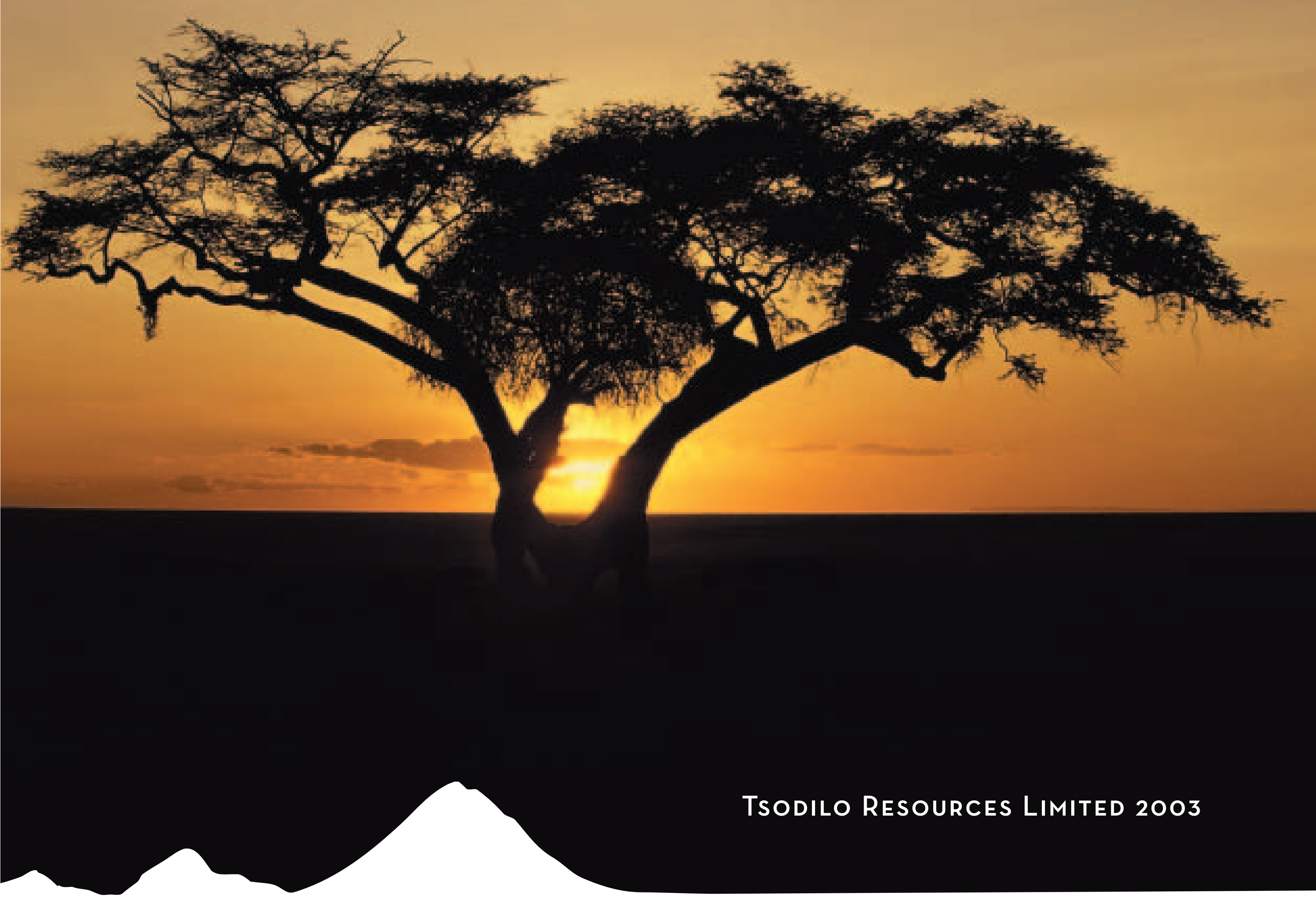
DIAMOND EXPLORATION IN BOTSWANA



TSODILO RESOURCES LIMITED 2003

PRESIDENT'S MESSAGE

FELLOW SHAREHOLDERS

What a difference a year makes! The past year proved to be a period of change and transition for Tsodilo Resources Limited ("Tsodilo" or the "Company"). This time last year, transfer of control to the minority shareholders of Tsodilo, formerly known as Trans Hex International Ltd., by Trans Hex Group Limited was being finalized with the appointment of new directors, management and staff who have dedicated themselves to the further exploration and development of our properties in Botswana.

I am pleased to report that Tsodilo completed its initial ground gravity and magnetic survey on selected targets in the east ("Guma") and in the west ("Nxau Nxau") of our licence area. The results are regarded as extremely encouraging and only reinforce our contention that the source, or sources, for unexplained heavy mineral anomalies to the west, in Namibia, lies within our Ngamiland licence block.

At our Nxau Nxau target, in the west of the licence block, the geophysical surveys identified an isolated gravity "low", approximately 500 metres by 300 metres, immediately to the south of the magnetic "bull's-eye" high designated A12. These geophysical characteristics, coupled with a coincident, isolated concentration of ilmenites (identified in previous sampling carried out by the Company), provide compelling evidence that this target is a kimberlite, with an estimated surface area of approximately 12 hectares.

Geophysical surveys carried out over two further magnetic targets (A37 and A38) in the Nxau Nxau area, indicate that these too are virgin kimberlites. The former comprises two prominent magnetic bull's-eye features (A37a and A37b), together with a group of four subtler magnetic bull's-eye features to the west. The latter are associated with a major, isolated gravity "low", elongate to the west-northwest, with an estimated source width of approximately 600 metres. The gravity data indicate that the length of this source body, is approximately 700 to 1,000 metres, but further work is required to refine this estimate. This body is adjacent to, and may coalesce with, a secondary gravity "low" associated with the A37a magnetic "bull's-eye", immediately to the east. The latter has estimated length of 600 metres, and estimated width varying from 200 to 400 metres. The A38 target resolved into a series of magnetic "bull's-eyes" closely associated with a major northwest-trending dolerite dyke. These magnetic features are associated with a series of coalescing circular gravity "lows", immediately to the south, over a length of approximately two kilometres, and with widths varying from 50 to 650 metres. Previous sampling carried out over targets A37 and A38 recovered significant numbers of kimberlitic ilmenites, providing strong encouragement that the source rocks are kimberlites. Our preliminary interpretation of the geophysical results for A37 and A38 is that both are large composite bodies, comprised of several kimberlite feeders, with coalescing craters, each with surface areas approaching and possibly exceeding 50 hectares.

These results indicate that A12 is comparable in size to the largest kimberlites previously found in the Nxau Nxau area, while A37 and A38 are both very significantly larger bodies. This is regarded as highly significant, because in southern Africa the richest pipes in a cluster of kimberlites are typically the largest. Follow-up soil sampling and drilling are planned to confirm the interpretation of the geophysical results.

At the Guma target in the east of the licence block, the Company has identified coincident, or near-coincident gravity lows associated with three bull's-eye magnetic targets. In the coming year more detailed work will be performed on these and other targets in the east in order to determine if in fact we have discovered a virgin kimberlite field in the Guma area.

I am pleased to report that Tsodilo has made application for a further seven Prospecting Licences, with a surface area of approximately 7,000 square kilometres, immediately to the south of our current licence block. Including this additional area, as operator Tsodilo now controls prospecting licences, or has applications pending over some 24,000 square kilometres of targeted property in northwestern Botswana.

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 5,676,391 issued and outstanding (7,788,437 on a fully diluted basis) common shares. Tsodilo has no significant debt, a 75% interest in our Botswana Ngamiland project and is negotiating a 50/50 joint venture concerning our new Botswana Gcwihaba project.

Although we still have a significant amount of work to do to unlock the full potential inherent in our projects we are extremely well positioned to achieve success in our search for economic kimberlites. The Company will continue with soil sampling and gravity/electromagnetic surveying in order to best select appropriate targets in anticipation of the drilling program later this year.

James M. Bruchs

James M. Bruchs
President and Chief Executive Officer

May 14, 2003

RESULTS OF GROUND GEOPHYSICAL SURVEYS

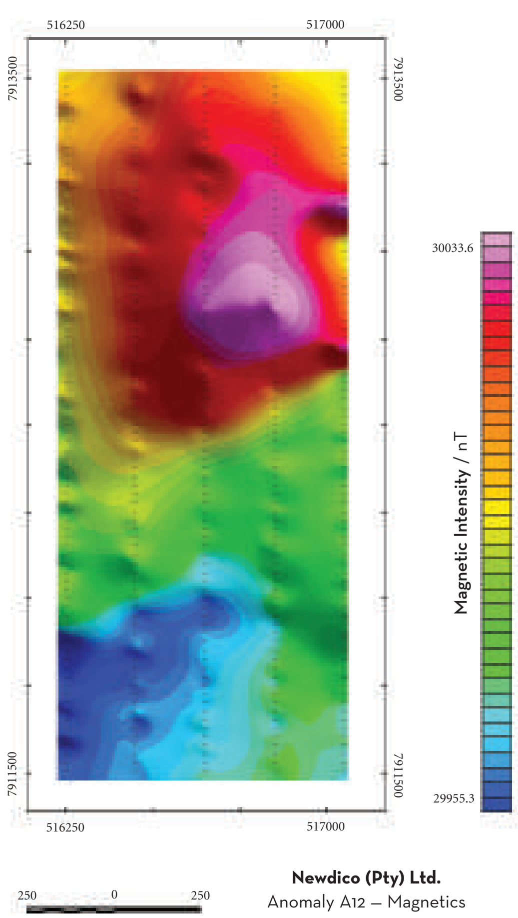
In March 2003, the Company completed the first phase of a systematic programme of ground gravity surveys and magnetic follow-up of aeromagnetic targets in the Nxau Nxau and Guma areas of the Ngamiland kimberlite project. The aim of this programme is to identify a representative cross-section of geophysical targets for a major drilling programme planned for the second half of 2003. Management considers that our results to date, which are discussed below, are most encouraging. These results are consistent with our geomorphological model, which indicates that undiscovered kimberlites within our licences are the source, or sources, of unexplained surface concentrations of kimberlitic heavy minerals, including diamonds and G10 garnets, to the west of our ground in northeast Namibia.

NXAU NXAU AREA

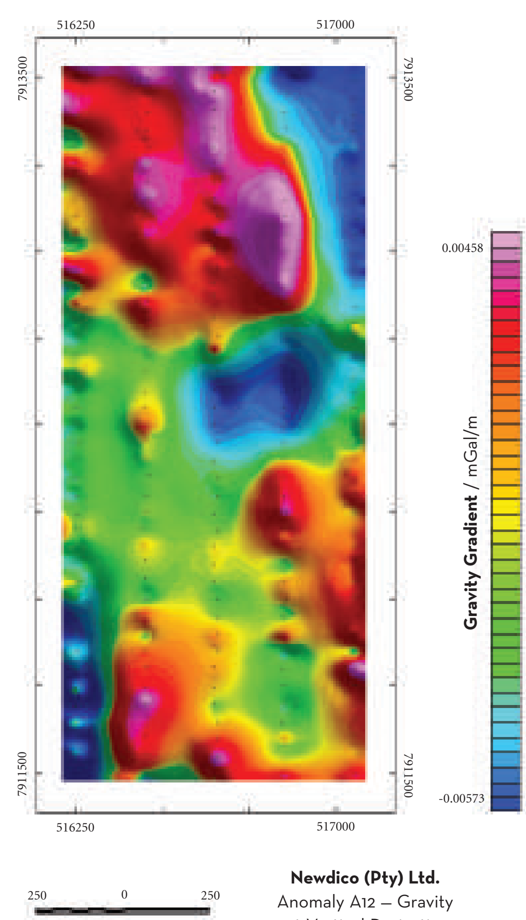
In the Nxau Nxau area, our results indicate the likely presence of three virgin kimberlites:

An isolated gravity "low", approximately 500 metres by 300 metres was identified immediately to the south of the magnetic target designated A12. Previous sampling by Tsodilo has shown that this target is associated with an isolated surface concentration of kimberlitic ilmenites, with a distinctive chemical signature. Collectively, these geophysical and geochemical results provide compelling evidence that A12 has a kimberlite source, with a surface area of approximately 12 hectares – comparable to, or larger in size than the biggest kimberlite previously discovered in the area.

Our ground geophysical surveys indicate that two further aeromagnetic targets (A37 and A38), approximately one kilometre apart, are both composite bodies. The former comprises two prominent bull's-eye magnetic features (designated A37a and A37b), and a group of at least four subtle magnetic bull's-eye features to the west. The latter magnetic targets are associated with a major isolated gravity "low", elongate to the west-northwest with a width of some 600 metres. The length of the source of this gravity "low" cannot be defined with confidence, but is estimated at approximately 700 to 1,000 metres. Immediately to the east and possibly coalescing with this major gravity feature is a subsidiary gravity "low", associated with A37a, which has an estimated length of 600 metres and width varying between 200 and 400 metres.



Newdico (Pty) Ltd.
Anomaly A12 – Magnetics
Magnetic Intensity



Newdico (Pty) Ltd.
Anomaly A12 – Gravity
1st Vertical Derivative

The A38 magnetic target resolved into a major linear feature, with a number of subsidiary more subtle magnetic "highs" to both the northwest and southeast of the initial target. Immediately to the south of this group of magnetic targets are a number of roughly circular coalescing gravity "lows" varying in diameter from 50 metres to approximately 650 metres, which collectively form a major linear negative gravity anomaly. The lineament of magnetic "highs" and associated gravity "lows" are aligned along a north-west-trending magnetic feature that is interpreted to reflect a dolerite dyke. Previous work has identified a number of kimberlites closely associated with this dyke to the northwest.

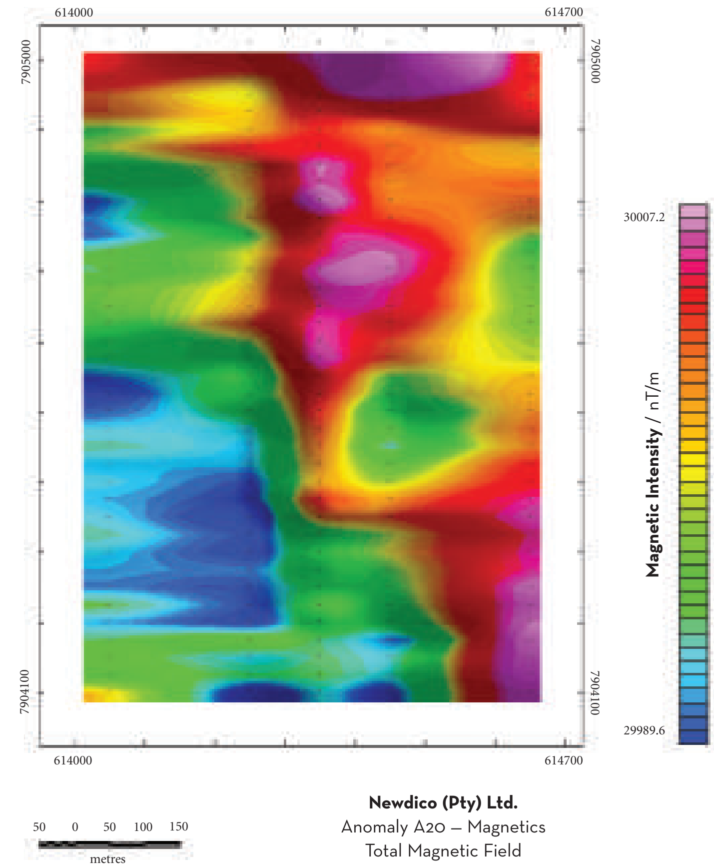
Previous sampling recovered kimberlitic ilmenites over both the A37 and A38 magnetic targets. This, coupled with their geophysical signature (magnetic "high" associated with a gravity "low"), provides strong encouragement that the source bodies are kimberlites. Our preliminary interpretation of the geophysical data is that both targets are composite bodies, each consisting of a number of kimberlite pipes with coalescing craters, and each with surface areas approaching and possibly exceeding 50 hectares. The linear A38 target is comparable in geometry to major economic pipes such as Jwaneng in Botswana, Argyle in Australia and Camafuca in Angola, all of which are composite kimberlites with three or more individual coalescing pipes that appear to be aligned along structural features. Further geophysical follow-up and drilling are planned to test these interpretations.

These results from the Nxau Nxau area are considered very encouraging for a number of reasons:

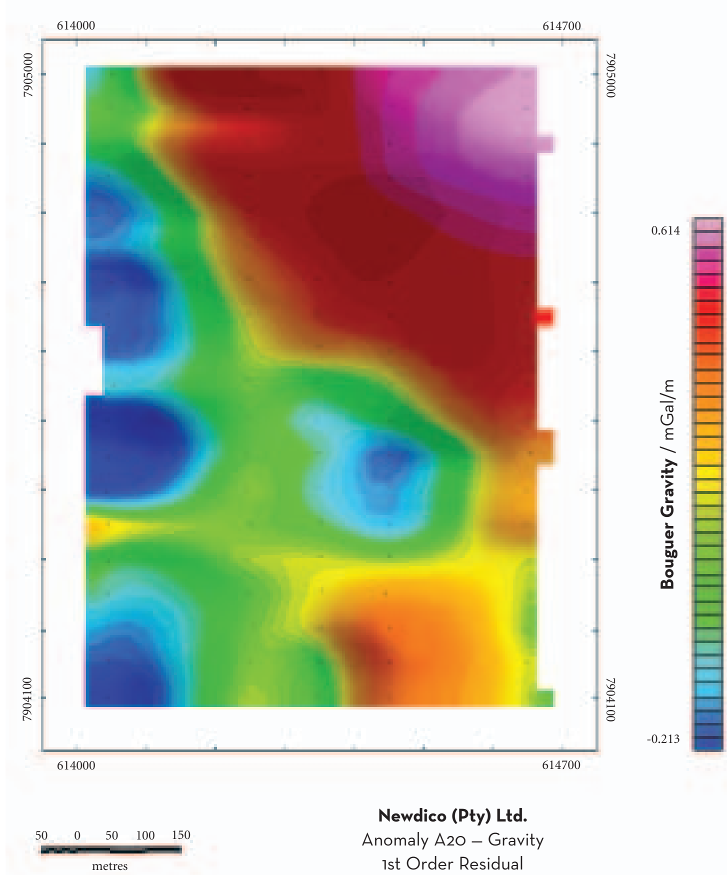
1. An in-house study shows that many, and possibly the majority of the world's large economic kimberlites (as is the case for Jwaneng, Argyle and Camafuca) are in fact composite bodies. This suggests that economic kimberlites favour areas of locally more intense kimberlite volcanic activity. This would certainly apply to the Kimberley area in South Africa, where there are four economic pipes in close proximity to the city.

2. In southern Africa, economic pipes tend to be the largest in a cluster of kimberlites. Our A12 target is comparable in size to the largest of the pipes previously discovered in the Nxau Nxau area, while our geophysical interpretation indicates that A37 and A38 will be several times larger than any of the pipes discovered previously in the area.

3. Several of the magnetic anomalies identified from our ground follow-up are subtle, and not obvious from aeromagnetic data. There is a school of thought that many economic pipes have subtle magnetic features.



Newdico (Pty) Ltd.
Anomaly A20 – Magnetics
Total Magnetic Field



Newdico (Pty) Ltd.
Anomaly A20 – Gravity
1st Order Residual

4. Our in-house geomorphological model (detailed in the Background to the Ngami Project on our website) indicates that kimberlites in northwest Botswana could be the source of major unexplained concentrations of kimberlitic heavy minerals, including G10 garnets and diamonds, to the west in northeast Namibia.

GUMA AREA

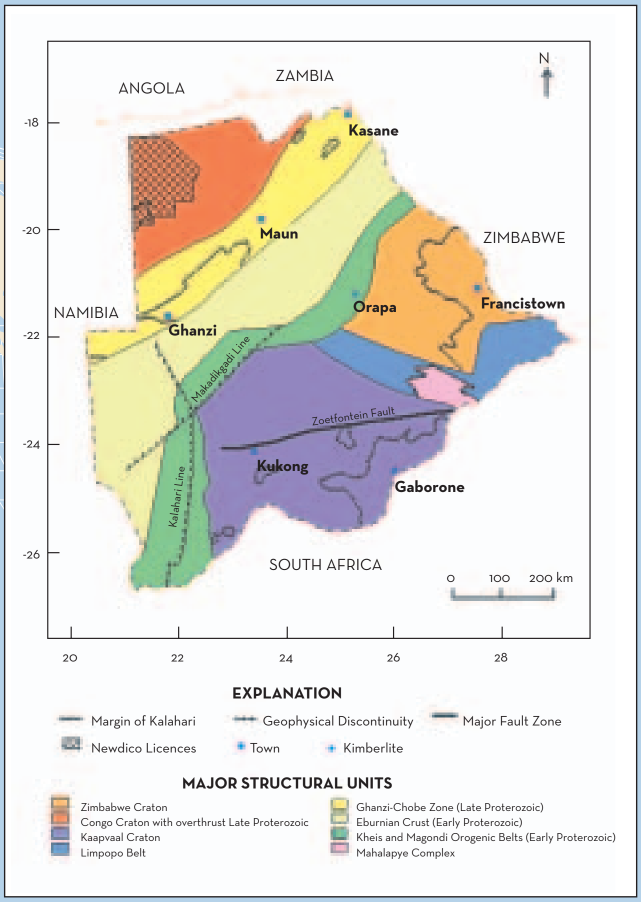
In the Guma area, our ground geophysical surveys identified a subtle magnetic bull's-eye feature, with an associated gravity "low" (roughly 500 metres by 200 to 400 metres) approximately 600 metres to the south of our A20 target. Sampling of A20 has recovered anomalous numbers of ilmenites over this target, which our results indicate have a chemical signature that differs from any of the Nxau Nxau kimberlites for which data is available. Drilling previously carried out at A20 has shown that this magnetic target has a non-kimberlite source. The subtle magnetic high with the paired gravity "low" to the south therefore represents a potential source of the unexplained ilmenites recovered over A20. Two further magnetic targets investigated in the Guma area also proved to have associated gravity "lows". While these results provide strong encouragement for the presence of a virgin kimberlite field in the Guma area, follow-up sampling is required over each of these targets to confirm this.

GCWIHABA KIMBERLITE PROJECT

An analysis of the regional aeromagnetic data led to the identification of a cluster of magnetic targets, comparable to those associated with known kimberlites, immediately to the south of the Ngamiland licences. This area had previously been considered to be located to the south of the Angola/Congo craton (covered by the Ngamiland licences). However, results of a recent seismic study suggest that the deep mantle in this area is comparable in character to areas of known economic kimberlites. Tsodilo has made application, via a new wholly owned subsidiary, Gcwihaba Resources, for seven new Prospecting Licences with a combined area of approximately 7,000 square kilometres, covering the cluster of magnetic targets.

GEOGRAPHICAL PRESENCE

Tsodilo Resources Limited is focussed on its promising exploration properties in northwestern Botswana to create long-term value for shareholders.



Structural setting of the Ngamiland and Gcwihaba Projects

CORPORATE INFORMATION

DIRECTORS

Christopher M.H. Jennings •+ (Dr.)
Chairman
Toronto, Ontario
Appointed as director in 2002.

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

Andrew E. Moore (Dr.)
Gaborone, Botswana
Appointed as director in 2002.

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

- • *Member of the Audit Committee and the Corporate Governance Committee*
- \+ *Member of the Compensation Committee*
- ▲ *Residency application pending*

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 and
Corporate Secretary
Appointed in 2002.

CORPORATE HEAD OFFICE

Canada Trust Tower – BCE Place
161 Bay Street, Box 508
Toronto, Ontario M5J 2S1
Telephone: (416) 572-2033
Facsimile: (416) 572-4164
Website: www.tsodiloresources.com
E-Mail: info@tsodiloresources.com

AUDITORS

PricewaterhouseCoopers LLP
Toronto, Ontario

LEGAL COUNSEL

Cassels Brock & Blackwell LLP
Toronto, Ontario

BANKERS

Royal Bank of Canada
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Toronto, Ontario

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: TSD

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Consolidated Financial Statements March 31, 2003 and 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis should be read in conjunction with the Consolidated Annual Financial Statements, and is intended to provide the reader with a review of the factors that affected the Company's performance during the fiscal year ended March 31, 2003 and the factors reasonably expected to impact future operations and results.

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 majority interests in kimberlite exploration projects in northwest Botswana. The Company is also actively reviewing additional opportunities within southern Africa.

Tsodilo has only 5,676,391 issued and outstanding common shares at March 31, 2003 (March 31, 2002: 14,597,856), with fully diluted common shares outstanding of 7,788,437 (March 31, 2002: 15,597,856). The largest shareholder of the Company is its President and Chief Executive Officer, who controls 1,954,344 (or 34.4%) of the issued and outstanding common shares. Following the restructuring of the Company, as approved by shareholders in April 2002, Tsodilo has no long-term debt.

The Company has a 75% operating interest in prospecting licences covering some 17,000 square kilometres 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 Limited ("Trans Hex"), is an established South African diamond mining company. During the 2003 fiscal year, Trans Hex funded their 25% share of the exploration expenditure at this project.

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, 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 by the subsidiaries being sold, of $5.24 million, and Trans Hex agreed to return 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.

Liquidity and Capital Resources

As at March 31, 2003, the Company had a net working capital deficiency of $35,000 (March 31, 2002: $904,000), which included cash and equivalents of $38,000 (March 31, 2002: $48,000). 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. No hedging or derivative instruments are permitted.

Operating Activities

Cash flow used in operating activities decreased from $1.1 million in fiscal 2002 to $320,000 in the year under review. This reduction reflects the decrease in general and administration expenses, particularly consulting fees, corporate remuneration, legal fees, and office and administration expenses following the restructuring of the Company in April 2002. Most costs relating to the restructuring of the Company were also expensed in the 2002 fiscal year.

Investing Activities

Cash flow applied in investing activities similarly decreased following the restructuring of the Company in April 2002. All expenditure on exploration properties in fiscal 2003 was attributable to the Ngami project in northwest Botswana. [See note 3 to the Consolidated Annual Financial Statements for more information.] There have been no material acquisitions or disposals of capital assets or investments, except for the restructuring of the Company discussed above.

Financing Activities

Following the restructuring of Tsodilo in April 2002 and the cancellation of the shares formerly held by Trans Hex, the source of financing for the Company's activities changed from debt (related party) finance to equity, through the issue of common shares by way of non-brokered private placements. During the fiscal year ended March 31, 2003 the Company completed the issue and sale, through non-brokered private placements, of a total of 1,758,672 units of the Company. These units were issued at prices increasing from $0.15 per unit in June 2002 to $0.50 per unit in March 2003, for proceeds to the Company of some $494,000. [Please refer to note 5 to the Consolidated Annual Financial Statements for more information.]

In January 2003, the board of directors of the Company's Botswana subsidiary, Newdico (Proprietary) Limited, including the representatives of joint venture partner Trans Hex, approved an exploration program and budget for the period April 2003 to March 2004 that calls for expenditures totalling some Pula 4.7 million (approximately $1.2 million). Trans Hex is responsible for funding 25% of the expenses of this company, which holds the 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.

Tsodilo expects to raise the $1.3 million required to fund its 75% share of the Ngami program, as well as corporate general and administration expenses, by way of non-brokered private placements at prices of $0.50 per share or greater. 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 $390,000 in the fiscal year ended March 31, 2003 (8 cents per common share), compared to a net loss of $9.6 million (66 cents per common share) in the year ended March 31, 2002. The 2002 loss included expensing all of the accumulated exploration costs at the Barra Grande project in Brazil ($6.0 million), the Northbank project in Namibia ($2.3 million) and the Limpopo project in Zimbabwe. General and administration expenses in 2002 amounted to $1.3 million, including the costs associated with the restructuring of the Company, compared with $397,000 in 2003. This reduction also reflects a reduced head office overhead structure.

Exploration expenditure incurred during the year ended March 31, 2003 at the Ngami project in Botswana was $249,000 (2002: exploration expenditure on all projects amounted to $3.0 million, including $0.4 million at the Ngami project in Botswana). The principal components of the Ngami exploration program were: (a) completion of the processing and analysis of the soil samples collected during 2002; (b) commissioning of a ground magnetic and gravity survey of selected aeromagnetic anomalies; and (c) initiating of the detailed processing of aeromagnetic maps covering the target areas. Data from all three sources will be combined and analysed to select at least 20 targets for reverse circulation drilling during the next fiscal year.

Personnel

At March 31, 2003 the Company and its subsidiaries employed 4 personnel (2002: 8 personnel), 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 Exploration Vice President, Dr. Andrew Moore.

Uncertainties and Risk Factors

Tsodilo's primary objective is the discovery of a 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.

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 favourable 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.

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.

Substantially all of the Company's exploration activities are carried out through joint ventures with other parties. 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.

Accounting Standards

Tsodilo follows Canadian generally accepted accounting policies. 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.

Effective April 1, 2002, Tsodilo adopted the new CICA standard for accounting for stock-based compensation. Under the new standard, the Company may continue to follow the intrinsic value method of accounting for stock options granted to directors, officers and employees, with the addition of certain pro forma information. Tsodilo has applied the pro forma disclosure provisions of the new standard to options granted on or after April 1, 2002. The pro forma effect of awards prior to April 1, 2002 has not been included. [Please refer to note 5 to the Consolidated Annual Financial Statements for more information.]

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 are the responsibility of Dr. Andrew Moore, a professional geologist registered with the South African Council for Natural Scientific Professions.

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.

"Signature"

Stephen Woodhead
Chief Financial Officer
May 14, 2003

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 are non-executive directors. 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 and recommends their approval to the Board of Directors.

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

"Signature"

James M. Bruchs
Chief Executive Officer
May 14, 2003

"Signature"

Stephen Woodhead
Chief Financial Officer
May 14, 2003

AUDITORS' REPORT

TO THE SHAREHOLDERS OF TSODILO RESOURCES LIMITED

We have audited the consolidated balance sheets of Tsodilo Resources Limited as at March 31, 2003 and 2002 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, 2003 and 2002 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
April 15, 2003

CONSOLIDATED BALANCE SHEETS

As at March 31

	2003	2002
	$000	*$000*
ASSETS		
Current:		
Cash and equivalents	38	48
Accounts receivable and prepaid expenses	12	9
	50	57
Exploration Properties and Joint Ventures *(note 3)*	700	918
Investments	–	6
Capital Assets *(note 4)*	6	210
	756	1,191
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	85	961
Long-Term:		
Loan from related party *(note 8)*	–	5,240
Minority Interest *(note 3)*	177	–
SHAREHOLDERS' EQUITY/(DEFICIENCY)		
Share Capital *(note 5)*	32,640	32,172
Warrants *(note 5)*	26	–
Contributed Surplus *(note 12)*	8,486	3,090
Deficit	(40,658)	(40,272)
	494	(5,010)
	756	1,191

Going Concern *(note 1)*

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"Signature"

Christopher M.H. Jennings
Director

"Signature"

James M. Bruchs
Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31

	2003	2002
	$000	*$000*
Revenue		
Interest	–	45
Disposal of investments	7	–
	7	45
Expenses		
Consulting fees	18	265
Corporate remuneration	174	481
Corporate travel and subsistence	30	18
Investor relations	24	28
Legal and audit	35	292
Office and administration	103	193
Taxation	12	45
Amortization	1	5
Mining properties abandoned or where continued exploration is deemed inappropriate	–	8,303
	397	9,630
Loss before minority interest	(390)	(9,585)
Minority Interest	4	–
Loss for the year	(386)	(9,585)
Basic and Diluted Loss per share – cents *(note 7)*	(8)	(66)

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended March 31

	2003	2002
	$000	*$000*
Deficit – Beginning of year	(40,272)	(30,687)
Loss for the year	(386)	(9,585)
Deficit – End of year	(40,658)	(40,272)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31

	2003	2002
	$000	*$000*
Cash provided by (used in):		
Operating Activities		
Loss for the year	(390)	(9,585)
Adjustments for non-cash items:		
Amortization	1	5
Mining properties abandoned or where continued exploration is deemed inappropriate	–	8,303
Profit on disposal of investments	(7)	–
Other non-cash items	–	312
	(396)	(965)
Net change in non-cash working capital balances	76	(141)
	(320)	(1,106)
Investing Activities		
Exploration properties and joint ventures	(249)	(2,954)
Investments	13	–
Disposals of/(additions to) capital assets	(4)	77
	(240)	(2,877)
Financing Activities		
Issue of common shares	494	–
Increase in loan from related party	–	2,543
Contribution by joint venture partner	68	–
	562	2,543
Change in cash and equivalents – For the year	2	(1,440)
Cash and equivalents – Disposed of in restructuring	(12)	–
Cash and equivalents – Beginning of year	48	1,488
Cash and equivalents – End of year	38	48

No income taxes or interest were paid in the years 2003 and 2002.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003 and 2002

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 northwestern Botswana and 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, 2003, the Company reported a deficit of $41 million (2002: $40 million) and cash outflows from operations of $320,000 (2002: $1,106,000) 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 favourable 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 accounting principles generally accepted in Canada 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.

Group Companies: March 31, 2003	
Tsodilo Resources Bermuda Limited	100%
Newdico (Proprietary) Limited (Botswana)[1]	75%

[1] *Investment held by Tsodilo Resources Bermuda Limited*

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 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, the related costs and expenditures are written off. 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

Capital assets are amortized principally on a straight-line basis over their estimated useful lives of three to ten years. Capital 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 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, short-term deposits and money market instruments with investment grade credit ratings and maturity dates shorter than 90 days 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 1,000,000 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.

Effective April 1, 2002 Tsodilo adopted the new CICA Handbook Section 3870. Under the new standard, the Company is allowed to continue to follow the intrinsic value method of accounting for stock options granted to employees, whereby no compensation expense is recognized when stock options are granted, with the addition of pro forma information. Any consideration paid on exercise of the stock options is credited to Share Capital. Tsodilo has applied the pro forma disclosure provisions of the new standard to awards granted on or after April 1, 2002. The pro forma effect of awards granted prior to April 1, 2002 has not been included.

3. EXPLORATION PROPERTIES AND JOINT VENTURES

These may be summarized as follows:

	Ngami Botswana	Skeleton Coast	Northbank (Block 9)	Barra Grande	Limpopo Zimbabwe	Total
	$000	*$000*	*$000*	*$000*	*$000*	*$000*
Balance at March 31, 2001	68	375	2,134	3,664	26	6,267
2002 expenditures	383	92	175	2,302	2	2,954
Exploration costs written off to operations	–	–	2,309	5,966	28	8,303
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**	– (i)	– (i)	– (i)	– (i)	**700**

(i) These exploration properties were sold to Trans Hex Group Limited in terms of the restructuring of Trans Hex International Ltd. approved by shareholders on April 9, 2002.

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

Ngami, Botswana

On November 22, 1999 Newdico (Proprietary) Limited ("Newdico") was granted an initial five prospecting licences in the Ngamiland District of northwest Botswana. A further 10 prospecting licences 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 licences upon their renewal, these licences now cover an area of 16,829 square kilometres. The terms of the licences 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 (refer to note 12), with Tsodilo being the operator. Trans Hex Group has funded its proportionate share of expenditure, and these amounts have been reflected as minority interest in the financial statements. Development of this project is subject to the payment of a 2% net profit interest to Dr. A.E. Moore.

Joint Ventures

In fiscal 2002 the Company held a 66% interest in the Barra Grande and a 50% interest in the Northbank joint venture. Those investments were accounted for using the proportionate consolidation method. The Company's share of the assets, liabilities, expenses and cash flows from those joint ventures were as follows:

	2002
	$000
Loss for the year	8,555
Assets	159
Liabilities	1
Net investment	158
Cash provided by (used in):	
Operating activities	(178)
Investing activities	(2,431)
Financing activities	2,564
Change in cash and equivalents – For the year	(45)

4. CAPITAL ASSETS

	Cost	**Accumulated amortization**	**2003 Book value**	2002 Book value
	$000	*$000*	*$000*	*$000*
Land and buildings	**–**	**–**	**–**	37
Plant and equipment	**3**	**1**	**2**	163
Vehicles	**–**	**–**	**–**	4
Furniture and equipment	**12**	**8**	**4**	6
	15	**9**	**6**	210

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, 2001 and 2002	14,597,856	32,171,895
Shares returned to treasury for cancellation:		
With restructuring approved by shareholders on April 9, 2002	(10,688,137)	–
Shares issued:		
Private placement (i)	835,300	125,295
Private placement (ii)	372,120	93,030
Private placement (iii)	236,130	118,065
Private placement (iv)	323,122	157,561
		493,951
Ascribed to warrants issued		(26,055)
Issued and outstanding at March 31, 2003	**5,676,391**	**32,639,791**

Warrants

As at March 31, 2003, the following warrants were outstanding:

Expiry Date	*Exercise Price (dollars)*	*Number of Warrants (number)*	*Ascribed to Warrants (dollars)*
June 13, 2004 (i)	0.40	835,300	8,353
October 14, 2004 (ii)	0.25	372,120	3,721
November 14, 2004 (iii)	0.50	118,065	5,903
March 24, 2005 (iv)	0.50	161,561	8,078
		1,487,046	**26,055**

(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 finder's fee of 8% was paid to an agent. In settlement of this obligation, 8,000 units were issued.

Stock Option Plan

Outstanding stock options granted to directors, officers and employees at March 31, 2003 and 2002 were as follows:

Expiry	*Price (dollars)*	*Outstanding April 1, 2001*	*Granted/ (Cancelled)*	*Outstanding March 31, 2002*	*Granted/ (Cancelled)*		*Outstanding March 31, 2003*
May 21, 2003	0.40	450,000	(170,000)	280,000	(280,000)	(a)	–
July 4, 2005	0.30	550,000	(250,000)	300,000	(300,000)	(a)	–
June 24, 2007	0.15	–	–	–	260,000	(b)	**260,000**
September 18, 2007	0.23	–	–	–	200,000	(b)	**200,000**
December 31, 2007	0.41	–	–	–	165,000	(c)	**165,000**
		1,000,000	(420,000)	580,000	45,000		**625,000**
Options exercisable at end of year				480,000			**501,250**
Weighted average exercise price							
– outstanding				$ 0.35			**$ 0.24**
– exercisable				$ 0.36			**$ 0.20**

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

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

(c) 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.

Tsodilo uses the intrinsic method of accounting for stock options granted to directors, officers and employees. Canadian accounting standards require the disclosure of pro forma net earnings and earnings per share information as if the corporation had accounted for the stock options under the fair value method. The fair value of the stock options issued during the 2003 fiscal year was determined using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of between 5.079% and 4.248%; annual dividend yield of 0.0%; expected price volatility of Tsodilo's shares of 200%; and an expected option life of 5 years. If the fair value method had been used to determine the compensation cost for the stock options granted during the 2003 fiscal year, the Company's loss for the year and basic loss per share would have increased by $120,000 and $0.02 per share respectively. A further charge of $29,000 will apply to future years.

6. INCOME TAXES

As at March 31, 2003, the Company had net operating losses carried forward of $6.0 million (2002: $5.7 million) for income tax purposes, as well as $0.3 million (2002: $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:

	2003 *$000*	2002 *$000*
2003	–	52
2004	**877**	877
2005	**1,230**	1,230
2006	**884**	884
2007	**863**	863
2008	**954**	954
2009	**792**	792
2010	**367**	–
	5,967	5,652

Significant components of the Company's future tax assets as at March 31, 2003 and 2002 were as follows:

	2003	2002
	$000	*$000*
Future tax assets	**1,887**	1,718
Valuation allowance	**(1,887)**	(1,718)
Net future tax assets	**–**	–

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

7. LOSS PER SHARE

Loss per share is based on a weighted average number of common shares outstanding of 5,076,035 for fiscal 2003 (2002: 14,597,856). 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 results for 2003 and 2002 are 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, 2003, Tsodilo Resources Limited 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 its subsidiary, Newdico (Proprietary) Limited, that was funded by Tsodilo's joint venture partner, Trans Hex Group Limited.

At March 31, 2002, the Company and its subsidiaries had drawn down $5.24 million on project finance loan agreements negotiated previously with Trans Hex. In addition, a further amount due to Trans Hex totaling $952,000 was included in accounts payable and accrued liabilities. Both of these obligations were settled in terms of the restructuring of the Company approved by shareholders on April 9, 2002 (refer to note 12).

9. SEGMENTED INFORMATION

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. The capital assets of the Company are presently located in Canada ($4,000) and Botswana ($2,000). 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
2004	**4**
2005	**4**
2006	**3**
	11

12. RESTRUCTURING

At a Special Meeting 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. In addition, the Company was also released from the long-term loans due to Trans Hex Group by the subsidiaries being sold. An amount of $5.40 million has been reflected in contributed surplus as a result of this transaction.

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.

13. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation in the current year.

CORPORATE INFORMATION

DIRECTORS

Christopher M.H. Jennings •+ **(Dr.)**
Chairman
Toronto, Ontario
Appointed as director in 2002.

James M. Bruchs •
Gaboronc, Botswana ▲
Appointed as director in 2002.

Andrew E. Moore (Dr.)
Gaborone, Botswana
Appointed as director in 2002.

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

• *Member of the Audit Committee and the Corporate Governance Committee*
\+ *Member of the Compensation Committee*
▲ *Residency application pending*

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 and
Corporate Secretary
Appointed in 2002.

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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
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STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: TSD

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