

FIRST QUARTER RESULTS

2005

for the three months ended June 30, 2004

PRESIDENT'S MESSAGE

SHAREHOLDERS AND INVESTORS,

Review of Activities for the First Quarter, 2005

During the Quarter under review and to date, Tsodilo Resources completed a major loam sampling programme over aeromagnetic bulls-eye targets in the company's Gcwihaba and Newdico Prospecting Licences in northwestern Botswana. The targets selected for follow-up occur in several distinct groups, suggesting the possible presence of a number of isolated virgin kimberlite fields. A total of 61 targets were sampled in the Gcwihaba ground, in which Tsodilo Resources has a 100% interest, and 90 in the Newdico Ground (Tsodilo Resources 75%; Trans Hex Group 25%). In addition, 42 samples were collected along the Namibia / Botswana border.

Samples collected are currently being processed. However to date, kimberlitic indicator minerals (KIMs) have been recovered over three of the targets for which results are available. Two of these targets, which each yielded singleton G9 garnets, are in the east of the Newdico license block. These results confirm previous work, which indicated the presence of an isolated and unexplained garnet/ilmenite anomaly (designated the Guma KIM Anomaly) in this area.

The third positive sample, in the Gcwihaba ground, was a singleton eclogitic garnet, with a composition matching inclusions in diamonds. This grain was recovered in an area where KIMs have not previously been reported, and is potentially the first indication of a virgin unexplained KIM anomaly. This result is considered most encouraging, as in the Kalahari environment, singleton KIMs have in the past provided the initial lead-in to virgin kimberlite fields. The composition of the garnet recovered in the Gcwihaba ground provides encouragement that the source kimberlites could be diamondiferous.

In addition to the sampling of aeromagnetic targets, loam sampling has been carried out along a portion of the western boundary of the Newdico license block. This work is aimed at identifying possible sub-Kalahari drainage lines, which may have been responsible for the dispersion of KIMs from source rocks within the Tsodilo Property. Results from this sampling programme are still outstanding.

Follow-up loam sampling and ground geophysical surveys are planned over the three positive samples to date. The company is also planning more detailed sampling in the area where previous loam sampling on a 2km x 2km grid outlined a diffuse ilmenite-dominated KIM anomaly, which is not associated with any prominent bulls-eye aeromagnetic targets. It is considered possible that this unexplained ilmenite anomaly could be derived from a kimberlite or kimberlites with a very subtle magnetic signature.

I would like to direct your attention to the information set forth below and also that which is contained on the company's website (www.TsodiloResources.com).

James M. Bruchs
President & Chief Executive Officer
August 27, 2004

NOTICE TO SHAREHOLDERS FOR THE THREE MONTHS ENDED JUNE 30, 2004

TSODILO RESOURCES LIMITED

Responsibility for Consolidated Financial Statements

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

TSODILO RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
(Prepared by Management)

	June 30, 2004 (Unaudited) \$000	March 31, 2004 (Audited) \$000
<hr/>		
ASSETS		
Current		
Cash and equivalents	497	194
Amounts receivable and prepaid expenses	<u>9</u>	<u>18</u>
	506	212
Exploration properties and joint ventures (Note 2)	1,441	1,169
Property, plant and equipment	<u>58</u>	<u>62</u>
	<u>2,005</u>	<u>1,443</u>
<hr/>		
LIABILITIES		
Current		
Accounts payable and accrued liabilities	32	42
MINORITY INTEREST (Note 6)	309	309
SHAREHOLDERS' EQUITY		
Share capital (Note 3(a))	34,085	33,518
Warrants (Note 3(b))	290	195
Contributed surplus (Note 3 (c))	8,714	8,702
Deficit	<u>(41,425)</u>	<u>(41,323)</u>
	<u>1,664</u>	<u>1,092</u>
	<u>2,005</u>	<u>1,443</u>
<hr/>		

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

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Prepared by Management - Unaudited)

	Three Months Ended June 30,	
	2004	2003
	\$000	\$000
<hr/>		
Expenses		
Accounting and corporate fees	13	-
Consulting fees	-	-
Corporate remuneration	26	50
Corporate travel and subsistence	16	4
Filing fees	3	-
Investor relations	12	15
Legal and audit	8	-
Office and administration	16	6
Stock based compensation (Note 3(d))	8	-
Taxation	-	2
	<u>102</u>	<u>77</u>
Loss before minority interest	(102)	(77)
Minority interest	-	1
Loss for the period	(102)	(76)
DEFICIT, beginning of period	<u>(41,323)</u>	<u>(40,658)</u>
DEFICIT, end of period	<u><u>(41,425)</u></u>	<u><u>(40,734)</u></u>

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

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Prepared by Management - Unaudited)

	Three Months Ended June 30,	
	2004	2003
	\$000	\$000
<hr/>		
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Loss for the period	(102)	(77)
Adjustments for non-cash items:		
Stock based compensation	8	-
Net change in non-cash working capital	<u>(1)</u>	<u>(127)</u>
	<u>(95)</u>	<u>(204)</u>
FINANCING ACTIVITIES:		
Issue of common shares	667	275
Contribution by joint venture partner	<u>-</u>	<u>59</u>
	<u>667</u>	<u>334</u>
INVESTING ACTIVITIES:		
Exploration properties and joint ventures	(269)	(80)
Additions to property plant and equipment	<u>-</u>	<u>(7)</u>
	<u>(269)</u>	<u>(87)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	303	43
CASH AND CASH EQUIVALENTS, beginning of period	<u>194</u>	<u>38</u>
CASH AND CASH EQUIVALENTS, end of period	<u><u>497</u></u>	<u><u>81</u></u>

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

TSODILO RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Three Months Ended June 30, 2004
 (Prepared by Management - Unaudited)

1. ACCOUNTING POLICIES

These interim consolidated financial statements are unaudited and are not reviewed by the Company's auditors.

The management of Tsodilo Resources Limited (the "Company") has prepared these unaudited consolidated financial statements for the three months ended June 30, 2004 in accordance with generally accepted accounting principles in Canada. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2004.

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

Operating results for the three months ended June 30, 2004 are not indicative of the results that may be expected for the full year ending March 31, 2005.

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

2. EXPLORATION PROPERTIES AND JOINT VENTURES

At June 30, 2004 accumulated costs with respect to the Company's interest in mineral properties consisted of the following:

	Opening Balance April 1, 2004 \$000	Additions \$000	Ending Balance June 30, 2004 \$000	Ending Balance March 31, 2004 \$000
Ngami, Botswana	1,147	177	1,324	1,147
Gcwihaba, Botswana	22	95	117	22
	1,169	272	1,441	1,169

3. SHARE CAPITAL

a) AUTHORIZED

Unlimited common shares without par values

COMMON SHARES ISSUED	No of Shares	Value
Balance, beginning of year (April 1, 2004)	7,891,580	\$ 33,518,130
Private placement	687,409	515,557
Warrant valuation	-	(103,111)
Exercise of warrants	377,394	150,957
Exercise of warrants - warrant valuation	-	3,774
Balance, end of period (June 30, 2004)	<u>8,956,383</u>	<u>\$ 34,085,307</u>

TSODILO RESOURCES LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Three Months Ended June 30, 2004
 (Prepared by Management - Unaudited)

3. SHARE CAPITAL (CONTINUED)

PRIVATE PLACEMENT

On June 1, 2004, the Company closed a non-brokered private placement financing of 687,409 units of the Company at a price of \$0.75 per unit for proceeds of \$515,557. Each unit consists of one common share of the Company and half a warrant of the Company, each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 until June 1, 2006. The fair value of the purchase warrants were estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate at 4%, expected life of 2 years, expected dividend rate of 0%, and volatility of 69%. As a result, the fair value was determined to be \$103,111.

b) WARRANTS

A summary of the outstanding warrants as of June 30, 2004 are as follows:

Expiry Date	Exercise Price	Opening Balance	Warrants Issued / (Exercised/ Expired)	Closing	Opening (dollars)	Value Issued / (Exercised/ Expired)	Closing (dollars)
June 13, 2004	\$0.40	765,501	(765,501)	-	7,655	(7,655)	-
October 14, 2004	\$0.25	62,020	-	62,020	620	-	620
November 14, 2004	\$0.50	118,065	-	118,065	5,903	-	5,903
March 24, 2005	\$0.50	161,561	-	161,561	8,078	-	8,078
May 27, 2005	\$0.50	267,953	-	267,953	67,978	-	67,978
August 18, 2005	\$0.50	162,854	-	162,854	23,527	-	23,527
September 30, 2005	\$0.50	373,406	-	373,406	60,494	-	60,494
January 15, 2006	\$0.75	83,432	-	83,432	20,652	-	20,652
June 1, 2006	\$0.75	-	343,704	343,704	-	103,111	103,111
		1,994,792	(421,797)	1,572,995	194,907	95,456	290,363

During the period, 377,394 warrants were exercised for proceeds to the Company of \$150,957. This exercise resulted in the issuance of 377,394 common shares. \$3,774 attributed to the warrants exercised during the period was reallocated to share capital. In addition, 388,107 warrants expired during the period. \$3,881 attributed to these warrants was reallocated to contributed surplus.

c) CONTRIBUTED SURPLUS	\$000
As at April 1, 2004	8,702
Relating of issue of stock options	8
Valuation of expired warrants	<u>4</u>
As at June 30, 2004	<u><u>8,714</u></u>

TSODILO RESOURCES LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Three Months Ended June 30, 2004
 (Prepared by Management - Unaudited)

3. SHARE CAPITAL (CONTINUED)

d) STOCK OPTIONS

The following are the stock option transactions during the period:

	Number of Stock Options	Weighted Average Exercise Price
Balance, beginning and end of period	935,000	\$ 0.39

As of June 30, 2004, the following stock options were outstanding:

EXERCISABLE OPTIONS	NUMBER OF OPTIONS	EXERCISE PRICE \$	EXPIRY DATE
200,000	200,000	0.15	June 24, 2007
200,000	200,000	0.23	September 18, 2007
165,000	165,000	0.41	December 31, 2007
105,000	210,000	0.50	July 8, 2008
27,500	110,000	0.75	January 1, 2009
12,500	50,000	0.75	January 26, 2009
710,000	935,000		

During the period, 41,250 stock options issued on December 31, 2002 became fully vested. The fair value of these options were calculated on the date of grant using the Black-Scholes pricing model. The fair value is charged to the statement of operations and deficit as they vest. Accordingly, \$8,291 relating to these options was recorded as stock based compensation and contributed surplus.

4. BASIC AND DILUTED LOSS PER SHARE

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

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

	June 30, 2004 \$000	June 30, 2003 \$000
Numerator:		
Loss for the period	(102)	(76)
Denominator:		
Average number of common shares outstanding	8,146,534	5,929,212
Basic and diluted loss per share - cents	1	1

TSODILO RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended June 30, 2004
(Prepared by Management - Unaudited)

5. INCOME TAXES

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

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

For further information on the Company's actual losses for tax purposes, refer to the March 31, 2004 audited consolidated financial statements. The benefit of these losses and the estimated loss for the three months ended June 30, 2004 have not been recognized in these unaudited consolidated financial statements.

6. RELATED PARTY

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

At June 30 and March 31, 2004, the Company had no long-term debt. The Minority interest disclosed in the consolidated balance sheet of the Company relates to 25% of the accumulated expenditure of Newdico that was funded by Trans Hex Group Limited.

7. SEGMENTED INFORMATION

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. The fixed assets of the Company are presently located in Canada (\$5,000) and Botswana (\$53,000). The geographic distribution of the property acquisition costs and exploration expenditures is evident from the details presented in note 2.

8. COMMITMENTS

Minimum lease payments for leased equipment are as follows:

	\$000
2005	3
2006	3
	<u>6</u>