

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") should be read in conjunction with the Consolidated Quarterly Financial Statements for the Quarter ended September 30, 2008 together with the Annual Report for the year ended December 31, 2007. This interim report is intended to provide the reader with a review of the factors that affected the Company's performance during the three and nine month period ending September 30, 2008 and those factors reasonably expected to impact on future operations and results. The unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles applicable in Canada. This management's discussion and analysis has been prepared as of November 24, 2008.

OVERVIEW

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

Outstanding Share Data

As of November 24, 2008, 15,423,733 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 1,890,000 options remain outstanding of which 1,436,250 are exercisable at exercise prices ranging from Canadian \$0.50 - \$1.85. If all options were vested and exercised, 1,890,000 common shares of the Company would be issued.

As of November 24, 2008, 1,787,895 warrants are outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company at purchase prices ranging from Canadian \$0.70 - \$0.80 for a period of two years from the date of issuance (7/20/2006 – 11/14/08). If converted, 1,787,895 common shares of the Company would be issued.

Principal Shareholders of the Company

The largest shareholder of the Company is its President and Chief Executive Officer, James M. Bruchs, who currently owns, controls or directs 2,695,983 or 17.47 % of the issued and outstanding common shares as of November 24, 2008. The SSRedmond Trust, currently controls 2,434,024 or 15.78% of the issued and outstanding shares as of November 21, 2008; the Firebird Global Master Fund, Ltd. controls 1,875,630 or 11.03% of the issued and outstanding shares as of November 24, 2008; and, directors other than Mr. Bruchs own, control or direct 1,701,701 or 11.03% of the issued and outstanding shares as of November 24, 2008.

Subsidiaries

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

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gcwihaba Resources (Proprietary) Limited (“Gcwihaba”), which has diamond prospecting licenses covering approximately 4,313 square kilometers and base and precious metal licenses covering 3,506 square kilometers.

Exploration Activities

Diamond Projects

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

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

Base and Precious Metals Project

The results of a soil sampling program by the Government of Botswana show a high nickel kick associated with the dyke swarms surrounding several large intrusive bodies within our license blocks. Most nickel mineralization is associated with highly magnetic basic and ultrabasic rocks emplaced in orogenic belts and rifted plate margins and ocean basins. Examples of sulphide nickel deposits developed along extensive faults/suture zones include the Kambalda deposit in Western Australia; Hunters Road in Zimbabwe; the Noril’sk-Talnakh region in Siberia; and, Sudbury, Ontario. It is also important to note that the

Jurassic Insizwa complex in South Africa is part of the Karoo Magmatic event with a setting similar to that of the intrusion being investigated by Tsodilo. Regional geological trends strongly suggest the continuation of the economically viable Matchless Amphibolite Belt (MAB) in Namibia across northwest Botswana.

GENERAL

During the quarter, the Company continued its work with AEON (Africa Earth Observatory Network) at the University of Cape Town, Cape Town, South Africa with respect to the location of the Congo craton boundary and the matchless amphibolite belt in northwest Botswana.. 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. An AEON science advisory group comprises 18 members spread across four continents, five South African universities and from industry.

NEWDICO (Pty) Limited (“Newdico”)

Summary of work completed in Third Quarter 2008 and to date

◇ On October 7, 2008, the Ministry of Minerals, Energy and Water Resources granted the renewal of prospecting license 062/2005, 063/2005, 064/2005, 065/2005, 066/2005, 067/2005, 068/2005, 069/2005, 070/2005; 071/2005; and, 072/2005. These (10) blocks under license comprise 9,400 square kilometers.

◇ Over 4,000 kimberlite indicator minerals (“KIM”) from kimberlites A41, C15, A36, 1821C16, PD07, PD25, B1, B2, B3, B4, B5, B6, B7, B8 and B9 as well as those from A15 are currently undergoing electron microprobe analysis to establish their chemical composition at the AEON center at Cape Town University, Cape Town, South Africa. Results are expected in the first quarter of 2009.

◇ A detailed petrography study is ongoing on core samples from these kimberlites for the purpose of determining their diamond-carrying potential. Samples have been submitted to AEON for petrography and additional samples have been submitted to the Advanced Mineralogy Research Center, Colorado School of Mines, Golden Colorado for analysis using QEMSCAN.

◇ A Consultant has been retained to perform a complete study of the kimberlites in the Company’s Nxau Nxau kimberlite field for the purposing of selecting kimberlites for macro diamond analysis. Results of the review are expected in the first quarter of 2009.

◇ Geophysical ground surveys (magnetic) were conducted over three hundred fifty-five (355) line kilometers.

◇ Sixty (60) kilometers of roads and bush clearing took place during the quarter for the purpose of gaining access to priority target sites.

Planned Exploration Program for Quarter 4 2008

The program is based on our strategy of using a combination of indicator mineral sampling, magnetic and gravity data to generate individual targets for drill evaluation and our regional strategy of evaluating possible transport corridors giving rise to the alluvial secondary kimberlite indicator minerals (“KIM”) and diamond deposits at Tsumkwe and Omatako. Our program for the 4th quarter of 2008 will include the following:

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

◇ A ground magnetic geophysical survey covering approximately 300 square kilometers has commenced and will be completed in the 4th quarter.

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

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

GCWIHABA Resources (Pty) Limited (“Gcwihaba”)

Diamond Licenses

Summary of work completed in the Third Quarter - 2008 and to date

◇ A detailed analysis on the company’s licenses was performed during the second quarter which resulted in the relinquishment of four (4) licenses totaling 3,874 square kilometers. The Company currently has six (6) blocks under license comprising 4,310 square kilometers in size. The Company made application for an additional eleven (11) licenses during the third quarter.

◇ Geophysical ground surveys (magnetic) were conducted totaling 2,432 line kilometers.

◇ Drill testing of priority 1 magnetic target anomalies 1822 C10, 1822 C11, 1822 C23, 1821 C21, 1821 D12 and 1822 C5 was completed during the quarter and samples have been submitted for analysis.

Planned Exploration Program for the 4th Quarter 2008

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

Base and Precious Metals Licenses

Summary of work completed in the third Quarter - 2008 and to date

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

◇ Work was performed with respect to mapping the Matchless Amphibolite Belt (MAB) and the Matchless member (MM) in Namibia using aeromagnetics, Satellite Radar Tomography (SRTM), Digital Terrain Model (DTM) data, Bouguer Gravity Anomaly shaded images and the results from the Kalahari drilling project. The regional relationships in terms of three major copper deposits in Namibia (MAB), the copper concentrations which occur to the south of the Company's license blocks and the Zambia copper belt were broadly explored with respect to the boundary between the Damara mobile belt and the Rehobothian fold belt.

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

◇ Four base and precious metal target anomalies were drilled during the quarter. All targets intersected massive sulfides which contained mineralization. Samples from these targets have been submitted to AEON for petrography and age dating and to the Advanced Mineralogy Research Center, Colorado School of Mines, Golden Colorado for analysis using QEMSCAN. Initial testing using a field portable XRF analyzer has identified nickel, copper and cobalt in the samples.

Planned Exploration Program for the 4th Quarter 2008

◇ Further drilling in the vicinity of base and precious metal targets 1, 2 & 3 will continue in order to determine the size, mineralization and economics of this sulfide deposit.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2008, the Company had negative net working capital of (\$350,943) [negative (\$230,908); September 30, 2007] which included cash of \$17,840 (\$31,190; September 30, 2007). These funds are managed in-house in accordance with specific investment criteria approved by the board of directors, the primary objective being the preservation of capital to assure funding for exploration activities. The Company has completed a private placement for an additional \$275,000 in March 2008, see discussion in Financing Activities below. The Company does not hedge its activities or otherwise use derivatives. At quarter end the Company did not have any material contractual obligations. The Company is required to spend a minimum on prospecting over the period of its licenses. On licenses current as of September 30, 2008, the expenditure requirements are:

NEWDICO					
License No.	Sq. Km	License Period	License Fees BWP	Required Expenditure (license period) BWP	Total Required Future Expenditure as of 6/30/08 (USD)
62/2005	972.76	7/1/08 – 6/30/10	4,865	150,000	\$22,365.00
63/2005	972.42	7/1/08 – 6/30/10	4,865	150,000	\$22,365.00
64/2005	971.12	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
65/2005	971.58	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
66/2005	971.48	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
67/2005	802.81	7/1/08 – 6/30/10	4,015	150,000	\$22,365.00

68/2005	971.31	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
69/2005	969.68	7/1/08 – 6/30/10	4,850	150,000	\$22,365.00
70/2005	970.69	7/1/08 – 6/30/10	4,855	150,000	\$22,365.00
71/2005	828.35	7/1/08 – 6/30/10	4,145	150,000	\$22,365.00
	9,402.20		47,035	1,500,000	\$223,650.00
GCWIHABA - Diamond					
62/2007	988.00	4/1/07 – 03/31/07	4,940	210,000	\$31,310.00
46/2008	709.00	1/1/08 – 12/31/08	3,545	210,000	\$31,310.00
47/2008	748.00	1/1/08 – 12/31/08	3,740	210,000	\$31,310.00
48/2008	586.00	1/1/08 – 12/31/08	2,930	210,000	\$31,310.00
49/2008	965.00	1/1/08 – 12/31/08	4,825	210,000	\$31,310.00
50/2008	317.00	1/1/08 – 12/31/08	1,585	210,000	\$31,310.00
	4,313.00		21,565	1,260,000	\$187,860.00
GCWIHABA – Base and Precious Metals					
118/2005*	968.60	10/1/08 – 9/30/10	4,843	400,000	\$69,640.00
119/2005*	968.60	10/1/08 – 9/30/10	4,843	400,000	\$69,640.00
51/2008	663.00	1/1/08 – 12/31/08	3,315	300,000	\$44,730.00
52/2008	906.00	1/1/08 – 12/31/08	4,530	300,000	\$44,730.00
	3,506.20		17,531	1,400,000	\$228,740.00
* license scheduled for renewal 10.01.08					

Financial Instruments

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

Operating Activities

Cash outflow used in operating activities increased from (\$73,052) in the period ended September 30, 2007 to (\$76,379) for the period ended September 30, 2008. This increase is due to operating losses in this reporting period.

ANNUAL INFORMATION**(in US dollars)**

	Period Ended Sept 30 2008	Period Ended Sept 30 2007
Total Revenues	--	--
Loss before Non-controlling Interest	(509,467)	(378,393)
Basic and diluted loss per share	(\$0.03)	(\$0.03)
Non-controlling Interest	--	--
Net Loss for the Year	(0)	(0)
Basic and diluted loss per share	(\$0.00)	(\$0.00)
Total Assets	4,337,120	3,904,928
Total long term liabilities	228,395	229,607
Cash dividends declared	--	--

QUARTERLY INFORMATION 2008**(in US dollars)**

	Quarter 1	Quarter 2	Quarter 3
Fiscal Year 2007 (period ended Sept 30 2007)			
Total Revenues	--	--	--
Loss for the period	(97,193)	(239,086)	(42,114)
Basic and diluted loss per share	(\$0.01)	(\$0.02)	(\$0.01)
Total Assets	3,491,244	3,779,683	3,904,928
Total long term liabilities	225,763	225,236	229,607
Fiscal Year 2008 (period ended Sept 30, 2008)			
Total Revenues			
Loss for the period	(163,734)	(234,045)	(111,688)
Basic and diluted loss per share	(\$0.01)	(\$0.01)	(\$0.02)
Total Assets	4,246,648	4,220,483	4,337,120
Total long term liabilities	228,395	228,395	228,395

Investing Activities

Cash flow applied in investing activities increased to \$463,978 for the period ended September 30, 2008 (September 2007: (636,992)).

Total expenditures of \$439,277 on exploration properties for the period ended September 30, 2008 were attributable to the Newdico and Gcwihaba projects in northwest Botswana. Included

in this amount is the proportionate contributory share of 6.93% attributed to the Trans Hex Group for the Newdico project. There were no material disposals of capital assets or investments during the year.

In December 2007, the board of directors of Newdico approved an exploration program and budget for the period January 1, to December 31, 2008 that calls for expenditures totaling approximately Pula 7.76 million (approximately \$1.2 million as of March 31, 2008). Trans Hex Group is presently responsible for funding approximately 6% of the expenses of this company. The approved exploration program includes provision for additional drilling, soil sampling, ground geophysical surveys, processing and analysis.

Financing Activities I

Following the restructuring of Tsodilo in April 2002 and the cancellation of the shares formerly held by Trans Hex, the source of financing for the Company's activities changed from debt (related party) finance to equity, through the issue of units by way of non-brokered private placements. Each unit has consisted of one common share of the Company and one or one-half a warrant', with each full such warrant entitling the holder to purchase one common share of the Company for a purchase price equal to the unit price for a period of two years from the date of issuance. The details of private Placements since 2006 to the present are set forth below.

(i) Private Placement

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

(ii) Private Placement

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

Company, each warrant entitling the holder to purchase one common share of the Company at a price of \$0.87 (C\$1.00) for a period of two years.

(iii) Private Placement

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

(iv) Private Placement

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

(v) Private Placement

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

(vi) Private Placement

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

(vii) Private Placement

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

(viii) Private Placement

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

(ix) Private Placement

On December 19, 2007, the Company completed a non-brokered private placement. 326,126 units of the Company (the "Units") were issued at a price of \$0.69 (C \$0.70) per Unit for proceeds to the Company of \$224,989. Of this amount, 91,102 units valued at \$66,989 are attributed to an officer and director as an offset for accrued leave benefits as outlined in note 9. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.70 for a period of two years.

(x) Private Placement

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

(xi) Private Placement

On November 14, 2008 (subsequent to the September 30 financial statements, the Company completed a non-brokered private placement. 463,852 units of the Company (the "Units") were issued at a price of \$0.59 (C \$0.70) per Unit for proceeds to the Company of \$275,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.70 for a period of two years. \$180,000 was received on deposit as of September 30, 2008.

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

RESULTS OF OPERATIONS

On a consolidated basis Tsodilo recorded a net loss of \$509,467 in the period ended September 30, 2008 (\$0.03 cents per common share) compared to a net loss of \$378,393 in the period ended September 30, 2007 (\$0.03 cents per common share). The Company experienced decreases in corporate remuneration, corporate travel, investor relations, and stock-based compensation.

Exploration expenditures on all projects amounted to \$439,277 during the quarter ended September 30, 2008 compared to \$630,278 for the quarter ended September 30, 2007. Exploration expenditures incurred on the Newdico project for the quarter ended September 30, 2008 was \$362,988 compared to \$625,985 for the quarter ended September 30, 2007. The principal components of the Newdico exploration program were: (a) additional soil sampling and the completion of the processing and analysis of the soil samples; (b) commissioning of further ground magnetic surveys of selected aeromagnetic anomalies; (c) analyzing detailed proprietary aeromagnetic maps covering the target areas; and (d) commencement of a diamond core drilling program on selected targets. Exploration expenditures incurred on the Gwihaba project for the quarter ended September 30, 2008 were \$76,289 compared to \$4,293 for the quarter ended September 30, 2007.

PERSONNEL

At September 30, 2008 the Company and its subsidiaries employed twenty (20) individuals as compared to eighteen (18) at September 30, 2007, including senior officers, administrative and operations personnel including those on a short-term service basis.

THIRD QUARTER - 2008

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

RISKS AND UNCERTAINTIES

Tsodilo's primary objective is the discovery of an economic kimberlite diamond deposit capable of rapid advancement to feasibility stage and ultimate development as a producing

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

Capital Requirements

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

Off-Balance Sheet Arrangements

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

Exploration Risks

The Company's operations are subject to all the hazards and risks normally incident to the exploration, development and mining of diamond deposits, any of which could result in damage to life or property, environmental damage, and possible legal liability for any or all damage. Whether a diamond deposit will ultimately be commercially viable depends on a number of factors; including the particular attributes of the deposit such as the deposit's

size, the quality and quantity of the diamonds, its proximity to existing infrastructure, financing costs, and the prevailing prices for diamonds. Also of key importance are government regulations, including those relating to prices, taxes, royalties, land tenure, land use, the importing and exporting of diamonds, production plant and equipment, and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of them may impede the development of a deposit or render it uneconomic.

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

Currency Risks

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

Key Personnel

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

ACCOUNTING STANDARDS

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

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

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the consolidated financial statements

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

Group Companies: September 30, 2008 and 2007

	2008	2007
Tsodilo Resources Bermuda Limited	100%	100%
Gcwihaba Resources (PTY) Limited (“Gcwihaba”)	100%	100%
Newdico (PTY) Limited (“Newdico”)	93%	92%

Earnings per share

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

Use of estimates

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

Exploration properties

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

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

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

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

Property, Plant and Equipment

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

Foreign currency translation

The Company's functional and reporting currency is the US dollar. The Company's subsidiaries are accounted for as integrated foreign operations. Transactions of the

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

Income Taxes

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

Stock-Based Compensation Plans

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

ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING DEVELOPMENTS

Financial instruments

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

Financial Instruments – Recognition and Measurement, Section 3855

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

Hedges, Section 3865

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

Comprehensive Income, Section 1530

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

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

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

Financial Instruments – Disclosures, Section 3862

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

Financial Instruments – Presentations, Section 3863

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

Capital Disclosures – Section 1535

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

Inventories – Section 3031

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

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

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

RELATED PARTY TRANSACTIONS

As of December 31, 2007, the Company borrowed \$125,000 from a person who is an officer and director of the Company. The \$125,000 demand loan balance remaining September 30 2008 has no interest rate, no maturity date, and no additional terms of repayment.

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

funded by TSDB and THD by way of shareholders loan account by Tsodilo as to 75% thereof; and Trans Hex as to 25% thereof.

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

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

As of September 30, 2008, TSDB holds a 93% (June 30, 2007: 91%) interest in Newdico while THD holds 7% (September 30, 2007: 9%). The change in the parties’ respective interest in the project is attributed to the dilution of THD’s interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

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

OUTLOOK

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

ADDITIONAL INFORMATION

Additional information relating to Tsodilo Resources Limited is available on its website www.TsodiloResources.com or through SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

/s/

James M. Bruchs
President and Chief Executive Officer
November 24, 2008

/s/

Gary A. Bojes
Chief Financial Officer
November 24, 2008

TSODILO RESOURCES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTH PERIOD
ENDED SEPTEMBER 30, 2008**

(expressed in United States dollars)

Unaudited – Prepared by Management

CONTENTS:
Balance Sheet
Statement of Deficit
Statement of Operation
Statement of Cash Flows
Notes to Financial Statements

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

Financial Reporting Responsibility of Management

The quarterly report and consolidated financial statements have been prepared by management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on informed judgments and best estimates. The financial information presented in this quarterly report is consistent with the consolidated financial statements. Management acknowledges responsibility for the fairness, integrity and objectivity of all information contained in the quarterly 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 quarterly financial statements before they are presented to the Board of Directors for approval and considers the independence of the auditors.

The financial statements for the period ended September 30, 2008 has not been audited. The financial statements for the period ended December 31, 2007 have been audited by KPMG Inc., the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

/s/

James M. Bruchs
President and Chief Executive Officer
November 24, 2008

/s/

Gary A. Bojes
Chief Financial Officer
November 24, 2008

Tsodilo Resources Limited

Consolidated Balance Sheets

As at September 30, 2008

(in United States dollars)

(unaudited - Management prepared)

	Sept 30	Sept 30
	2008	2007
ASSETS		
Current		
Cash and equivalents	17,840	31,190
Amounts receivable and prepaid expenses	24,961	37,509
	42,801	68,699
Exploration Properties (note 4)	3,778,152	3,172,405
Property, Plant and Equipment (note 5)	516,167	663,824
	4,337,120	3,904,928
LIABILITIES		
Current		
Accounts payable and accrued liabilities	268,744	181,041
Shareholder's loan	125,000	125,000
Total current liabilities	393,744	306,041
NON-CONTROLLING INTEREST (note 9)	228,395	229,607
SHAREHOLDERS' EQUITY		
Share Capital (note 6)	27,831,148	27,421,853
Warrants (note 6)	358,665	1,003,942
Contributed Surplus (note 6)	7,792,320	6,514,657
Cumulative Translation (note 3)	(837,425)	(837,425)
Deficit	(31,429,727)	(30,733,747)
	3,714,981	3,369,280
	4,337,120	3,904,928

Going Concern (note 1)

Commitments (note 12)

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

Tsodilo Resources Limited

Consolidated Statements of Operations

As at September 30, 2008

(in United States dollars)

(unaudited - Management prepared)

	For the 3 Months		For the 9 Month Period	
	Sept 30	Sept 30	Sept 30	Sept 30
	2008	2007	2008	2007
Expenses				
Corporate remuneration	34,258	21,799	63,768	149,797
Corporate travel and subsistence	300	152	785	8,233
Investor relations	2,444	2,977	12,174	21,718
Legal and audit	5,227	4,419	6,169	6,198
Filing and regulatory fees	4,073	2,306	23,839	24,544
Office and administration	24,764	22,677	80,422	45,867
Amortization	44,255	741	133,983	3,335
Foreign exchange gain	(3,849)	(53,014)	(2,348)	(27,248)
Stock-based compensation (note 6)	216	40,057	190,675	145,949
Subtotal of Expenses	111,688	42,114	509,467	378,393
Loss before non-controlling interest	(111,688)	(42,114)	(509,467)	(378,393)
Non-controlling interest	-	-	-	-
Loss for the period	(111,688)	(42,114)	(509,467)	(378,393)
Basic and diluted loss per share - cents (note 7)	\$ (0.01)	\$(0.00)	\$ (0.03)	\$(0.03)

Consolidated Statements of Deficit

(in United States dollars)

(unaudited - Management prepared)

	For the 3 Months		For the 9 Month Period	
	Sept 30	Sept 30	Sept 30	Sept 30
	2008	2007	2008	2007
Deficit – Beginning of period	(31,318,039)	(30,691,633)	(30,920,260)	(30,355,354)
Loss for the period	(111,688)	(42,114)	(509,467)	(378,393)
Deficit - End of Period	(31,429,727)	(30,733,747)	(31,429,727)	(30,733,747)

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

Tsodilo Resources Limited
Consolidated Statements of Cash Flows
As at September 30, 2008
(in United States dollars)
(unaudited - Management prepared)

	For the 3 Months		For the 9 Months	
	Sept 30	Sept 30	Sept 30	Sept 30
	2008	2007	2008	2007
Cash provided by (used in):				
Operating Activities				
Loss for the period	(111,688)	(42,114)	(509,467)	(378,393)
Adjustments for non-cash items:				
Foreign exchange adjustment (gain)	(1,501)	-	-	-
Amortization	44,255	741	133,983	3,335
Stock-based compensation (note 6)	216	40,057	190,675	145,949
	(68,718)	(1,316)	(184,809)	(229,109)
Net change in non-cash working capital balances	65,550	34,209	108,430	156,057
	(3,168)	32,893	(76,379)	(73,052)
Investing Activities				
Exploration properties	(180,083)	(229,956)	(439,277)	(630,278)
Disposals of / (Additions to) Property, Plant and Equipment	(3,212)	(1,580)	(24,701)	(6,714)
	(183,295)	(231,536)	(463,978)	(636,992)
Financing Activities				
Issue of common shares	180,000		505,000	415,057
Contribution from non-controlling interest	-	-	-	-
Shareholder's Loan		95,000	-	125,000
	180,000	95,000	505,000	540,057
Change in cash and equivalents - For the period	(6,463)	(103,643)	(35,357)	(169,987)
Cash and equivalents - Beginning of period	24,303	134,833	53,197	201,177
Cash and equivalents - End of period	(6,463)	31,190	17,840	31,190

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

Tsodilo Resources Limited

Notes to the Consolidated Financial Statements

For the quarter ended September 30, 2008

1. NATURE OF OPERATIONS AND GOING CONCERN

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

As at September 30, 2008, the Company reported an accumulated deficit of \$31,429,727 (September 30, 2007: \$30,733,747) and negative cash outflows from operations (\$76,379) [2007: (\$73,052)] for the period then ended. The cash position of the Company is insufficient to finance continued exploration. As a development stage company, it is currently unable to self-finance its operations. Management believes that it will be able to secure the necessary financing through a combination of the issue of new equity or debt instruments, the entering into of joint venture arrangements or the exercise of warrants and options for the purchase of common shares. However, there is no assurance that the Company will be successful in these actions. These financial statements do not reflect the adjustments, which could be material, to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate.

2. NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor, KPMG, Inc., has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor except for those sections relevant to the December 31, 2007 annual audited financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and include the accounts of the Company and its direct and indirect subsidiaries. All inter-company transactions and balances have been eliminated. Group Companies: September 30, 2008 and 2007

	2008	2007
Tsodilo Resources Bermuda Limited	100%	100%
Gcwihaba Resources (PTY) Limited (“Gcwihaba”)	100%	100%
Newdico (PTY) Limited (“Newdico”)	93% (note 9)	92% (note 9)

Earnings per share

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

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

options and warrants outstanding would have the effect of reducing loss per share. Basic and diluted losses per share are therefore presented as the same figure.

Use of estimates

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

Exploration properties

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

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

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

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

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

Income Taxes

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

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Tsodilo has a Stock Option Plan (refer to note 6). Under the Stock Option Plan, the Company may grant options to directors, officers and employees for up to 2,715,471 shares of common stock. The exercise price is determined by the Chairman of the Compensation Committee and the President and CEO in consultation with the board of directors, but is not less than the market price of the Company's stock on the date of the grant. An option's maximum term is 5 years. The Company uses the fair value method of accounting for stock options. Under the fair value method stock-based payments are measured at the fair value of the equity investments and are amortized over the vesting period. Consideration paid on exercise of stock options is credited to common share capital.

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

4. EXPLORATION PROPERTIES

These may be summarized as follows:

	Newdico Botswana	Gcwihaba Botswana	Total
	\$	\$	\$
Balance at December 31, 2005	1,500,052	179,564	1,679,616
Jan. to Dec. 2006 expenditures	693,394	51,108	744,502
Balance at December 31, 2006	2,193,446	230,672	2,424,118
Jan. to Dec. 2007 expenditures	908,321	6,436	914,757
Balance at December 31, 2007	3,101,767	237,108	3,338,875
Jan to Sept 2008 expenditures	362,988	76,289	439,277
Balance at September 30, 2008	3,464,755	313,397	3,778,152

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

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

License Commitments

On licenses as of September 30, 2008, the expenditure requirements are:

Newdico (Proprietary) Limited					
License No.	Sq. Km	License Period	Annual License Fees BWP	Required Expenditure (license period) BWP	Total Required Future Expenditure as of 6/30/08 (USD)
62/2005	972.76	7/1/08 – 6/30/10	4,865	150,000	\$22,365.00
63/2005	972.42	7/1/08 – 6/30/10	4,865	150,000	\$22,365.00
64/2005	971.12	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
65/2005	971.58	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
66/2005	971.48	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
67/2005	802.81	7/1/08 – 6/30/10	4,015	150,000	\$22,365.00
68/2005	971.31	7/1/08 – 6/30/10	4,860	150,000	\$22,365.00
69/2005	969.68	7/1/08 – 6/30/10	4,850	150,000	\$22,365.00
70/2005	970.69	7/1/08 – 6/30/10	4,855	150,000	\$22,365.00
71/2005	828.35	7/1/08 – 6/30/10	4,145	150,000	\$22,365.00
	9,402.20		47,035	1,500,000	\$223,650.00
Gcwihaba Resources (Proprietary) Limited – Diamond					
62/2007	988.00	4/1/07 – 03/31/07	4,940	210,000	\$31,310.00
46/2008	709.00	1/1/08 – 12/31/08	3,545	210,000	\$31,310.00
47/2008	748.00	1/1/08 – 12/31/08	3,740	210,000	\$31,310.00
48/2008	586.00	1/1/08 – 12/31/08	2,930	210,000	\$31,310.00
49/2008	965.00	1/1/08 – 12/31/08	4,825	210,000	\$31,310.00
50/2008	317.00	1/1/08 – 12/31/08	1,585	210,000	\$31,310.00
	4,313.00		21,565	1,260,000	\$187,860.00
Gcwihaba Resources (Proprietary) Limited – Base & Precious Metals					
118/2005*	968.60	10/1/08 – 9/30/10	4,843	400,000	\$69,640.00
119/2005*	968.60	10/1/08 – 9/30/10	4,843	400,000	\$69,640.00
51/2008	663.00	1/1/08 – 12/31/08	3,315	300,000	\$44,730.00
52/2008	906.00	1/1/08 – 12/31/08	4,530	300,000	\$44,730.00
	3,506.20		17,531	1,400,000	\$228,740.00
* license scheduled for renewal 10.01.08					

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

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

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

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Book value
December 31, 2006			
Vehicles	887,855	132,387	755,468
Furniture and Equipment	76,484	37,609	38,875
	964,339	169,996	794,343
December 31, 2007			
Vehicles	887,855	293,688	594,167
Furniture and Equipment	88,608	57,326	31,282
	976,463	351,014	625,449
September 30, 2008			
Vehicles	887,855	403,331	484,524
Furniture and Equipment	107,112	75,469	31,643
	994,967	478,800	516,167

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

6. SHARE CAPITAL

Common Shares

Authorized

The authorized capital stock of the Company comprises an unlimited number of common shares. Details of the issued and outstanding common shares are as follows:

	Shares (number)	Amount \$
Issued and outstanding at December 31, 2005	11,045,045	26,218,172
On private placement for cash in 2006 See (i) to (v) below	2,390,793	1,739,907
Ascribed to warrants issued in 2006	-	(933,515)
Issued and outstanding at December 31, 2006	13,435,838	27,024,564
Issued and outstanding at December 31, 2006	13,435,838	27,024,564
On private placement for cash (vi)	141,516	95,869
On private placement for cash (vii)	167,146	120,000
On private placement for cash (viii)	231,714	175,000
On private placement for cash (vi)	235,024	158,000
On private placement not for cash (ix)	91,102	66,989
Ascribed to Exercise of Options	200,000	44,392
Ascribed to warrants issued in 2007	-	(261,229)
Issued and outstanding at December 31, 2007	14,502,340	27,423,585
On private placement for cash (x)	457,901	325,000
Ascribed to warrants issued in 2008	-	(97,437)
Issued and outstanding at September 30, 2008	14,960,241	27,651,148

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

(i) Private Placement

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

(ii) Private Placement

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

(iii) Private Placement

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

(iv) Private Placement

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

(v) Private Placement

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

(vi) Private Placement

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

(vii) Private Placement

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

(viii) Private Placement

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

(ix) Private Placement

On December 19, 2007, the Company completed a non-brokered private placement. 326,126 units of the Company (the "Units") were issued at a price of \$0.69 (C \$0.70) per Unit for proceeds to the Company of \$224,989. Of this amount, 91,102 units valued at \$66,989 are attributed to an officer and director as an offset for accrued leave benefits as outlined in note 9. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.70 for a period of two years.

(x) Private Placement

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

(xi) Private Placement

On November 14, 2008 (subsequent to the September 30 financial statements, the Company completed a non-brokered private placement. 463,852 units of the Company (the "Units") were issued at a price of \$0.59 (C \$0.70) per Unit for proceeds to the Company of \$275,000. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.70 for a period of two years. \$180,000 was received on deposit as of September 30, 2008.

Issued and outstanding at September 30, 2008 (See Above)	14,960,241	27,651,148
Common Stock Deposits (xi)		180,000
Balance as of September 30, 2008		27,831,148

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

(b) Warrants

As at December 31, 2007, the following warrants were outstanding:

Expiry	Exercise Price	Number of Warrants			Value		
		Opening	Issued [Exercised] (Expired)	Closing	Opening (dollars)	Issued [Exercised] (Expired)	Closing (dollars)
June 1, 2006	C\$0.75	65,024	(65,024)	--	--	--	--
October 14, 2006	C\$1.12	56,969	(56,969)	--	--	--	--
November 8, 2006	C\$2.35	26,668	(26,668)	--	--	--	--
March 4, 2007	C\$1.15	230,785	(230,785)	--	85,170	(85,170)	--
January 27, 2008	C\$1.00	468,776	--	468,776	146,788	--	146,788
February 21, 2008	C\$1.00	319,108	--	319,108	109,988	--	109,988
May 4, 2008	C\$0.70	649,984	--	649,984	167,886	--	167,886
July 19, 2008	C\$0.70	161,586	--	161,586	49,643	--	49,643
September 21, 2008	C\$0.70	791,339	--	791,339	459,208	--	459,208
February 13, 2009	C\$0.80	--	141,516	141,516	--	55,047	55,047
May 18, 2009	C\$0.80	--	167,146	167,146	--	40,408	40,408
June 29, 2009	C\$0.80	--	231,714	231,714	--	67,829	67,829
December 19, 2009	C\$0.70	--	326,126	326,126	--	97,945	97,945
		2,770,239	487,056	3,257,295	1,018,683	176,059	1,194,742

During the year ended December 31, 2007, 866,502 warrants issued and a value of \$261,229 was attributed as at December 31, 2007. During the year ended December 31, 2007, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 99-131% (2006: 69-89%), a risk-free interest rate of approximately 4%, a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company.

Subsequent to year end 468,776 warrants expired on January 27, 2008, 319,108 warrants expired on February 21, 2008, and 649,984 warrants expired on May 4, 2008.

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

As at September 30, 2008, the following warrants were outstanding:

Expiry	Exercise Price	Number of Warrants			Value		
		Opening	Issued/ [Exercised] (Expired)	Closing	Opening (dollars)	Issued/ [Exercised] (Expired)	Closing (dollars)
January 27, 2008	C\$1.25	468,776	(468,776)	--	146,788	(146,788)	--
February 21, 2008	C\$1.00	319,108	(319,108)	--	109,988	(109,988)	--
May 4, 2008	C\$0.70	649,984	(649,984)	--	167,886	(167,886)	--
July 19, 2008	C\$0.70	161,586	161,586	--	49,643	49,643	--
September 21, 2008	C\$0.70	791,339	791,339	--	459,208	459,208	--
February 13, 2009	C\$0.80	141,516	--	141,516	55,047	--	55,047
May 18, 2009	C\$0.80	167,146	--	167,146	40,408	--	40,408
June 29, 2009	C\$0.80	231,714	--	231,714	67,829	--	67,829
December 19, 2009	C\$0.70	326,126	--	326,126	97,945	--	97,945
March 11, 2010	C\$0.70	--	457,901	457,901	--	97,436	97,436
		3,257,295	(1,932,892)	1,324,403	1,194,742	(836,077)	358,665

During the six month period ended September 30, 2008, 457,901 warrants issued and a value of \$97,436 was attributed as at September 30, 2008. During the period ended September 30, 2008, warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 94%, a risk-free interest rate of approximately 2.61%, a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company. Subsequent to period end September 30, 2008 463,852 of new warrants were issued on November 14, 2008.

c) Contributed Surplus

As at December 31, 2006	6,336,204
Relating to the expiry of warrants	85,170
Relating to stock based compensation	246,757
As at December 31, 2007	6,668,131
Relating to the expiry of warrants	933,513
Relating to stock based compensation	190,675
As at September 30, 2008	7,792,320

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

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at September 30, 2008 and December 31, 2007 were as follows:

Expiry	Price	Outstanding December 31, 2007	Granted	(Cancelled) (Exercised)		Outstanding Sept 30 2008	Exercisable Sept 30 2008
July 8, 2008	C\$0.50	100,000		(100,000)	(ii)		
January 1, 2009	C\$0.75	50,000			(ii)	50,000	50,000
August 31, 2009	C\$0.75	250,000			(ii)	250,000	250,000
January 3, 2010	C\$1.85	10,000			(ii)	10,000	10,000
August 19, 2010	C\$1.25	260,000		(100,000)	(ii)	160,000	160,000
January 3, 2011	C\$1.25	60,000			(ii)	60,000	60,000
April 27, 2011	C\$0.70	300,000		(100,000)	(ii)	200,000	200,000
August 18, 2011	C\$0.70	65,000			(ii)	65,000	65,000
January 3, 2012	C\$1.00	85,000			(ii)	85,000	85,000
May 7, 2012	C\$0.80	550,000		(100,000)	(ii)	450,000	337,500
January 2, 2013	C\$0.70		210,000		(iii)	210,000	105,000
May 8, 2013	C\$0.70		350,000		(iii)	350,000	87,500
Option Totals		1,730,000	560,000	(400,000)		1,890,000	1,410,000
			Dec. 31 2007			Sept 30 2008	
Options exercisable at end of period			1,396,250			1,410,000	
Weighted average exercise price							
- issued			C\$0.79			C\$0.70	
- outstanding			C\$0.88			82	
- exercisable			C\$0.90			C\$0.85	

All options have a term of five years.

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

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

(iii) The Company recognized an expense of \$190,675 (2007: \$246,757) relating to the fair value of options granted or vesting during the year. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility of 93% and a risk-free interest rate of approximately 2.6%, a term equivalent to the life of the option, and reinvestment of all dividends in the Company.

7. INCOME TAXES

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

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

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

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

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

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

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

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

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

8. LOSS PER SHARE

Loss per share is computed on the basis of the loss of (\$509,467) for the nine months ended September 30, 2008 and the weighted average number of common or equivalent shares outstanding during the period September 30, 2008 of 14,933,408. The effects of stock options and warrants in computing diluted per share amounts for September 30, 2008 and 2007 are anti-dilutive.

9. RELATED PARTY TRANSACTIONS

As of December 31, 2007, the Company borrowed \$125,000 from a person who is an officer and director of the Company. The \$125,000 demand loan balance remaining September 30, 2008 has no interest rate, no maturity date, and no additional terms of repayment. Accrued leave benefits in the amount of \$87,192 was offset by an officer for the exercise of options (exercise cost \$20,203) on December 7, 2007 and participation (97,102 units for a value of \$66,989) in the

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

Company's December 2007 private placement. Accrued leave benefits to an officer were \$14,268.39 at September 30, 2008.

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

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

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

As of September 30 2008, TSDB holds a 93% (Sept 30, 2007: 91%) interest in Newdico while THD holds 7% (2007: 8%). The change in the parties' respective interest in the project is

attributed to the dilution of THD's interest as a result of not funding their proportionate share of expenditures from 2002 to date. The following numbers are reflected in our records.

Long-Term:

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

10. SEGMENTED INFORMATION

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. Materially all of the Company's property plant and equipment is presently located in Canada (\$3,291) and Botswana (\$598,063). The geographic distribution of the property acquisition costs and exploration expenditures is outlined in note 5.

11. 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 did not hold any financial instruments at September 30, 2008 or 2007.

12. COMMITMENTS

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

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

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

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

The Company holds prospecting licenses which require the Company to spend a specified minimum amount on prospecting over the period of the terms as outlined in note 4.