

TSODILO RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTH PERIOD
ENDED JUNE 30, 2005**

(expressed in United States dollars)

Unaudited – Prepared by Management

NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Requirements”, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financials have not been reviewed by an auditor. The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor, PriceWaterhouseCoopers, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

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TSODILO RESOURCES LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30

(in United States dollars)
(MANAGEMENT PREPARED)

	June 30	March 31
	2005	2005
	(Unaudited)	(Audited)
ASSETS		
Current		
Cash and equivalents	612,557	637,805
Amounts receivable & prepaid expense	21,423	14,616
	633,980	652,421
Exploration Properties	1,495,977	1,396,639
Property, Plant and Equipment	41,049	38,361
	\$ 2,171,006	\$ 2,087,421
 LIABILITIES		
Current:		
Accounts payable and accrued liabilities	51,153	42,442
NON-CONTROLLING INTEREST	305,669	237,008
 SHAREHOLDERS' EQUITY		
Share Capital	26,028,148	25,909,032
Warrants	186,765	233,057
Contributed Surplus	5,877,951	5,846,718
Cumulative Translation	(852,201)	(837,425)
Deficit	(29,426,479)	(29,343,411)
	1,814,184	1,807,971
	\$ 2,171,006	\$ 2,087,421

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

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENT OF DEFICIT
AS AT JUNE 30

(in United States dollars)

(UNAUDITED - MANAGEMENT PREPARED)

	Three Months Ended June 30	
	2005	2004
Deficit - Beginning of the Period	29,343,411	29,585,850
Loss for the Period	83,068	75,106
Deficit - End of Period	<u>\$ 29,426,479</u>	<u>\$ 29,660,956</u>

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

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENT OF OPERATIONS
AS AT JUNE 30

(in United States dollars)

(UNAUDITED - MANAGEMENT PREPARED)

	Three Months Ended June 30	
	2005	2004
REVENUES	\$ -	\$ -
EXPENSES		
Consulting fees		
Corporate remuneration	25,257	19,145
Corporate travel and subsistence		11,781
Investor relations	7,139	11,045
Legal and audit	2,245	5,891
Office and administration	10,354	21,353
Amortization	405	
Foreign exchange loss/(gain)	6,435	
Stock-based compensation	31,233	5,891
Loss before non-controlling interest	83,068	75,106
Non-controlling interest	-	-
Loss for period	83,068	75,106
Basic and diluted loss per share	\$ 0.01	\$ 0.01

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

TSODILO RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
AS AT JUNE 30

(in United States dollars)

(UNAUDITED - MANAGEMENT PREPARED)

	Three Months Ended June 30	
	2005	2004
CASH PROVIDED BY/(USED IN)		
OPERATING ACTIVITIES		
Loss for the period	(83,068)	(75,106)
Adjustments for non-cash items:		
Amortization	405	1,485
Stocked-based compensation	31,233	5,891
	<u>(51,430)</u>	<u>(67,730)</u>
Net change in non-cash working capital balances	<u>(39,111)</u>	<u>(5,971)</u>
	(90,541)	(73,701)
INVESTING ACTIVITIES		
Exploration properities	(99,338)	(200,282)
Disposals of/(additions to) Property, Plant and Equipment	-	-
	<u>(99,338)</u>	<u>(200,282)</u>
FINANCING ACTIVITIES		
Issue of Common Shares	95,970	488,309
Contribution from Non-Controlling Interest	68,661	-
	<u>164,631</u>	<u>488,309</u>
Change in cash and equivlents - for period	(25,248)	214,326
Cash and equivalents - Beginning of period	637,805	162,138
Cash and equivalents - end of period	<u>\$ 612,557</u>	<u>\$ 376,464</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended June 30, 2005 and 2004
(in United States dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Tsodilo Resources Limited ("Tsodilo" or the "Company") 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. The Company is also actively reviewing additional opportunities within southern Africa.

As at June 30, 2005, the Company reported an accumulated deficit of \$29,426,479 (March 31, 2005: \$29,343,411) and cash outflows from operations of \$90,541 (2004: \$73,701) for the three month period 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. All inter-company transactions and balances have been eliminated.

Change in reporting currency

Management have elected to change the reporting currency of the Company from Canadian to United States dollars, as this more accurately reflects the requirements of the Company's investors and other users of the financial statements.

Accordingly, the financial statements for the period ended June 30, 2005 and the fiscal year ended March 31, 2005 have been presented in US dollars, and the financial statements from prior periods have been represented in US dollars to provide information on a consistent basis. The change in reporting currency did not have a material impact on the reported results for prior periods.

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

Property, plant and equipment are amortized principally on a straight-line basis over their estimated useful lives of three to ten years. Property, plant and equipment 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

The US dollar is the currency in which the financial statements are presented. Foreign currency transactions and balances, and the financial statements of foreign operations, all of which are integrated, are translated into US dollars

using the temporal method. Under this method, monetary assets and liabilities of the Company and its subsidiaries denominated in foreign currencies are translated into US dollars at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rates. Revenue and expense items are translated at the average rate prevailing during the year, except for depreciation, depletion, amortization and write downs, which are translated at the same exchange rates as the assets to which they relate with gains and losses arising on settlement recognized in the statement of operations. Gains and losses on translation from functional currencies into US dollars are reflected in cumulative translation account.

3. EXPLORATION PROPERTIES

These may be summarized as follows:

	Ngami Botswana	Gcwihaba Botswana	Total
	\$	\$	\$
Balance at March 31, 2005	1,204,949	191,690	1,396,639
1 st quarter expenditures	54,954	22,864	77,818
Balance at June 30, 2005	1,259,903	214,554	1,474,457

4. SHARE CAPITAL

(a) 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 March 31, 2005	10,481,626	25,909,032
Shares issued on exercise of warrant	241,710	119,116
Issued and outstanding at June 30, 2005	10,723,336	26,028,148

(b) **Warrants**

As at June 30, 2005, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants			Value		
		Opening	Issued/ Exercised/ Expired	Closing	Opening (dollars)	Issued/ Exercised/ Expired	Closing (dollars)
May 26, 2005	C\$0.50	267,953	(267,953)	---	51,487	(51,487)	---
August 17, 2005	C\$0.50	267,953	(23,065)	139,789	17,415	(2,663)	14,752
September 29, 2005	C\$0.50	373,406	(104,850)	268,556	44,811	(12,910)	31,901
January 15, 2006	C\$0.75	83,432	(83,432)	---	15,795	(15,795)	---
June 1, 2006	C\$0.75	---	65,024	65,024	---	14,164	14,164
October 14, 2006	C\$1.12	---	56,969	56,969	---	20,156	20,156
November 8, 2006	C\$2.35	---	26,668	26,668	---	20,622	20,622
March 4, 2005	C\$1.15	---	230,785	230,785	---	85,170	85,170
		<u>1,994,792</u>	<u>(1,207,001)</u>	<u>787,791</u>	<u>144,179</u>	<u>42,586</u>	<u>186,765</u>

During the period, 241,710 warrants were exercised for proceeds to the Company of \$95,970. This exercise resulted in the issuance of 241,710 common shares. In addition, \$23,146 attributed to the warrants exercised during the year has been reallocated to share capital.

(c) **Contributed Surplus**

As at March 31, 2005	5,846,718
Relating to the issue of stock options	<u>31,233</u>
As at June 30, 2005	<u>5,877,971</u>

(d) **Stock Option Plan**

Outstanding stock options granted to directors, officers and employees at June 30, 2005 were as follows:

Expiry	Price	Outstanding June 30, 2005	Exercisable Options
June 24, 2007	C\$0.15	150,000	150,000
September 18, 2007	C\$0.23	150,000	150,000
December 31, 2007	C\$0.41	50,000	50,000
July 8, 2008	C\$0.50	150,000	150,000
January 1, 2009	C\$0.75	60,000	45,000
August 31, 2009	C\$0.75	260,000	130,000
January 3, 2010	C\$1.85	85,000	42,500
		<u>905,000</u>	<u>717,500</u>

Weighted average exercise price

- outstanding	\$0.61
- exercisable	\$0.51

5. **INCOME TAXES**

The company uses the asset and liability method of accounting for income tax. Assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

6. **LOSS PER SHARE**

Loss per share is based on a weighted average number of common shares outstanding of 10,640,995 for period ended June 30, 2005 (2004: 8,113,902). 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 the period ended June 30, 2005 and 2004 is anti-dilutive.

7. **RELATED PARTY TRANSACTIONS**

During the period, the Company did not enter into transactions with related parties

8. **SEGMENTED INFORMATION**

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. Materially all of the Company's property plant and equipment is presently located in Canada (\$5,545) and Botswana (\$35,504).

9. **COMMITMENTS**

Minimum lease payments for leased equipment are as follows:

2006

4,949