



# TSODILO RESOURCES LIMITED

## THIRD QUARTER RESULTS

2003

for the nine months ended December 31, 2002

### PRESIDENT'S MESSAGE

SHAREHOLDERS AND INVESTORS,

The company's principal activity remains our diamond exploration programme in Ngamiland, in northwest Botswana. The Ngamiland property is proximal to two important kimberlitic heavy mineral concentrations in Namibia, immediately to the west, that contain G10 garnets (i.e. garnets with compositions matching inclusions in diamonds). This, coupled with the recovery of significant numbers of diamonds from one of these anomalies, points to derivation from a high-grade kimberlite source. ***This enigmatic source has never been found.*** The Tsodilo property was identified as a prime target for locating this source on the basis of an in-house geomorphological model that interprets the unexplained kimberlitic heavy minerals concentrations to the west as being secondary and deposited by rivers with headwaters in the Tsodilo Ngamiland property.

Since my last correspondence to you, we began a gravity survey on selected targets in the west ("Nxau Nxau") and in the east ("Guma") of our license area. Although the going was initially slow due to the weather and the bush conditions, the crew has subsequently adapted and is now making the progress that we anticipated.

At this stage, we have completed the gravity survey of those targets selected in the Guma area and although there is more analysis and groundwork to follow, initial results have identified coincident or near-coincident gravity lows associated with three bulls-eye magnetic targets. Earlier soil sampling programmes recovered kimberlitic ilmenites in near proximity to two of these targets. At this stage, we do not wish to place undue significance on these results, but more detailed follow-up of these targets is certainly required in order to determine if in fact a virgin kimberlite field has been discovered in the Guma area. The gravity survey continues in the Nxau Nxau area in the west of our licence and those results should be received shortly. The Company will continue to provide updates on the project's progress via our website.

In December 2002, articles on Tsodilo Resources and our Ngami project were published in the Mining Journal and African Mining. In March 2003, an in-depth article in the Canadian Miner publication should be available. I would like to direct your attention to the information set forth below and also to that which is contained on the company's website at [www.tsodiloresources.com](http://www.tsodiloresources.com), including the articles mentioned above.

Tsodilo Resources continues to raise funding through private placements and I would like to welcome these new investors and thank them and our existing shareholders for their continued support and belief in our common goal.

**James Bruchs**  
**President and Chief Executive Officer**

February 26, 2003

## **REVIEW OF ACTIVITIES**

### **THE NGAMI KIMBERLITE PROJECT, NORTHWEST BOTSWANA**

The Ngamiland kimberlite exploration programme is focused on locating the primary kimberlite source, or sources, of two known kimberlitic heavy mineral (“KIM”) anomalies. These anomalies are located to the west of the company’s Botswana Ngamiland Prospecting Licence block in Namibia, near the village of Tsumkwe and the Omatako River respectively. The chemistry of the garnets recovered in these two KIM anomalies, which include those of G10 (diamond inclusion) composition, points to the existence of a potentially rich undiscovered kimberlite or kimberlites. This view is supported by the recovery of micro- and macro-diamonds in the Tsumkwe area. A geomorphological model developed by Tsodilo Resources indicates that the source of these two KIM anomalies is located to the east. The Ngamiland block of Prospecting Licences held by Tsodilo Resources via its 75% owned subsidiary, Newdico (Proprietary) Limited, straddle a ridge of high ground that would have been drained by rivers carrying sediment to the Etosha sedimentary basin to the west in Namibia. The project area is therefore considered to represent a prime target for locating the source of these known KIM anomalies in northeast Namibia.

During the quarter, the company initiated a programme of ground magnetic and gravity surveying of aeromagnetic targets identified in two areas within the Ngamiland project area. These are, respectively, the Nxau Nxau area in the west, and the Guma area in the east.

Previous companies working in the Nxau Nxau area discovered nineteen kimberlites, including four which yielded low microdiamond counts. Mineral chemistry studies indicate that the thermal structure of the underlying mantle is comparable to areas with economic kimberlites. While none of the kimberlites previously discovered in the Nxau Nxau area was considered to be economic, a large number of aeromagnetic targets in the area were not investigated. The ground geophysical follow-up in this area covers a selection of these targets, some of which have estimated diameters larger than any of the known kimberlites. The geophysical surveys underway will allow a more accurate estimate of the size of the source bodies, and form the basis for planning a drilling programme later in 2003.

The Guma area is characterised by a noisy aeromagnetic signature, with a very large number of magnetic bulls-eye targets similar to those associated with known kimberlites. A diffuse isolated scatter of kimberlitic ilmenites and garnets in this area provide further support for the possible presence of a virgin kimberlite field. The preliminary geophysical follow-up in this area is therefore aimed at investigating and characterizing bulls-eye magnetic anomalies with a range in estimated size of the source bodies, to provide additional support for the existence of undiscovered kimberlites in this area.

**A.E. Moore (Dr.)**  
**Vice President, Exploration**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Tsodilo Resources Limited (TSX Venture Exchange: TSD) is an international diamond exploration company with the majority interest in a kimberlite exploration project in northwest Botswana. The Company is also actively reviewing additional opportunities within Southern Africa.

Significantly, following the restructuring approved by shareholders in April 2002, Tsodilo has no debt and only 5,353,269 issued and outstanding common shares as at February 10, 2003 (March 31, 2002: 14,597,856), with fully diluted common shares currently outstanding of 7,303,754 (March 31, 2002: 15,597,856).

The Company has a 75% operating interest in 17,000 square kilometers of extremely prospective ground in northwest Botswana on which there is encouragement for the existence of undiscovered kimberlites in three separate areas of the property. The Company's minority partner in this project, Trans Hex Group Limited, is an established South African diamond mining company. Trans Hex has funded their 25% share of the exploration expenditure at this project.

### **Liquidity and Capital Resources**

In the nine months to December 31, 2002 the Company completed the issue and sale, through non-brokered private placements, of a total of 1,443,550 units of the Company (the "Units"). These Units were issued at prices increasing from \$0.15 per Unit in June 2002 to \$0.50 per Unit in November 2002, for proceeds to the Company of some \$336,000. [For additional information on these private placements, please refer to Note 4 to the Consolidated Financial Statements for the nine months ended December 31, 2002.]

As at December 31, 2002 the Company had net working capital of \$33,000 (March 31, 2002: a deficiency \$904,000), which included cash and equivalents of \$78,000 (March 31, 2002: \$48,000).

The Company is dependent on obtaining future financing for the continued exploration and development of its properties and for acquisition and development costs of new project opportunities. There is no assurance that such financing will be available, or under terms favourable to the Company.

### **Results of Operations**

On a consolidated basis Tsodilo recorded a net loss of \$80,000 in the quarter ended December 31, 2002 (2 cents per common share), all in the form of General and Administration expenses, compared to a net loss of \$1.08 million (8 cents per common share) in the comparable period of fiscal 2002, which included General and Administration expenses of \$493,000.

Exploration expenditure incurred during the three months ended December 31, 2002 at the Ngami project totaled \$59,000 (2002 exploration expenditure during the third quarter on all projects: \$793,000).

### **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 ("THG"), the principal shareholder and creditor of the Company prior to restructuring, of \$952,000. The Company retained an interest in all future dividends that may be paid by either Northbank Diamonds

Limited, Hoanib Diamonds (Proprietary) Limited or Trans Hex (Zimbabwe) Limited. In addition, the Company was released from the long-term loans due to THG by the subsidiaries being sold, of \$5.24 million, and THG agreed to return the 10,688,137 common shares in the capital of the Company held by THG, representing 73.22% of the issued and outstanding shares of the Company, 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.

## **General**

Diamond exploration is a high-risk undertaking requiring patience and persistence. Despite difficult capital markets in the resource sector, the Company remains committed to international diamond exploration through carefully managed programs. The design and conduct of the Company's exploration programs is the responsibility of Dr. Andrew Moore, a professional geologist registered with the South African Council for Natural Scientific Professions.

**TSODILO RESOURCES LIMITED**  
**Consolidated Balance Sheets**  
**(unaudited)**

	<b>December 31</b>	March 31
	<b>2002</b>	2002
	<b>\$000</b>	\$000
<b>ASSETS</b>		
<b>Current:</b>		
Cash and equivalents	78	48
Accounts receivable and prepaid expenses	<u>4</u>	<u>9</u>
	82	57
<b>Exploration Properties and Joint Ventures</b> <i>(note 3)</i>	<b>565</b>	918
<b>Investments</b>	<b>0</b>	6
<b>Capital Assets</b>	<u><b>3</b></u>	<u>210</u>
	<u><b>650</b></u>	<u><b>1,191</b></u>
<b>LIABILITIES</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities	49	961
<b>Long-Term:</b>		
Loan from related party <i>(note 3)</i>	447	5,240
<b>SHAREHOLDERS' EQUITY / (DEFICIENCY)</b>		
<b>Share Capital</b> <i>(note 4)</i>	<b>32,508</b>	32,172
<b>Contributed Surplus</b>	<b>2,596</b>	3,090
<b>Deficit</b>	<u><b>(34,950)</b></u>	<u><b>(40,272)</b></u>
	<u><b>154</b></u>	<u><b>(5,010)</b></u>
	<u><b>650</b></u>	<u><b>1,191</b></u>

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

**TSODILO RESOURCES LIMITED**  
**Consolidated Statements of Operations and Deficit**  
**(unaudited)**

	Three months ended		Nine months ended	
	Dec. 31 2002 \$000	Dec. 31 2001 \$000	Dec. 31 2002 \$000	Dec. 31 2001 \$000
<b>Revenue</b>				
Interest	--	24	--	44
Disposal of investments	<u>7</u>	<u>--</u>	<u>5,897</u>	<u>--</u>
	7	24	5,897	44
<b>Expenses</b>				
Corporate administration, including salaries and burdens	71	354	185	569
Consulting fees	2	118	37	187
Corporate travel and subsistence	1	7	19	16
Investor relations	4	3	21	22
Legal and audit	8	2	16	235
Taxation	1	7	7	24
Amortization	--	2	1	5
Mining properties abandoned or where continued exploration is deemed inappropriate	<u>--</u>	<u>585</u>	<u>--</u>	<u>7,836</u>
	87	1,078	286	8,894
<b>Profit / (Loss) for the period</b>	<b>(80)</b>	<b>(1,054)</b>	<b>5,611</b>	<b>(8,850)</b>
Outside shareholders' interest	--	--	3	--
Outside shareholders' interest in accumulated deficit	(292)	--	(292)	--
Deficit - Beginning of period	<u>(34,578)</u>	<u>(38,483)</u>	<u>(40,272)</u>	<u>(30,687)</u>
<b>Deficit - End of period</b>	<b><u>(34,950)</u></b>	<b><u>(39,537)</u></b>	<b><u>(34,950)</u></b>	<b><u>(39,537)</u></b>
<b>Profit / (Loss) per share - cents</b> <i>(note 6)</i>	<b>(2)</b>	<b>(8)</b>	<b>113</b>	<b>(61)</b>

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

**TSODILO RESOURCES LIMITED**  
**Consolidated Statements of Cash Flow**  
**(unaudited)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>Dec. 31</b>	<b>Dec. 31</b>	<b>Dec. 31</b>	<b>Dec. 31</b>
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Cash provided by (used in):</b>				
<b>Operating Activities</b>				
Profit / (Loss) for the period	(80)	(1,054)	5,611	(8,850)
Adjustments for non-cash items:				
Amortization	--	2	1	5
Profit on disposal of investments	(7)	--	(5,897)	--
Mining properties abandoned or where continued exploration is deemed inappropriate	--	585	--	7,836
Other non-cash items	--	46	--	30
	<u>(87)</u>	<u>(421)</u>	<u>(285)</u>	<u>(979)</u>
Net change in non-cash working capital balances	<u>(58)</u>	<u>72</u>	<u>48</u>	<u>113</u>
	<u>(145)</u>	<u>(349)</u>	<u>(237)</u>	<u>(866)</u>
<b>Investing Activities</b>				
Exploration properties	(59)	(793)	(114)	(2,433)
Disposal of investments	13	--	13	--
Disposal of capital assets	--	46	--	47
	<u>(46)</u>	<u>(747)</u>	<u>(101)</u>	<u>(2,386)</u>
<b>Financing Activities</b>				
Issue of common shares	211	--	336	--
Increase in loan from related party	41	622	44	2,385
	<u>252</u>	<u>622</u>	<u>380</u>	<u>2,385</u>
<b>Change in cash and equivalents - For the period</b>	<b>61</b>	<b>(474)</b>	<b>42</b>	<b>(867)</b>
<b>Cash and equivalents – Disposed of in restructuring</b>	<b>--</b>	<b>--</b>	<b>(12)</b>	<b>--</b>
<b>Cash and equivalents - Beginning of period</b>	<u><b>17</b></u>	<u><b>1,095</b></u>	<u><b>48</b></u>	<u><b>1,488</b></u>
<b>Cash and equivalents - End of period</b>	<u><u><b>78</b></u></u>	<u><u><b>621</b></u></u>	<u><u><b>78</b></u></u>	<u><u><b>621</b></u></u>

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

**TSODILO RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**(unaudited)**

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**1. Nature of Operations**

Tsodilo Resources Limited (“Tsodilo” or the “Company”), formerly called Trans Hex International Ltd., is an international diamond exploration company engaged in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that can be economically mined. 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 continuity of the Company’s operations is dependent on Tsodilo raising the necessary funding for working capital and the exploration and development of its properties on the international capital markets.

**2. Significant accounting policies**

*Basis of consolidation and preparation of the financial statements*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its direct and indirect subsidiaries and its proportional interest in joint ventures. All inter-company transactions and balances have been eliminated.

The accounting policies followed in preparing these financial statements are those used by the Company as set out in the audited financial statements for the year ended March 31, 2002. Certain information and note disclosure normally included in consolidated financial statements prepared in accordance with generally accepted accounting principals has been omitted. These interim financial statements should be read together with the Company’s audited consolidated financial statements for the year ended March 31, 2002.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements.

*Common Share Purchase Options*

No compensation expense is recognized when stock options are issued in accordance with the terms of the Company’s Stock Option Plan (refer to note 4). Any consideration paid on exercise of the stock options is credited to Share Capital. Under the Stock Option Plan, the Company may grant options to directors, employees and consultants for up to 1,000,000 shares of common stock. The exercise price is determined by the board of directors, but is not less than the market price of the Company’s stock on the date of the grant. An option’s maximum term is 5 years.



### 3. Exploration properties and joint ventures

These may be summarized as follows:

	<b>Ngami Botswana</b>	<b>Barra Grande</b>	<b>Northbank (Block 9)</b>	<b>Skeleton Coast</b>	<b>Limpopo Zimbabwe</b>	<b>Total</b>
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at March 31, 2001	68	3,664	2,134	375	26	6,267
2002 expenditures	383	2,302	175	92	2	2,954
Exploration costs written off to operations	--	(5,966)	(2,309)	--	(28)	(8,303)
Balance at March 31, 2002	451	--	--	467	--	918
2003 expenditures, to date	114	--	--	--	--	114
Exploration costs written off to operations / sold	--	--	--	(467)	--	(467)
<b>Balance at Dec. 31, 2002</b>	<b>565</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>565</b>

Exploration expenditures do not include any allocation of administration or corporate overhead expenses.

#### Ngami, Botswana

On November 22, 1999 Newdico (Proprietary) Limited ("Newdico") was granted an initial five prospecting licences in the Ngamiland District of northwest Botswana. A further 10 prospecting licences were granted to Newdico in May 2001, with a total of another five being added to date during fiscal 2003. Following the relinquishment of a portion of the initial five prospecting licences upon their renewal, these licences now cover an area of 16,781 square kilometers. The terms of the licences grant Newdico the right to prospect for a total of three years, renewable upon application. The equity and long-term loans of Newdico, through which all exploration at the Ngami project is funded, are held as to 75% by Tsodilo and 25% by Trans Hex Group Limited. Development of this project is subject to the payment of a 2% net profit interest to Dr. A.E. Moore.

#### 4. Share capital

##### *Common Shares*

##### **Authorized**

The authorized capital stock of the Company comprises an unlimited number of common shares at no par value.

##### **Issued and outstanding**

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

	<b>Shares (number)</b>	<b>Amount (dollars)</b>
Issued and outstanding at April 1, 2001 and 2002	14,597,856	32,171,895
<b>Shares returned to treasury for cancellation:</b>		
With restructuring approved by shareholders on April 9, 2002	(10,688,137)	--
<b>Shares issued:</b>		
On private placement for cash (i)	835,300	125,295
On private placement for cash (ii)	372,120	93,030
On private placement for cash (iii)	236,130	118,065
Issued and outstanding at December 31, 2002	<b>5,353,269</b>	<b>32,508,285</b>

##### (i) **Private Placement**

On June 13, 2002 the Company completed the issue and sale, through a non-brokered private placement, of 835,300 units of the Company (the "Units"). These Units were issued at a price of \$0.15 per Unit for proceeds to the Company of \$125,295. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.40 for a period of two years. Mr. James Bruchs, the Chief Executive Officer of the Company, was the beneficial purchaser of 48.6% of the Units to control 1,489,100 common shares or 31.38% of the issued and outstanding common shares of the Company, with other insiders and their associates purchasing the remainder of the Units.

##### (ii) **Private Placement**

On October 15, 2002 the Company completed the issue and sale, through a non-brokered private placement, of 372,120 units of the Company (the "Units"). These Units were issued at a price of \$0.25 per Unit for proceeds to the Company of \$93,030. Each Unit consists of one common share of the Company and one warrant of the Company, each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.25 for a period of two years. Mr. James M. Bruchs, Chief Executive Officer and a director of the Company, was the beneficial purchaser of 83% of the Units to hold 1,799,200 common shares or 35.16% of the issued and outstanding common shares of the Company, with another director, Mr. Patrick McGinley, purchasing the remainder of the Units.

(iii) **Private Placement**

On November 15, 2002 the Company completed the issue and sale, through a non-brokered private placement, 236,130 units of the Company (the "Units"). These units were issued at a price of \$0.50 per Unit for proceeds to the Company of \$118,065. Each Unit consists of one common share of the Company and half a warrant of the Company, each full such warrant entitling the holder to purchase one common share of the Company at a price of \$0.50 for a period of two years. Mr. James M. Bruchs, the Chief Executive Officer and a director of the Company is the beneficial purchaser of 33% of the Units, to hold 1,878,910 common shares or 35.10% of the issued and outstanding common shares of the Company, with arms length third parties subscribing for 67% of the Units.

*Common Share Purchase Options*

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

<b>Beneficiary</b>	<b>Outstanding March 31, 2002</b>	<b>Expired April 9, 2002</b>	<b>Granted June 25, 2002</b>	<b>Granted Sept. 19, 2002</b>	<b>Outstanding Dec. 31, 2002</b>
C.M.H. Jennings	--	--	50,000 (b)	50,000 (c)	100,000
J.M Bruchs	--	--	50,000 (b)	50,000 (c)	100,000
A.E. Moore	--	--	50,000 (b)	50,000 (c)	100,000
P.C. McGinley	--	--	50,000 (b)	50,000 (c)	100,000
S. Woodhead	110,000	(110,000) (a)	50,000 (b)	--	50,000
C. Sharp	--	--	10,000 (b)	--	10,000
Others	890,000	(890,000) (a)	--	--	--
	<b>1,000,000</b>	<b>(1,000,000)</b>	<b>260,000</b>	<b>200,000</b>	<b>460,000</b>

- (a) All remaining outstanding stock options expired with the restructuring of the Company that was approved by the holders of common shares on April 9, 2002.
- (b) These common share purchase options vest as to one-half immediately and one-half on the six-month anniversary of the date granted. These options are valid for five years and grant the right to the beneficiaries to purchase common shares in the Company at \$0.15 per share.
- (c) These common share purchase options vest as to one-half immediately and one-half on the first anniversary of the date granted. These options are valid for five years and grant the right to the beneficiaries to purchase common shares in the Company at \$0.23 per share.

5. **Income taxes**

As at December 31, 2002, the Company had net operating losses carried forward for income tax purposes, as well as \$0.3 million of Canadian exploration and development expenditures that may be used to reduce income taxes payable in future periods. The Company has recorded a valuation allowance against its future tax assets.

6. **Profit or Loss per share**

The Profit or Loss per share is based on the weighted average number of common shares outstanding of 5,181,144 and 4,980,110 for the three and nine months respectively, ended December 31, 2002 and 14,597,856 for the year ended March 31, 2002.

7. **Segmented information**

Substantially all working capital balances of the Company are situated at the head office in Canada and in Botswana. The capital assets of the Company are presently situated in Botswana \$3,000 (March 31, 2002: Botswana \$3,000 and Canada \$1,000). The geographic distribution of the property acquisition costs and exploration expenditures is evident from the details presented in note 3.

8. **Related party transactions and balances**

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

9. **Commitments**

Minimum remaining lease payments for leased equipment are as follows:

	\$000
2003	1
2004	4
2005	4
2006	<u>3</u>
	<u>12</u>

# TSODILO RESOURCES LIMITED

## Corporate Information

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### Corporate Head Office

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### Directors

Christopher M.H. Jennings <sup>\*\*</sup> (Dr.), Chairman

Toronto, Ontario

James M. Bruchs <sup>\*</sup>

Gaborone, Botswana <sup>#</sup>

Andrew E. Moore (Dr.)

Gaborone, Botswana

Patrick C. McGinley <sup>\*\*</sup>

Washington, D.C.

\* Member of the Audit Committee and the Corporate Governance Committee

+ Member of the Compensation Committee

# Residency application pending

### Officers

James M. Bruchs, B.Sc., J.D.

President and Chief Executive Officer

Andrew E. Moore (Dr.), MBA., Ph.D., Pr.Sci.Nat

Vice President, Exploration

Stephen Woodhead, B. Com., CA (SA)

Chief Financial Officer and Secretary

### Auditors

PricewaterhouseCoopers LLP.

### Bankers

Royal Bank of Canada

### Registrar and Transfer Agent

Computershare Trust Company of Canada

### Stock Exchange Listing

TSX Venture Exchange: **TSD**