ANNUAL REPORT 2005

tsodilo resources limited

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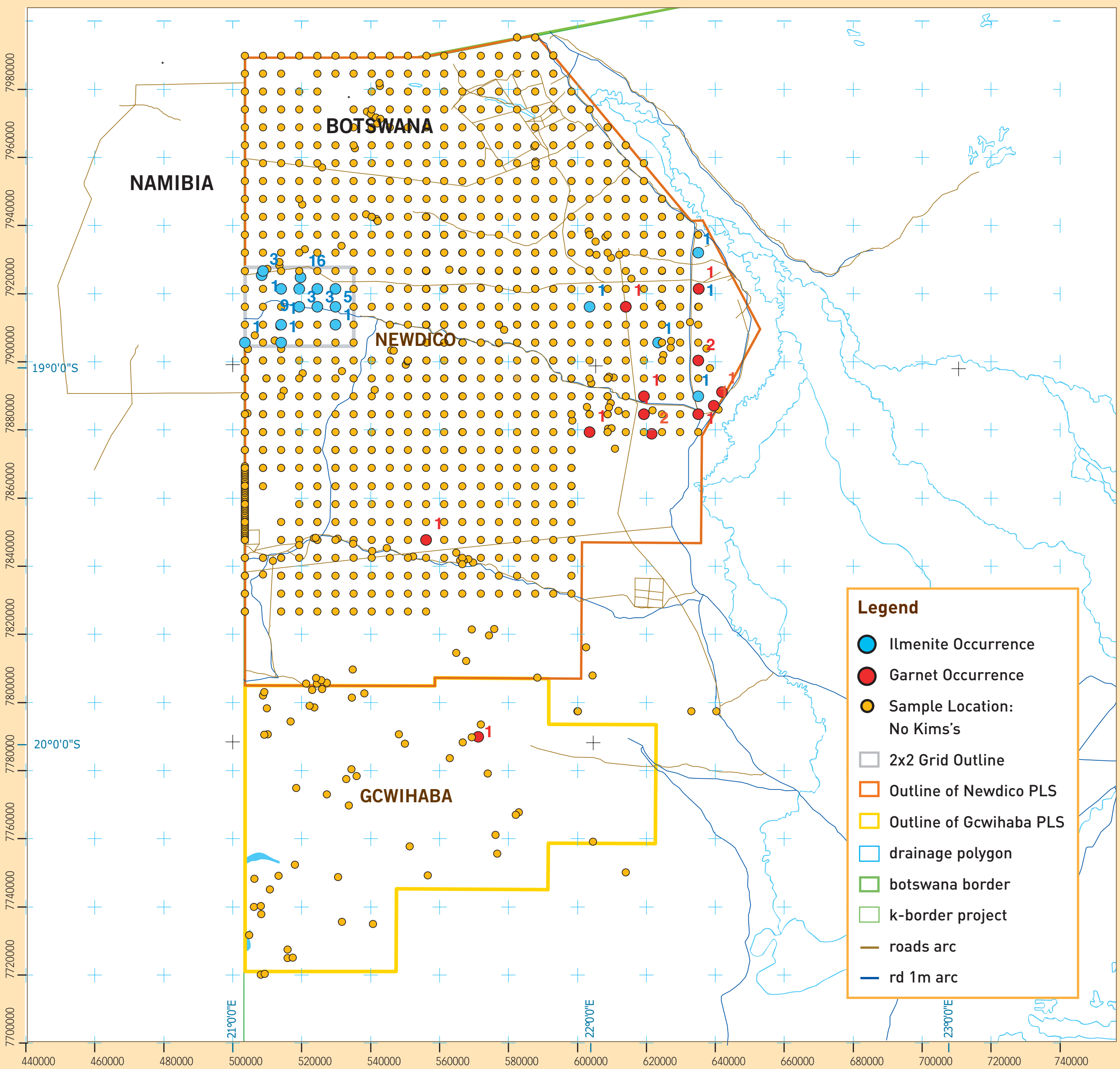
Ngamiland Project Botswana

Soil sampling results 5x5 grid and 2004 airborne magnetic anomaly programs



President's Message

Fellow Shareholders,

The past year did indeed turn out to be an exciting period in the annals of Tsodilo Resources Limited. Your Company met all of its goals and objectives this past year and the exploration and drilling program resulted not only in the discovery of additional kimberlites but also the discovery of an older phase of kimberlite never before found in our license blocks.

Kimberlite A15: Garnet, Ilmenite and Chrome Diopside

Highlights of This Past Year and Current Work Program

Geographical Information System

A computerized geographic information system ("GIS") was installed and the complete set of geological and geophysical data collected to date in the licenses was captured. 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.

Newdico Proprietary Limited - Botswana

Kimberlite Indicator Mineral Sampling yields a further 5 targets

The full set of results of a deflation soil sampling program started in early 2004 and consisting of 312 samples taken over selected airborne magnetic anomalies within the licenses were received and analyzed. Positive results from the Guma and Nxau Nxau areas again emphasize the importance of these anomalous fields where five magnetic anomalies that had not previously been sampled, returned positive kimberlite indicator mineral ("KIM") results.

Thirteen ground geophysical grids completed to define drill targets

A series of ground gravity and magnetic grid surveys was completed over the above positive KIM anomalies as well as over a further selection of airborne magnetic targets. Six of these grids, each covering 1 kilometer by 1 kilometer were completed in the Nxau Nxau area, three further grids in the Guma area and four grids on a group of anomalies 40 kilometers due west of the Tsodilo Hills.

Evaluation of possible paleo drainage channels on the border with Namibia

A gravity traverse along a 30 kilometer section of the Botswana border fence with Namibia, from the foothills of the Aha Hills, was surveyed to determine the possible presence of any alluvial paleo drainage channels in the bedrock below the Kalahari cover. This section is marked by a broad "bleached" feature on the false-color satellite image.

The traverse objective was to trace the alluvial streams that transported the diamonds and KIM's that are found at the base of the Kalahari at Tsumkwe, some 40 kilometers west of the traverse. The result of this gravity traverse indicated the possible existence of two channels but a follow-up drill program (19 holes - 405 meters) showed that this interpretation was incorrect. A follow up study by an independent consultant has identified several possible paleo drainage systems in this immediate area and throughout our license blocks which will be drill tested in the coming year. A diagram of these paleo drainage systems can be viewed in greater detail in the "Imagery – Paleo Drainage Interpretation section of the Company's website, www.TsodiloResources.com.

Drill program discovers 22nd kimberlite at Nxau Nxau A15 very prospective

The drilling campaign in the Nxau Nxau kimberlite field began with a further two holes into A37, a kimberlite discovered in late 2003, to obtain better samples of the kimberlite for further analysis. A geochemical study of these samples indicates that the kimberlite will be unlikely to host any economic deposit of diamonds.

Six further holes were drilled into Anomalies A15, A33, 1821 C12, 1821 C15, and A16. Although, kimberlite crater sediments were found in A16 and 1821 C12, no extensive intersections of kimberlite were found. The single hole into anomaly A15, however, intersected very weathered kimberlite below the 34 meters of Kalahari cover. The kimberlite continued to a depth of 116 meters when the hole had to be stopped because of high ground-water pressures.

Kimberlite A15: Chrome Diopside

Kimberlite A15: Eclogitic Garnet

The kimberlite at A15 is the 22nd kimberlite found to date in the Nxau Nxau cluster and is very different from all of the others found, because –

1) There was little crater sediment and the kimberlite is deeply weathered and eroded – which probably indicates that it is older than those kimberlites previously discovered.

2) There is an abundance of garnet, ilmenite and chrome diopside in the kimberlite, whereas those kimberlites previously discovered were predominantly ilmenite rich in composition.

A selection of these indicator minerals was analyzed at the Euclid Geometrics laboratory in Canada and their conclusions are:

1) The mineral chemistry of the ilmenite suite indicates a reduced environment with a good to excellent potential for diamond preservation, with low resorption.

2) The chemistry of the chrome diopside grains indicates that 58% fall into the diamond stability field. The composition of the A15 diopside is virtually identical to that of the Jericho (NWT, Canada) and the Grib (Arkhangelsk, Russia) kimberlite pipes, which have proved to be economically viable. In contrast to the typical diopside of kimberlite, these three kimberlites all exhibit a rare jadeite-kosmochlor substitution.

3) The composition of the A15 megacryst garnet is similar to the megacrystic suite of the diamond-rich Jericho kimberlite of the Slave craton with both exhibiting a distinct reduced crystal chemistry, which is most promising for the stability and preservation of diamond.

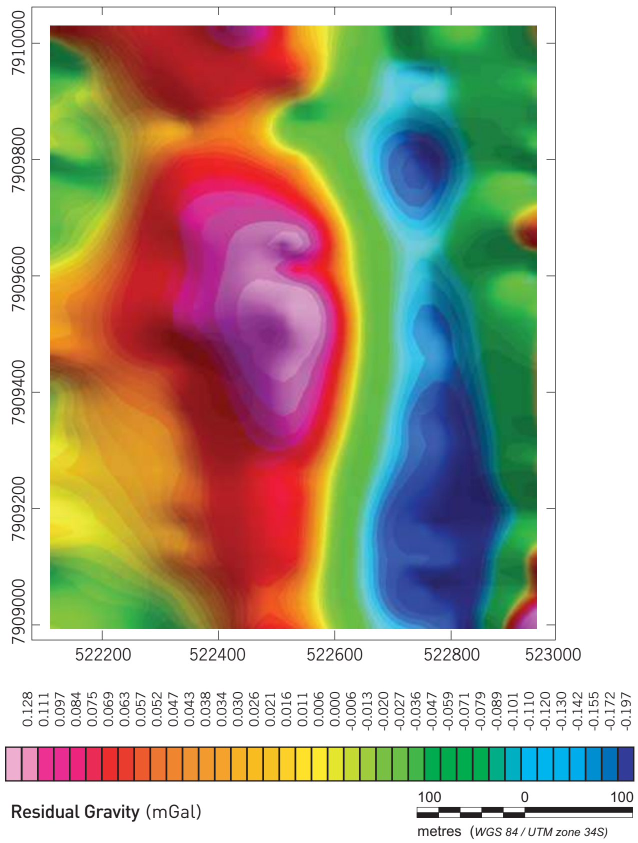
4) The A15 mineral compositions are comparable to those of the diamond-rich Jericho kimberlite, a (Na, Ca)-rich rock in which the diopside is jadeite-rich and the G10/G9 line separating peridotitic garnet-with-diamond from garnet-with-graphite is shifted towards Ca-rich compositions. This modified plot places 51% of the A15 peridotitic garnet in the diamond zone.

5) Eclogitic garnet were also identified from their chemical composition; 40% of these fall within the diamond inclusion field. As with the Debswana Orapa kimberlite and several other producing kimberlites, the potential diamond contribution from eclogites in the A15 kimberlite may be considerable.

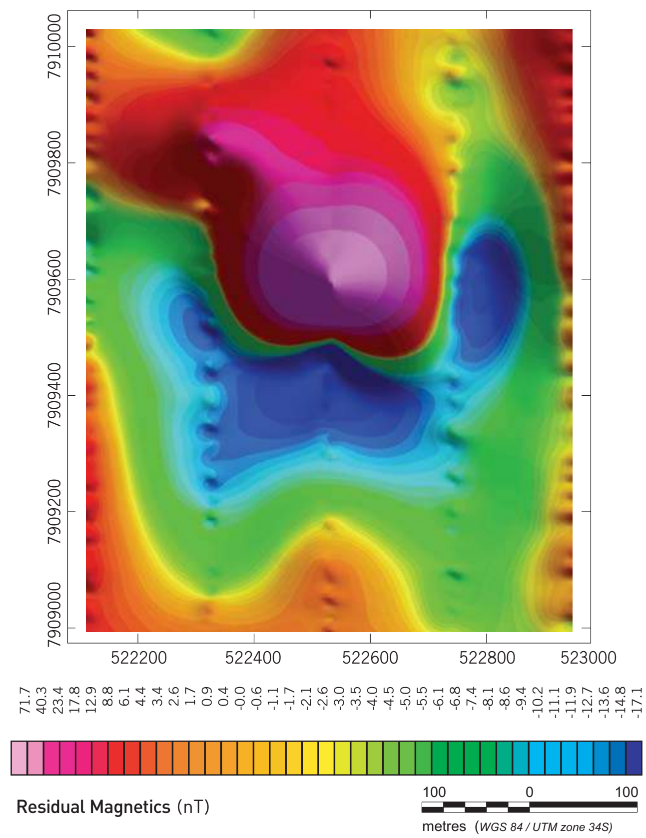
These very encouraging results have led to a decision to drill further holes into the A15 kimberlite to obtain both a better distribution and a bigger volume of sample. These samples will be analyzed for micro-diamonds as an estimator of the economic potential of this very promising kimberlite. Drilling is scheduled to begin in early July 2005.

Drill program discovers 22nd kimberlite at Nxau Nxau A15 very prospective

Newdico - Anomaly A15 - 1st Order - Residual Gravity



Newdico - Anomaly A15 - 1st Order - Residual Magnetic



2005 Program – Further drill evaluation and airborne magnetic survey planned

In addition to the drill sampling of A15, we will also drill further anomalous targets in the Nxau Nxau field which have geophysical characteristics similar to A15. In addition, a drill section will be performed across several features tentatively identified as paleo drainage channels in the Nxau Nxau kimberlite field. Later in the year, we will embark on a drill evaluation of the eastern Guma field, where there are nine primary and seven secondary targets that await drill evaluation. A further ground magnetic and gravity survey has recently been completed over additional targets in the Guma field and after evaluation of the data, several of these targets may be added to the upcoming drill program. A further drill section across the eastern end of the satellite feature will continue our search for KIM's in paleo drainage channels.

We are also in the final planning stages of a low-level airborne magnetic survey that should begin late in the second quarter. The survey will be flown at 20m height and 100m line spacing to distinguish the subtle kimberlite magnetic signature from the strong dolerite dyke signature which characterizes a very broad zone, the "dyke swarm" which transects our licenses just south of the Nxau Nxau field. This survey method is being used to good effect in and around the Debswana Orapa kimberlite field by De Beers Prospecting Botswana. The Orapa kimberlite field is situated in the same dyke swarm as that which traverses our Newdico license block.

Gcwihaba Resources Proprietary Limited - Botswana

KIM Sampling targets a cluster of four magnetic anomalies

The results of a loam sampling program started in early 2004 and consisting of 159 samples taken over selected airborne magnetic anomalies within the licenses was received and analyzed. A single eclogitic low-chrome garnet, which plots in the diamond inclusion zone, was recovered over airborne anomaly 2021 B4. The 2021 B4 anomaly is part of a cluster of four closely associated anomalies located roughly 40 kilometers due east from the Namibian border.

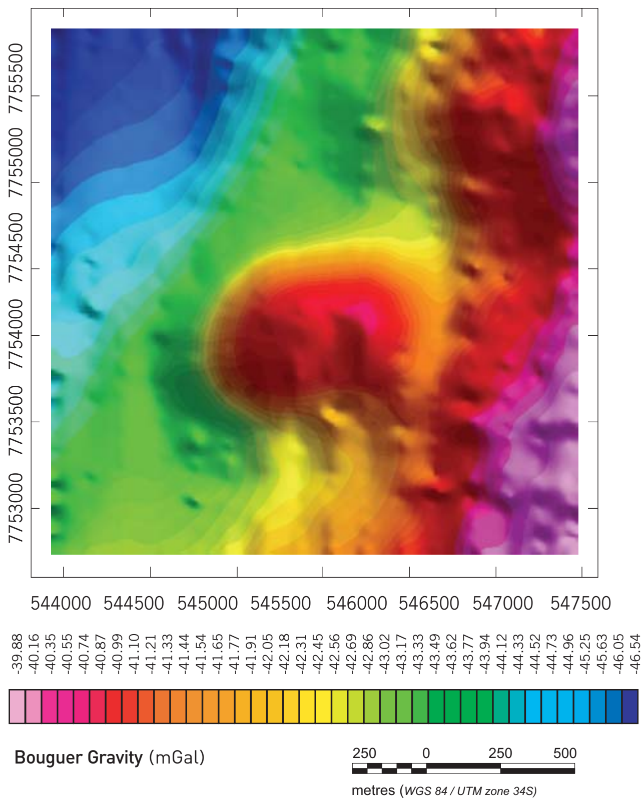
This positive KIM result was followed up with ground gravity and magnetic grid surveys over the cluster of four magnetic anomalies that lie within a radius of 5 Km along the Gcwihabadum linear.

A drilling campaign to explore these anomalies was abandoned after 2 holes drilled at 2021 B4 (total of 271 meters) showed the Kalahari cover was 158 meters thick at this location. The one hole penetrated to bedrock and found this to be magnetite quartzite, which explains the magnetic signature, but not the garnet kimberlite indicator grain.

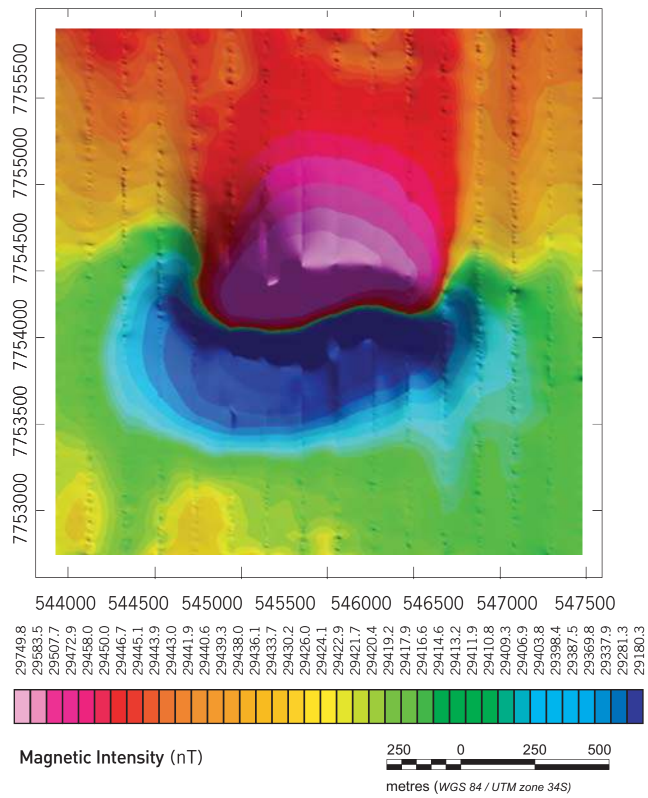
2005 Program – further drilling in the cluster

We plan to drill a further hole at 2021 B4 and one hole at the well-defined co-incident magnetic and gravity anomaly 2021 B2. A recent ground magnetic and gravity survey performed on target anomaly 2021 A7 indicated a very large magnetic high / gravity high isolated target which will be soil sampled and drill tested in the coming months.

Gcwihaba - Anomaly 2021A7 - Bouguer Gravity



Gcwihaba - Anomaly 2021A7 - Total Magnetic Intensity



Financing the Company's exploration programs

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 10,723,336 issued and outstanding (12,416,127 on a fully diluted basis) common shares. Tsodilo has no debt, an 81% 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.

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.

James M. Bruchs
President and Chief Executive Officer
July 15, 2005

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, 2005 and 2004, 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. In fiscal 2005, the Company's functional and reporting currency has been changed to United States dollars and all amounts stated are in United States dollars unless otherwise stated. This information is presented as at July 15, 2005.

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 $612,783 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 $3,341,690, 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 15, 2005, 10,723,336 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 905,000 options remain outstanding at exercise prices ranging from Canadian $0.15 - $1.85. If exercised, 905,000 common shares of the Company would be issued.

As of July 15, 2005, 787,791 warrants are outstanding. The warrants were issued by way of the private placements utilized by the Company for financing purposes. Each warrant entitles the holder thereof to purchase one common share of the Company at purchase prices ranging from Canadian $0.50 - $2.35 for a period of two years from the date of issuance. If converted, 787,791 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 currently controls 2,540,183 or 23.69% of the issued and outstanding common shares as of July 15, 2005. The Firebird Global Master Fund, Ltd. controls 1,410,322 or 13.15% of the issued and outstanding shares as of July 15, 2005.

Subsidiaries

The Company has an 81% operating interest in its Botswana subsidiary, Newdico (Proprietary) Limited ("Newdico"), which holds prospecting licenses and applications covering approximately 10,418 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 2005 fiscal year, Trans Hex Group funded all but two quarters of their proportionate exploration expenditure at this project, the result of which reduced their interest in the project from 25% to 19%

effective January 1st, 2005. Some, or all, of the current licenses held by Newdico may be subject to the granting of a 2% free carried interest in any mine or mines that may result thereon.

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

Proposed Transactions

The board of directors is not aware of any proposed transactions involving a proposed asset or business acquisition or disposition which may have an effect on financial condition, results of operations and cash flows.

Exploration Activities

Newdico (Proprietary) Limited - Botswana

A drilling program is scheduled to commence in early July 2005 at kimberlite A15 in the Company's Nxau Nxau kimberlite field. Approximately eight hundred meters will be drilled in A15 for the purpose of obtaining a representative sample for micro-diamond analysis. In addition to the drilling at A15, additional drilling will take place on four target anomalies in the Nxau Nxau region. A program to drill several sections across inferred paleo-channels will also commence.

Additional gravity and magnetic surveys are near completion in the Guma area of our license block. The results of this program will determine which targets will be added to the nine primary and seven secondary targets which are scheduled to be drill tested in the 3rd quarter of fiscal 2006.

Planning is in the final stages for a low-level airborne magnetic survey to begin flying in the 3rd quarter. This survey will be flown at a 10 - 20 meter height and 100 meter line spacing to distinguish subtle kimberlite magnetic signature from the strong dolerite dyke signature which characterizes a very broad zone, the "dyke swarm", which transects the licenses just south of the Nxau Nxau field. This survey method has been employed in similar conditions in and around the Orapa kimberlite field with excellent results.

Gcwihaba Resources (Proprietary) Limited - Botswana

Soil sampling, gravity and magnetic surveys, and further drilling are all planned for fiscal 2006. As a result of a recent gravity and magnetic survey, the Company has made an application with the Botswana Ministry of Minerals Energy and Water Resources for a base and precious metals exploration license over a portion of our Gcwihaba license block. This exploration program will proceed alongside the current kimberlite exploration program.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

ANNUAL INFORMATION

(in US dollars)	Fiscal Year		
	2005	**2004**	**2003**
Total Revenues	–	–	4,460
Loss before non-controlling interest	620,822	405,814	253,012
Basic and diluted loss per share - cents	$0.07	$0.06	$0.05
Non-controlling interest	–	–	2,612
Loss for the Year	620,822	405,814	250,400
Basic and diluted loss per share - cents	$0.07	$0.06	$0.05
Total Assets	2,087,421	1,010,432	487,332
Total long term liabilities	237,008	213,549	117,237
Cash dividends declared	–	–	–

QUARTERLY INFORMATION

The quarterly results have been as follows:

(in US dollars)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal Year 2003				
Total Revenues	–	–	4,460	–
Loss for the period	36,342	93,526	50,974	72,170
Basic and diluted loss per share - cents	$0.01	$0.02	$0.01	$0.01
Total assets	369,541	342,886	413,996	487,332
Total long term liabilities	254,157	254,758	280,882	117,237
Fiscal Year 2004				
Total Revenues	–	–	–	–
Loss for the period	54,423	87,810	82,849	180,732
Basic and diluted loss per share - cents	$0.01	$0.01	$0.01	$0.03
Total assets	631,366	1,016,261	979,147	1,010,432
Total long term liabilities	158,770	189,249	189,249	213,549
Fiscal Year 2005				
Total Revenues	–	–	–	–
Loss for the period	75,106	185,742	113,981	245,993
Basic and diluted loss per share - cents	$0.01	$0.02	$0.01	$0.03
Total assets	1,422,230	1,408,529	1,842,605	2,087,421
Total long term liabilities	213,549	237,245	237,245	237,008

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2005, the Company had net working capital of $609,979 (March 31, 2004: $130,016), which included cash and equivalents of $637,805 (March 31, 2004: $148,371). 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. The Company does not have any material contractual obligations.

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. Due to the nature of the Company's operations, there is no significant credit or interest rate risk.

Operating Activities

Cash outflow for use in operating activities increased from $336,315 in fiscal 2004 to $473,835 in fiscal 2005. This increase reflects increased costs to meet regulatory requirements including increases in legal, audit and accounting fees, investor relations and filing fees.

Investing Activities

Cash flow applied in investing activities increased to $589,095 in fiscal 2005 (March 31, 2004: $399,943). $417,216 or 70% of the exploration expenditures were spent on the Newdico properties and $174,983 or 30% of the expenditures were on the Gcwihaba properties. All expenditure on exploration properties in fiscal 2005 were attributable to the Newdico and Gcwihaba projects in northwest Botswana and were in addition to the 25% to 19% share funded by the Trans Hex Group for the Newdico project. There were no material acquisitions or disposals of capital assets or investments during the year.

In February 2005, 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 2005 to March 2006 that calls for expenditures totaling approximately Pula 3.9 million (approximately $0.7 million as of July 15, 2005). Trans Hex Group is presently responsible for funding 19% of the expenses of this company. 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 second year exploration program expenditures, including license fees, for Gcwihaba amounted to approximately Pula 0.42 million (approximately $0.08 million as of July 15, 2005). Gcwihaba's expenditures will exceed this required amount in the second year. The required expenditure in the third second year exploration program amounts to approximately Pula 0.45 million (approximately $0.08 million as of July 15, 2005). As with previous years, 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, 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. Each unit has consisted of one common share of the Company and one or one-half a warrant of the Company, with each full such warrant entitling the holder to purchase one common share of the Company for a purchase price equal to the unit price for a period of two years from the date of issuance. During the fiscal year ended March 31, 2005 the Company completed the issue and sale, through non-brokered private placements, of a total of 1,316,253 units of the Company. These units were issued at prices increasing from $0.57 (C$0.75) per unit in May 2004 to high of $1.93 (C$2.35) per unit in November 2004, for proceeds to the Company of approximately $1,020,414. In addition, during fiscal 2005, proceeds were received in the amount of $508,491 from the issuance of common shares upon the exercise of options and warrants during the fiscal year.

Subsequent to the fiscal year end, the Company received proceeds in the amount of $95,970 through the exercise of 241,710 warrants.

Tsodilo expects to raise the amounts required to fund its 81% share of the Newdico project, the Gcwihaba project and corporate general and administration expenses, by way of negotiated non-brokered private placements.

RESULTS OF OPERATIONS

On a consolidated basis Tsodilo recorded a net loss of $620,822 in the fiscal year ended March 31, 2005 ($0.07 cents per common share) compared to a net loss of $405,814 in the fiscal year ended March 31, 2004 ($0.06 cents per common share). Eliminating the effect of non-cash charges relating to stock-based compensation and the effects of foreign exchange gains and losses totaling $172,955 in 2005 (2004: $74,419), general and administration expenses in 2005 amounted to $447,867 compared with $331,395 in 2004 after eliminating these items. This increase is due to increased costs to meet regulatory requirements including increases in legal, audit and accounting fees, investor relations and filing fees partially off set by reductions in consulting fees.

Exploration expenditure incurred during the year ended March 31, 2005 at the Newdico project in Botswana was $417,216 compared to $337,584 during the year ended March 31, 2004. Exploration expenditure on all projects amounted to $592,199 during the year compared to $354,291 for the previous 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, 2005 the Company and its subsidiaries employed 6 personnel compared to 7 personnel at March 31, 2004, including senior officers, administrative and operations personnel including those on short-term contract bases. Individual components of the exploration program, such as soil sampling, geophysical surveying and reverse circulation drilling, are contracted out to independent third parties operating under the control and direction of the Company's subsidiaries' Managing Director, James M. Bruchs, and the Company's Exploration Vice President, Peter W. A. Walker.

FOURTH QUARTER - 2005

During the fourth quarter, the board decided that it was in the best interests of the Company in terms of efficiencies and based on the Company's operating program that financial data would be reported in United States dollars. As a result of this decision the financial history of the Company was appropriately translated from inception in 1996 from Canadian dollar values to United States dollars. Assets, liabilities and major transactions were translated on a historical basis at the date of the transaction and operating expenses were translated on a quarterly basis.

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.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financing arrangements.

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 has been and will be incurred in Botswana Pula. In fiscal 2005, the Pula showed unexpected and substantial strength against most major world currencies including the US dollar. On May 29, 2005 the Botswana Minister of Finance and Development Planning announced a 12% devaluation of the pula against a basket of currencies, as well as a change in the system of exchange-rate adjustments to a crawling peg rather than the discrete steps previously used, in order to improve Botswana's competitiveness. This action resulted in current pula / dollar rates similar to those in 2002.

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 personal insurance on these individuals.

ACCOUNTING STANDARDS

Tsodilo follows Canadian generally accepted accounting principles. In line with accepted industry practice, the Company has adopted the policy of deferring property specific acquisition and exploration costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate, are written off in the year such assessment is made. If Tsodilo adopted a policy of expensing all exploration costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different.

OUTLOOK

Diamond exploration remains a high-risk undertaking requiring patience and persistence. Despite difficult capital markets in the junior resource sector, the Company remains committed to international diamond exploration through carefully managed programs. Peter W. A. Walker, a professional geologist registered with the South African Council for Natural Scientific Professions is the qualified person responsible for the design and conduct of the Company's exploration programs.

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.

L. Kirk Boyd
Chief Financial Officer
July 15, 2005

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 PricewaterhouseCoopers 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
July 15, 2005

L. Kirk Boyd
Chief Financial Officer
July 15, 2005

Auditors' Report to the Shareholders of Tsodilo Resources Limited

We have audited the consolidated balance sheets of Tsodilo Resources Limited as at March 31, 2005 and 2004 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, 2005 and 2004 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, Ontario, Canada
June 28, 2005

Tsodilo Resources Limited

Consolidated Balance Sheets

As at March 31

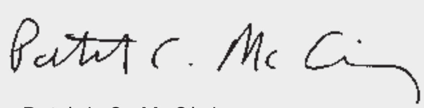
(in United States dollars – note 2)

	2005	2004
ASSETS		
Current:		
Cash and equivalents	**637,805**	148,371
Amounts receivable and prepaid expenses	**14,616**	13,767
	652,421	162,138
Exploration Properties *(note 3)*	**1,396,639**	804,440
Property, Plant and Equipment *(note 4)*	**38,361**	43,854
	2,087,421	1,010,432
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	**42,442**	32,122
NON-CONTROLLING INTEREST *(note 3)*	**237,008**	213,549
SHAREHOLDERS' EQUITY		
Share Capital *(note 5)*	**25,909,032**	24,466,943
Warrants *(note 5)*	**233,057**	144,179
Contributed Surplus *(note 5)*	**5,846,718**	5,738,084
Cumulative Translation *(note 2)*	**(837,425)**	(861,856)
Deficit	**(29,343,411)**	(28,722,589)
	1,807,971	764,761
	2,087,421	1,010,432

Going Concern *(note 1)*

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

Christopher M.H. Jennings
Director



Patrick C. McGinley
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
(in United States dollars – note 2)

	2005	2004
EXPENSES		
Consulting fees	**29,933**	46,758
Corporate remuneration	**135,113**	133,253
Corporate travel and subsistence	**52,190**	51,149
Investor relations	**61,541**	25,761
Legal and audit	**112,059**	19,745
Office and administration	**54,642**	53,244
Amortization	**2,389**	1,485
Foreign exchange loss	**49,915**	–
Stock-based compensation *(note 5)*	**123,040**	74,419
	620,822	405,814
Loss before non-controlling interest	**(620,822)**	(405,814)
Non-controlling interest	–	–
Loss for the year	**(620,822)**	(405,814)
Basic and diluted loss per share - cents *(note 7)*	**($0.07)**	($0.06)

Consolidated Statements of Deficit

For the years ended March 31
(in United States dollars – note 2)

	2005	2004
Deficit – Beginning of year	**(28,722,589)**	(28,316,775)
Loss for the year	**(620,822)**	(405,814)
Deficit - End of year	**(29,343,411)**	(28,722,589)

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

Tsodilo Resources Limited

Consolidated Statements of Cash Flows

For the years ended March 31
(in United States dollars – note 2)

	2005	2004
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	**(620,822)**	(405,814)
Adjustments for non-cash items:		
Amortization	**2,389**	1,485
Stock-based compensation *(note 2)*	**123,040**	74,419
	(495,393)	(329,910)
Net change in non-cash working capital balances	**21,558**	(6,405)
	(473,835)	(336,315)
INVESTING ACTIVITIES		
Exploration properties	**(592,199)**	(354,291)
Disposals of / (Additions to) Property, Plant and Equipment	**3,104**	(45,652)
	(589,095)	(399,943)
FINANCING ACTIVITIES		
Issue of common shares	**1,528,905**	762,487
Contribution from non-controlling interest	**23,459**	96,313
	1,552,364	858,800
Change in cash and equivalents - For the year	**489,434**	122,542
Cash and equivalents - Beginning of year	**148,371**	25,829
Cash and equivalents - End of year	**637,805**	148,371

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, 2005 and 2004

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 March 31, 2005, the Company reported an accumulated deficit of $29,343,411 (2004: $28,722,589) and cash outflows from operations of $473,835 (2004: $336,315) 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. All inter-company transactions and balances have been eliminated.

Change in reporting currency

Management has 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 2005 financial statements have been presented in US dollars, and the 2004 financial statements 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 2004.

Group Companies: March 31, 2005

Tsodilo Resources Bermuda Limited	100%
Gcwihaba Resources (Proprietary) Ltd (Botswana) ("Gcwihaba")	100%
Newdico (Proprietary) Limited (Botswana) ("Newdico")	81% *(note 3)*

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.

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

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.

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. The Company uses the fair value method of accounting for stock options. Consideration paid on exercise of stock options is credited to common share capital.

CICA 3870 “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.

3. EXPLORATION PROPERTIES

These may be summarized as follows:

	Ngami Botswana	**Gcwihaba Botswana**	**Total**
	$	$	$
Balance at March 31, 2003	450,149	–	450,149
2004 expenditures	337,584	16,707	354,291
Balance at March 31, 2004	**787,733**	**16,707**	**804,440**
2005 expenditures	417,216	174,983	592,199
Balance at March 31, 2005	**1,204,949**	**191,690**	**1,396,639**

A summary of the significant agreements entered into by the Company is as follows:

Newdico (Proprietary) Limited - Botswana

Newdico holds prospecting licenses in the Ngamiland District of northwest Botswana.. The Company acquired the various licenses in 1999, 2001 and 2003. The terms of the licenses grant Newdico the right to prospect for a total of three years, and are renewable upon application. The Company has renewed its prospecting licenses for which the original terms have expired and these now expire in 2007, 2008 and 2009. The terms of the licenses also require Newdico to spend a minimum of Botswana Pula 3.9 million (approximately $0.7 million) on prospecting over this period, inclusive of their current renewals. Originally Newdico was held as to 75% by Tsodilo and 25% by Trans Hex Group Limited ("Trans Hex Group"), with Tsodilo being the operator. Some, or all, of the current licenses held by Newdico may be subject to the granting of a 2% free carried interest in any diamond mine or mines that may result thereon.

Trans Hex Group has funded its proportionate share of expenditure, and these amounts have been reflected as non-controlling interest of $237,008 (2004: $213,549) in the financial statements. During the year Trans Hex decided not to fund a portion of its share of expenditures on a cash call and therefore on January 1, 2005, the Company increased its interest in Newdico from 75% to 81% in accordance with the exploration agreement between the two parties.

Trans Hex Group has also advanced funds amounting to $187,052 (2004: $187,052) 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 - Botswana

Gcwihaba, a wholly owned subsidiary of the Company, holds prospecting licenses to the south of the Ngamiland project area. The terms of the licenses grant Gcwihaba the right to prospect for a total of three years to 2006, renewable for a total of four additional years and require Gcwihaba to spend a minimum of Botswana Pula 0.42 million (approximately $0.08 million) on prospecting over this period, inclusive of their current renewals.

4. PROPERTY PLANT AND EQUIPMENT

			2005	2004
	Cost	**Accumulated amortization**	**Book value**	Book value
Vehicles	**40,473**	**13,767**	**26,706**	33,912
Furniture and Equipment	**25,270**	**13,615**	**11,655**	9,942
	65,743	**27,382**	**38,361**	43,854

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 March 31, 2003	5,676,391	23,831,420
Shares issued:		
On private placement (i)	535,906	191,878
On private placement (ii)	325,708	118,183
On private placement (iii)	746,812	270,981
On private placement (iv)	166,864	95,035
Ascribed to warrants issued (b)	–	(129,858)
	1,775,290	**546,219**
On exercise of stock options (including $2,508 reallocated from contributed surplus) (c)	60,000	8,487
On exercise of warrants (including $1,850 reallocated from warrants) (b)	379,899	80,817
Issued and outstanding at March 31, 2004	7,891,580	24,466,943
On private placement for cash (v)	687,409	379,620
On private placement for cash (vi)	113,938	104,643
On private placement for cash (vii)	53,336	102,780
On private placement for cash (viii)	461,570	433,371
Ascribed to warrants issued (b)	–	(208,982)
	1,316,253	811,432
On exercise of stock options (including $14,406 reallocated from contributed surplus) (c)	121,250	47,329
On exercise of warrants (including $107,760 reallocated from warrants) (b)	1,152,543	583,328
Issued and outstanding at March 31, 2005	**10,481,626**	**25,909,032**

(i) Private Placement

In May 2003 the Company issued, through a non-brokered private placement, 535,906 units of the Company at a price of $0.36 (C$0.50) per unit for gross proceeds to the Company of $191,878. 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 C$0.50 for a period of two years.

(ii) Private Placement

In August 2003 the Company issued, through a non-brokered private placement, 325,708 units of the Company at a price of $0.36 (C$0.50) per unit for gross proceeds to the Company of $118,183. 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 C$0.50 for a period of two years.

(iii) Private Placement

In September 2003 the Company issued, through a non-brokered private placement, 746,812 units of the Company at a price of $0.36 (C$0.50) per unit for gross proceeds to the Company of $270,981. 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 C$0.50 for a period of two years.

(iv) Private Placement

In January 2004 the Company issued, through a non-brokered private placement, 166,864 units of the Company at a price of $0.57 (C$0.75) per unit for gross proceeds to the Company of $95,035. 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 C$0.75 for a period of two years.

(v) Private Placement

In June 2004 the Company issued, through a non-brokered private placement, 687,409 units of the Company at a price of $0.57 (C$0.75) per unit for gross proceeds to the Company of $379,620. 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 C$0.75 for a period of two years. The common shares, warrants and warrant shares are subject to a hold period of 12 months as agreed to by the parties, expiring on June 1, 2005.

(vi) Private Placement

In October 2004 the Company issued, through a non-brokered private placement, 113,938 units of the Company at a price of $0.92 (C$1.12) per unit for gross proceeds to the Company of $104,643. 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 C$1.12 for a period of two years. The common shares, warrants and warrant shares are subject to a hold period of 12 months as agreed to by the parties, expiring on October 14, 2005.

(vii) Private Placement

In November 2004 the Company issued, through a non-brokered private placement, 53,336 units of the Company at a price of $1.93 (C$2.35) per unit for gross proceeds to the Company of $102,780. 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 C$2.35 for a period of two years. The common shares, warrants and warrant shares are subject to a hold period of 12 months as agreed to by the parties, expiring on November 8, 2005.

(viii) Private Placement

In March 2005 the Company issued, through a non-brokered private placement, 461,570 units of the Company at a price of $0.94 (C$1.15) per unit for gross proceeds to the Company of $433,371. 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 C$1.15 for a period of two years. The common shares, warrants and warrant shares are subject to a statutory hold period under securities laws of 4 months, expiring on July 3, 2005.

(b) Warrants

As at March 31, 2005, the following warrants were outstanding:

		Number of Warrants			Value		
Expiry Date	**Exercise Price**	**Opening**	**Issued/ (Exercised)**	**Closing**	**Opening (dollars)**	**Issued/ (Exercised)**	**Closing (dollars)**
June 13, 2004 (i)	C$0.40	**765,501**	**(765,501)**	**–**	**5,042**	**(5,042)**	**–**
October 14, 2004 (ii)	C$0.25	**62,020**	**(62,020)**	**–**	**393**	**(393)**	**–**
November 14, 2004 (iii)	C$0.50	**118,065**	**(118,065)**	**–**	**3,745**	**(3,745)**	**–**
March 24, 2005 (iv)	C$0.50	**161,561**	**(161,561)**	**–**	**5,491**	**(5,491)**	**–**
May 26, 2005 (i)	C$0.50	**267,953**	**(26,243)**	**241,710**	**51,487**	**(5,195)**	**46,292**
August 17, 2005 (ii)	C$0.50	**162,854**	**(23,065)**	**139,789**	**17,415**	**(2,663)**	**14,752**
September 29, 2005 (iii)	C$0.50	**373,406**	**(104,850)**	**268,556**	**44,811**	**(12,910)**	**31,901**
January 15, 2006 (iv)	C$0.75	**83,432**	**(83,432)**	**–**	**15,795**	**(15,795)**	**–**
June 1, 2006 (iv)	C$0.75		**65,024**	**65,024**	**–**	**14,164**	**14,164**
October 14, 2006 (v)	C$1.12		**56,969**	**56,969**	**–**	**20,156**	**20,156**
November 8, 2006 (vi)	C$2.35		**26,668**	**26,668**	**–**	**20,622**	**20,622**
March 4, 2005 (vii)	C$1.15		**230,785**	**230,785**	**–**	**85,170**	**85,170**
		1,994,792	**(965,291)**	**1,029,501**	**144,179**	**88,878**	**233,057**

During the year, 1,152,543 warrants were exercised for proceeds to the Company of $475,569. This exercise resulted in the issuance of 1,152,543 common shares. In addition, $107,760 attributed to the warrants exercised during the year has been reallocated to share capital. A value of $208,982 (2004: $129,858) has been attributed to the warrants issued during the year. Warrants were valued using the Black-Scholes model, using key assumptions of volatility ranging from 69-89%, 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

As at March 31, 2003	5,666,173
Relating to issue of stock options	74,419
Transferred to share capital on exercise of options	(2,508)
As at March 31, 2004	5,738,084
Relating to issue of stock options	123,040
Transferred to share capital on exercise of options	(14,406)
As at March 31, 2005	5,846,718

(d) Stock Option Plan

Outstanding stock options granted to directors, officers and employees at March 31, 2005 and 2004 were as follows:

Expiry	Price	Outstanding March 31, 2003	Granted/ (Cancelled/ Exercised)	Outstanding March 31, 2004	Granted/ (Cancelled/ Exercised)		Outstanding March 31, 2005
June 24, 2007	C$0.15	260,000	(60,000)	200,000	(50,000)	(i)	**150,000**
September 18, 2007	C$0.23	200,000	–	200,000	(50,000)	(i)	**150,000**
December 31, 2007	C$0.41	165,000	–	165,000	(115,000)	(ii)	**50,000**
July 8, 2008	C$0.50		210,000	210,000	(60,000)	(ii)	**150,000**
January 1, 2009	C$0.75		110,000	110,000	(50,000)	(ii)	**60,000**
January 26, 2009	C$0.75		50,000	50,000	(50,000)	(ii)	**–**
August 31, 2009	C$0.75				260,000	(ii)	**260,000**
January 3, 2010	C$1.85				85,000	(ii)	**85,000**
		625,000	310,000	935,000	(30,000)		**905,000**

Options exercisable at end of year	501,250	668,750	**696,250**
Weighted average exercise price			
- outstanding		$0.39	**$0.60**
- exercisable		$0.31	**$0.46**

All options have a term of five years.

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

(ii) 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.

(iii) The Company recognized an expense of $123,040 (2004: $74,419) relating to the fair value of options granted or vesting during the year. The fair value of options granted was calculated using the Black-Scholes model, using key assumptions of volatility of 88%, a risk-free interest rate of 4%, a term equivalent to the life of the option, and reinvestment of all dividends in the Company. The Company will recognize expense of $111,962 relating to options granted before March 31, 2005 but not yet vested.

6. 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.

The Company's income tax provision (recovery) has been calculated as follows:

Net Income (loss) for the year	(620,822)
Income tax (recovery) provision at Canadian statutory rates	(277,507)
Current year losses not recognized	218,180
Permanent differences	49,972
Increase in valuation allowance	9,355
Provision for (recovery of) income taxes	0

The following summarizes the principal temporary differences and related future tax effect:

Property, Plant and Equipment	15,000
Exploration & Development	108,000
Losses carried forward	1,202,000
Other	49,000
Subtotal – future income tax asset	1,374,000
Valuation allowance	(1,374,000)
Net future income tax asset recorded	0

At March 31, 2005, the Company has Canadian net operating losses carried forward that expire as follows (in Canadian dollars):

Loss	Year of Expiry
884,000	2006
863,000	2007
954,000	2008
813,000	2009
367,000	2010
431,000	2011
538,000	2012

7. LOSS PER SHARE

Loss per share is based on a weighted average number of common shares outstanding of 9,136,737 for fiscal 2005 (2004: 7,125,514). 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 2005 and 2004 is anti-dilutive.

8. RELATED PARTY TRANSACTIONS

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

9. 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 and Botswana. The geographic distribution of the property acquisition costs and exploration expenditures is outlined 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:

2006	**4,949**

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

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

Peter W.A. Walker, B.Sc. (Honors)
MBA., Pr.Sci.Nat.
Vice President, Exploration
Appointed in 2004

L. Kirk Boyd, B.Com.
Chief Financial Officer and
Corporate Secretary
Appointed in 2005

CORPORATE HEAD OFFICE

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Toronto, Ontario M5J 2S1

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AUDITORS

PricewaterhouseCoopers LLP
Toronto, Ontario

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Computershare Trust
Company of Canada
Toronto, Ontario

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: TSD

Design: Macrae Design