



TSODILO RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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 International Financial Reporting Standards 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, 2017 and 2016 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
February 23, 2018



Gary A. Bojes
Chief Financial Officer
February 23, 2018

Independent 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 statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations and comprehensive loss, changes in 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 International Financial Reporting Standards, 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 audits 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada
February 23, 2018

Ernst & Young LLP

Chartered Professional Accountants



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

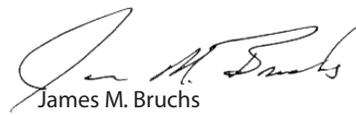
(In United States dollars)

	December 31 2017	December 31 2016
ASSETS		
Current		
Cash	\$1,081,209	\$4,215,333
Restricted cash	34,986	-
Accounts receivable and prepaid expenses	237,404	100,310
	1,353,599	4,315,643
Exploration and Evaluation Assets (note 3)	5,943,818	4,036,895
Property, Plant and Equipment (note 4)	548,446	187,338
Total Assets	\$7,845,863	\$8,539,876
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 209,227	\$ 325,650
Total Liabilities	209,227	325,650
SHAREHOLDERS' EQUITY		
Share capital (note 5a)	49,281,890	49,281,890
Contributed surplus (note 5c)	11,327,971	10,977,989
Foreign currency translation reserve	(5,106,837)	(5,480,643)
Deficit	(47,866,388)	(46,565,010)
Total Equity	7,636,636	8,214,226
Total Liabilities and Equity	\$7,845,863	\$8,539,876
Nature of operations (note 1)		
Commitments and contingencies (note 11)		
Subsequent events (note 13)		

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
(In United States dollars)

	Years Ended December 31	
	2017	2016
Administrative Expenses		
Corporate remuneration	\$ 473,617	\$450,573
Corporate travel and subsistence	18,157	24,636
Investor relations	105,250	13,957
Legal and audit	100,243	93,650
Filings and regulatory fees	40,507	35,698
Administrative expenses	201,535	172,973
Amortization	1,245	339
Stock-based compensation (note 5c)	347,389	306,975
	1,287,943	1,098,801
Other Income (Expense)		
Interest Income	55	--
Impairment (note 3)	--	(1,178,363)
Foreign exchange gain (loss)	(13,490)	33,493
	(13,435)	(1,144,870)
Loss for year	(1,301,378)	(2,243,671)
Other Comprehensive Gain/(Loss)		
Foreign currency translation	373,806	186,002
Total Other Comprehensive Gain/(Loss)	373,806	186,002
Total Comprehensive Loss for the year	(\$927,572)	(\$2,057,669)
Basic loss per share (note 7)	(\$0.03)	(\$0.06)
Basic comprehensive (note 7)	(\$0.02)	(\$0.06)

See accompanying notes to the consolidated financial statements

Tsodilo Resources Limited

Consolidated Statements of Changes in Shareholders' Equity

(In United States dollars except for shares)

	Share Capital		Contributed Surplus		Foreign Translation Reserve	Deficit	Total Equity
	Shares Issued	Amount	Stock-based compensation & Other	Warrants			
Balance January 1, 2017	45,347,310	\$49,281,890	\$10,884,378	\$ 93,611	(\$5,480,643)	(\$46,565,010)	\$8,214,226
Units Issued	--	--	--	--	--	--	--
Warrants Expiry	--	--	93,611	(93,611)	--	--	--
Stock Based Compensation	--	--	349,982	--	--	--	349,982
Comprehensive loss	--	--	--	--	373,806	(1,301,378)	(927,572)
Balance December 31, 2017	45,347,310	\$49,281,890	\$11,327,971	--	(\$5,106,837)	(\$47,866,388)	\$7,636,636

	Share Capital		Contributed Surplus		Foreign Translation Reserve	Deficit	Total Equity
	Shares Issued	Amount	Stock-based compensation & Other	Warrants			
Balance January 1, 2016	33,542,784	\$42,893,919	\$10,471,523	\$198,505	(\$5,666,645)	(\$44,321,339)	\$3,575,963
Units Issued	11,804,526	6,387,971	--	--	--	--	6,387,971
Exercised Options	--	--	104,894	(104,894)	--	--	--
Stock Based Compensation	--	--	307,961	--	--	--	307,961
Comprehensive loss	--	--	--	--	186,002	(2,243,671)	(2,057,669)
Balance December 31, 2016	45,347,310	\$49,281,890	\$10,884,378	\$ 93,611	(\$5,480,643)	(\$46,565,010)	\$8,214,226

See accompanying notes to the consolidated financial statements.

Tsodilo Resources Limited
Consolidated Statements of Cash Flows
(In United States dollars)

	Years Ended December 31	
	2017	2016
Cash provided by (used in):		
Operating Activities		
Net Loss for the year	(\$ 1,301,378)	(\$ 2,243,671)
Adjustments for non-cash items:		
Impairment	--	1,178,363
Amortization	1,245	339
Foreign exchange loss (gain)	13,490	(33,493)
Stock-based compensation	347,389	306,975
	(939,254)	(791,487)
Net change in non-cash working capital balances (note 12)	(253,517)	(5,047)
	(1,192,771)	(796,534)
Investing Activities		
Additions to exploration properties	(3,065,454)	(832,185)
Additions to property, plant and equipment	(456,208)	(4,653)
	(3,521,662)	(836,838)
Financing Activities		
Royalties Sold	1,500,000	--
Shares and warrants issued for cash	--	6,433,564
Share issuance cost	--	(45,594)
Subscriptions received	--	(590,050)
	1,500,000	5,797,920
Impact of exchange on cash	88,316	(23,125)
Change in cash - for the year	(3,126,117)	4,141,423
Cash - beginning of year	4,215,333	73,910
Cash - end of year	\$ 1,089,216	\$ 4,215,333

See accompanying notes to the consolidated financial statements

Tsodilo Resources Limited

Notes to the Consolidated Financial Statements

For the periods ended December 31, 2017 and 2016
(All amounts are in U.S. dollars unless otherwise noted)

1. NATURE OF OPERATIONS

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

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

These Consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company incurred a loss of \$1,301,378 and comprehensive loss of \$927,572 during the period ended December 31, 2017 and as of that date, the Company had an accumulated deficit of \$47,866,388 and working capital of \$1,144,372. Management has carried out an assessment of the going concern assumption and has concluded that the cash position of the Company is sufficient to finance exploration and resource evaluation at projected levels, and to finance continued operations for the 12 month period subsequent to December 31, 2017. The continuity of the Company's operations over the 12 month period from December 31, 2017 is not dependent on raising future financing for working capital, the continued exploration and development of its properties and for acquisition and development costs of new projects. Beyond the 12 month time horizon, management believes that it will be able to secure additional 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 the Company will be successful in these actions. Should it be determined that the Company is no longer a going concern, adjustments, which could be significant, would be required to the carrying value of assets and liabilities. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the consolidated statement of operations and comprehensive loss, and consolidated statement of financial position classifications that would be necessary should the going concern assumption not be appropriate.

2. Significant Accounting Policies

(a) **Statement of Compliance with International Financial Reporting Standards**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on February 23, 2018.

(b) **Basis of Preparation**

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

ENTITY	2017	2016
Tsodilo Resources Bermuda Limited ("TRBL") [Bermuda]	100%	100%
Bosoto (Proprietary) Limited ("Bosoto") [Botswana]	100%	100%
Gcwihaba Resources (Proprietary) Limited ("Gcwihaba") [Botswana]	100%	100%
Newdico (Proprietary) Limited ("Newdico") [Botswana]	100%	100%
Idada Trading 361 (Pty) Ltd. ("Idada") [South Africa]	70%	70%
All intercompany transactions have been eliminated on consolidation		

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

(c) **Significant Accounting Judgments, Estimates and Assumptions**

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

Accounts that require estimates as the basis for determining the stated amounts include warrant liability, contributed surplus, stock-based compensation expense, and amortization expense. The amounts estimated for the warrant liability and stock based compensation is calculated using the Black-Scholes Merton valuation model, which requires significant estimates with respect to the expected life and volatility of such instruments. The estimated depreciation is influenced primarily by the estimated useful life of the Company's property, plant and equipment.

Significant judgments are required with respect to the carrying value of the Company's exploration and evaluation assets, the determination of the functional currency of the Company and its subsidiaries, the recoverability of the Company's deferred tax assets, and potential tax exposures given the company operates in multiple jurisdictions. In particular, the carrying value of the Company's exploration and

evaluation assets is dependent upon the Company's determination with respect to the future prospects of its exploration and evaluation assets and the ability of the Company to successfully complete the renewal or extension process for its exploration properties as required. The Company has defined the cash generating units to be precious stones, metals and radioactive minerals. The quantification of potential tax exposures is dependent on the relevant tax authorities' acceptance of the Company's positions.

(d) Earnings (Loss) per Common Share

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

Diluted earnings per share calculations are based on the net income (loss) attributable to common shareholders for the year divided by the weighted average number of common shares outstanding during the year plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year. The incremental number of common shares that would be issued is included in the calculation of diluted earnings per share.

(e) Exploration and Evaluation Assets

Exploration and evaluation assets include acquired mineral use rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) for mineral use rights is capitalized. The amounts shown for exploration and evaluation assets represents all direct and indirect costs relating to the acquisition, exploration and development of exploration properties, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the exploration and evaluation assets are abandoned or sold. The Company has classified exploration and evaluation assets as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimates of proven and probable reserves.

Ownership of exploration and evaluation assets involves certain inherent risks, including geological, commodity prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for exploration and evaluation assets is dependent upon the delineation of economically recoverable ore reserves, the renewal or extension of exploration licenses, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate the mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its Botswana and South Africa Exploration and Evaluation Assets have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write-downs of exploration and evaluation assets carrying values. See note 3 for additional disclosures related to license commitments and strategic partners commitments and earn-in agreement.

(f) Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation.

Depreciation is calculated on a straight line basis over the following terms:

Building (over remaining life of land lease)	9 Years
Vehicles and drilling equipment	5 Years
Furniture and equipment	3 Years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(g) Cash

Cash consists of cash held in banks and petty cash.

(h) Foreign Currency Translation

(i) Functional and presentation currency

The Company's functional and presentation currency is the United States dollar ("U.S. Dollar"). The functional currencies of the Company's subsidiaries are as follows:

Tsodilo Resources Bermuda Limited	("TRBL")	U.S. Dollar
Gcwihaba Resources (Pty) Limited	("Gcwihaba")	Botswana Pula
Newdico (Pty) Limited	("Newdico")	Botswana Pula
Bosoto (Pty) Limited	("Bosoto")	Botswana Pula
Idada Trading 361 (Pty) Ltd.	("Idada")	South African Rand

Each subsidiary and the Company's parent entity determine their own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date.

(iii) Translation of foreign operations

As at the reporting date the assets and liabilities of Gcwihaba, Newdico, Bosoto, and Idada are translated into the functional currency of the Company at the rate of exchange prevailing at the reporting date and their revenue and expenses are translated at the average exchange for the period. On consolidation, the exchange differences arising on the translation are recognized in other comprehensive loss and accumulated in the foreign currency translation reserve.

If TRBL, Gcwihaba, Newdico, Bosoto, and Idada were sold, the amount recognized in the foreign currency reserve would be realized and reflected in the statement of operations and comprehensive loss as part of the gain or loss on disposal.

(i) **Income Taxes**

Current taxes are the expected tax payable or receivable on the local taxable income or loss for the year, using the local tax rate enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the balance sheet method whereby deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) **Share-based Compensation**

The Company follows the fair value method of accounting for stock option awards granted to employees, directors and consultants. The fair value of stock options is determined by the black-scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock. Share-based compensation is amortized over the vesting period of the related option to earnings and no portions were capitalized for indirect exploration costs.

The Company uses graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

(k) **Severance Benefits**

Under Botswana law, the Company is required to pay severance benefits upon the completion of 5 years of continued service if the employee so elects or upon the termination of employment. Severance is earned at the rate of one day per month for an employee with less than five years of service and two days per month

for employees with greater than five years of service. The specifics and benefits of the severance program mandated in Botswana are extended to full-time employees residing and working outside of Botswana. The cost of these severance benefits is accrued over the year of service until the benefit becomes payable. Portions of the severance expenses are capitalized to exploration and evaluation assets.

(l) Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held for maturity, available for sale, loans and receivables, or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses, recognized through earnings. The Company does not have any financial assets classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's cash and accounts receivable are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains or losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At December 31, 2017 and 2016, the Company has not classified any financial assets as available for sale. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

(m) Financial Liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant year. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, to, where appropriate, a shorter year. The Company's accounts payable and accrued liabilities and subscriptions are classified as other financial liabilities. Financial liabilities classified as FVTPL include warrants with exercise prices denominated in a currency other than the Company's functional currency. Derivatives, including separated embedded derivatives are also classified as FVTPL and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. Transaction costs associated with FVTPL liabilities are expensed as incurred.

(n) Impairment of Assets

At the end of each reporting period, the Company assesses each cash-generating unit to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of the fair value less cost to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present

value using a discount rate that reflects current market assessment of the time value of money and the risk of a specific asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss. No impairment adjustments were recognized in 2017 (2016: \$1,178,363).

(o) **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities and includes, but is not limited to, key management personnel, directors, affiliated companies, and project partners. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

(p) **New Standards, Amendments and Interpretations Adopted**

There are no other standards which the Company would have been required to adopt in the period.

(q) **New Standards, Amendments and Interpretations, Not Yet Adopted**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Company assessed the potential effect of IFRS 16 on its consolidated financial statements, and determined that there would be no material impact.

IFRS 9, *Financial Instruments*

IFRS 9 covers the classification and measurement, impairment and hedge accounting of financial assets and financial liabilities and the effective date was for annual years on or after January 1, 2018, with an earlier application permitted. The Company has assessed the impact of adopting IFRS 9. Amendments to IFRS 9 also provide relief from the requirement to restate comparative financial statement for the effect of applying IFRS 9. Instead, additional transition disclosure will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. No material impact is expected from IFRS 9.

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3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are summarized as follows:

	Bosoto Botswana Precious Stones	Idada So. Africa Precious Metals	Gcwihaba Botswana Metals	Gcwihaba Botswana Radio-Active Minerals	Gcwihaba Botswana Subtotal	Total
Balance at December 31, 2015	\$390,773	\$3,071	\$2,779,268	\$942,928	\$3,722,196	\$4,116,040
Additions	427,272	5,731	223,513	182,569	406,082	839,085
Net Exchange Differences	51,370	206	155,691	52,867	208,557	260,133
Impairment	--	--	--	(1,178,363)	(1,178,363)	(1,178,363)
Balance at December 31, 2016	\$869,415	\$9,008	\$3,158,472	\$ --	\$3,158,472	\$4,036,895
Additions	2,876,647	1,839	233,646	--	233,646	3,112,131
Net Exchange Differences	98,608	1,273	199,605	--	199,605	299,486
Subtotal Balance at December 31, 2017	\$3,844,670	\$12,120	\$3,591,723	\$ --	\$3,591,723	\$7,448,512
Royalty contribution/reduction in exploration cost	(662,809)	(2,900)	(838,985)	--	(838,985)	(1,504,694)
Balance at December 31, 2017	\$3,181,861	\$9,220	\$2,752,738	\$ --	\$2,752,738	\$5,943,818

Exploration and evaluation additions for the period ended December 31, 2017 are summarized as follows:

	Bosoto Botswana Precious Stones	Idada So. Africa Precious Metals	Gcwihaba Botswana Metals	Total TOTAL
Drilling Expenditures	\$1,993,249	\$ 224	\$ 27,089	\$ 2,020,562
Amortization Drill Rigs, Vehicles & Trucks	33,184	--	13,494	46,678
GIS & Geophysics	83,168	--	19,515	102,683
Lab Analyses & Assays	12,184	--	5,882	18,066
License Fees	448	--	2,147	2,595
Office, Maintenance, & Consumables	264,980	1,615	80,823	347,418
Salaries, Wages & Services	489,434	--	84,696	574,130
Balance at December 31, 2017	\$2,876,647	\$1,839	\$ 233,646	\$3,112,132

Exploration and evaluation for Bosoto Projects for the period ended December 31, 2017:

	Project BK 16	Bosoto Botswana Project PL 217	Bosoto Total Precious Stones
Balance at December 31, 2016	\$869,415	\$--	\$869,415
Additions	2,530,689	345,958	2,876,647
Net Exchange Differences	89,501	9,107	98,608
Subtotal at December 31, 2017	\$3,489,605	\$355,065	\$3,844,670

Exploration and evaluation additions Bosoto Project for the period ended December 31, 2017:

	Project BK 16	Bosoto Botswana Project PL 217	Bosoto Precious Stones
Drilling Expenditures	\$1,962,059	\$31,190	\$1,993,249
Amortization Drill Rigs, Vehicles & Trucks	28,714	4,470	33,184
GIS & Geophysics	43,612	39,556	83,168
Lab Analyses & Assays	9,641	2,543	12,184
License Fees	448	--	448
Office, Maintenance, & Consumables	97,148	167,832	264,980
Salaries, Wages & Services	389,067	100,367	489,434
Balance at December 31, 2017	\$2,530,689	\$345,958	\$2,876,647

The Company's Exploration and Evaluation Assets are summarized as follows:

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.

Exploration and Evaluation Assets (Royalties)

During the year, the Company reached an agreement with Sandstorm Gold Ltd. ("Sandstorm") (NYSE MKT: SAND, TSX: SSL) to grant royalties on three projects in consideration of the payment of \$1,500,000 USD.

The package of assets in the Royalty Sale includes:

- ◇ the grant of a 1% NSR on the Company's wholly owned Botswana subsidiary Gcwihaba Resources (Pty) Ltd. prospecting metal licenses in northwest Botswana;
- ◇ the grant of a 1% GPR on the Company's Botswana wholly owned subsidiary Bosoto (Pty) Ltd. precious stone prospecting license (PL217/2016) located in the Orapa Kimberlite Field; and,
- ◇ the grant of a 1% NSR on the Company's 70% owned South African subsidiary Idada 361 (Pty) Ltd. gold and silver prospecting license located in the Barberton Greenstone Belt in the Mpumalanga province of South Africa.

Sandstorm shall have a right of first refusal with respect to any third-party bona fide offers to purchase a metal or precious stone royalty on the properties.

Proceeds from the Royalty Sale will be used for exploration and general corporate purposes.

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

In 2017, Gcwihaba, a wholly owned subsidiary of the Company, held twenty-one (21) metal (base, precious, platinum group, and rare earth) prospecting licenses in the North-West district of which seven (7) were in renewal. A review of the merits of each license was undertaken in the fourth quarter in an effort to determine which licenses were the most prospective in terms of exploration, discovery and development and an economic resource. The review determined that 7 licenses were more prospective than the others. A series of meetings were held with the Department of Mines and it was proposed that the company would relinquish the aforesaid twenty-one (21) licenses in exchange for an initial grant of the core seven (7) licenses. The proposal was accepted by the DOM and the 21 licenses were relinquished at year end and the core seven licenses were given an initial grant effective January 1, 2018. The licenses have an initial grant term of three (3) to be followed by 2 two year renewal periods. The relinquishment of the aforementioned licenses or portions thereof did not cause a reduction or change in the continuing overall exploration program nor impact the chances of the overall success of the program.

The current licenses, those effective January 1, 2018, cover 4,920.50 square kilometers and collectively have a proposed minimum spending commitment of BWP 1,753,815 (\$180,892 USD) if held to their full initial term.

Bosoto (Pty) Limited ("Bosoto") - Botswana

Tsodilo was granted a prospecting license (PL369/2014) over the BK16 kimberlite pipe through its 100% owned Botswana subsidiary, Bosoto Pty (Ltd) effective October 1, 2014. The diamondiferous BK16 kimberlite pipe is located within the Orapa Kimberlite Field in Botswana and covered by 25 meters of Kalahari Group sediments. BK16 is located 37 km east-southeast of the Orapa Diamond Mine AK01, 25 km southeast of the Damshtaa Diamond Mine, and 13 km north-northeast of the Letlhakane Diamond Mine, all operated by Debswana and 28 km east-northeast from Lucara Diamond Corporation's Karowe mine (F/K/A AK6). Tsodilo has a 100% interest in Bosoto. The Company submitted a two year renewal application in the second quarter and the license was renewed on October 20, 2017 to be effective October 1, 2017.

The Company estimated that it would take approximately BWP 42,002,000 (\$4,334,980 USD) in expenditures, goods and services over the two year renewal period to continue the evaluation of the BK16 kimberlite's economic potential and if warranted the preparation of a compliant NI 43-101 Bankable Feasibility Study

(BFS). This estimate is based on the agreed work plan with the MMEWR. At any point the work plan may be amended and a new work plan agreed to with the MMEWR. The first two year renewal expires September 30, 2019.

PL 217/2016 is situated within the Orapa Kimberlite Field and is located some 10 km south of the Orapa Mining area and with the same distance to the west of the Letlhakane Mining lease. It surrounds the Karowe Mining lease, while the BK11 prospect is directly to the east of the licence. Other kimberlites occur along its northern and eastern borders. The licence is highly prospective for kimberlites but also has the potential to contain secondary diamond deposits associated with the palaeo-drainage network in the area. The present drainage is to the north and erosion of the kimberlites would have resulted in the residue, including diamonds, to have been transported in the same direction. The focus of the exploration work would therefore be not only on finding kimberlites but also to assess the geomorphology in the search for palaeo-channels

PL217/2016 has an initial grant term of three (3) years effective January 1, 2017 to be followed by 2 two year renewal periods. The license comprises 580 square kilometers and has a proposed minimum spending commitment of BWP 6,058,700 (\$625,342 USD) if held to the furthest out initial full-term to December 31, 2019. The license has an initial grant term of three (3) years to be followed by 2 two year renewal periods.

Idada Trading 361 (Pty) Limited ("Idada") – South Africa

The Company holds a 70% interest in its South African subsidiary, Idada. Idada made application for an exploration license (Ref: MP30/5/1/1/2/1047PR) in the Barberton area in February 2012. This application was accepted in February 2013 and consultation was conducted with interested and affected parties in April and June 2013. An Environmental Management Plan (EMP) was submitted in April 2013 and a site visit was made by various governmental departments (DMR, EWT, REMDEC) in September 2013. During the second quarter 2015, notice was received from the Department of Mineral Resources, South Africa which granted the Company the prospecting rights for gold and silver in the applied for area subject to certain subsequent conditions being met. The Company has fulfilled those requirements and the Prospecting Right, together with the EMP, was executed and became effective on April 7, 2016. The Prospecting Right has been granted for a term of five years effective as of May 2015.

Other – Newdico (Pty) Ltd

Newdico is currently evaluating numerous land areas within Botswana for application of prospecting licenses. Newdico provides exploration, drilling and geophysical services to associated companies on an as needed basis.

4. PROPERTY, PLANT, AND EQUIPMENT

Property, Plant, and Equipment

Cost	Hangar	Vehicles	Furniture and Equipment	Total
As at December 31, 2015	\$--	\$1,153,280	\$ 313,242	\$ 1,466,522
Additions	--	55,322	4,653	59,975
Disposals	--	--	--	--
Net Exchange Difference	--	64,565	14,883	79,448
As at December 31, 2016	--	\$ 1,273,167	\$ 332,778	\$ 1,605,945

	Hangar	Vehicles	Furniture and Equipment	Total
As at December 31, 2016	\$--	\$ 1,273,167	\$ 332,778	\$ 1,605,945
Additions	191,069	56,720	188,658	436,447
Disposals	--	--	--	--
Net Exchange Difference	8,651	34,552	28,790	71,993
As at December 31, 2017	\$199,720	\$ 1,364,439	\$ 550,226	\$ 2,114,385

Accumulated Depreciation

	Hangar	Vehicles	Furniture and Equipment	Total
As at December 31, 2015	\$--	\$ 1,068,109	\$ 191,963	\$ 1,260,072
Depreciation	--	82,297	7,581	89,878
Disposals	--	--	--	--
Net Exchange Difference	--	59,797	8,860	68,657
As at December 31, 2016	--	\$ 1,210,203	\$ 208,404	\$ 1,418,607

	Hangar	Vehicles	Furniture and Equipment	Total
As at December 31, 2016	\$--	\$ 1,210,203	\$ 208,404	\$ 1,418,607
Depreciation	21,035	17,785	8,114	46,934
Disposals	--	--	--	--
Net Exchange Difference	1,666	87,564	11,168	100,398
As at December 31, 2017	\$22,701	\$ 1,315,552	\$ 227,686	\$ 1,565,939

Net book value

As at December 31, 2016	\$--	\$ 62,964	\$ 124,374	\$ 187,338
As at December 31, 2017	\$177,019	\$ 48,887	\$322,540	\$548,446

For the period ended December 31, 2017, an amount of \$46,678 (2016: \$90,218) of amortization has been capitalized under exploration properties.

5. SHARE CAPITAL

(a) Common Shares

Authorized, Issued and outstanding

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

Issued and outstanding: 45,347,310 Common Shares as at December 31, 2017 and December 31, 2016:

- 1) **Issued during the period-ended December 31, 2017: None**
- 2) **Issued during the year-ended December 31, 2016:**
 - i. On April 29, 2016, 1,008,948 Units were issued at a price of C\$0.60 for proceeds to the Company of \$466,534 (C\$605,370). Each unit includes one common share and one warrant entitling the holder to purchase one common share of the Company for a year until the close of business on April 29, 2018 at USD \$0.60. \$3,396 (C\$4,268) of issuance costs were netted against the proceeds.
 - ii. On December 12, 2016, 10,795,578 Units were issued at a price of C\$0.75 for proceeds to the Company of \$5,921,437 (C\$8,096,683). Each unit includes one common share and one warrant entitling the holder to purchase one common share of the Company for a year until the close of business on December 12, 2018 at USD \$0.75. \$42,198 (C\$55,974) of issuance costs were netted against the proceeds.

(b) Warrants

As at December 31, 2017, the following warrants were outstanding:

Number of Warrants - Units

Expiry	Exercise Price (USD)	December 31, 2016	Issued	Exercised	Expired	December 31, 2017
August 10, 2017	\$1.10	1,116,075	--	--	1,116,075	--
April 29, 2018	\$0.60	1,008,948	--	--	--	1,008,948
December 12, 2018	\$0.75	10,795,578	--	--	--	10,795,578
		12,920,601	--	--	1,116,075	11,804,526

On April 29, 2016, the Company issued 1,008,948 warrants with an exercise price of \$0.60, expiring on April 29, 2018. As the strike price of these warrants is in U.S. Dollars, the warrants were classified as equity instruments. The values of the units are equal to the value of the common shares at the issuance date.

On December 12, 2016, the Company issued 10,795,578 warrants with an exercise price of \$0.75, expiring on December 12, 2018. As the strike price of these warrants is in U.S. Dollars, the warrants were classified as equity instruments. The values of the units are equal to the value of the common shares at the issuance date.

On August 10, 2017, 1,116,075 warrants with an exercise price of \$1.10 expired.

c) Stock Option Plan

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

The following Table summarizes the Company's stock option activity for the years ended December 31, 2016 and December 31, 2017

	Number of Options	Weighted average exercise price (C\$)
Outstanding as at December 31, 2015	3,221,390	C\$1.03
Granted	710,000	C\$0.76
Exercised	--	--
Expired	(585,000)	C\$1.14
Outstanding as at December 31, 2016	3,346,390	C\$0.96
Granted	860,000	C\$0.80
Exercised	--	--
Expired	(538,890)	C\$0.96
Outstanding as at December 31, 2017	3,667,500	C\$0.92

2017

On January 2, 2017, the Company issued 260,000 options at C\$0.69 under its SOP to persons who are officers and employees of the Company.

On January 3 2017, 210,000 stock options issued at C\$0.90 expired.

On April 2, 2017, 328,890 options exercisable at C\$1.00 expired.

On April 3, 2017, the Company issued 600,000 options exercisable at C\$0.85 under its SOP to persons who are Directors and an employee of the Company.

2016

On January 3, 2016, 285,000 stock options issued at C\$1.25 expired.

On January 4, 2016, the Company issued 260,000 options at C\$0.72 under its SOP to persons who are officers and employees of the Company.

On April 8, 2016, the Company issued 450,000 options at C\$0.79 under its SOP to persons who are officers and employees of the Company.

On April 17, 2016, 300,000 stock options issued at C\$1.03 expired.

The following table summarizes the stock based compensation expense and capitalized stock based compensation for the periods ended December 31, 2017 and 2016.

	2017	2016
Stock-based compensation expense	\$347,389	\$306,975
Capitalized Stock-based compensation expense	--	--
	\$347,389	\$306,975

The following assumptions were used in the Black Scholes option pricing model to fair value the stock options granted during the periods ended December 31, 2017 and 2016:

	2017	2016
Expected lives	4.06 years	3.9 years
Expected volatilities (based on Company's historical prices)	101.0%-104.9%	105.6%-106.2%
Expected dividend yield	0%	0%
Risk free rates	1.68-1.71%	1.00-1.51%
Weighted average fair value of option	\$0.53	\$0.55

The following table summarizes stock options outstanding as at December 31, 2017:

Options Outstanding				Options Exercisable		
Exercise Price (C\$)	Number of Outstanding Options	Weighted Average Exercise Price (C\$)	Weighted Average Remaining Contractual Life (Years)	Number of Exercisable Options	Weighted Average Exercise Price (C\$)	Weighted Average Remaining Contractual Life (Years)
C\$1.20	235,000	C\$1.20	0.01	235,000	C\$1.20	0.01
C\$1.04	400,000	C\$1.04	0.22	400,000	C\$1.04	0.22
C\$0.75	222,500	C\$0.75	1.00	222,500	C\$0.75	1.00
C\$1.25	480,000	C\$1.25	1.22	480,000	C\$1.25	1.22
C\$1.05	260,000	C\$1.05	2.00	260,000	C\$1.05	2.00
C\$0.83	400,000	C\$0.83	2.24	400,000	C\$0.83	2.24
C\$0.70	100,000	C\$0.70	2.67	100,000	C\$0.70	2.67
C\$0.72	260,000	C\$0.72	3.01	260,000	C\$0.72	3.01
C\$0.79	450,000	C\$0.79	3.27	450,000	C\$0.79	3.27
C\$0.69	260,000	C\$0.69	4.01	130,000	C\$0.69	4.01
C\$0.85	600,000	C\$0.85	4.25	300,000	C\$0.85	4.25
	3,667,500	C\$0.92	2.30	3,237,500	C\$0.94	2.05

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 for 2017 of approximately 26.5% (2016: 26.5%) to loss before income taxes as follows:

	December 31, 2017	December 31, 2016
Loss for the year	(\$1,301,378)	(\$2,243,671)
Income tax rate	26.50%	26.50%
Income tax recovery	(344,865)	(594,573)
Foreign operation taxed at lower rates	1,670	47,195
Permanent differences	89,942	79,102
Benefits not recognized	220,999	610,335
Expiry of tax losses carried forward		
Changes in estimate and foreign exchange	32,254	(142,060)
Provision for income taxes	\$ --	\$ --

As of December 31, 2017 the following Deferred tax assets and liabilities have been recognized:

	December 31, 2017	December 31, 2016
Property, Plant and Equipment	(\$ 27,000)	\$ 2,000
Exploration & Evaluation Assets	(1,293,000)	(701,000)
Deferred tax liabilities	(1,320,000)	(699,000)
Tax losses carried forward	1,320,000	699,000
Net future income tax asset recorded	\$ --	\$ --

As at December 31, 2017 the Company has unrecognized deductible temporary differences aggregating to \$17,064,000 (2016: \$16,188,000), that are available to offset future taxable income. However these temporary differences relate to companies with a history of losses, and they may not be utilized to offset taxable income.

	December 31, 2017	December 31, 2016
Losses carried forward - Botswana	\$10,832,000	\$10,666,000
Losses carried forward - Canada	5,661,000	4,811,000
Other	571,000	711,000
	\$ 17,064,000	\$16,188,000

The Canadian tax losses of \$5,662,000 (2016: \$4,884,000) expire from 2026 through to 2037.

	December 31, 2017	December 31, 2016
Total assessable losses relating to the activity in		
Botswana	\$16,830,150	\$13,839,359

The majority of the Botswana tax losses can be carried forward indefinitely with remaining expiring within five years

7. LOSS PER SHARE

Net loss per share was calculated based on the following:

Year ended December 31	2017	2016
Net loss for the year	(\$1,301,378)	(\$2,243,671)
Effect of Dilutive Securities		
Stock options and warrants	--	--
Diluted net earnings (loss) for the year	(\$1,301,378)	(\$2,243,671)

The diluted loss per share is the same as the basic loss per share for the year ended December 31, 2017 because the stock options and warrants were anti-dilutive and had no impact on the EPS calculation.

8. RELATED PARTY TRANSACTIONS

Remuneration of Key Management Personnel of the Company

	2017	2016
Short term employee remuneration and benefits	\$430,002	\$430,001
Stock based compensation	340,872	284,447
Post employment benefits*	37,271	205,047
Total compensation attributed to key management personnel	\$808,145	\$919,495

*Post employment benefits include NIL of accrued leave benefits through December 31, 2017. (2016: NIL)

During the year an individual related to the CEO provided administrative and management services to the Company in 2017 and was remunerated in 2017 in the amount of \$36,000 (2016: \$36,000).

During the year, two individuals related to key management personnel of the company, received \$12,684 in stock based compensation during the year (2016 \$13,717).

There are no other related party transactions.

9. SEGMENTED INFORMATION

The Company is operating in one industry. As at December 31, 2017 the Company's property, plant, and equipment in the United States was \$2,109 (2016: \$3,354) and in Botswana was \$546,336 (2016: \$183,984). No revenues were realized for exploration and evaluation properties that are detailed in note 3 above. Segment long-term exploration and evaluations properties in Botswana were \$5,934,597 (2016: \$4,027,887) and South Africa were \$9,222 (2016: \$9,008).

10. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable, accounts payable, accrued liabilities, subscriptions and accrued warrants liabilities. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities as presented in the consolidated financial statements are reasonable estimates of fair values due to the relatively short period to maturity and the terms of these instruments.

The Company's financial instruments have been classified as follows:

Financial Instrument	Classification	Fair Value Hierarchy
Cash	Loans and receivables	n/a
Accounts receivable	Loans and receivables	n/a
Accounts payable and accrued liabilities	Other financial liabilities	n/a
Subscriptions	Other financial liabilities	n/a

See the Company's consolidated statement of financial position for financial instrument balances.

International Financial Reporting Standards 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

Risk Exposure and Management

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

(a) Capital Management

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

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash on hand. In 2016 the Company raised cash capital as shown in note 5(a) in the amount of \$6,387,971. No equity capital was raised in 2017. See note 3 for a description of royalty interests sold which provided \$1,500,000 in cash to be used in further exploration and evaluation.

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

The Company anticipates continuing to access equity markets to fund continued exploration of its mineral properties and the future growth of the business. However, there is no guarantee that such financing will be available when required.

(b) Liquidity Risk

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

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and accounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. There are no allowances for doubtful accounts required.

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

(d) Interest Rate Risk

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

(e) Foreign Exchange Risk

The Company is exposed to currency risks on its Canadian dollar denominated working capital balances due to changes in the USD/CAD exchange rate and the functional currency of the parent company. As at December 31, 2017, a ten percent change in the exchange rate would result in a \$53,720 impact to the Company's net income (loss).

The Company issues equity in Canadian dollars and the majority of its expenditures are in U.S. dollars. The Company purchases U.S. dollars based on its near term forecast expenditures and does not hedge its exposure to currency fluctuations.

Based on the net Pula denominated asset and liability exposures as at December 31, 2017, a ten percentage change in the exchange rate would result in a \$231,004 impact to the Company's net comprehensive income (loss).

11. COMMITMENTS AND CONTINGENCIES**Prospecting Licenses**

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

Lease Commitments

Currently, the aggregate minimum lease payments are as follows:

Year	Facility	Term	BWP			USD*
			Rental	Services	Total	
2017	Hangar Maun ¹	1/01/2016 – 12/31/2026	103,680	15,562	119,242	11,284
2017	Shakawe Plot ²	1/01/2016 – 12/31/2020	72,000	-	72,000	6,813
2017	Letlhakane Plot ³	2/01/2016 – 1/31/2019	72,000	-	72,000	6,813
	Total				262,242	24,910

* aggregate costs converted at January 1 of the current calendar year

¹The lease has an effective date of January 1, 2016 and continues for 10 years at 8% escalation annually and shall be renewed every three (3) years at market and commercial rates. The initial monthly lease payment is 8,000 BWP / month in addition to a fee of 15% of monthly rental for security and general maintenance at the airport complex.

²The lease has an effective date of January 1, 2016 and is renewable at the company's option for an additional 4 years expiring on December 31, 2020. The monthly lease payment is 6,000 BWP. The Company prepays 1 year in advance.

³The lease has an effective date of February 1, 2016 and continues for 3 years. The company prepays at least 6 months in advance.

12. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31 2017	December 31 2016
Net change in non-cash working capital balances		
(Increase) decrease in accounts receivable and prepaid expenses	(\$137,094)	(\$57,490)
Increase (decrease) in accounts payable and accrued liabilities	(116,423)	52,443
Total	(\$253,517)	(\$5,047)

13. SUBSEQUENT EVENTS

On January 2, 2018, the Company issued 260,000 options at C\$0.65 under its stock option plan to persons who are officers and employees of the Company.

On January 3, 2017, 235,000 options at C\$1.20 expired.