tsodilo resources limited

president's message

FELLOW SHAREHOLDERS,

The hard work and accomplishments in this past year have set the stage for what I believe will be a truly exciting period in the annuals of Tsodilo Resources Limited ("Tsodilo" or the "Company"). The drilling program this past year has shown that not only do we have untold virgin kimberlites but the size of the kimberlites themselves are larger than any previously found in our licence blocks.

In the coming year, the following activities are planned or have been recently completed:

1. A second phase systematic drill program of the A12 and A37 kimberlites to define their size and shape, as well as determining the relationship of the various kimberlite phases to the crater sediments and to obtain further samples with a higher probability of carrying diamonds will begin in late August or early September.

2. The soil sampling field work is now complete and all samples are currently at the laboratory for kimberlite indicator mineral (KIM) recovery. A total of 420 samples were collected over 140 airborne magnetic anomaly targets within our Newdico and Gcwihaba licence blocks. An additional 42 samples were collected along the Namibia / Botswana border. The KIM recovery procedure and analysis will assist us in determining which anomalies we will perform ground magnetic and gravity surveys over, with a view of selecting targets for the drilling program.

3. In addition to detailed gravity surveys to be performed over those targets selected as a result of the recent KIM soil sampling, the Company will shortly commence a gravity survey down sections of the Namibian / Botswana border fence line in our Newdico and Gcwihaba licence blocks. This survey should more accurately determine the location of basal Kalahari drainage lines that are projected back from the Tsumkwe and Omatako diamond and G10 garnet occurrences.

4. A contractor has been retained to construct a detailed geographic information system (GIS). This computer based system is capable of assembling, storing, manipulating, and displaying geographically referenced information, i.e. data identified according to their locations enabling our geologists to review large amounts of information at a single time.

5. A Newdico Technical Committee was established to assist the Company's personnel in meeting the challenges which this project presents. A representative of the Company, a representative of our minority partner, Trans Hex Group, and a consulting geologist to the Company will form the committee. Each member of the committee brings their own niche expertise which will prove invaluable to the project.

During the past year, the Company funded exploration activity by raising funds in the capital markets through the successful issuance of stock by way of private placements. This process will continue in the coming year. Our current share base consists of 9,006,383 issued and outstanding (11,439,378 on a fully diluted basis) common shares. Tsodilo has no debt, a 75% interest in our Botswana Newdico project and a 100% interest in our Botswana Gcwihaba project. The Company is well positioned to meet the challenges in the upcoming year and to reap the rewards thereof.

James M. Bruchs
President and Chief Executive Officer
July 22, 2004

why are we exploring in Botswana?

Tsodilo Resources Limited (the "Company") is exploring the southern portion of the Congo craton for a primary source of diamonds because we believe that macro diamonds and G10 garnets recovered from both the surface and the basal Kalahari sediments at Tsumkwe, and G10 garnets recovered at two locations in the Omatako drainage of Namibia, represent two of the worlds most important, unexplained Kimberlite Indicator Mineral (KIM) anomalies. The Tsumkwe anomaly is located some 120 km southwest of our Nxau Nxau kimberlite cluster, and only some 50 km to the west of the Tsodilo Resources concessions. It is our view that both the unexplained Tsumkwe diamonds and Omatako KIM anomalies are derived from kimberlites within our concession area because the watershed for the streams draining into the Kalahari basin at both Tsumkwe and Omatako is within our concession - any streams carrying diamonds and G10 garnets are, therefore, likely to have come from our concession area. This geomorphological model is discussed in greater detail in the "Projects Ngamiland" section of the Company website, www.TsodiloResources.com.

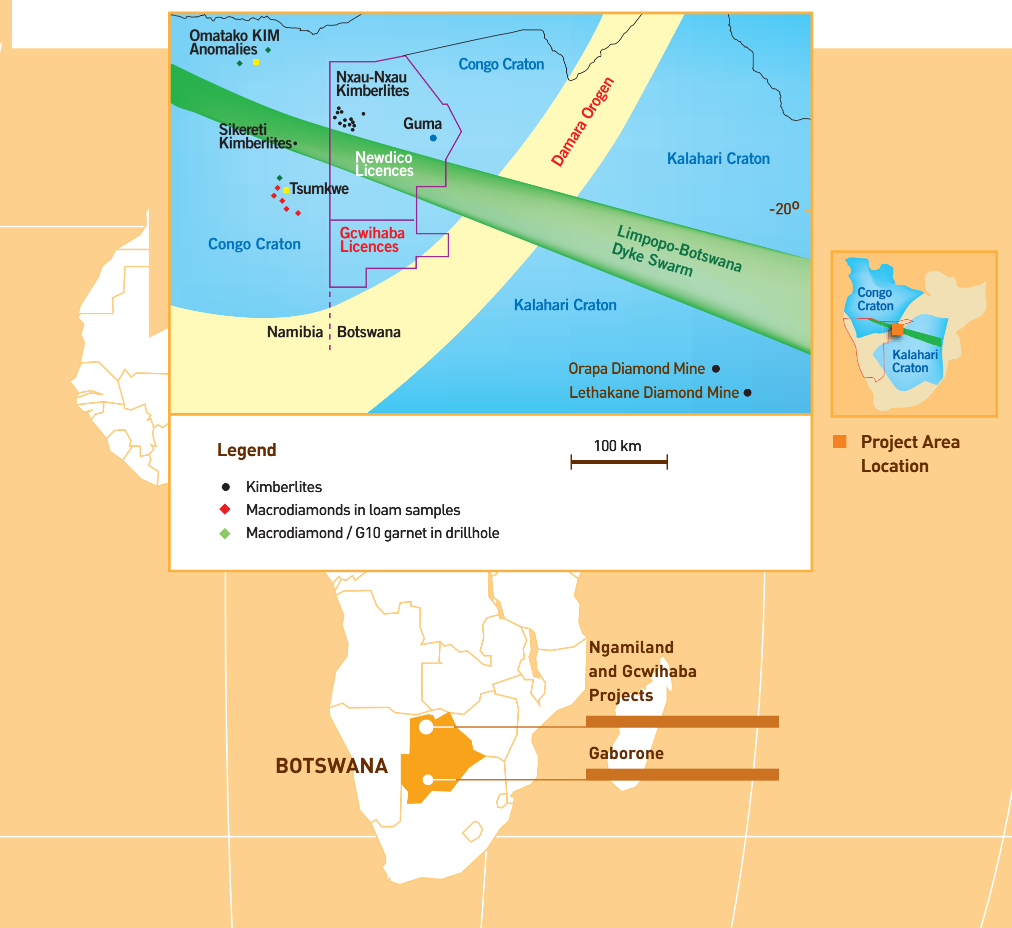
Prior to the company acquiring the licences, a cluster of kimberlite pipes near the village of Nxau Nxau some 40 metres below the Kalahari sand cover, were discovered. Their drilling revealed crater-facies kimberlites, and micro-diamond analyses showed that several were diamondiferous but uneconomic.

progress made in the past year

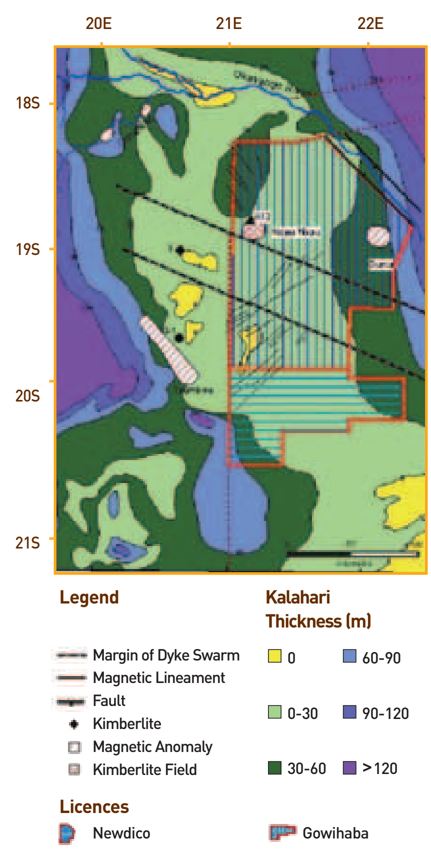
Our primary focus during this past financial year has been on drill-testing three virgin geophysical targets, designated A12, A37 and A38, adjacent to the Nxau Nxau cluster that were defined by the results from our detailed indicator mineral sampling, ground magnetic and gravity surveys. These targets were drilled in September and October 2003, with the following result:

A12 – Two reverse circulation drillholes, spaced 100m apart, intersected kimberlite crater-facies sediments interbedded with kimberlitic tuffs below some 43m of Kalahari sediment cover. Based on the geophysical and drilling evidence, the

Tsodilo Resources Limited Botswana Licence Map



Geomorphological setting of the Tsodilo ground



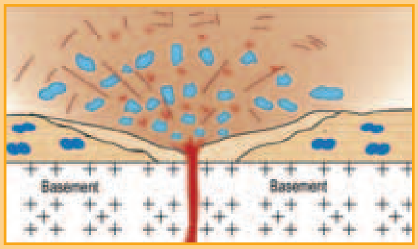
A12 kimberlite is estimated to have a surface area of some 15 hectares, significantly larger than any of the previously discovered Nxau Nxau kimberlites, most of which are between 1 and 7ha in surface area.

A37 - Six holes were drilled into the A37 target. Five of these holes were drilled along an approximately WNW-ESE line some 1600m in length to investigate the major gravity low and subsidiary low to the east. All five holes intersected kimberlite crater facies sediments, which are interpreted as causing the overall major gravity low. It is most likely that these sediments extend some distance to both the east and west of this line of holes, since the gravity low has a width of approximately 500-600 m. The remaining hole, drilled into a subsidiary gravity low immediately to the north of this line, also intersected crater facies sediments, probably continuous with those to the south. All of the holes were terminated in basement rocks, indicating that A37 has a relatively flat "champagne-glass" shape, similar to the Australian lamproites.

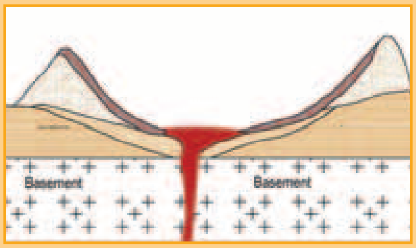
These results, coupled with the gravity data, indicate that A37 has a large surface area of the order of 80-100 hectares. While further drilling is required to delineate the extent of the body with greater accuracy, the available data indicate that A37 is the 2nd or 3rd largest known kimberlite, by surface area, in Botswana.

The A37 gravity "low" is associated with two prominent bulls-eye ground magnetic anomalies, and a number of very subtle positive magnetic features. This evidence may indicate that there were several kimberlite feeder pipes, with concentrated volcanic activity over a relatively small area, which appears to be a characteristic of the world's large economic kimberlites.

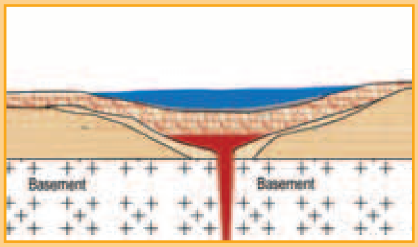
Pictorial sections showing the development of a flat champagne-glass crater as interpreted from a A-37 drilling results



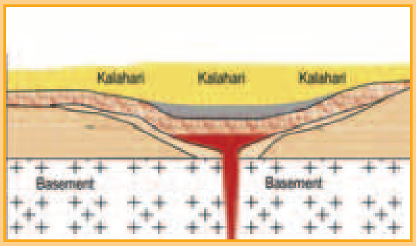
1. Hot Kimberlite lava comes into contact with extensive groundwater in Dolomite Limestone and causes explosive fracturing of Dolomite over a wide area.



2. Large crater cone formed when venting completed. Some crude layering and sorting of material is evident in the crater sediments. Ash



3. Crater cone is eroded and it becomes a shallow, central water-filled depression. Fine grain sediments begin to deposit on the floor of the crater lake.



4. Erosion and levelling of the crater surface with coarse lower and outer sediments and fine shales at the core. Deposition of the Kalahari buries the crater.

The "champagne glass" shape of the A37 body suggests that, as in the case of the Australian lamproites, it was probably formed as a result of phreatic explosive activity - i.e. a volcanic explosion triggered when the hot magma reacted with groundwater.

It should be noted that the surface emplacement of a number of the world's very high grade kimberlites appear to have involved similar phreatic eruptions. While the reason for this empirical observation is not well understood, it is speculated that it could be linked to rapid cooling of the magma, resulting in only very limited low-pressure diamond resorption.

A38 - Three holes were drilled on the target designated A38 where the Kalahari cover is relatively thin (35-45m). All holes terminated in basement dolomite without intersecting kimberlite. The source of the A38 co-incident magnetic and gravity anomalies remains unexplained, and requires further investigation, particularly as it is in close proximity to the A37 kimberlite crater.

exploration planned for the new financial year

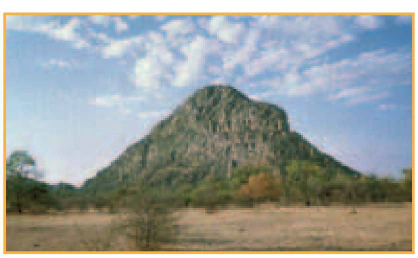
A technical committee was established for the express purpose of reviewing, developing and monitoring the Company's exploration program. The Committee is composed of a representative of the Company, a representative of our Newdico minority partner, Trans Hex Group Limited, and, a consulting geologist to the Company.

On completion of the sampling program and receipt of results, we intend to prioritize the targets, perform detailed ground magnetic and gravity surveys and follow this with reverse circulation drilling.

The Company has decided to forego the micro-diamond analysis on samples obtained from A12 and A37 and intends to proceed to a second phase drill program of the A12 and A37 kimberlites to define their size and shape, as well as determine the relationship of the various kimberlite phases to the crater sediments, and to obtain further samples with a higher probability of carrying diamonds. The systematic drilling of these kimberlites is expected to begin in late August or early September 2004.

A very busy and exciting year lies ahead as we make progress in the exploration for an economic kimberlite below the Kalahari cover on this sector of the Congo craton. Please follow our progress carefully and remain informed by regular visits to our website www.TsodiloResources.com.

Our other major exploration thrust is aimed at locating further virgin kimberlites within the ground held by Newdico (Pty) Ltd. and Gcwihaba Resources (Pty) Ltd. – the company's Botswana-registered subsidiaries. With this in view, the Company retained one of Canada's leading kimberlite specialist geophysical contractors to reprocess the aeromagnetic data covering the company's properties, using proprietary technology. Over 150 magnetic targets have been selected for follow-up sampling. The sampling has been completed and the samples are being processed for Kimberlite Indicator Minerals recovery. The selected targets are located in three main areas:



1. To the south of the known Nxau Nxau kimberlites, in a magnetically noisy area. These targets could represent a southerly extension of the Nxau Nxau field, and from a geomorphological perspective, are well placed to provide the source of the diamonds and G10 garnets reported to the west at Tsumkwe in Namibia.

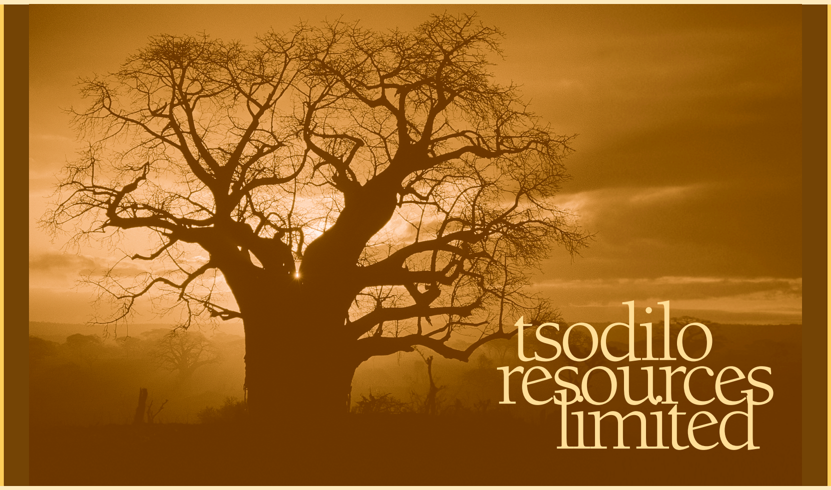
2. In the Guma area, situated in the eastern portion of the licence block, where earlier sampling by the company and previous workers led to the recovery of unexplained Kimberlite Indicator Minerals.

3. Previous work in this southern portion of the area resulted in the recovery of unexplained kimberlitic ilmenites.

The sampling program could therefore lead to the extension of the known Nxau Nxau kimberlite cluster and the identification of three major virgin kimberlite fields. In addition, there are a number of small groups of isolated bulls-eye magnetic targets, which may represent outlier groups of kimberlites.

Consolidated Financial Statements

March 31, 2004 and 2003



Management's Discussion and Analysis

This management's discussion and analysis should be read in conjunction with the Consolidated Annual Financial Statements for the fiscal years ending March 31, 2004 and 2003, and comments on the factors that affected the Company's performance during the periods covered by the Consolidated Annual Financial Statements as well as the Company's financial condition and future prospects. The Company's functional and reporting currency is 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.

Corporate

At a special meeting of the holders of common shares of the Company held on April 9, 2002 shareholders approved a restructuring of the Company that incorporated the sale of substantially all of the Company's assets. The assets were transferred in settlement of debt due and owing to Trans Hex Group Limited ("Trans Hex Group"), the principal shareholder and creditor of the Company prior to restructuring, of $952,000. The Company retained an interest in all future dividends that may be paid by either Northbank Diamonds Limited, Hoanib Diamonds (Proprietary) Limited or Trans Hex (Zimbabwe) Limited. In addition, the Company was released from the long-term loans due to Trans Hex Group by the subsidiaries being sold, of $5.24 million, and Trans Hex Group agreed to return the 10,688,137 common shares in the capital of the Company, representing 73.22% of the issued and outstanding shares of the Company at that time, to treasury for cancellation. The special meeting of Shareholders also approved the discontinuance of the Company from the Province of Ontario and its continuance under the Business Corporations Act (Yukon), the change of name of the Company from Trans Hex International Ltd. to **Tsodilo Resources Limited**, the election of new directors and the repeal of the existing stock option plan of the Company and adoption of a new stock option plan. Following the restructuring of the Company, as approved by shareholders in April 2002, Tsodilo has no long-term debt.

Outstanding Share Data

As of July 22, 2004, 9,006,383 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, 860,000 options remain outstanding at exercise prices ranging from $0.15 - $0.75. If exercised, 860,000 common shares of the Company would be issued.

As of July 22, 2004, 1,572,995 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 - $0.75 for a period of two years from the date of issuance. If converted, 1,572,995 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 27.47% of the issued and outstanding common shares as of July 22, 2004.

Subsidiaries

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

The Company has a 75% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited (“Newdico”), which holds prospecting licensees 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, is an established South African diamond mining company. During the 2004 fiscal year, Trans Hex Group funded their 25% share of the exploration expenditure at this project. 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. One of the beneficiaries of this arrangement is Dr. Andrew E. Moore, an officer of the Company.

Proposed Transactions

The Company and SouthernEra Resources Limited (“SouthernEra”) have been unable to agree upon the terms of a mutually satisfactory joint venture agreement, which was referred to in a joint news release with SouthernEra dated July 8, 2003. Accordingly, the parties have agreed to discontinue their discussions with respect to a joint venture on the Company’s Gcwihaba property. As a result of the termination of these discussions, SouthernEra will have no interest in the Gcwihaba Project and Tsodilo and SouthernEra will have no rights or obligations to one another concerning the property. This development will have no impact on the Company’s performance or operations.

Exploration Activities

Newdico

A second phase of soil sampling field work is nearing completion. A total of 243 samples are planned to be collected over 81 airborne magnetic targets in addition to 42 samples collected along the Namibian / Botswana border. Many of the samples are already at the laboratory for processing. The results of this program will determine the targets over which ground gravity and magnetic surveys will be conducted. In addition to performing surveys over select targets, a gravity survey program will be commenced in the second quarter of fiscal 2005 down a portion of the fence line separating Namibia and Botswana in order to more accurately determine the location of basal Kalahari drainage lines that are projected back from the Tsumkwe and Omatako diamond and G10 garnet occurrences in Namibia.

The Company intends to proceed to a second phase drill program of the A12 and A37 kimberlites to define their size and shape as well as to determine the relationship of the various kimberlite phases to the crater sediments. Further samples with a higher probability of carrying diamonds will be obtained from these zones. We expect to begin the systematic drilling of these kimberlites in late August or early September of 2005. Additional targets will be selected as a result of the soil sampling program and the gravity and magnetic survey for drilling at this time.

Gcwihaba

In the first quarter of fiscal 2005, soil sampling field work was completed and all samples are at the laboratory for kimberlite indicator mineral (KIM) recovery. A total of 177 samples were collected in the Gcwihaba license block over 59 airborne magnetic anomaly targets. The results of this program will determine at which targets ground gravity and magnetic surveys will be conducted. The border gravity survey program referred to in the Newdico exploration program will be extended into a portion of the Gcwihaba license block.

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	1464	1400	1443
Total long term liabilities	235	277	277	309

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2004, the Company had net working capital of $170,000 (March 31, 2003: –$35,000), which included cash and equivalents of $194,000 (March 31, 2003: $38,000). 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, accounts 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 increased from $320,000 in fiscal 2003 to $494,000 in fiscal 2004. This increase reflects increases in general and administration expenses, particularly consulting fees and corporate travel and subsistence.

Investing Activities

Cash flow applied in investing activities increased to $527,000 in fiscal 2004 (March 31, 2003: 240,000). All expenditure on exploration properties in fiscal 2004 was attributable to the Newdico and Gcwihaba projects in northwest Botswana and includes the 25% share funded by Trans Hex Group for the Newdico project. There were no material acquisitions or disposals of capital assets or investments during the year.

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 25% 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 will exceed 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

Following the restructuring of Tsodilo in April 2002 and the cancellation of the shares formerly held by Trans Hex Group, the source of financing for the Company's activities changed from debt (related party) finance to equity, through the issue of units by way of non-brokered private placements. During the fiscal year ended March 31, 2004 the Company completed the issue and sale, through non-brokered private placements, of a total of 1,775,290 units of the Company. These units were issued at prices increasing from $0.50 per unit in May 2003 to $0.75 per unit in January, 2004, for proceeds to the Company of approximately $929,361. In addition, proceeds were received in the amount of $115,142 from the issuance of common shares upon the exercise of options and warrants.

Since March 31, 2004, the Company has raised $515,557 through the issuance of 687,409 units of the Company by way of non-brokered private placements, and received proceeds in the amount of $150,958 through the exercise of warrants.

Tsodilo expects to raise the amounts required to fund its 75% share of the Ngami project, the Gcwihaba project and corporate general and administration expenses, by way of non-brokered private placements. Such private placements are expected to include a half-warrant priced at a similar level to the units sold.

RESULTS OF OPERATIONS

On a consolidated basis Tsodilo recorded a net loss of $545,000 in the fiscal year ended March 31, 2004 (7 cents per common share) compared to a net loss of $390,000 in the fiscal year ended March 31, 2003 (8 cents per common share). Eliminating the effect of $98,000 of non-cash charges relating to stock-based compensation, general and administration expenses in 2004 amounted to $447,000 compared with $390,000 in 2003. This increase is due to increases in general and administration expenses, particularly consulting fees and corporate travel and subsistence.

Exploration expenditure incurred during the year ended March 31, 2004 at the Newdico project in Botswana was $447,000 compared to $249,000 at March 31, 2003. Exploration expenditure on all projects amounted to $469,000 during the year. The principal components of the Newdico exploration program were: (a) additional soil sampling and the completion of the processing and analysis of the soil samples; (b) commissioning of further ground magnetic and gravity survey of selected aeromagnetic anomalies; (c) analyzing detailed proprietary aeromagnetic maps covering the target areas; and (d) commencement of a reverse circulation drilling program on selected targets.

PERSONNEL

At March 31, 2004 the Company and its subsidiaries employed 7 personnel compared to 4 personnel at March 31, 2003, 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, Dr. Andrew Moore.

RISKS AND UNCERTAINTIES

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

Capital Requirements

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

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.

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

Currency Risks

The Company's financing has generally been received in United States dollars while significant portions of its operating expenses 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.

Changes in Accounting Policies

Effective April 1, 2003, the Company prospectively adopted CICA 3870, "Stock Based Compensation and Other Stock Based Payments." The Company has elected to use the fair value method of accounting for stock options, and its adoption resulted in a charge to earnings for compensation expense of $98,000 in 2004. Consideration paid on exercise of stock options is credited to share capital. In accordance with the transition rules of the section, the Company increased its cumulative deficit at April 1, 2003 by $120,000, reflecting the impact of options granted prior to that date.

The new accounting standard on stock-based compensation also requires the use of the fair value method for options granted as compensation for services rendered to the Company other than in the course of employment. Tsodilo has not granted options on this basis.

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

James Bruchs
Chief Executive Officer
July 22, 2004

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 accounting principles generally accepted in Canada 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, two of whom qualify as unrelated directors and are independent of management and free from any interest or business relationship which could, or could be perceived to, materially interfere with their ability to act in the best interests of the Company. This committee meets periodically with management and the external auditors to review accounting, auditing, internal control and financial reporting matters. The Audit Committee reviews the annual financial statements before they are presented to the Board of Directors for approval and considers the independence of the auditors.

The financial statements have been audited by Pricewaterhouse-Coopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Their report follows hereafter.

James M. Bruchs
Chief Executive Officer
May 20, 2004

Stephen Woodhead
Chief Financial Officer
May 20, 2004

Auditors' Report to the Shareholders of Tsodilo Resources Limited

We have audited the consolidated balance sheets of Tsodilo Resources Limited as at March 31, 2004 and 2003 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
May 20, 2004

Tsodilo Resources Limited

Consolidated Balance Sheets

As at March 31

	2004	2003
	$000	$000
ASSETS		
Current		
Cash and equivalents	194	38
Amounts receivable and prepaid expenses	18	12
	212	50
Exploration Properties and Joint Ventures *(note 3)*	1,169	700
Fixed Assets *(note 4)*	62	6
	1,443	756
LIABILITIES		
Current		
Accounts payable and accrued liabilities	42	85
MINORITY INTEREST *(note 3)*	309	177
SHAREHOLDERS' EQUITY		
Share Capital *(note 5)*	33,518	32,640
Warrants *(note 5)*	195	26
Contributed Surplus *(note 5)*	8,702	8,486
Deficit	(41,323)	(40,658)
	1,092	494
	1,443	756
Going Concern *(note 1)*		

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

Christopher M.H. Jennings
Director

James M. Bruchs
Director

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

Tsodilo Resources Limited

Consolidated Statements of Operations

For the years ended March 31

	2004	2003
	$000	$000
EXPENSES		
Consulting fees	62	18
Corporate remuneration	181	174
Corporate travel and subsistence	68	30
Investor relations	35	24
Legal and audit	26	35
Office and administration	73	96
Taxation	–	12
Amortization	2	1
Stock-based compensation *(note 2)*	98	–
	545	390
Loss before minority interest	(545)	(390)
Minority Interest	–	4
Loss for the year	(545)	(386)
Basic and diluted loss per share - cents *(note 7)*	($0.07)	($0.08)

Consolidated Statements of Deficit

For the years ended March 31

	2004	2003
	$000	$000
Deficit - Beginning of year as previously reported	(40,658)	(40,272)
Retroactive adjustment on change of accounting policy		
2003 stock based compensation *(note 2)*	(120)	–
Deficit – Beginning of year as restated	(40,778)	(40,272)
Loss for the year	(545)	(386)
Deficit - End of year	(41,323)	(40,658)

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

Tsodilo Resources Limited

Consolidated Statements of Cash Flows

As at March 31

	2004	2003
	$000	$000
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	(545)	(390)
Adjustments for non-cash items:		
Amortization	2	1
Stock-based compensation *(note 2)*	98	–
Profit on disposal of investments	–	(7)
	(445)	(396)
Net change in non-cash working capital balances	(49)	76
	(494)	(320)
INVESTING ACTIVITIES		
Exploration properties and joint ventures	(469)	(249)
Investments	–	13
Additions to capital assets	(58)	(4)
	(527)	(240)
FINANCING ACTIVITIES		
Issue of common shares	1,045	494
Contribution by joint venture partner	132	68
	1,177	562
Change in cash and equivalents - For the year	156	2
Cash and equivalents – Disposed of in restructuring	–	(12)
Cash and equivalents - Beginning of year	38	48
Cash and equivalents - End of year	194	38

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

Tsodilo Resources Limited

Notes to the Consolidated Financial Statements

For the years ended March 31, 2004 and 2003

1. NATURE OF OPERATIONS AND GOING CONCERN

Tsodilo Resources Limited ("Tsodilo" or the "Company"), formerly called Trans Hex International Ltd., is an international diamond exploration company engaged in the process of exploring its mineral properties 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.

As at March 31, 2004, the Company reported an accumulated deficit of $41 million (2003: $41 million) and cash outflows from operations of $494,000 (2003: $320,000) for the year then ended. The cash position of the Company is insufficient to finance continued exploration. The continuity of the Company's operations is dependent on Tsodilo raising future financing for working capital, the continued exploration and development of its properties, and for acquisition and development costs of new project opportunities. There can be no assurance that adequate financing will be available, or available under terms favorable to the Company. These financial statements have been prepared on a going concern basis that assumes the continuity of operations and realization of assets and settlement of liabilities in the normal course of business. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and preparation of the financial statements

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its direct and indirect subsidiaries and its proportionate interest in joint ventures. All inter-company transactions and balances have been eliminated. The Company's functional and reporting currency is Canadian dollars and all amounts stated are in Canadian dollars unless otherwise stated.

Group Companies: March 31, 2004

Tsodilo Resources Bermuda Limited	100%
Gcwihaba Resources (Proprietary) Ltd (Botswana)	100%
Newdico (Proprietary) Limited (Botswana)	75%

Use of estimates

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

Exploration properties

All costs relating to the acquisition, exploration and development of non-producing mining properties are capitalized as incurred. Some of the exploration activities of the Company are conducted jointly with others and accordingly, where the arrangements are of a joint venture nature, these financial statements reflect only the Company's proportionate interest in these activities. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

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

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

Amortization

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

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The operations of the Company's subsidiaries are determined to be of an integrated nature. Accordingly, monetary items are translated at the year-end exchange rate and non-monetary items are translated at historical exchange rates. Translation gains or losses are included in the results of operations.

Cash and Equivalents

Cash and equivalents are comprised of cash, term deposits and money market instruments with investment grade credit ratings and original maturity dates of 90 days or less from the date of acquisition.

Income Taxes

Income and resource taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

Stock-Based Compensation Plans

Tsodilo has a Stock Option Plan (refer to note 5). Under the Stock Option Plan, the Company may grant options to directors, officers and employees for up to 1,250,000 shares of common stock. The exercise price is determined by the board of directors, but is not less than the market price of the Company's stock on the date of the grant. An option's maximum term is 5 years. Consideration paid on the exercise of stock options is credited to common share capital

Change in Accounting Policy

Effective January April 1, 2003, the Company prospectively adopted Canadian Institute of Chartered Accountants ("CICA") 3870, "Stock Based Compensation and Other Stock Based Payments." This Section establishes standards for the recognition, measurement and disclosure of stock based compensation and other stock based payments made in exchange for goods and services. The Company has elected to use the fair value method of accounting for stock options, and its adoption resulted in a charge to earnings for compensation expense of $98,000 in 2004. Consideration paid on exercise of stock options is credited to common share capital.

In accordance with the transition rules of the section, the Company the Company increased its cumulative deficit at April 1, 2003 by $120,000, reflecting the impact of options granted prior to that date.

The new accounting standard on stock-based compensation also requires the use of the fair value method for options granted as compensation for services rendered to the Company other than in the course of employment. Tsodilo has not granted options on this basis.

Basis of Presentation

Certain items in the comparative income statement have been reclassified to be consistent with the presentation of the current year's results.

3. EXPLORATION PROPERTIES AND JOINT VENTURES

These may be summarized as follows:

	Ngami Botswana	Gcwihaba Botswana	Skeleton Coast	Total
	$000	$000	$000	$000
Balance at March 31, 2002	451	–	467	918
2003 expenditures	249	–	–	249
Exploration costs written off to operations	–	–	(467)	(467)
Balance at March 31, 2003	700	–	–	700
2004 expenditures	447	22	–	469
Balance at March 31, 2004	**1,147**	**22**	**–**	**1,169**

A summary of the significant joint venture and other agreements entered into by the Company is as follows:

Newdico (Proprietary) Limited

On November 22, 1999 Newdico (Proprietary) Limited ("Newdico") was granted an initial five prospecting licenses in the Ngamiland District of northwest Botswana. A further 10 prospecting licenses were granted to Newdico in May 2001, with a total of another five being added during fiscal 2003. Following the relinquishment of a portion of the initial five prospecting licenses upon their renewal, these licenses now cover an area of 12,726 square kilometers. The terms of the licenses grant Newdico the right to prospect for a total of three years, renewable upon application, and require Newdico to spend a minimum of Botswana Pula 3.6 million (approximately $1.0 million) on prospecting over this period, inclusive of their current renewals. Newdico is held as to 75% by Tsodilo and 25% by Trans Hex Group Limited ("Trans Hex Group") (refer to note 12), with Tsodilo being the operator. 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. One of the beneficiaries of this arrangement is Dr. A.E. Moore, an officer of the Company.

Trans Hex Group has funded its proportionate share of expenditure, and these amounts have been reflected as minority interest in the financial statements of $309,000 (2003: $ 177,000). Trans Hex Group has also advanced funds amounting to $294,000 (2003: $294,000) to Newdico, relating to exploration properties which have been written off in earlier years. This liability has not been recorded in these financial statements as it is repayable only from Tran Hex Group's share of any future earnings of Newdico after repayment of loans relating to the Newdico Project.

Gcwihaba Resources (Proprietary) Limited

On June 6, 2003 Gcwihaba Resources (Proprietary) Limited ("Gcwihaba"), a wholly owned subsidiary of the Company, was granted seven prospecting licenses to the south of the Ngamiland project area. The terms of the licenses, covering 6,793 square kilometers, grant Gcwihaba the right to prospect for a total of three years, renewable for a total of four additional years.

4. FIXED ASSETS

	2004			2003
	Cost	**Accumulated amortization**	**Book value**	Book value
	$000	**$000**	**$000**	$000
Vehicles	**55**	**6**	**49**	–
Furniture and Equipment	**26**	**13**	**13**	6
	81	**19**	**62**	6

5. SHARE CAPITAL

Common Shares

Authorized

The authorized capital stock of the Company comprises an unlimited number of common shares.

Issued and outstanding

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

	Shares (number)	Amount (dollars)
Issued and outstanding at April 1, 2002	14,597,856	32,171,895
Shares returned to treasury for cancellation:		
On restructuring approved by shareholders on April 9, 2002	(10,688,137)	–
Shares issued:		
On private placement (i)	835,300	125,295
On private placement (ii)	372,120	93,030
On private placement (iii)	236,130	118,065
On private placement (iv)	323,122	157,561
Ascribed to warrants issued (b)	–	(26,055)
Issued and outstanding at March 31, 2003	**5,676,391**	**32,639,971**
Shares issued:		
On private placement for cash (v)	535,906	267,953
On private placement for cash (vi)	325,708	162,854
On private placement for cash (vii)	746,812	373,406
On private placement for cash (viii)	166,864	125,148
Ascribed to warrants issued (b)	–	(172,651)
	1,775,290	756,710
On exercise of stock options (including $2,508 reallocated from contributed surplus) (c)	60,000	11,508
On exercise of warrants (including $3,799 reallocated from warrants)(b)	379,899	109,941
Issued and outstanding at March 31, 2004	**7,891,580**	**33,518,130**

(i) Private Placement

On June 14, 2002 the Company issued, through a non-brokered private placement, 835,300 units of the Company at a price of $0.15 per unit for gross proceeds to the Company of $125,295. Each unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.40 for a period of two years.

(ii) Private Placement

On October 15, 2002 the Company issued, through a non-brokered private placement, 372,120 units of the Company at a price of $0.25 per unit for gross proceeds to the Company of $93,030. Each unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of $0.25 for a period of two years.

(iii) Private Placement

On November 15, 2002 the Company issued, through a non-brokered private placement, 236,130 units of the Company at a price of $0.50 per unit for gross proceeds to the Company of $118,065. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.50 for a period of two years.

(iv) Private Placement

On March 25, 2003 the Company issued, through a non-brokered private placement, 315,122 units of the Company at a price of $0.50 per unit for gross proceeds to the Company of $157,561. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.50 for a period of two years. With respect to the placement of 100,000 units with participants located in New Zealand, a commission of 8% was paid to an agent, Mr. William Rae. In settlement of this obligation, 8,000 units were issued to Mr. Rae.

(v) Private Placement

In May 2003 the Company issued, through a non-brokered private placement, 535,906 units of the Company at a price of $0.50 per unit for gross proceeds to the Company of $267,953. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.50 for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of 12 months, expiring on May 26, 2004.

(vi) Private Placement

In August 2003 the Company issued, through a non-brokered private placement, 325,708 units of the Company at a price of $0.50 per unit for gross proceeds to the Company of $162,854. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.50 for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of 12 months, expiring on August 17, 2004.

(vii) Private Placement

In September 2003 the Company issued, through a non-brokered private placement, 746,812 units of the Company at a price of $0.50 per unit for gross proceeds to the Company of $373,406. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.50 for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of 12 months, expiring on September 29, 2004.

(viii) Private Placement

In January 2004 the Company issued, through a non-brokered private placement, 166,864 units of the Company at a price of $0.75 per unit for gross proceeds to the Company of $125,148. Each unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of $0.75 for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of 12 months, expiring on January 15, 2005.

(b) Warrants

As at March 31, 2004, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants Opening	Issued/ Exercised	Closing	Value Opening (dollars)	Issued/ Exercised	Closing (dollars)
June 13, 2004 (i)	0.40	**835,300**	**(69,799)**	**765,501**	**8,353**	**(698)**	**7,655**
October 14, 2004 (ii)	0.25	**372,120**	**(310,100)**	**62,020**	**3,721**	**(3,101)**	**620**
November 14, 2004 (iii)	0.50	**118,065**	**–**	**118,065**	**5,903**		**5903**
March 24, 2005 (iv)	0.50	**161,561**	**–**	**161,561**	**8,078**		**8,078**
May 26, 2005 (v)	0.50		**267,953**	**267,953**	**–**	**67,978**	**67,978**
August 17, 2005 (vi)	0.50		**162,854**	**162,854**	**–**	**23,527**	**23,527**
September 29, 2005 (vii)	0.50		**373,406**	**373,406**	**–**	**60,494**	**60,494**
January 15, 2006 (viii)	0.75		**83,432**	**83,432**	**–**	**20,652**	**20,652**
		1,487,046	**507,746**	**1,994,792**	**26,055**	**168,852**	**194,907**

During the year, 379,899 warrants were exercised for proceeds to the Company of $106,142. This exercise resulted in the issuance of 379,899 common shares. In addition, $3,799 attributed to the warrants exercised during the year has been reallocated to share capital. A value of $172,651 (2003: $26,055) has been attributed to the warrants issued during the year. Warrants were valued using the Black-Scholes model, using key assumptions of volatility of 69%, a risk-free interest rate of 4%, a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company.

(c) Contributed Surplus

	$000
As at April 1, 2003	8,486
Relating to issue of stock options	
- 2003	120
- 2004	98
Transferred to share capital on exercise of options	(2)
As at March 31, 2004	8,702

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at March 31, 2004 and 2003 were as follows:

Expiry	Price	Outstanding April 1, 2002	Granted / (Cancelled)	Outstanding March 31, 2003	Granted / (Exercised)		Outstanding March 31, 2004
May 21, 2003	0.40	280,000	(280,000)	–	–	(i)	**–**
July 4, 2005	0.30	300,000	(300,000)	–	–	(i)	**–**
June 24, 2007	0.15	–	260,000	260,000	(60,000)	(ii)	**200,000**
September 18, 2007	0.23	–	200,000	200,000	–	(ii)	**200,000**
December 31, 2007	0.41	–	165,000	165,000	–	(iii)	**165,000**
July 8, 2008	0.50	–	–	–	210,000	(iii)	**210,000**
January 1, 2009	0.75	–	–	–	110,000	(iii)	**110,000**
January 26, 2009	0.75	–	–	–	50,000	(iii)	**50,000**
		580,000	45,000	625,000	310,000		**935,000**

Options exercisable at end of year	501,250	**668,750**
Weighted average exercise price		
- outstanding	$0.24	**$0.39**
- exercisable	$0.20	**$0.31**

(i) All outstanding stock options expired with the restructuring of the Company that was approved by the holders of common shares on April 9, 2002.

(ii) These common share purchase options vest as to one-half immediately and one-half on the six-month anniversary of the date granted.

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

(iv) Options were valued using the Black-Scholes model, using key assumptions of volatility of 69%, a risk-free interest rate of 4%, a term equivalent to the life of the option, and reinvestment of all dividends in the Company.

6. INCOME TAXES

As at March 31, 2004, the Company had net operating losses carried forward of $5.5 million (2003: $6.0 million) for income tax purposes, as well as $0.3 million (2003: $0.3 million) of Canadian exploration and development expenditures that may be used to reduce income taxes payable in future periods. The net operating losses carried forward expire as follows:

	2004	2003
	$000	$000
2004	**–**	877
2005	**1,230**	1,230
2006	**884**	884
2007	**863**	863
2008	**954**	954
2009	**792**	792
2010	**367**	367
2011	**377**	–
	5,467	5,967

Significant components of the Company's future tax assets as at March 31, 2004 and 2003 were as follows:

	2004	2003
	$000	$000
Future tax assets	1,707	1,887
Valuation allowance	(1,707)	(1,887)
Net future tax assets	–	–

The Company has recorded a valuation allowance against its future tax assets.

7. EARNINGS / (LOSS) PER SHARE

Loss per share is based on a weighted average number of common shares outstanding of 7,125,514 for fiscal 2004 (2003: 5,076,035). Diluted loss per share assumes that outstanding stock options and warrants are exercised at the beginning of the period (or at the time of issuance, if later) and the proceeds used to purchase common stock at the then ruling closing price. The effect of conversion in computing diluted per share amounts for 2004 and 2003 is anti-dilutive.

8. RELATED PARTY TRANSACTIONS

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

At March 31, 2004, Tsodilo had no long-term debt. The loan from a related party disclosed in the consolidated balance sheet of the Company relates to 25% of the accumulated expenditure of its subsidiary, Newdico, that was funded by Tsodilo's joint venture partner, Trans Hex Group.

9. 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 ($6,000) and Botswana ($56,000). The geographic distribution of the property acquisition costs and exploration expenditures is evident from the details presented in note 3.

10. FINANCIAL INSTRUMENTS

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

11. COMMITMENTS

Minimum lease payments for leased equipment are as follows:

	$000
2005	4
2006	3
	7

12. RESTRUCTURING

At a special meeting of shareholders held on April 9, 2002, shareholders approved the sale of substantially all of the Company 's assets. The assets sold were as follows:

- a 100% interest in Trans Hex (Namibia) (Proprietary) Limited, together with a loan in the amount of $2.75 million due and owing to Trans Hex (Bermuda) Limited;
- a 100% interest in Trans Hex Brasil Limitada, together with a loan in the amount of $1.44 million due and owing to Trans Hex Bermuda;
- a 100% interest in Trans Hex (Zimbabwe) Limited, together with a loan in the amount of $3.23 million due and owing to Trans Hex Bermuda; and
- a 25% interest in the equity and debt of Newdico (Proprietary) Limited, the remaining 75% interest to be retained by the Company.

The assets were transferred in exchange for the settlement of debt due and owing to Trans Hex Group as at closing, deemed to be the amount due and owing as at March 31, 2002 as per these audited annual financial statements, such amount aggregating $952,000, a 1% interest in all dividends received from time to time by Trans Hex (Namibia) (Proprietary) Limited from either Northbank Diamonds Limited or Hoanib Diamonds (Proprietary) Limited and a 50% interest in all dividends received from time to time by Trans Hex (Zimbabwe) Limited from the Limpopo property. In addition, the Company was also released from the long-term loans due to Trans Hex Group by the subsidiaries being sold, of $5.24 million.

At the special meeting, shareholders also approved the following matters:

- the discontinuance of the Company from the Province of Ontario and its continuance under the Business Corporations Act (Yukon), in compliance with the provisions of the YBCA, including a new general by-law for the Company and authority for the board of directors to fix the number of directors from time to time within the minimum and maximum numbers set forth in the articles of continuance;
- the change of name of the Company to Tsodilo Resources Limited;
- the election of new directors; and
- the repeal of the existing stock option plan of the Company and adoption of a new stock option plan.

corporate information

DIRECTORS

Christopher M. H. Jennings (Dr.)
Chairman
Cayman Islands
Appointed as director in 2002

James M. Bruchs
Gaborone, Botswana
Appointed as director in 2002

Patrick C. McGinley
Washington, D.C.
Appointed as director in 2002

R. Stuart Angus
Vancouver, British Columbia
Appointed as director in 2004

OFFICERS

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

Andrew E. Moore (Dr.), MBA.,Ph.D., Pr.Sci.Nat.
Vice President, Exploration
Appointed in 2002

Stephen Woodhead, B.Com.,CA(SA)
Chief Financial Officer
Appointed in 2002

CORPORATE HEAD OFFICE

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STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: TSD

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