

NOTICE TO SHAREHOLDERS FOR THE NINE MONTHS ENDED DECEMBER 31, 2004

TSODILO RESOURCES LIMITED

Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Tsodilo Resources Limited have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. These statements are unaudited and have not been reviewed by the Company's auditors. The most significant of these accounting principles have been set out in the March 31, 2004 audited consolidated financial statements. Only changes in accounting information have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Corporation is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

TSODILO RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS

	December 31, 2004 (Unaudited) \$000	March 31, 2004 (Audited) \$000
<hr/>		
ASSETS		
Current		
Cash and equivalents	511	194
Amounts receivable and prepaid expenses	<u>31</u>	<u>18</u>
	542	212
Exploration properties and joint ventures (Note 2)	1,875	1,169
Property, plant and equipment	<u>52</u>	<u>62</u>
	<u>2,469</u>	<u>1,443</u>
<hr/>		
LIABILITIES		
Current		
Accounts payable and accrued liabilities	164	42
MINORITY INTEREST (Note 6)	340	309
SHAREHOLDERS' EQUITY		
Share capital (Note 3(a))	34,754	33,518
Warrants (Note 3(b))	247	195
Contributed surplus (Note 3 (c))	8,771	8,702
Deficit	<u>(41,807)</u>	<u>(41,323)</u>
	<u>1,965</u>	<u>1,092</u>
	<u>2,469</u>	<u>1,443</u>
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The accompanying notes are an integral part of these consolidated financial statements.

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
<hr/>				
Expenses				
Accounting and corporate fees	3	-	21	-
Consulting fees	12	19	14	29
Corporate remuneration	32	35	93	146
Corporate travel and subsistence	16	30	52	44
Filing fees	2	-	10	-
Foreign exchange	(9)	-	9	-
Depreciation	1	1	1	2
Investor relations	17	2	54	22
Legal and audit	55	-	93	-
Office and administration	10	22	57	80
Stock based compensation (Note 3(d))	-	-	80	-
Taxation	-	-	-	(16)
	<u>139</u>	<u>109</u>	<u>484</u>	<u>307</u>
Loss before minority interest	(139)	(109)	(484)	(307)
Minority interest	-	-	-	1
Loss for the period	(139)	(109)	(484)	(306)
DEFICIT, beginning of period	<u>(41,668)</u>	<u>(40,855)</u>	<u>(41,323)</u>	<u>(40,658)</u>
DEFICIT, end of period	<u>\$ (41,807)</u>	<u>\$ (40,964)</u>	<u>(41,807)</u>	<u>(40,964)</u>

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

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Loss for the period	(139)	(109)	(484)	(307)
Adjustments for non-cash items:				
Depreciation	1	1	1	2
Other non-cash items	-	5	-	5
Stock based compensation	-	-	80	-
Net change in non-cash working capital	<u>59</u>	<u>47</u>	<u>109</u>	<u>(46)</u>
	<u>(79)</u>	<u>(56)</u>	<u>(294)</u>	<u>(346)</u>
FINANCING ACTIVITIES:				
Issue of common shares	562	-	1,276	889
Contribution by joint venture partner	-	-	31	101
	<u>562</u>	<u>-</u>	<u>1,307</u>	<u>990</u>
INVESTING ACTIVITIES:				
Exploration properties and joint ventures	(337)	(158)	(692)	(432)
Additions to property plant and equipment	<u>(4)</u>	<u>(3)</u>	<u>(4)</u>	<u>(67)</u>
	<u>(341)</u>	<u>(161)</u>	<u>(696)</u>	<u>(499)</u>
CHANGE IN CASH AND CASH EQUIVALENTS, for the period				
	142	(217)	317	145
CASH AND CASH EQUIVALENTS, beginning of period				
	<u>369</u>	<u>400</u>	<u>194</u>	<u>38</u>
CASH AND CASH EQUIVALENTS, end of period				
	<u>511</u>	<u>183</u>	<u>511</u>	<u>183</u>

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

TSODILO RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended December 31, 2004
(Unaudited)

1. ACCOUNTING POLICIES

These interim consolidated financial statements are unaudited and are not reviewed by the Company's auditors. The management of Tsodilo Resources Limited (the "Company") has prepared these unaudited consolidated financial statements for the nine months ended December 31, 2004 in accordance with generally accepted accounting principles in Canada. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2004.

The disclosures in these interim financial statements do not include the full disclosure required under generally accepted accounting principles in Canada for annual financial reporting.

Operating results for the nine months ended December 31, 2004 are not indicative of the results that may be expected for the full year ending March 31, 2005.

The Company uses the same methods and accounting policies described in the March 31, 2004 audited consolidated financial statements.

2. EXPLORATION PROPERTIES AND JOINT VENTURES

At December 31, 2004 accumulated costs with respect to the Company's interest in mineral properties consisted of the following:

	Opening Balance April 1, 2004 \$000	Additions (*) \$000	Ending Balance December 31, 2004 \$000	Ending Balance March 31, 2004 \$000
Newdico, Botswana	1,147	537	1,684	1,147
Gcwihaba, Botswana	22	169	191	22
	1,169	706	1,875	1,169

3. SHARE CAPITAL

a) AUTHORIZED

Unlimited common shares without par values

COMMON SHARES ISSUED	No of Shares	Value
Balance, beginning of year (April 1, 2004)	7,891,580	\$ 33,518,130
Private placement	854,683	768,509
Warrant valuation	-	(153,815)
Exercise of warrants (b)	904,139	468,495
Exercise of warrants - warrant valuation (b)	-	97,588
Exercise of stock options	117,500	39,250
Exercise of stock options - option valuation	-	16,120
Balance, end of period (December 31, 2004)	<u>9,767,902</u>	<u>\$ 34,754,277</u>

TSODILO RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended December 31, 2004
(Unaudited)

3. SHARE CAPITAL (CONTINUED)

PRIVATE PLACEMENT

On June 1, 2004, the Company completed a non-brokered private placement financing of 687,409 units of the Company at a price of \$0.75 per unit for gross proceeds to the Company of \$515,557. Each unit consists of one common share of the Company and half a warrant of the Company. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 until June 1, 2006. The common shares and warrants are subject to a hold period of 12-months as agreed to by the parties, expiring on June 1, 2005 and the certificates evidencing such securities will bear a legend to that effect.

On October 14, 2004, the Company completed a non-brokered private placement financing of 113,938 units of the Company at a price of \$1.12 per unit for gross proceeds to the Company of \$127,611. Each unit consists of one common share of the Company and half a warrant of the Company. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$1.12 until October 14, 2006. The common shares and warrants are subject to a hold period of 12-months as agreed to by the parties, expiring on October 14, 2005 and the certificates evidencing such securities will bear a legend to that effect.

On November 8, 2004, the Company completed a non-brokered private placement financing of 53,336 units of the Company at a price of \$2.35 per unit for gross proceeds to the Company of \$125,340. Each unit consists of one common share of the Company and half a warrant of the Company. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$2.35 until November 8, 2006. The common shares and warrants are subject to a hold period of 12-months as agreed to by the parties, expiring on November 8, 2005 and the certificates evidencing such securities will bear a legend to that effect.

The fair value of the share purchase warrants were estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate at 4%, expected life of 2 years, expected dividend rate of 0%, and volatility of 69%. As a result, the fair value of the share purchase warrants were: \$103,111, \$25,068 and \$25,636 respectively.

b) WARRANTS

A summary of the outstanding warrants as of December 31, 2004 are as follows:

Expiry Date	Exercise Price	Opening Balance	Warrants Issued / (Exercised/ Expired)	Closing	Opening (dollars)	Value Issued / (Exercised/ Expired)	Closing (dollars)
June 13, 2004	\$0.40	765,501	(765,501)	-	7,655	(7,655)	-
October 14, 2004	\$0.25	62,020	(62,020)	-	620	(620)	-
November 14, 2004	\$0.50	118,065	(118,065)	-	5,903	(5,903)	-
March 24, 2005	\$0.50	161,561	(29,000)	132,561	8,078	(1,450)	6,628
May 27, 2005	\$0.50	267,953	-	267,953	67,978	-	67,978
August 18, 2005	\$0.50	162,854	-	162,854	23,527	-	23,527
September 30, 2005	\$0.50	373,406	(13,980)	359,426	60,494	(2,237)	58,257
January 15, 2006	\$0.75	83,432	-	83,432	20,652	-	20,652
June 1, 2006	\$0.75	-	65,024	65,024	103,111	(83,604)	19,507
October 14, 2006	\$1.12	-	56,969	56,969	25,636	-	25,636
November 8, 2006	\$2.35	-	26,668	26,668	25,068	-	25,068
		1,994,792	(839,905)	1,154,887	348,722	(101,469)	247,253

TSODILO RESOURCES LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended December 31, 2004
 (Unaudited)

3. SHARE CAPITAL (CONTINUED)

b) WARRANTS (Continued)

During the period, 904,139 warrants were exercised for proceeds to the Company of \$468,495. This exercise resulted in the issuance of 904,139 common shares. \$97,588 attributed to the warrants exercised during the period was reallocated to share capital. In addition, 388,107 warrants expired during the period. \$3,881 attributed to these warrants was reallocated to contributed surplus.

c) CONTRIBUTED SURPLUS

	\$000
As at April 1, 2004	8,702
Relating of issue of stock options	80
Relating to exercise of stock options	(15)
Valuation of expired warrants	<u>4</u>
As at December 31, 2004	<u><u>8,771</u></u>

d) STOCK OPTIONS

The following are the stock option transactions during the period:

	Number of Stock Options	Weighted Average Exercise Price
Balance, beginning of year	935,000	\$ 0.39
Granted during the period	300,000	0.75
Exercised during the period	(117,500)	0.38
Cancelled during the period	(265,000)	0.48
Outstanding at the end of the period	852,500	\$ 0.48

As of December 31, 2004, the following stock options were outstanding:

EXERCISABLE OPTIONS	NUMBER OF OPTIONS	EXERCISE PRICE \$	EXPIRY DATE
150,000	150,000	0.15	June 24, 2007
150,000	150,000	0.23	September 18, 2007
50,000	50,000	0.41	December 31, 2007
114,375	152,500	0.50	July 8, 2008
30,000	60,000	0.75	January 1, 2009
-	30,000	0.75	June 30, 2009
65,000	260,000	0.75	August 31, 2009
<u>559,375</u>	<u>852,500</u>		

TSODILO RESOURCES LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Nine Months Ended December 31, 2004
 (Unaudited)

3. SHARE CAPITAL (CONTINUED)

d) STOCK OPTIONS (Continued)

During the first quarter, 41,250 stock options issued on January 1, 2003 became fully vested. The fair value of these options were calculated on the date of grant using the Black-Scholes pricing model. The fair value is charged to the statement of operations and deficit as they vest. Accordingly, \$8,291 relating to these options was recorded as stock based compensation and contributed surplus.

During the period, the Company granted 300,000 stock options to purchase common shares of the Company. The fair value of these options were calculated on the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate at 4%, expected life of 5 years, expected dividend rate of 0%, and volatility of 69%. The fair value of these option will be charged to the statement of operations and deficit as they vest. During the period 25% of these options had vested and accordingly, \$33,750 was recorded as stock based compensation and contributed surplus.

An additional \$38,362 was recorded as stock based compensation and contributed surplus during the period relating to the vesting of previously granted stock options.

4. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is the same as basic loss per share. Stock options and warrants were not included in the diluted loss per share calculation since the calculation would have been anti-dilutive.

The following table sets out the computation for basic and diluted loss per share:

	December 31, 2004 \$000	December 31, 2003 \$000
Numerator:		
Loss for the period	(484)	(306)
Denominator:		
Average number of common shares outstanding	8,871,943	7,644,917
Basic and diluted loss per share - cents	5	4

5. INCOME TAXES

The estimated taxable income for the period is nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time, if it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities.

Consequently, the future recovery or loss arising from differences in tax values and accounting values have been reduced by a valuation allowance. The estimated valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion of or all of the future tax assets or future tax liabilities will be realized.

For further information on the Company's actual losses for tax purposes, refer to the March 31, 2004 audited consolidated financial statements. The benefit of these losses and the estimated loss for the nine months ended December 31, 2004 have not been recognized in these unaudited consolidated financial statements.

TSODILO RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended December 31, 2004
(Unaudited)

6. RELATED PARTY

During the period, the Company entered into transactions with related parties at standard commercial rates and prices.

At December 31 and March 31, 2004, the Company had no long-term debt. The Minority interest disclosed in the consolidated balance sheet of the Company relates to 25% of the accumulated expenditure of Newdico that was funded by Trans Hex Group Limited.

7. SEGMENTED INFORMATION

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. The fixed assets of the Company are presently located in Canada (\$4,000) and Botswana (\$48,000). The geographic distribution of the property acquisition costs and exploration expenditures is evident from the details presented in note 2.

8. COMMITMENTS

Minimum lease payments for leased equipment are as follows:

	\$000
2005	2
2006	3
	<u>5</u>

9. SUBSEQUENT EVENT

On January 4, 2005, the Company granted 85,000 stock options to officers and senior employees. Each option is exercisable into common shares of the Company at price of \$1.85 per common share and expire on January 3, 2010. The options vest as to 25% immediately and 25% every six months there-after until July 4, 2006

10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

Management's Discussion and Analysis

The following discussion and analysis for the third quarter 2005 should be read in conjunction with the unaudited Consolidated Financial Statements included in this report, and the Management Discussion and Analysis filed in August of 2004 together with the Annual Report for the year ended March 31, 2004. This quarterly 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 periods ending December 31, 2004 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. The Company's functional and reporting currency is Canadian dollars and all amounts stated are in Canadian dollars unless otherwise stated.

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 opportunities within southern Africa.

Outstanding Share Data

As of February 22, 2005, 9,771,652 common shares of the Company were outstanding. Of the options to purchase common shares issued to service providers under the share option plan of the Company, as of February 22, 2005, 933,750 options remain outstanding at exercise prices ranging from \$0.15 - \$1.85. If exercised, 933,750 common shares of the Company would be issued.

As of February 22, 2005, 1,154,887 warrants were outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the purchaser of the unit to purchase one common share of the Company at prices ranging from \$0.50 - \$2.35 for a period of two years from the date of issuance. If converted, 1,154,887 common shares of the Company would be issued.

The largest shareholder of the Company is its President and Chief Executive Officer, James M. Bruchs, who controls 2,474,001 or 25.33% of the issued and outstanding common shares as of February 22, 2005.

Subsidiaries

The Company has a 100% interest in its wholly owned Botswana subsidiary, Gcwihaba Resources (Proprietary) Limited (“Gcwihaba”), which has prospecting licenses covering approximately 6,793 square kilometers.

The Company currently has a 75% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited (“Newdico”), which holds prospecting licenses and applications covering approximately 12,726 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 in this project, Trans Hex Group (“THG”), is an established South African diamond mining company. During the 2005 fiscal year, THG funded their 25% share of the exploration expenditure for the 1st quarter at this project but has not funded their proportionate share of the 2nd and 3rd quarter program expenditures. Pursuant to the terms of the applicable agreement, the Company will increase its direct ownership of the Newdico project. The Company’s percentage increase in ownership will be determined once all expenditures for the 3rd quarter are allocated. The non-funding by THG has not and will not have an impact on the Company’s ability to fund and carry out its exploration activities. Some, or all, of the current licenses held by Newdico are subject to the granting of a 2% free carried interest in any mine or mines that may result thereon.

Exploration Activities

Newdico

At the current time, samples from the second quarter drilling program are being analyzed and results are expected to be released in the 4th quarter.

The gravity and magnetic surveys over selected targets were completed and the data is being reviewed in order to select additional targets to drill after the end of the rainy season in late March.

The fiscal 2006 work program will initially be comprised of three elements:

- Having completed an extensive loam sampling program over selected airborne magnetic anomalies, the primary focus of the fiscal 2006 program is aimed at exploring anomalous KIM locations, particularly in the Guma District.
- A second drill program is predicated on the importance of a well-defined satellite image linear that is probably caused by deep crustal fractures. Investigation of the western end (border drilling) was completed in fiscal 2005 and found that the bedrock had been eroded and no sign of any paleo-alluvial system, either at the Archaen gneiss/Kalahari unconformity or within the Kalahari Group sediments could be found. The proposed drilling will explore the eastern end of the feature with the objective of finding either paleo-channel features or alluvial beds within the Kalahari

Group sediments, with the ultimate aim of tracing any KIM anomalies that may be contained in these alluvial systems.

- The third component of the drilling program is focused on the further exploration of a belt of kimberlites within the Nxau Nxau cluster. It should be noted that the A15 kimberlite has a markedly different morphology and chemistry from the other kimberlites found at Nxau Nxau to date.
 - ✓ A15 has been eroded to below the crater sediment level, although there appear to be lappili within the very weathered kimberlite so it is perhaps eroded to the base of the crater.
 - ✓ A15 has many more garnets than the other Nxau Nxau kimberlites.
 - ✓ Previously discovered kimberlites at anomalies 40/07 and 40/23 lie on an E-W line 2Km & 7Km on either side of A15 and both of these produced micro-diamonds.

If time permits, a secondary drill program aimed at further exploration of the Nxau Nxau cluster area will be commenced. There are several well-defined N-N magnetic anomalies associated with relatively low ilmenite counts that have been classed as secondary targets.

Gcwihaba

Drilling commenced in the 2nd quarter over target 2021 B4, however, the drill contractor's performance during the initial phase of drilling in Gcwihaba was not up to the Company's expectations and additional targets could not be tested. The Company intends to do additional gravity and magnetic work on selected targets for use in target selection and to provide improved criteria for prioritization of future drill targets. Drilling of select targets would be scheduled for late in fiscal 2006.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Annual Information

(in thousands of Canadian dollars, except per share data)

Fiscal Year	2004	2003	2002
Total Revenues	–	–	45
Loss before minority interest	(545)	(390)	(9,585)
Minority Interest	–	4	–
Loss for the Year	(545)	(386)	(9,585)
Basic and diluted loss per share - cents	(7)	(8)	(66)
Total Assets	1,443	756	1,191
Liabilities (Long-Term)	309	177	5,240
Cash dividends declared	–	–	–

QUARTERLY INFORMATION

The quarterly results have been as follows:

(in thousands of Canadian dollars, except per share data)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Year 2003				
Revenue	–	–	–	–
Loss for the period	54	145	80	111
Loss per share - cents	1	3	2	2
Total assets	576	538	650	756
Total long term liabilities	112	114	155	177
Fiscal Year 2004				
Revenue	–	–	–	–
Loss for the period	77	121	109	238
Loss per share - cents	1	2	2	2
Total assets	938	1,464	1,400	1,443
Total long term liabilities	235	277	277	309
Fiscal Year 2005				
Revenue	–	–	–	–
Loss for the period	102	243	139	--
Loss per share - cents	1	3	1	--
Total assets	2,005	1,962	2,469	--
Total long term liabilities	309	340	340	--

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2004, the Company had net working capital of \$378,000 (March 31, 2004: \$170,000), which included cash and equivalents of \$511,000 (March 31, 2004: \$194,000). 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 does not hedge its activities or otherwise use derivatives.

Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, amounts receivable and prepaid expenses, and accounts payable and accrued liabilities approximate their fair values due to the short maturities of these instruments.

Operating Activities

Cash outflow from operating activities decreased from \$120,000 in the second quarter of 2005, to \$79,000 in the third quarter, for a total of \$294,000 for the nine month period ended December 31, 2004, this compares to \$346,000 for the same 9 month year to date period the previous year. Operating activities represented, are those typical for junior public exploration companies, including corporate consulting fees, legal and accounting services, investor relation activities and office and administration.

Investing Activities

Cash flow applied in investing activities increased to \$341,000 in the three months ended December 31, 2004 from \$86,000 in the three months ended September 30, 2004 and compared to \$158,000 for the three-month period December 31, 2003. Total investing activity for the nine months ended December 31, 2004 was \$692,000 compared to \$432,000 for the same period ended December 31, 2003. All expenditure on exploration properties in the period under review was attributable to the Newdico and Gcwihaba projects in northwest Botswana. There were no material acquisitions or disposals of capital assets or investments during the period under review. In March 2004, the board of directors of Newdico including the representatives of joint venture partner Trans Hex Group, approved an exploration program and budget for the period April 2004 to March 2005 that calls for expenditures totaling approximately Pula 2.7 million (approximately \$0.78 million). Trans Hex Group is responsible for funding their proportionate share of the expenses of this company, which holds the licenses for the northern portion of the Company's Ngami project. The approved exploration program includes provision for additional soil sampling, ground magnetic and gravity surveying and geophysical interpretation, as well as a program of reverse circulation drilling.

The required first year exploration program expenditures, including license fees, for Gcwihaba amounted to approximately Pula 0.28 million (approximately \$0.08 million). Gcwihaba's expenditures exceeded this required amount in the first year. The required expenditure in the second year exploration program amounts to approximately Pula 0.42 million (approximately \$0.12 million). Gcwihaba expects to meet or exceed this requirement.

Financing Activities

On June 1, 2004, the Company closed a non-brokered private placement financing of 687,409 units of the Company at a price of \$0.75 per unit for gross proceeds of \$515,557. Each unit consists of one common share of the Company and half a warrant of the Company, each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 until June 1, 2006. The common shares and warrant are subject to a hold period of 12-months as agreed to by the parties, expiring on June 1, 2005 and the certificates evidencing such securities will bear a legend to that effect.

On October 14, 2004, the Company completed a non-brokered private placement financing of 113,938 units of the Company at a price of \$1.12 per unit for gross proceeds of \$127,611. Each unit consists of one common share and one half common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$1.12 until October 14, 2006. The common shares and warrant are subject to a hold period of 12-months as agreed to by the parties, expiring on October 14, 2005 and the certificates evidencing such securities will bear a legend to that effect.

On November 8, 2004, the Company completed a non-brokered private placement of 53,336 units at a price of \$2.35 per unit for proceeds to the Company of \$125,340. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitles the holder to purchase one common share of the Company at a price of \$2.35 until November 14, 2006. The common shares and warrant are subject to a hold period of 12-months as agreed to by the parties, expiring on November 8, 2005 and the certificates evidencing such securities will bear a legend to that effect.

In addition, the Company has received proceeds in the amount of \$309,049 through the exercise of options and warrants from October 1, 2004 to date. Tsodilo expects to raise the amounts required to fund the Newdico project, the Gcwihaba project 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 \$139,000 in the quarter ended December 31, 2004 (\$0.014 per common share), compared to a net loss of \$109,000 in the quarter ended December 31, 2003 (\$0.014 per common share). For the nine months end December 31, 2004, net losses were \$484,000 (\$0.05 per common share) compared to \$306,000 (\$0.04 per common share) for the same nine-month period ended December 31, 2003. This increase is due to increases in promotional activities, as well as accounting, audit and legal fees. The single largest expense (not recorded during the comparable period of fiscal 2004) however, was the book entry reflecting the accounting valuation (in terms of the Black-Scholes option pricing model) of the options issued to directors, officers and consultants that vested during the period, of \$72,000. International travel expenses were also higher, reflecting the additional efforts of management to increase awareness of the Company and its projects, including the attendance at targeted trade shows.

PERSONNEL

At December 31, 2004 the Company and its subsidiaries employed 7 personnel compared to 4 personnel in fiscal 2004, including senior officers, administrative and operations personnel including those on short-term contract bases. Individual components of the exploration program, such as soil sampling, geophysical surveying and reverse circulation drilling, are contracted out to independent third parties operating under the control and direction of the Company's Chief Executive Officer, James M. Bruchs, and the Company's Exploration Vice President, Peter Walker.

RISKS AND UNCERTAINTIES

Tsodilo's primary objective is the discovery of an economic kimberlite diamond deposit capable of 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.

Exploration Risks

The Company's operations are subject to all the hazards and risks normally incident to the exploration, development and mining of diamond deposits, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. Whether a diamond deposit will ultimately be commercially viable depends on a number of factors, including the particular attributes of the deposit such as the deposit's size; the quality and quantity of the diamonds; its proximity to existing infrastructure; financing costs and the prevailing prices for diamonds. Also of key importance are government regulations, including those relating to prices, taxes, royalties, land tenure, land use, the importing and exporting of

diamonds and production plant and equipment, and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of them may impede the development of a deposit or render it uneconomic.

Currency Risks

The Company's financing has generally been received in United States dollars while significant portions of its operating expenses have been and will be incurred in Botswana Pula. In fiscal 2004, the Pula has shown unexpected and substantial strength against most major world currencies including the US dollar and the strength in the Pula, if it continues, may adversely affect the Company's exploration expenditures due solely to currency exchange factors.

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 person insurance on these individuals.

ACCOUNTING STANDARDS

Tsodilo follows Canadian generally accepted accounting principles. In line with accepted industry practice, 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. 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.

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. The design and conduct of the Company's exploration programs is the responsibility of Peter Walker, a professional geologist registered with the South African Council for Natural Scientific Professions.

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 for the three months ended December 31, 2004, 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 and of the Management's Discussion & Analysis for the year ended March 31, 2004. 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.

L. Kirk Boyd
Chief Financial Officer
February 22, 2005