
L9650/05	204.5	174.7	Quartz schist; quartzite; gneiss; amphibolite
L9630/14	302.4	251.0	Garnet schist; quartz schist
L9630/15	200.4	122.7	Amphibolite; banded magnetite-schist; garnet-schist
L9630/17	318.6	242.5	Quartz-biotite-schist; garnet-schist
L9630/13	254.4	216.4	Meta-siltstone; metapelite; metabasite
L9620/13	290.5	225.5	Schists; carbonates
L9610/10	302.5	249.5	Magnetite bands; schist; quartz; magnetite
L9610/06	97.9	51.8	Quartz schist
L9610/11	269.5	225.0	Metabasite; schist; felsic-rocks; skarn; gneiss/schist
L9610/09	248.6	233.1	Quartz schist; banded magnetite
L9610/12	299.4	293.4	Banded magnetite bands; garnet-schist
L9590/07	152.5	136.5	Banded magnetite bands; diamictite shist
L9570/03 (1)	170.8	136.8	Metapelites; carbonates
L9570/04 (1)	356.0	321.6	Schists and dolomites
L9560/02 (1)	308.6	293.6	Dolomite and metapelites
L9540/01 (1)	300.5	239.9	Garnet schist; metapelites
L9590/06 (1)	214.5	157.9	Schist; metapelites; Metamafic rocks
L9600/10 (1)	268.5	264.5	Banded magnetite; massive magnetite; amphibolite; garnet schist
Total	9,044.10	7,600,52	

(1) 1st Quarter 2011

In 2010, 28 diamond drill holes were completed to a cumulative depth of 7,425.20 meters and some 6,186.20 meters of core was recovered (Table 3). During the first two months of 2011 and additional 1,414.32 meters of core was recovered from 1,618.90 meters of drilling. The objective of this first-phase program is to cover the whole license area on a wide grid in order to identify potential mineralized deposits that are to be covered with detailed ground geophysics and follow up drilling during the 2nd phase of the program. This latter phase is likely to start at the end of the 1st quarter in 2011.

One hundred forty-one (141) samples were submitted to various individuals and laboratories and thin sections were prepared of these for petrographic analysis. Laboratory services for the assaying of core samples were obtained from ALS Minerals in Johannesburg, South Africa and Scientific Services CC in Cape Town, South Africa. To date, 2,074 and 2,188 one-meter core samples have been submitted to these laboratories for analyses, respectively.

The drilling has identified three different geological domains with different mineralization styles and can be defined as follows:

1. The shale basin to the north east of the project area contains a meta-sedimentary sequence which geologically is very similar to the stratiform Cu-Co (Copper-Cobalt) province of the central African Copperbelt. Sediments are composed of black shales, metapelites, meta-arenites, dolomites, with interbedded evaporates. Most lithologies are mineralized with pyrite, pyrrhotite, and chalcopyrite.
2. The airborne geophysical data suggests that the sulphide-rich Matchless Amphibolite Belt ('MAB') traverses the Company's southern licences and south of the shale basin. Mineralisation is also associated skarn deposits. These are related to massive magnetite, metabasites, metamafic units and granofels in contact with carbonates and metasediments. Mineralization here is characterized by Cu, Ni, Ti, V, (Copper, Nickel, Titanium and Vanadium) and La (Lanthanum) and Ce (Cerium) both of which are rare earth elements (REE's). Elevated levels for Au (Gold) have also been recorded in some samples.
3. The northern part of the area is underlain by the very strong Xaudum magnetic anomaly and recent drilling has intersected multiple units of layered magnetite in a schist units. Mineralization associated with these extensive magnetite bands, as measured with the Company's recently acquired hand-held XRF unit, are characterized by anomalous values of Co, V and Ti. The copper and gold showings south-east of the banded magnetite associated with metabasic rocks (epidote-scapolite-albite-amphibolite) on the central part of the area suggests that the mineralization model of Ngamiland could be associated with an Iron Oxide Copper Gold ore deposit ("IOCG"), also referred to as the Ngamiland IOCG.

3. Radioactive licenses

The Company was granted two prospecting permits for radioactive minerals through its wholly owned subsidiary Gcwihaba Resources (Pty) Ltd in northwest Botswana directly west of the Okavango River in 2010 and an additional six licenses in the 1st Q of 2011. The area under license covers some 6,925 km² (see Table 4). In general, the radioactive license areas overlap the Company's other diamond and metal licenses.

Table 4. Prospecting Licences held by Gcwihaba Resources (Radioactive Minerals)

PL numbers	Km²	Commodity	Renewal dates mm/dd/yyyy	Stage	Company
PL 150/2010	719	Radioactive minerals	07/01/2013	Initial Grant	Gcwihaba
PL 151/2010	711	Radioactive minerals	07/01/2013	Initial Grant	Gcwihaba
PL 45-50/2011	5,495	Radioactive minerals	01/01/2014	Initial Grant	Gcwihaba
Total	**6,925**				

The Company is reviewing the exploration results from Union Carbide Exploration Corporation which had secured many prospecting licences in west and northwest Botswana for uranium. The exploration program in northwest Botswana (Ngamiland) started in 1977 and continued until 1980, and of particular interest are their findings of anomalous uranium within what they called the Khaudum and Chadum palaeo-drainages covered by their PL's 4/79, 5/79, 3/80, 4/80 and 5/80. High counts of uranium in both calcrete and water samples and anomalous counts of vanadium from the water samples were obtained. Up to 30 meter thick valley calcrete (the target calcrete) were drilled with geochemical anomalous concentration of uranium in certain trap environments, However at the time, no ore-bodies were delineated, but Union Carbide concluded "that there is definitely uranium in the system as is evident by some very high uranium contents in the water samples" (Union Carbide Final report 1980 by DJ Jack).

The Company's strategy is two-fold, first to conduct a geomorphological study of the area using remote sensing techniques. This is to be linked to buried paleo-channels of Tertiary age that have been identified by geophysicist Scott Hogg (2005) whilst interpreting the most recent government Airborne Magnetic data in the search for kimberlites on overlapping Newdico (Pty) Ltd. diamond prospecting licences. Secondly, recent diamond drilling conducted by Gcwihaba (Pty) Ltd on overlapping base metal licences have returned anomalous uranium and vanadium assay results in some of the Proterozoic meta-sedimentary units underlying the Kalahari Group sediments. The recently obtained assay results from borehole L9640/2 are particular encouraging because of the presence of up to 90ppm Uranium in parts of the core. The link between these anomalous meta-sedimentary rocks and the surface uranium anomalies in the Kalahari calcretes is yet to be established.

General

During the year, the Company continued 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.

In addition, the University of Barcelona through Professor Joan Carles Melgarejo, a renowned mineralogist, and Tsodilo are formulating a research project to further investigate the mineralogical composition of the ore minerals (sulfides, precious metals and rare earth minerals) in order to clearly understand the mineralogical phases that have so far been identified. Their first report concluded that most of the mineralization is found in quartz-sulfide-carbonate veins and disseminated in metapelites and schists and they identified chalcopyrite and native gold as potential economic ores. This first report, however, was limited to samples from only two boreholes (L9670/09 and 9680/11). In February 2011, after a site visit by Professor Melgarejo, 200 hundred mineralized samples were prepared and sent to Barcelona to further the research on the Tsodilo base metal mineralization model.

The Company has purchased an additional Atlas Copco CT 14 diamond core drill rig and four (4) Iveco 6x6 Trakker support trucks. The new rig will be commissioned on site in the second quarter and enable the Company to immediately increase the meters drilled.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, the Company had net working capital of $2,698,411 (2009: $102,932), which included cash and equivalents $2,728,695 (2009: $108,341). 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 private placements and exercise of warrants for an additional $5,752,697 in January, June and November 2010, 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 except for minimum spending requirements on exploration licenses. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of December 31, 2010, the expenditure requirements inclusive of license fees from the date of grant to and if held to their full term as well as actual and attributed expenditures with respect thereto as of December 31, 2010, are as follows:

Project Description	Required Expenditure	
	BWP	USD
Newdico	3,639,490	553,308
Gcwihaba - Diamond	1,177,264	113,332
Gcwihaba - Metals	5,051,380	767,955
Gcwihaba - Radioactive Minerals	1,544,970	234,882

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 before working capital adjustment increased from $183,029 in fiscal December 31, 2009 to $354,561 for the year ended December 31, 2010. The increase was due primarily to remuneration, office and administration, stock based compensation and foreign exchange expenses in 2010 which were greater than in 2009.

ANNUAL INFORMATION

(in US dollars)	Fiscal Year Dec.31 2010	Fiscal Year Dec.31 2009
Total Revenues		
Loss before Non-controlling Interest	(744,651)	(331,162)
Basic and diluted loss per share	($0.04)	($0.02)
Non-controlling Interest	6,489	(4,040)
Net Loss for the Year	(738,162)	(327,122)
Basic and diluted loss per share	($0.04)	($0.02)
Total Assets	11,590,721	5,885,208
Total long term liabilities	217,303	210,814
Cash dividends declared	--	--

QUARTERLY INFORMATION

(in US Dollars)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Year 2009 (ended December 31, 2009)				
Total Revenues	--	--	--	--
Income (Loss) for the period	(82,214)	(161,337)	(107,449)	19,888
Basic and diluted loss per share	--	($0.01)	($0.01)	--
Total Assets	4,989,799	5,151,428	5,339,383	5,885,208
Total long term liabilities	211,615	262,361	277,661	210,814
Fiscal Year 2010 (ended December 31, 2010)				
Total Revenues				
Loss for the period	(141,379)	(376,053)	(200,317)	(20,413)
Basic and diluted loss per share	($0.01)	($0.01)	($0.01)	($0.01)
Total Assets	6,529,383	11,275,851	11,214,102	11,590,721
Total long term liabilities	205,442	185,165	218,346	217,303

See accompanying notes to the consolidate financial statements

Investing Activities

Cash flow applied in investing activities increased to $2,728,303 for the year ended December 31, 2010 (2009: $1,051,584).

Total actual expenditures of $2,142,493 on exploration properties for the period ended December 31, 2010 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included in this amount is the proportionate contributory share, ranging from 5.59% to 4.29% 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 2009, the board of directors of Newdico approved an exploration program and budget for the period January 1 to December 31, 2010 that calls for expenditures totaling approximately Pula 9.8 million (approximately $1.45 million as of December 31, 2010). The 2011 budget envisions a macro-diamond sampling program and analysis for up to three different kimberlites. Trans Hex Group is presently responsible for funding 4% 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) financing to equity, through the issue of units by way of non-brokered private placements. Each unit has consisted of one common share of the Company and one or one-half a warrant with each full such warrant entitling the holder to purchase one common share of the Company for a purchase price equal to the unit price for a period of two to five years from the date of issuance.

During the year ended December 31, 2010, the Company received gross proceeds in the amount of $5,284,304 from the issuance of units consisting of one common share and one warrant related to private placements; and gross proceeds in the amount of $468,393 from the exercise of Warrants related to private placements.

Private Placement Date	No. of Units	Price per Unit	Proceeds
January 22, 2010	465,245	$0.97	$451,944
June 29, 2010	2,702,702	$1.79	$4,832,360
Warrant Exercise Date	**No. of Shares**	**Price per Share**	**Proceeds**
March 1, 2010	457,907	$0.67	$304,896
November 19, 2010	234,035	$0.69	$163,497

Tsodilo expects to raise the amounts required to fund its 96% 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 $738,162 in the fiscal year ended December 31, 2010 ($0.04 cents per common share) compared to a net loss of $327,122 in the fiscal period ended December 31, 2009 ($0.02 cents per common share). The Company experienced an increase in remuneration, office and administration, stock based compensation and foreign exchange expenses reflecting general corporate activity. The increase in stock option expense reflects the amount of option grants.

Exploration expenditures including amortization of property, plant and equipment used in exploration activities on all projects amounted to $2,158,735 during the year ended December 31, 2010 compared to $1,202,652 for the year ended December 31, 2009. Exploration expenditures incurred on the Newdico project for the year ended December 31, 2010 was $1,498,717 compared to $892,032 for the year ended December 31, 2009. 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, 2010 were $660,018 compared to $310,620 for the year ended December 31, 2009.

PERSONNEL

At December 31, 2010, the Company and its subsidiaries employed thirty (30) individuals compared to twenty-five (25) at December 31, 2009, including senior officers, administrative and operations personnel including those on a short-term service basis.

FOURTH QUARTER – 2010

The fourth quarter was a normal operating period for a quarter and year end. The Company made a full price deposit for additional vehicles and drilling equipment for $870,805 which will position the Company to continue and expand its drilling program and its geophysical surveys. Operating expenses were at normal levels for the last quarter of the year.

RISKS AND UNCERTAINTIES

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

Additional Funding Requirements

Further development and exploration of the various mineral projects in which the Company holds an interest depends upon the Company's ability to obtain financing through equity or debt financing, joint ventures or other means. While the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be successful in obtaining additional financing in the amount and at the time required and, if available, that it can be obtained on terms satisfactory to the Company.

Failure to obtain equity or debt financing on a timely basis may cause the Company to postpone its exploration and development plans or forfeit rights in some of its projects.

Uncertainties Related to Mineral Resource Estimates

There is a degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity and value of reserves or resources may vary, depending on mineral prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company's properties. In addition, there is no assurance that recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production. Determining the economic viability of a mineral project is complicated and involves a number of variables.

Commodity Prices and Marketability

The mining industry, in general, is intensely competitive and there is no assurance that, even if commercial quantities of minerals are discovered, a profitable market will exist for the sale of minerals produced. Factors beyond the control of the Company may affect the marketability of any minerals produced and which cannot be accurately predicted, such as market fluctuations, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, any combination of which factors may result in the Company not receiving an adequate return on investment capital. Prices received for minerals produced and sold are also affected by numerous factors beyond the Company's control such as international economic and political trends, global or regional consumption and demand and supply patterns. There is no assurance that the sale price of minerals produced from any deposit will be such that they can be mined at a profit.

Currency Risk

The Company's business is mainly transacted in Botswana Pula and U.S. dollar currencies. As a consequence, fluctuations in exchange rates may have a significant effect on the cash flows and operating results of the Company in either a positive or negative direction.

Foreign Operations Risk

The Company's current significant projects are located in Botswana. This exposes the Company to risks that may not otherwise be experienced if its operations were domestic. The risks include, but are not limited to, environmental protection, land use, water use, health safety, labor, restrictions on production, price controls, currency remittance, and maintenance of mineral tenure and expropriation of property. There is no assurance that future changes in taxes or such regulation in the various jurisdictions in which the Company operates will not adversely affect the Company's operations. Although the operating environments in Botswana are considered favorable compared to those in other developing countries, there are still political risks. These risks include, but are not limited to terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation and labor unrest. Changes in mining or investment policies or shifts in political attitudes may also adversely affect the Company's business.

Mineral Exploration and Development

The business of exploring for minerals and mining is highly, speculative in nature and involves significant financial and other risks which even careful evaluation, experience and knowledge may not eliminate. There is no certainty that expenditures made or to be made by the Company in exploring and developing mineral properties in which it has an interest will result in the discovery of commercially mineable deposits. Most exploration projects do not result in the discovery of commercially mineable deposit. While discovery of a mineral deposit may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. There can be no guarantee that exploration programs carried out by the Company will result in the development of profitable mining operations.

Title Matters

Any changes in the laws of Botswana relating to mining could have a material adverse effect to the rights and title to the interests held in those countries by the Company. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of applicable exploration and mining authorizations nor that such exploration and mining authorizations will not be challenged or impugned by third parties.

Infrastructure

Exploration, development, mining and processing activities depend on the availability of adequate infrastructure. Reliable roads, bridges, sewer and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance of provision of such infrastructure could adversely affect activities and profitability of the Company.

Uninsured Risks

The mining business is subject to a number of risks and hazards including, but not limited to, environmental hazards, industrial accidents, labor disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave-ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions and other acts of God. Such risks could result in damage to mineral properties or facilities, personal injury or death, environmental damage, delays in exploration, development or mining, monetary losses and possible legal liability. The Company maintains insurance against certain risks that are associated with its business in amounts that it believes to be reasonable at the current stage of operations. There can be no assurance that such insurance will continue to be available at economically acceptable premiums or will be adequate to cover any future claim.

Competition

The mining industry is intensely competitive in all its phases and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire prospective properties in the future.

Key Personnel

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

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 2009 and 2010). 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

Future Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The effective implementation date of the conversion from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. The Company is continuing to complete its review and is continually engaged in an assessment and conversion process which includes consultation with external consulting firms. The Company's two operating subsidiaries currently prepare audited financial statements in accordance with IFRS. Accordingly, differences relating to these operating subsidiaries have been previously identified.

As such, the Company's transition plan to IFRS was primarily focused on transition issues relating to the consolidation of the Company's operating subsidiaries, and on accounting issues at the parent company level. This plan consisted of three main phases, which are summarized as follows:

- Scoping and Diagnostic Phase: An initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS was completed in 2010. This phase is finalized and an overview of some of the more significant differences identified to date are summarized below.
- Impact Analysis, Evaluation and Design Phase: In this phase, each area identified during the scoping phase is addressed to determine more specific changes required to existing accounting policies and identifying new policies under IFRS. This phase includes analysis and conclusions on the accounting choices available under IFRS. The Company has identified key areas that may have a material impact on the Company's financial statements. These are discussed in more detail in this Section of the Management, Discussions and Analysis (MD&A).
- Implementation and Review Phase: This phase will include execution of any changes to business processes and completion of formal documents analyzing the transition to IFRS for approval by the Board of Directors. It will also include the final production of complete IFRS-Compliant financial statements for review by the Audit Committee.

As a result of the procedures performed to date, we have initially identified the following significant differences between Canadian GAAP and IFRS that will impact the Company:

- Stock Based Compensation Expense
- Exploration and Evaluation Costs of Mineral Resources
- Property, Plant and Equipment & Depreciation
- Foreign Exchange
- Non-Controlling Interest
- Warrants
- Disclosures

These are discussed as follows:

Elections under IFRS 1

The Company is still evaluating the various elections provided under IFRS 1; however, the expectation is that the Company:

(i) Will elect to deem unrealized losses on translation of self-sustaining foreign operations to be zero and reclassify the previous balance to opening retained earnings

(ii) Will not elect to apply IFRS 3 to past business combinations

(iii) Will elect that stock-based payments (Stock-based compensation) vested as at December 31, 2009 will not be retrospectively applied.

IFRS 2– Stock Based Compensation Expense

The Company issues share-based compensation in the form of stock options that vest evenly (semi-annually) over a two year period, Under Canadian GAAP, the company recognized the fair value of the compensation expenses, determined at the time of the grant, on a straight-line basis over the two year vesting period. Under IFRS 2, Share Based Payments, the fair value of each tranche of the award is considered to be a separate grant based on its vested period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of this respective vesting period. Accordingly, compensation expense under IFRS will be recognized on a more accelerated basis as compared to Canadian GAAP.

IFRS 6 - Exploration and Evaluation Costs of Mineral Resources

This standard applies to expenditures incurred on properties in the exploration and evaluation (E & E) phase. The E & E phase begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E & E expenditures are capitalized and which are expensed. The Company policy has been under Canadian GAAP to capitalize E & E and it will continue to capitalize E & E under IFRS. Each year the company analyses the projects under evaluation for impairment, and will expense those portions impaired on an annual basis.

The Company will not change its accounting policies for exploration and evaluation cost, as its subsidiaries (Gcwihaba and Newdico) have been preparing its financial statements in accordance with IFRS for years.

IAS 16 - Property, Plant and Equipment & Depreciation

The Company expects the carrying value of it property, plant and equipment to remain the same upon conversion to IFRS. The Company will continue to use historical cost for its plant, property and equipment such that no adjustment between Canadian GAAP and IFRS is expected.

IAS 21 – Foreign Exchange

The Company is currently finalizing its evaluation of the functional currency for its two operating subsidiaries. If the functional currency is determined to be the U.S. Dollar, the Company does not expect any significant change. If, however, the functional currency of these two subsidiaries is determined to be Botswana Pula, the Company will start to translate the results of these subsidiaries in accordance with the current rate method.

If the current rate method is required under IFRS, the Company plans to use the election available under IFRS 1 to set the foreign exchange translation adjustment account to zero as at December 31, 2009. After that time, exchange gains and losses on the translation of the Company's two operating subsidiaries would be shown as a separate component in shareholders' equity.

IAS 27 – Non – Controlling Interests

The Company will reclassify its non-controlling interest to shareholders' equity in accordance with IFRS.

IAS 32 – Warrants denominated in a different functional currency

The Company will reclassify its Warrants from the equity presentation to derivative liabilities. Because the strike price of the warrants is in a currency that is different from the Company's functional currency, IFRS requires that the warrants be reclassified from shareholders' equity to liabilities. In addition, warrants will be revalued at each report date with gains and losses recognized in the Statement of Operations. The Company is currently preparing its estimate of the fair value of the warrants as at December 31, 2009 and 2010.

Presentation and Disclosure

IFRS requires significantly more disclosure that Canadian GAAP for certain statements. The Company is currently finalizing the specific additional disclosures that are required.

The above comments and discussions should not be considered as a complete list of changes that will result from the transition to IFRS as the Company's analysis is continual. However, all requirements to date are in place to meet the first interim reporting period March 31, 2011. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's financial statements as at January 1, 2011 and in subsequent years, including projects regarding income taxes and financial instruments. Furthermore, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its compliance with IFRS. Finally the Company believes that its information technology, accounting and financial reporting systems are capable of handling these changes.

The Canadian Accounting Standards Board (AcSB) requires that all public companies to adopt IFRS, replacing Canadian GAAP, for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will adopt IFRS on January 1, 2011 and prepare comparative financial information for the year ended December 31, 2010 under IFRS.

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. 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.

RELATED PARTY TRANSACTIONS

During the years ended December 31, 2010, 2009 and 2008, the Company incurred leave benefits (2010: $33,293 2009: $19,024, 2008: $19,024) payable to an officer and director of the Company amounting to $71,341. In June 2010, the Company paid the officer and director of the Company $59,451 leaving a payable to an officer and director of the Company amounting to $11,890. In addition at December 31, 2010, the Company had salary payable to the officer and director of $5,531.

The Company borrowed funds from a person who is an officer and director of the Company in fiscal years 2008 and 2007. The loans were interest free, payable upon demand and had no other terms of repayment. The outstanding loans of $105,000 were incurred and paid in 2009, leaving a zero balance.

OUTLOOK

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

James M. Bruchs
Chairman & CEO
March 15, 2011

Gary A. Bojes
Chief Financial Officer
March 15, 2011

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 consolidated financial statements for the years ended December 31, 2010 and 2009 have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

James M. Bruchs
Chairman and Chief Executive Officer
March 15, 2011

Gary A. Bojes
Chief Financial Officer
March 15, 2011

AUDITORS' REPORT

To the Shareholders of Tsodilo Resources Limited:

We have audited the accompanying consolidated financial statements of Tsodilo Resources Limited, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tsodilo Resources Limited as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada
March 15, 2011

Chartered Accountants

Tsodilo Resources Limited

Consolidated Balance Sheets

As at December 31, 2010 and 2009

(in United States dollars)

	2010	2009
ASSETS		
Current		
Cash	**$ 2,728,695**	$ 108,341
Accounts receivable and prepaid expenses	**65,171**	67,640
	2,793,866	175,981
Exploration Properties *(note 3)*	**7,520,380**	5,361,645
Property, Plant and Equipment *(note 4)*	**405,670**	347,582
Deposit on Equipment *(note 4)*	**870,805**	--
	$ 11,590,721	$ 5,885,208
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 95,455**	$ 73,050
	95,455	73,050
Non-Controlling Interest *(note 3)*	**217,303**	210,814
SHAREHOLDERS' EQUITY		
Share Capital *(note 5)*	**30,290,847**	28,696,445
Warrants *(note 5b)*	**5,059,260**	1,131,904
Contributed Surplus *(note 5c)*	**9,114,311**	8,221,288
Accumulated Other Comprehensive Loss	**(837,425)**	(837,425)
Deficit	**(32,349,030)**	(31,610,868)
	11,277,963	5,601,344
	$ 11,590,721	$ 5,885,208

Subsequent events *(note 13)*

Commitments *(note 11)*

See accompanying notes to the consolidated financial statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

David J. Cushing
Chairman, of the Audit Committee

James M. Bruchs
Chairman

Tsodilo Resources Limited
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2010 and 2009

(in United States dollars)

	2010	2009
Expenses		
Corporate remuneration	**$ 79,692**	$ 16,194
Corporate travel and subsistence	**4,092**	1,332
Investor relations	**9,500**	9,028
Legal and audit	**63,878**	36,058
Filings and regulatory fees	**22,635**	20,470
Office and administration	**148,255**	117,769
Amortization	**2,035**	1,421
Foreign exchange loss (gain)	**39,487**	(17,822)
Stock-based compensation (note 5(d))	**375,077**	146,712
Loss before non-controlling interest	**(744,651)**	(331,162)
Non-controlling interest – (Income) Loss	**(6,489)**	4,040
Loss and comprehensive loss for the year	**$(738,162)**	$(327,122)
Basic and diluted loss per share (note 7)	**$(0.04)**	$(0.02)

See accompanying notes to the consolidated financial statements

Tsodilo Resources Limited
Consolidated Statements of Deficit
For the years ended December 31, 2010 and 2009

(in United States dollars)

	2010	2009
Deficit – Beginning of year	**$(31,610,868)**	$(31,283,746)
Comprehensive loss for the year	**(738,162)**	(327,122)
Deficit - End of year	**$(32,349,030)**	$(31,610,868)

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

Tsodilo Resources Limited

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2010 and 2009

(in United States dollars)

	Share Capital		Warrants	Contributed Surplus	Comprehensive Loss	Deficit	TOTAL Shareholders' Equity
	Shares	**Dollars**					
Balance December 31, 2008	**15,423,733**	**$27,862,864**	**$417,815**	**$7,798,255**	**$(837,425)**	**$(31,283,746)**	**$3,957,763**
Shares and warrants issued for Cash *(note 5)*	3,363,724	1,808,899	--	--	--	--	1,808,899
Ascribed to Warrants issued 2009	--	(975,318)	975,318	--	--	--	--
Warrants Expired	--	--	(261,229)	261,229	--	--	--
Stock Based Compensation	--	--	--	161,804	--	--	161,804
Comprehensive Loss for 2009	--	--	--	--	--	(327,122)	(327,122)
Balance December 31, 2009	**18,787,457**	**$28,696,445**	**$1,131,904**	**$8,221,288**	**$(837,425)**	**$(31,610,868)**	**$5,601,344**
Shares and warrants issued for Cash (note 5)	**3,859,883**	**5,678,344**	--	--	--	--	**5,678,344**
Ascribed to Warrants issued 2010	**--**	**(4,083,942)**	**4,083,942**	**--**	**--**	**--**	**--**
Warrants Expired	**--**	**--**	**(156,586)**	**156,587**	**--**	**--**	**--**
Stock Based Compensation	**--**	**--**	**--**	**736,436**	**--**	**--**	**736,437**
Comprehensive Loss for 2010	**--**	**--**	**--**	**--**	**--**	**(738,162)**	**(738,162)**
Balance December 31, 2010	**22,647,340**	**$30,290,847**	**$5,059,260**	**$9,114,311**	**$(837,425)**	**$(32,349,030)**	**$11,277,963**

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, 2010 and 2009

(in United States dollars)

	2010	2009
Cash provided by (used in):		
Operating Activities		
Net Loss for the year	**$ (738,162)**	$ (327,122)
Adjustments for non-cash items:		
Amortization	**2,035**	1,421
Non-controlling interest	**6,489**	(4,040)
Stock-based compensation	**375,077**	146,712
	(354,561)	(183,029)
Net change in non-cash working capital balances *(note 12)*	**24,874**	(337,772)
	(329,687)	(520,801)
Investing Activities		
Additions to exploration properties	**(1,619,058)**	(1,038,859)
Additions to property, plant and equipment	**(238,440)**	(12,725)
Deposit on Equipment	**(870,805)**	--
	(2,728,303)	(1,051,584)
Financing Activities		
Repayment of shareholder loan	**--**	(105,000)
Shares and warrants issued for cash, net of cost	**5,678,344**	1,723,899
	5,678,344	1,618,899
Change in cash - For the year	**2,620,354**	46,514
Cash - beginning of year	**108,341**	61,827
Cash - end of year	**$ 2,728,695**	$ 108,341

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

Tsodilo Resources Limited
Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

1. NATURE OF OPERATIONS

Tsodilo Resources Limited ("Tsodilo" or "the Company") is an exploration stage company which is engaged principally in the acquisition, exploration and development of mineral properties in the Republic of Botswana. The recovery of the Company's investment in exploration 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, 2010, the Company reported an accumulated deficit of $32,349,030 [2009: $31,610,868] and negative net cash outflows from operations before changes in working capital of $354,561 [2009: $183,029] for the year then ended and current required exploration property license commitments (which may be reduced by relinquishing licenses prior to the expiry of their call term) of approximately Botswana Pula 11,413,104 ($1,735,124 to the end of the license). The cash position of the Company is sufficient to finance the Company's continued exploration and meet its requisite expenditures in 2011.

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 or if the necessary financing cannot be raised.

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 the following direct and indirect subsidiaries:

	2010	2009
Tsodilo Resources Bermuda Limited (Bermuda)	**100%**	100%
Gcwihaba Resources (Proprietary) Ltd ("Gcwihaba") [Botswana]	**100%**	100%
Newdico (Proprietary) Limited ("Newdico") [Botswana].	**96%**	95%

All intercompany transactions have been eliminated on consolidation

Earnings (loss) per Share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Loss per share calculations are based on the weighted average number of common shares and common shares equivalents issued and outstanding during the year. Diluted loss per share are calculated using the treasury method which requires the calculation of diluted loss per share by assuming that outstanding stock options and warrants with the average market price that exceeds the average exercise prices of the options and warrants for the year are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of common shares for the year. Basic loss per share is the same as diluted loss per share because diluted loss per share is anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in accordance 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 and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates.

Significant accounts that require estimates relate to the possible impairment of property, plant and equipment and mineral property interest, the useful life of property, plant and equipment, valuation allowances for future income taxes, valuation of investments, valuation of stock-based compensation and warrants in private placements.

Exploration Properties

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

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.

On an ongoing basis the capitalized costs are reviewed to consider if there is any impairment on the subject mineral property interest. The Company conducts this evaluation on a project specific basis as opposed to treating each individual license block as a separate project. If a property is 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 on a straight-line basis over its estimated useful life of three to five years.

Cash

Cash consists of cash held in banks.

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 and are translated into the US dollar equivalent using the temporal method. 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 assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated 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 rates of exchange approximating those in effect at the time of the transaction. Foreign exchange gains and losses are included in the consolidated statements of operations.

Income Taxes

The Company uses the 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 tax 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.

Stock-Based Compensation Plans

The Company 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 3,942,120 shares of common stock. The exercise price is determined by the Chairman and CEO of the Company 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 five 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

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any material asset retirement obligations.

Financial Instruments and Comprehensive Loss

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheet at fair value at the date of acquisition. Subsequent measurement and accounting for changes in fair value will depend on the initial classification, as follows:

I. held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income;

II. available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income (loss); and

III. loans and receivables, held-to-maturity investments and other financial liabilities, are measured at amortized cost.

The Company designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Transaction costs directly attributable to the acquisition or issuance of financial instruments are recognized in net income (loss) in the period incurred.

3. EXPLORATION PROPERTIES

Exploration properties are summarized as follows

	Newdico Botswana	Gcwihaba Botswana	Total
Balance at December 31, 2008	**$ 3,787,002**	**$ 371,991**	**$ 4,158,993**
Jan. to Dec 2009 expenditures	892,032	310,620	1,202,652
Balance at December 31, 2009	**$4,679,034**	**682,611**	**$5,361,645**
Jan. to Dec 2010 expenditures	1,498,717	660,018	2,158,735
Balance at December 31, 2010	**$6,177,751**	**$1,342,629**	**$7,520,380**

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 which have a final expiry of June 2012. In June of 2008, Newdico relinquished approximately 7,400 square kilometers of the then outstanding 16,800 square kilometers under license. The licenses relinquished were evaluated and determine to be non-prospective for an economic kimberlite discovery. In June of 2010, Newdico relinquished approximately 5,463 of the then outstanding 9,402 square kilometers under license. The relinquishment of this portion of the overall licenses did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The balance of the licenses totaling 3,949 square kilometers were renewed for a two-year period. The terms of the licenses require Newdico to spend a minimum of Botswana Pula 3,839,490 ($553,308) as at December 31, 2010) inclusive of license fees from the date of grant to and if the licenses were held to their full term.

Originally, as a result of an agreement completed on March 31, 2002, Newdico was held 75% by Tsodilo and 25% by Trans Hex Group Limited ("THG") with Tsodilo being the operator. Both Tsodilo and THG funded their initial investments in the Ngami property held by Newdico through a combination of an equity interest and a primary loan interest. Based on the terms of the equity and primary loan interests, THG's interest in Newdico has been accounted for as a non-controlling interest. As at December 31, 2010, the amount reflected as non-controlling interest was $217,303 (2009: $210,814).

Starting in 2005, THG decided not to fund its proportionate share of expenditures on certain cash calls. Accordingly, the Company's interest in Newdico increased from 75% to 96% at December 31, 2010. During the year ended December 31, 2010, THG did not fund its proportionate share of expenditures on cash calls, and therefore, the Company's interest in Newdico increased to 96% at December 31, 2010 in accordance with the agreement between the two parties.

THG has also advanced funds, designated as a secondary loan, amounting to $287,270 CAD ($287,204 as at December 31, 2010; 2009: $273,750) to Newdico, relating to exploration properties which had been written off prior to March 31, 2002. This liability has not been recorded in these financial statements as it is repayable only from THG's share of any future earnings of Newdico after repayment of loans relating to the Newdico project.

3. EXPLORATION PROPERTIES (continued)

Gcwihaba Resources (Proprietary) Ltd ("Gcwihaba") – Botswana

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

Diamond Exploration

Gcwihaba holds six (6) precious stone – diamond prospecting licenses in the Ngamiland District of northwest Botswana covering 3,728 square kilometers as at December 31, 2010. The Company acquired the various licenses in 2007, 2008 and 2009. In April 2010, the Company relinquished PL 062/2007 in its entirety and PL's 048 and 050/2008 were relinquished in their entirety in December 2010. PL's 046, 047 and 049/2008 were reduced in part in December 31, 2010. 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 did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 1,177,264 ($178,978) as at December 31, 2010, inclusive of license fees from the date of grant to and if the licenses were held to their full term. Licenses that are expected to be renewed as of January 1, 2011 are represented in these figures.

Metal Exploration

Gcwihaba holds eighteen metal (18) (base, precious, platinum group, and rare earth) prospecting licenses in the Ngamiland District of northwest Botswana covering 12,118 square kilometers. The Company acquired the various licenses in 2005, 2008 and 2009. In October 2010, PL's 118 and 119/2005 were relinquished in part and in December 2010, PL's 051 and 052/2008 were relinquished in part. The relinquishment of this portion of the overall licenses did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 5,051,380 ($767,956) as at December 31, 2010) inclusive of license fees from the date of grant to and if the licenses were held to their full term. Licenses that are expected to be renewed as of January 1, 2011 are represented in these figures.

Radioactive Minerals

As at December 31, 2010, Gcwihaba holds two (2) radioactive mineral licenses in the Ngamiland District of northwest Botswana covering 6,925 square kilometers. The Company acquired the licenses in July 2010. The terms of the licenses require Gcwihaba to spend a minimum of Botswana Pula 1,544,970 ($234,882) inclusive of license fees from the date of grant to and if the licenses were held to their full term. Licenses that were granted January 1, 2011 are represented in these figures. Expenditures from July 1 to December 31, 2010 were minimal.

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

	Amortization Rate in Years	Cost	Accumulated amortization	Book value
December 31, 2010				
Vehicles, Drilling and Survey Equipment	5 Years	$1,002,727	$721,698	$281,029
Furniture and Equipment	3 Years	247,388	122,747	124,641
		$1,250,115	$844,445	$405,670
December 31, 2009				
Vehicles, Drilling and Survey Equipment	5 Years	$887,855	$571,018	$ 316,837
Furniture and Equipment	3 Years	123,819	93,074	30,745
		$ 1,011,674	$ 664,092	$ 347,582

For the year ended 2010, an amount of $178,317 (2009: $147,952) of amortization has been capitalized under exploration properties.

The Company had purchased $870,805 of drilling equipment being custom designed, with delivery expected at the end of the 1st Quarter, 2011.

5. SHARE CAPITAL

(a) Common Shares

Authorized, Issued and outstanding

The authorized capital stock of the Company comprises an unlimited number of common shares with no par value.

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

	Shares (number)	Amount $
Issued and outstanding at December 31, 2008	15,423,733	27,862,864
On private placement for cash (i)	728,061	405,000
On private placement for cash (ii)	331,386	200,000
On private placement for cash (iii)	201,519	121,400
On private placement for cash (iv)	2,102,758	1,095,000
Share issue costs	--	(12,501)
Ascribed to warrants issued in 2009	--	(975,318)
Issued and outstanding at December 31, 2009	18,787,457	28,696,445
On private placement for cash (v)	465,245	451,944
On Issuance of warrants for cash (vi)	457,901	304,896
On private placement for cash (vii)	2,702,702	4,832,360
On private placement for cash (viii)	234,035	163,497
Share issue costs	--	(74,353)
Ascribed to warrants issued in 2010	--	(4,083,942)
Issued and outstanding at December 31, 2010	22,647,340	30,290,847

5. SHARE CAPITAL (continued)

(i) 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 $0.56 (C$0.70) per unit for gross proceeds to the Company 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.

(ii) Private Placement

On June 8, 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.

(iii) 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.

(iv) Private Placement

On December 22, 2009, the Company issued, through a non-brokered private placement, 2,102,758 units of the Company at a price of $0.52 (C$0.55) per unit for gross proceeds to the Company of $1,095,000. 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$0.55) for a period of two years.

(v) Private Placement

On January 22, 2010, the Company issued, through a non-brokered private placement, 465,245 units of the Company at a price of $0.97 (C$1.00) per unit for gross proceeds to the Company of $451,944. 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$1.00) for a period of two years.

(vi) Stock issued from exercise of warrants

On March 1, 2010, 457,901 warrants were exercised at a price of C$0.70 for proceeds to the Company of $304,896.

(vii) Private Placement

On June 29, 2010, the Company issued, through a non-brokered private placement, 2,702,702 units of the Company at a price of $1.79 (C$1.85) per unit for gross proceeds to the Company of $4,832,360. 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$2.17 for a period of five years.

(viii) Private Placement

On November 19, 2010, 234,035 warrants were exercised at a price of C$0.70 for proceeds to the Company of $163,497.

5. SHARE CAPITAL (continued)

(b) Warrants

As at December 31, 2010, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry	Exercise Price	December 31, 2009	Issued [Exercised] (Expired)	December 31, 2010	December 31,2009	Issued [Exercised] (Expired)	December 31, 2010
March 10, 2010	C$0.70	457,901	[457,901]	--	104,958	[104,958]	--
November 14, 2010	C$0.70	463,852	[234,035] (229,817)	--	51,628	[26,048] (25,580)	--
February 26, 2011	C$0.70	728,061	--	728,061	157,751	--	157,751
June 3, 2011	C$0.70	331,386	--	331,386	104,159	--	104,159
August 4, 2011	C$0.70	201,519	--	201,519	60,056	--	60,056
December 22, 2011	C$0.55	2,102,758	--	2,102,758	653,352	--	653,352
January 20, 2012	C$1.00	--	465,245	465,245	--	354,213	354,213
June 29, 2015	C$2.17	--	2,702,702	2,702,702	--	3,729,729	3,729,729
		4,285,477	2,246,194	6,531,671	$1,131,904	$3,927,356	$5,059,260

On March 10, 2010, 457,901 warrants were exercised. On November 14 2010, 234,035 warrants were exercised and 229,817 expired. During the year ended December 31, 2010, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 101% to 206% (2009: 139% to 170%), a risk-free interest rate ranging from approximately 0.87% to 1.78% (2009: 0.9% to 1.42%), a term equivalent to the life of the warrant, and a dividend rate of zero percent.

(c) Contributed Surplus

As at December 31, 2008	**$ 7,798,255**
Relating to the expiry of warrants	261,229
Relating to stock based compensation	161,804
As at December 31, 2009	**8,221,288**
Relating to the exercise and expiry of warrants	156,587
Relating to stock based compensation	736,436
As at December 31, 2010	**$ 9,114,311**

5. SHARE CAPITAL (continued)

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at December 31, 2010 were as follows:

Expiry	Price	Outstanding December 31, 2008	Granted [Cancelled] (Exercised)	Outstanding December 31, 2009	Granted	[Cancelled] (Exercised)		Outstanding December 31, 2010	Exercisable December 31, 2010
January 3, 2010	C$1.85	50,000	--	50,000	--	[50,000]	(i)	--	--
August 18, 2010	C$1.25	160,000	--	160,000	--	[160,000]	(i)	--	--
January 3, 2011	C$1.25	50,000	--	50,000	--	--	(i)	50,000	50,000
April 24, 2011	C$0.70	150,000	--	150,000	--	--	(i)	150,000	150,000
August 15, 2011	C$0.70	65,000	--	65,000	--	--	(i)	65,000	65,000
January 2, 2012	C$1.00	75,000	--	75,000	--	--	(i)	75,000	75,000
May 8, 2012	C$0.80	400,000	--	400,000	--	--	(i)	400,000	400,000
January 2, 2013	C$0.70	210,000	--	210,000	--	--	(i)	210,000	210,000
May 8, 2013	C$0.70	350,000	--	350,000	--	--	(i)	350,000	350,000
January 2, 2014	C$0.70	--	225,000	225,000	--	--	(ii)	225,000	225,000
May 3, 2014	C$0.70	--	360,000	360,000	--	--	(ii)	360,000	360,000
November 1, 2014	C$0.55	--	100,000	100,000	--	--	(ii)	100,000	75,000
January 9, 2015	C$1.00	--	--	--	190,000	--		190,000	95,000
May 4, 2010	C$2.23	--	--	--	550,000	--		550,000	275,000
Total		1,510,000	685,000	2,195,000	740,000	[210,000]		2,725,000	2,330,000

	December 31, 2008	December 31, 2009	December 31, 2010
Options exercisable at end of year	1,480,000	1,827,500	2,330,000
Weighted average exercise price			
- issued	C$0.83	C$0.68	C$1.94
- outstanding	C$0.91	C$0.80	C$1.08
- exercisable	C$0.94	C$0.83	C$0.93

All options have a term of five years.

(i) 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.

(ii) On January 10, 2010, the Company under its Stock Option Plan issued 190,000 options at C$1.00 to persons who are directors, officers and employees of the Company. On May 4, 2010, the Company under its Stock Option Plan issued 550,000 options at C$2.23 to persons who are officers and employees of the Company.

The Company recognized an expense of $375,077 (2009: $146,712) relating to the fair value of options granted and vesting during the year. In addition, $361,360 (2009: $15,092) of stock-based compensation was capitalized into exploration properties. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility ranging from 105% to 151% (2009: 115% to 133%), risk-free interest rates ranging from approximately 1.10 to 3.76% (2009: 1.7% to 2.3%), a term equivalent to the life of the option, and a dividend rate of zero percent.

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 31.00% (2009: 33.00%) to loss before income taxes as follows:

	December 31, 2010	December 31, 2009
Net loss for the year	$(738,162)	$(327,122)
Income tax recovery at Canadian statutory	31.00%	33.00%
Income tax rates	(228,830)	(107,950)
Effect of statutory tax rate change	(7,809)	84,820
Foreign operation taxed at lower rates	7,143	7,924
Permanent differences	122,121	41,200
Change in valuation allowances	(120,301)	254,376
Expiry of tax losses	135,256	274,477
Changes in estimate and foreign exchange	105,905	(547,723)
Other	(13,485)	(4,124)
Provision for (recovery of) income taxes	$ --	$ --

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

	December 31, 2010	December 31, 2009
Property, Plant and Equipment - Canada	17,000	$ 16,000
Property, Plant and Equipment - Botswana	(7,000)	51,000
Exploration & Development - Canada	76,000	20,000
Exploration & Development - Botswana	(1,836,000)	(1,227,000)
Losses carried forward - Canada	515,000	626,000
Losses carried forward - Botswana	2,079,000	1,485,000
Other	45,000	38,000
Subtotal – future income tax asset	889,000	1,009,000
Valuation allowance	(889,000)	(1,009,000)
Net future income tax asset recorded	$ --	$ --

As at December 31, 2010, the Company has Canadian net operating losses carried forward that expire as follows:

Loss	Year of Expiry
580,000	2014
275,000	2015
335,000	2026
235,000	2027
213,000	2028
136,000	2029
273,000	2030

Total assessable losses relating to the activity in Botswana as at December 31, 2010 was $8,317,432 (2009: $5,939,979).

7. LOSS PER SHARE

Loss per share is computed on the basis of the loss of ($738,162) for the year ended December 31, 2010 [2009: ($327,122)] and the weighted average number of common or equivalent shares outstanding during period, December 31, 2010: 21,004,082 (2009 16,366,665). The effects of Stock options and warrants in computing basic and diluted earnings (loss) per share amounts for December 31, 2010 are calculated as follows:

	2010	2009
Net Loss from	**($ 738,162)**	**($ 327,122)**
Weighted Average number of shares	21,004,082	16,366,665
Basic and diluted loss per share	**($0.04)**	**($0.02)**

8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2010, 2009 and 2008, the Company incurred leave benefits (2010: $33,293 2009: $19,024, 2008: $19,024) payable to an officer and director of the Company amounting to $71,341. In June 2010, the Company paid the officer and director of the Company $59,451 leaving a payable to an officer and director of the Company amounting to $11,890. In addition at December 31, 2010, the Company had salary payable to the officer and director of $5,531.

The Company borrowed funds from a person who is an officer and director of the Company in fiscal years 2008 and 2007. The loans were interest free, payable upon demand and had no other terms of repayment. The outstanding loans of $105,000 were incurred and paid in 2009, leaving a zero balance.

9. SEGMENTED INFORMATION

Materially all of the Company's property, plant and equipment at December 31, 2010 is located in North America of $7,909 (2009: $442) and Botswana of $397,761 (2009: $347,140). 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 (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. The Company's cash is level one fair value.

Risk Exposure and Management

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

(a) Capital Management

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

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To

10. FINANCIAL INSTRUMENTS (continued)

maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets, which are approved by the Board of Directors and updated as necessary depending on various factors, including capital deployment and general industry conditions.

The Company anticipates continuing to access equity markets to fund continued exploration of its mineral properties and the future growth of the business.

(b) Liquidity Risk

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

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet it contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and accounts receivable. 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 is held with a major Canadian based financial institution.

(d) Interest Rate Risk

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

11. COMMITMENTS

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

The aggregate minimum lease payments exclusive of VAT are $130,618 as follows:

2011	25,364
2012	25,364
2013	26,630
2014	26,630
2015	26,630

The lease commitment is for storage space in Maun, Botswana at an annual rental of Pula 166,834 per year for 2010 through 2012 and Pula 175,165 for years 2013 through 2015 converted at an exchange rate as at December 31, 2010 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 CONSOLIDATED STATEMENTS OFCASH FLOWS

	December 31 2010	December 31 2009
Net change in noncash working capital balances		
Decrease / (Increase) in accounts receivable and prepaid expenses	$ 2,469	$ (48,149)
Increase / (Decrease) in accounts payable and accrued liabilities	22,405	(289,623)
Total	$ 24,874	$ (337,772)

13. SUBSEQUENT EVENTS

Warrants

In February 26, 2011, 728,061 warrants were exercised at a price of C$0.70 for proceeds to the Company of $516,713.

Stock Option Plan

On January 3, 2011, the Company issued 310,000 options at C$1.25 under its Stock Option Plan to persons who are officers and employees of the Company.

On January 11, 2011, 50,000 stock options at C$1.25 expired.

Corporate Information

DIRECTORS
James M. Bruchs, Chairman
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

Michiel C. J. de Wit
Pretoria, South Africa
Appointed as director in 2009

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

Michiel C. J. de Wit
Pretoria, South Africa
President and Chief Operating Officer
Appointed in 20109

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

Gail McGinley
Corporate Secretary
Appointed in 2005

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Toronto, Ontario

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada
Toronto, Ontario

STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: TSD