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Klondike Source Limited

ABN 64 087 595 980

Annual Report 2005

KLONDIKE SOURCE LIMITED

ABN 64 087 595 980

DIRECTORS
Patrick J D Elliott (Chairman)
Colin M Thomas
Raymond J Soper

CEO
Robert G Adamson

SECRETARY
Robert J Waring

REGISTERED AND ADMINISTRATION OFFICE
Level 10, 80 Arthur Street, North Sydney, NSW 2060
Telephone: (02) 9957 3199
Facsimile: (02) 9954 4011

Email: info@klondikesource.com.au
Web: www.klondikesource.com.au

AUDITORS
Barnes Dowell James

BANK
Westpac Banking Corporation

Stock Exchange Listing and NSX Code
The Company's shares are quoted on the official list of the Stock Exchange of Newcastle Limited and trade under NSX code KSL.

CONTENTS

CHAIRMAN'S LETTER

As stated in the 2004 Annual Report, the Company's 2004 exploration did not succeed in indicating the likely presence of a major hardrock source for the Klondike Goldfield's famed alluvial gold deposits. As a result, the Directors decided not to sole-risk further high-cost gold exploration on the Company's Klondike claims. Nevertheless, we have a significant number of mining claims which will remain the property of the Company for a further three to four years, during which time they can be considered of strategic commercial value should another company make a major hardrock discovery in the region. So far, we have successfully farmed-out future exploration on 56 claims through an option agreement with Klondike Star Mineral Corporation.

It was noted in last year's Annual Report that we were seeking other high quality exploration opportunities. During the past year we have looked at a considerable number of proposals. It has taken a lot longer than originally anticipated to identify and evaluate an opportunity which we consider worthy of placing before Shareholders. Crossland Minerals Pty Ltd (Crossland) is an exploration company that was originally established to acquire a suite of properties in northern Australia prospective for base metals, diamonds and uranium. More recently the Company has increased its exposure to uranium by applying for further areas prospective for uranium. KSL's technical team has assessed the portfolio of uranium and other exploration properties that Crossland has now acquired and they have concluded that it is an excellent opportunity for the further development of the Company.

The opportunity to employ KSL's structure to acquire Crossland and to use its remaining funds to prepare for a further capital raising and listing on ASX is being presented for the consideration of Shareholders at the forthcoming Annual General Meeting. This proposal is fully documented in the Notice of Annual General Meeting accompanying the posting of this report.

The Directors recommend that KSL shareholders fully support this development and we look forward to materially advancing the Company's goals in 2006.

R J Soper
Acting Chairman

29 March 2006

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Klondike Source Limited and the entity it controlled at the end of, and during the year ended 31 December 2005.

Directors

The following persons were Directors of Klondike Source Limited during the whole of the financial year and up to the date of this report:

Patrick J D Elliott (Chairman)
Colin M Thomas
Raymond J Soper

Robert G Adamson (alternate director for C M Thomas)

Directors' qualifications and experience

Patrick J D Elliott
Non-Executive Chairman

Pat Elliott has over 31 years experience in investment, financial and industrial management, having previously been employed by Consolidated Goldfields Australia Limited, Morgan Grenfell Australia Limited and Natcorp Investments Limited. He is currently a director of Argonaut Resources NL (Chairman), Magnesium International Limited (Managing Director and Deputy Chairman), Australian Oriental Minerals NL (Chairman) and Heritage Gold NZ Limited (Chairman).

Colin M Thomas
Technical Director

Colin Thomas is a graduate of St Andrews University, Scotland. He joined the then international natural resources consulting group, Robertson Research group in 1970, after 10 years in regional mapping for Government Geological Surveys in Africa (Tanzania and Botswana). He has specialised in regional and district geological studies for precious and base metals, uranium and diamonds, having undertaken significant projects for (among others) Newmont Australia, CRA/RTZ, Freeport Australia, Mobil Minerals Australia, Hindustan Copper Ltd (Indian government corporation) and BP Minerals NZ. In addition, he has major experience in the assessment and valuation of mineral exploration properties for equity fund raising. He is a director of RobSearch Australia, a wholly Australian owned natural resources, safety and environmental risk management and project consultancy, which commenced business as the Australian coal/mineral resources consultancy arm of the Robertson Research group PLC in 1970.

Raymond J Soper
Non-Executive Director

Ray Soper is a mining engineer and company director, with over 40 years experience in the mining industry. He has worked with MIM Holdings, Renison Goldfields, McKinsey and Co, Peko-Wallsend Ltd, Lachlan Resources and Resource Finance Corporation in the fields of mining, mineral economics, mining finance, exploration, technology development and related activities. He is a director of King Island Scheelite Limited, Huntley Investment Company Limited, Paradigm Gold Limited and PlatSearch NL.

Robert G Adamson
Alternate Director for C M Thomas, Chief Executive Officer

Bob Adamson has over 36 years experience in exploration, initially with the CRA/RTZ group, followed by 14 years with the Newmont group. He was subsequently General Manager for BP Minerals NZ and then Managing Director of Cluff Pacific Resources and a director of Cluff Zimbabwe (owner/operator of the largest gold mine in that country, the Freda Rebecca). Whilst with Newmont, he made major contributions to the discovery of the Telfer gold deposit in 1972. For the past ten years he has been an independent consultant and associated with RobSearch Australia. He is a director of Southern Cross Exploration NL.

Principal activities

The principal activity of the consolidated entity is the exploration for economic hardrock gold deposits.

DIRECTORS' REPORT

Results

The net result of operations after applicable income tax expense of the consolidated entity for the year ended 31 December 2005 was a loss of $606,233 (2004 – loss of $782,660).

Dividends

No dividends were either paid or declared for the year (2004 – nil).

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2005.

Review of operations

A review of the Company's exploration and drill hole data was undertaken following the drilling program carried out in 2004. Further interpretation has indicated that the structural geology of the Klondike district is more complex than we previously thought and a review of the alteration and geochemical information has supported that conclusion. The Board has decided that the project requires more resources to do it justice and that the best course is for the Company to seek those resources from third parties.

The 2004 drilling expenditure earned the Company an interest of 56% in the Joint Venture with Pacrim Resources Limited (PRL). After relinquishments during 2005, the Joint Venture retains 435 claims that cover an area of about 60 square kilometres in the centre of the Klondike Goldfield. These are valid until 2009-2010 without any further expenditure on exploration. A limited program of drill site rehabilitation is to be completed during 2006. The Company also holds a 100% interest in 87 quartz mining claims which will expire in August-September 2006.

In February 2006, the Klondike Joint Venture granted Klondike Star Mineral Corporation an option over 56 quartz mining claims (DOM claims) in the eastern part of the claims block. The Option Agreement has an exercise price of CAN$18,000 per individual claim or CAN$500,000 for purchase of all the claims together with a royalty of 2.5% of net smelter returns.

In March 2005, the Company was advised that a Whitehorse legal firm holds a judgement against PRL for CAN$13,532 and a Writ of Seizure and Sale to be enforced by the Yukon Sheriff's Office against 375 Klondike Joint Venture claims of which PRL is the registered holder. We have been advised that the writ attaches only to PRL's interest in the claims and that a sale cannot be forced until the writ has been registered for one year.

During 2005, over a dozen alternative exploration opportunities were assessed. The majority were in Australia and covered a wide range of mineral commodities from gold to industrial mineral projects. Many of the projects had been in the market place for a considerable time and were rejected as of limited, if any, interest to the Company's shareholders or where it was difficult to envisage potential for the Company to add significant value.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Other than the proposed acquisition of a shareholding in Crossland Minerals Pty Ltd, as outlined in the Chairman's Letter on page 1 of the Annual Report, there were at the date of this report no matters or circumstances which have arisen since 31 December 2005 that have significantly affected or may significantly affect:

i) the operations of the consolidated entity,

ii) the results of those operations, or

iii) the state of affairs of the consolidated entity

in the financial years subsequent to 31 December 2005.

Likely developments

The Company is hoping to identify precious metals, uranium and base metal exploration and evaluation opportunities which are perceived to offer outstanding value. At this stage, it is not possible to postulate likely developments from any of these exploration activities. As the consolidated entity's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments.

DIRECTORS' REPORT

Directors' benefits

During the year no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the notes to the accounts) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Share options

Particulars of options granted over unissued shares:
There are 15,325,100 options granted by the Company over unissued ordinary shares. No shares have been issued in the period as the result of the exercise of options. Full details of options on issue are shown in note 18.

REMUNERATION REPORT

Directors' remuneration

	Directors' Fees	Consulting Fees	Superannuation	Options	TOTAL
P J D Elliott	10,000	-	-	-	10,000
C M Thomas	-	15,000	-	-	15,000
R J Soper	10,000	-	-	-	10,000
	20,000	**15,000**	**-**	**-**	**35,000**

In addition, certain consulting fees were paid to companies related to the Directors (refer to note 26).

Executive officer's remuneration

	Consulting Fees	Options	TOTAL
R G Adamson	21,859	-	21,859

Directors' interests in shares and options

The relevant interest of each Director in the share capital of the Company as at the date of this report is as follows:

2005			P J D Elliott	C M Thomas	R J Soper	R G Adamson
Ordinary shares			**2,500,000**	**1,750,050**	**1,117,540**	**296,750**
Options	**Exercise price**	**Expiry date**				
	20 cents per share	31.12.2007	**2,195,000**	**875,000**	**450,000**	**125,000**
	25 cents per share	31.12.2007	**1,250,000**	**2,195,000**	**2,195,000**	**200,000**
	30 cents per share	31.12.2007	**-**	**800,000**	**800,000**	**-**
	20 cents per share	20.04.2009	**600,000**	**-**	**-**	**400,000**

2004			P J D Elliott	C M Thomas	R J Soper	R G Adamson
Ordinary shares			**2,500,000**	**1,750,050**	**1,117,540**	**296,750**
Options	**Exercise price**	**Expiry date**				
	20 cents per share	31.12.2007	**2,195,000**	**875,000**	**450,000**	**125,000**
	25 cents per share	31.12.2007	**1,250,000**	**2,195,000**	**2,195,000**	**200,000**
	30 cents per share	31.12.2007	**-**	**800,000**	**800,000**	**-**
	20 cents per share	20.04.2009	**600,000**	**-**	**-**	**400,000**

DIRECTORS' REPORT

Meetings of directors

Attendance at Directors' meetings during the year:

	Eligible to attend	Attended
Patrick J D Elliott	5	2
Colin M Thomas	5	5
Raymond J Soper	5	5

Directors Messrs Soper and Elliott are members of the Company's Audit Committee, which met twice during the year. The Committee was set up to review the Company's financial systems, accounting policies and annual financial statements.

Environment

Klondike Source Limited, through its subsidiary, KSL Exploration (Yukon) Limited, holds exploration tenements in the Yukon Territory of Canada, that are subject to various governmental statutes and guidelines for environmental impacts in relation to exploration activities. These provide for the satisfactory rehabilitation of the areas of exploration. There have been no material known breaches of the licence conditions.

Directors' and auditors' indemnification

The Company has not, either during or since the end of the financial period, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

During or since the financial period, the Company has not paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Auditor

Barnes Dowell James holds office in accordance with section 327 of the Corporations Act 2001.

The auditors' independence declaration is attached on page 28.

This report is made in accordance with a resolution of the Directors.

R J Soper
Director

Sydney
29 March 2006

INCOME STATEMENTS

for the year ended 31 December 2005

	Note	Consolidated		Parent Entity	
		2005 **$**	2004 $	**2005** **$**	2004 $
Revenue	2	**40,022**	45,640	**37,388**	45,592
Administration costs		**(68,803)**	(152,616)	**(70,759)**	(122,114)
Borrowing cost	2	**(1,185)**	(246)	**(1,185)**	(246)
Consultants' fees		**(46,567)**	(199,692)	**(36,859)**	(199,692)
Depreciation	2	**(1,703)**	(2,859)	**(1,050)**	(906)
Diminution of loans to controlled entity	2	-	-	**(371,175)**	(560,588)
Directors' fees		**(20,000)**	(20,000)	**(20,000)**	(20,000)
Exploration property provision	2	**750,000**	(750,000)	-	-
Exploration property written off	2	**(1,203,211)**	-	**(164,281)**	-
Foreign exchange gains (losses)	2	**-**	224,794	**66,002**	126,863
Minesite rehabilitation provision		**(15,000)**	-	**(15,000)**	-
Office rent	2	**(26,568)**	(26,568)	**(26,568)**	(26,568)
Other expenses from ordinary activities		**(17,247)**	(24,695)	**(16,889)**	(24,695)
Loss from ordinary activities before income tax expense		**(610,262)**	(906,242)	**(620,376)**	(782,354)
Income tax (expense) benefit		**4,029**	123,582	**-**	-
Net loss from ordinary activities after income tax expense	21	**(606,233)**	(782,660)	**(620,376)**	(782,354)
Basic and diluted loss per share (cents)	6	**(1.92)**	(2.80)		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

at 31 December 2005

	Note	Consolidated		Parent Entity	
		2005	2004	**2005**	2004
		$	$	**$**	$
CURRENT ASSETS					
Cash and cash equivalents	7	**747,280**	729,963	**716,316**	717,491
Trade and other receivables	8	**28,230**	210,946	**22,730**	45,095
TOTAL CURRENT ASSETS		**775,510**	940,909	**739,046**	762,586
NON-CURRENT ASSETS					
Receivables	9	**-**	-	**54,394**	467,345
Deferred exploration and evaluation expenditure	10	**19,813**	448,190	**-**	164,281
Investments	11	**-**	-	**855**	855
Plant and equipment	12	**3,439**	13,605	**1,530**	2,440
TOTAL NON-CURRENT ASSETS		**23,252**	461,795	**56,779**	634,921
TOTAL ASSETS		**798,762**	1,402,704	**795,825**	1,397,507
CURRENT LIABILITIES					
Trade and other payables	13	**195,646**	162,659	**192,709**	157,462
Other current financial liabilities	14	**1,673**	1,220	**1,673**	1,220
Borrowings	15	**-**	32,000	**-**	32,000
Provisions	16	**15,000**	-	**15,000**	-
TOTAL CURRENT LIABILITIES		**212,319**	195,879	**209,382**	190,682
TOTAL NON-CURRENT LIABILITIES		**-**	-	**-**	-
TOTAL LIABILITIES		**212,319**	195,879	**209,382**	190,682
NET ASSETS		**586,443**	1,206,825	**586,443**	1,206,825
SHAREHOLDERS' EQUITY					
Issued capital	17	**3,007,512**	3,007,518	**3,007,512**	3,007,518
Foreign currency translation reserve	19	**(14,143)**	-	**-**	-
Option expense reserve	20	**70,935**	70,935	**70,935**	70,935
Accumulated losses	21	**(2,477,861)**	(1,871,628)	**(2,492,004)**	(1,871,628)
TOTAL EQUITY		**586,443**	1,206,825	**586,443**	1,206,825

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2005

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
Total equity at the beginning of the year	**1,206,825**	536,022	**1,206,825**	535,716
Current year expenses recognised directly in equity:				
Net expenses recognised directly in equity	**(14,143)**	70,935	**-**	70,935
Loss for the year	**(606,233)**	(782,660)	**(620,376)**	(782,354)
Total recognised income and expense for the year	**(620,376)**	(711,725)	**(620,376)**	(711,419)
Transactions with equity holders in their capacity as equity holders				
Contributions of equity, net of transaction costs	**(6)**	1,382,528	**(6)**	1,382,528
Total equity at the end of the year	**586,443**	1,206,825	**586,443**	1,206,825

	Consolidated		Parent Entity	
Total recognised income and expense for the year is attributable to members of Klondike Source Ltd	**(620,376)**	(711,725)	**(620,376)**	(711,419)

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS

for the year ended 31 December 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Payment to suppliers (inclusive of GST)		**(113,149)**	(271,716)	**(47,008)**	(365,873)
Interest received		**39,658**	45,640	**37,388**	45,592
Interest paid		**(1,185)**	(246)	**(1,185)**	(246)
Corporate taxes received		**134,614**	-	**-**	-
NET CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES	29	**59,938**	(226,322)	**(10,805)**	(320,527)
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on plant and equipment		**(140)**	(15,804)	**(140)**	(2,818)
Expenditure on mining interests (exploration)		**(19,441)**	(775,009)	**-**	(164,281)
Proceeds from sale of assets		**8,966**	-	**-**	-
Loans repaid by (advanced to) controlled entity		**-**	-	**41,776**	(528,864)
NET CASH INFLOWS / (OUTFLOWS) FROM INVESTING ACTIVITIES		**(10,615)**	(790,813)	**41,636**	(695,963)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		**-**	1,503,000	**-**	1,503,000
Repayment of borrowing		**(32,000)**	-	**(32,000)**	-
Share issue costs		**(6)**	(120,472)	**(6)**	(120,472)
NET CASH INFLOWS / (OUTFLOWS) FROM FINANCING ACTIVITIES		**(32,006)**	1,382,528	**(32,006)**	1,382,528
NET INCREASE / (DECREASE) IN CASH HELD		**17,317**	365,393	**(1,175)**	366,038
Cash and cash equivalents at the beginning of the financial year		**729,963**	364,570	717,491	351,453
Cash and cash equivalents at the end of the financial year	29	**747,280**	729,963	**716,316**	717,491

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with AIFRS and AASB 1 *First Time Adoption of AIFRS* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position as set out in the balance sheets, financial performance as set out in the income statements and cash flows of the consolidated entity and Klondike Source Limited (the Company or KSL) provided in note 31.

b. Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 January 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by consolidated entities.

Borrowings

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to known or probable mineral resource capable of supporting a mining operation.

Exploration expenditure for each area of interest, other than that acquired from the purchase of another mining company, is written off as incurred, except that it is carried forward provided that one of the following conditions is met:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

A provision is raised against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable. The increase in the provision is charged against the results for the year. Exploration expenditure which no longer satisfies the above policy is written off. When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off firstly against any existing provision for that expenditure, with any remaining balance being charged to earnings. The provision against exploration expenditure is reversed when recoupment out of revenue to be derived from the relevant area of interest/mineral resource or from the sale of that area of interest, is assured and the asset is transferred to another class or sold.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the Company's rights of tenure to that area of interest are current.

Foreign currency translation

Transactions
Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At reporting date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current on that date. Resulting exchange differences are recognised in determining the profit and loss for the year.

Hedging
The Consolidated Entity has not entered into any specific, general or speculative hedging arrangements.

Foreign controlled entities
As the foreign controlled entities are integrated, their assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while its revenues and expenses are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the income statements.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority it is recognised as part of the cost of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authorities is included as part of other receivables or other payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authorities is classified as operating cash flows.

Impairment

The carrying amounts of the consolidated entity's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Joint ventures

Interests in joint ventures are brought to account by including in the respective classifications, the share of individual assets employed, and liabilities and expenses incurred.

Leases

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal instalments over the lease term.

Principles of consolidation

Controlled entities

The financial statements of Controlled Entities are included from the date control commences until the date control ceases. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Joint ventures

A joint venture is either an entity or operation that is jointly controlled by the Consolidated Entity.

Joint venture operation

The Consolidated Entity's interest in unincorporated joint ventures is brought to account by including its proportionate share of the joint venture's assets, liabilities and expenses and the Consolidated Entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between Controlled Entities are eliminated in full on consolidation. Unrealised gains resulting from transactions with joint ventures are eliminated to the extent of the Consolidated Entity's interest. Unrealised gains relating to joint venture entities are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Plant and equipment

All assets acquired including plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Depreciation is provided on a straight line basis on all plant and equipment at rates calculated to write off the cost, less estimated residual value at the end of the useful lives of the assets, over those estimated useful lives.

The following estimated useful lives are used in the calculation of depreciation

Plant and equipment 5 – 8 years

Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Site restoration

In accordance with the consolidated entity's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

Trade and other receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

Revenue recognition

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of GST.

Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

2. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	Consolidated		**Parent Entity**	
	2005	2004	**2005**	2004
	$	$	**$**	$
The operating loss from ordinary activities before income tax expense has been determined after:				
(a) crediting the following income				
Interest received	**39,652**	45,640	**37,388**	45,592
Foreign exchange gains	**-**	224,794	**66,002**	126,863
Gain on sale of assets	**362**	-	-	-

2. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE *(continued)*

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
(b) charging the following expenses:				
Borrowing costs	**1,185**	246	**1,185**	246
Depreciation	**1,703**	2,859	**1,050**	906
Diminution of loan to controlled entity	-	-	**371,175**	560,588
Exploration property provision (written back)	**(750,000)**	750,000	**-**	-
Exploration property written off	**1,203,211**	**-**	**164,281**	-
Office rent	**26,568**	26,568	**26,568**	26,568

3. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

Directors' remuneration

	Directors' Fees	Consulting Fees	Superannuation	Options	TOTAL
P J D Elliott	10,000	-	-	-	10,000
C M Thomas	-	15,000	-	-	15,000
R J Soper	10,000	-	-	-	10,000
	20,000	**15,000**	**-**	**-**	**35,000**

In addition, certain consulting fees were paid to companies related to the Directors (refer to note 26).

Executive officer's remuneration

	Consulting Fees	Options	TOTAL
R G Adamson	21,859	**-**	21,859

4. REMUNERATION OF AUDITORS

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
Total amounts receivable by the auditors of the Company for:				
Audit of the Company's accounts	**9,750**	9,025	**9,750**	9,025
Other services	**-**	-	**-**	-
	9,750	9,025	**9,750**	9,025

5. FINANCIAL REPORTING BY SEGMENTS

The consolidated entity operates predominantly in the one industry and in one geographical area, namely Canadian mineral exploration and evaluation.

6. LOSS PER SHARE

Basic and diluted	2005	2004
Weighted average number or shares used in basic and diluted earnings per share	**31,504,900**	27,923,777
Basic and diluted loss per share (cents per share)	**(1.92)**	(2.80)

7. CASH AND CASH EQUIVALENTS

	Consolidated		Parent Entity	
	2005 $	2004 $	**2005 $**	2004 $
Cash at bank	**84,276**	47,473	**53,312**	35,001
Deposits at call	**33,004**	82,490	**33,004**	82,490
Bank bills	**630,000**	600,000	**630,000**	600,000
	747,280	729,963	**716,316**	717,491

8. TRADE AND OTHER RECEIVABLES

Other debtors	**-**	18,927	**-**	18,927
Security deposit	**20,000**	20,000	**20,000**	20,000
Corporate taxes receivable	**4,376**	134,614	**-**	-
GST debtor	**3,720**	37,271	**2,596**	6,034
Interest receivable	**134**	134	**134**	134
	28,230	210,946	**22,730**	45,095

9. RECEIVABLES – NON-CURRENT

Loan to controlled entity	**-**	-	**1,137,499**	1,179,275
Less provision for diminution	**-**	-	**(1,083,105)**	(711,930)
	-	-	**54,394**	467,345

10. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Deferred exploration costs	**19,813**	1,198,190	**-**	164,281
Less provision for diminution	**-**	(750,000)	**-**	-
	19,813	448,190	**-**	164,281
Deferred exploration costs brought forward	**448,190**	486,447	**164,281**	-
Costs incurred during the year	**19,441**	775,009	**-**	164,281
Provision for diminution written back (provided)	**750,000**	(750,000)	**-**	-
Exploration expenditure written off	**(1,203,211)**	-	**(164,281)**	**-**
Exchange rate fluctuation	**5,393**	(63,266)	**-**	-
Deferred exploration costs carried forward	**19,813**	448,190	**-**	164,281

10. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE *(continued)*

The above amounts represent costs of exploration areas of interest carried forward as an asset in accordance with the accounting policy set out in note 1. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

11. INVESTMENTS

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
Investment in controlled entity	**-**	-	**855**	855

12. PLANT AND EQUIPMENT

Plant and equipment

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Cost	**8,209**	18,115	**5,022**	4,882
Accumulated depreciation	**(4,770)**	(4,510)	**(3,492)**	(2,442)
	3,439	13,605	**1,530**	2,440

Reconciliations of the carrying amount of each class of plant and equipment at the beginning and end of the current financial year are set out below.

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Carrying amount at 1 January 2005	**13,605**	660	**2,440**	528
Additions	**140**	15,804	**140**	2,818
Depreciation	**(1,703)**	(2,859)	**(1,050)**	(906)
Disposals	**(8,603)**	-	**-**	-
Carrying amount at 31 December 2005	**3,439**	13,605	**1,530**	2,440

13. TRADE AND OTHER PAYABLES

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Trade creditors and accruals	**195,646**	162,659	**192,709**	157,462

14. OTHER CURRENT FINANCIAL LIABILITIES

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Unearned interest	**1,673**	1,220	**1,673**	1,220

15. CURRENT BORROWINGS

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Convertible note (refer note 26)	**-**	32,000	**-**	32,000

16. CURRENT PROVISIONS

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Site rehabilitation	**15,000**	-	**15,000**	-

17. SHARE CAPITAL

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
Issued Capital				
31,504,900 fully paid ordinary shares (2004 –31,504,900)	**3,150,490**	3,150,490	**3,150,490**	3,150,490
Less share issue costs	**(142,978)**	(142,972)	**(142,978)**	(142,972)
	3,007,512	3,007,518	**3,007,512**	3,007,518

18. OPTIONS

Expiry Date	Exercise Price	Issued 1 January 05	Granted	Exercised	Lapsed	Issued 31 December 05
31 Dec 07	0.20	6,487,500	-	-	-	6,487,500
31 Dec 07	0.25	5,987,600	-	-	-	5,987,600
31 Dec 07	0.30	1,600,000	-	-	-	1,600,000
20 Apr 09	0.20	1,250,000	-	-	-	1,250,000
		15,325,100	-	-	-	15,325,100

19. FOREIGN CURRENCY TRANSLATION RESERVE

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
Balance at the beginning of the financial year	**-**	-	**-**	-
Exchange gains transferred to reserve	**(14,143)**	-	**-**	-
Balance at the end of the financial year	**(14,143)**	-	**-**	-

20. OPTION EXPENSE RESERVE

Balance at the beginning of the financial year	**70,935**	-	**70,935**	-
Option expense transferred to reserve	**-**	70,935	**-**	70,935
Balance at the end of the financial year	**70,935**	70,935	**70,935**	70,935

21. ACCUMULATED LOSSES

Accumulated losses at the beginning of the financial year	**(1,871,628)**	(1,088,968)	**(1,871,628)**	(1,089,274)
Net loss for the year	**(606,233)**	(782,660)	**(620,376)**	(782,354)
Retained losses at the end of the financial year	**(2,477,861)**	(1,871,628)	**(2,492,004)**	(1,871,628)

22. CONTINGENT LIABILITIES

There are no contingent liabilities.

23. COMMITMENTS

Exploration Tenement Expenditure Requirements

In order to maintain the consolidated entity's tenements in good standing with Canadian mining authorities, the Company will be required to incur exploration expenditure under the terms of each claim.

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$	$	**$**	$
Payable not later than one year	**21,557**	21,557	**-**	-
Payable later than one year, but not later than two years	**28,815**	50,372	**-**	-
	50,372	71,929	**-**	-

It is likely that variations to the terms of the current and future tenement holdings, the granting of new tenements and changes in tenement areas at renewal or expiry, will change the expenditure commitment to the consolidated entity from time to time.

24. JOINT VENTURES

The consolidated entity continues exploration in the Klondike Joint Venture (which it manages) with Pacrim Resources Limited (PRL). The consolidated entity has earned a 56% participating interest in the joint venture and can earn additional interest by contributing expenditure in the event PRL elects dilution.

25. LEASE COMMITMENTS

Payable not later than one year	**-**	22,120	**-**	22,120
Payable later than one year, but not later than two years	**-**	-	**-**	-
	-	22,120	**-**	22,120

26. RELATED PARTY DISCLOSURES

(a) Directors

The Directors in office during the year were Patrick J D Elliott, Colin M Thomas, Raymond J Soper and Robert G Adamson (alternate director for Colin M Thomas).

(b) Directors interests

Interests in the shares and options of the Company held by current directors and their director-related entities are:

2005			P J D Elliott	C M Thomas	R J Soper	R G Adamson
Ordinary shares			**2,500,000**	**1,750,050**	**1,117,540**	**296,750**
Options	**Exercise price**	**Expiry date**				
	20 cents per share	31.12.2007	**2,195,000**	**875,000**	**450,000**	**125,000**
	25 cents per share	31.12.2007	**1,250,000**	**2,195,000**	**2,195,000**	**200,000**
	30 cents per share	31.12.2007	**-**	**800,000**	**800,000**	**-**
	20 cents per share	20.04.2009	**600,000**	**-**	**-**	**400,000**

26. RELATED PARTY DISCLOSURES *(continued)*

Shares held by Directors included those held by the Directors and their Director-related entities, including the spouses of such Directors and relatives of such Directors. All shares and options were issued or granted on terms no more favourable than to other shareholders.

(c) Convertible note

Klondike Source Limited issued a convertible note during the year ended 31 December 2003 to Poduta Pty Limited, a company in which Mr Colin Thomas is a director and has a significant financial interest in. The interest rate imposed is the rate of interest per annum actually paid by Mr Colin Thomas, a Director of the Noteholder (Poduta Pty Limited), in respect of a loan by Citibank Mortgage Power to Mr Colin Thomas. The note was repaid during the year.

	Consolidated		**Parent Entity**	
	2005 $	2004 $	**2005 $**	2004 $
Maximum amount available	**-**	70,000	**-**	70,000
Amount drawn down at balance date	**-**	32,000	**-**	32,000

(d) Associates of directors

Mr C M Thomas is a director and has a significant financial interest in RobSearch Pty Limited, a company that provides geological and administration services to the Company. A portion of costs has been deferred and is payable to RobSearch when the Company completes a successful IPO or equivalent raising to raise a minimum of $2.5 million or a like amount is spent by way of expenditure by joint venture partners of the Company's exploration properties. Services provided by RobSearch were under normal commercial terms and conditions.

Amounts paid during year	**9,375**	76,145	**9,375**	76,145
Amounts deferred during year	**5,625**	14,250	**5,625**	14,250
Deferred amount at balance date	**119,675**	114,050	**119,675**	114,050

27. SUBSEQUENT EVENTS

Other than the proposed acquisition of a shareholding in Crossland Minerals Pty Ltd as detailed in the Chairman's Letter, there were at the date of this report no matters or circumstances which have arisen since 31 December 2005 that have significantly affected or may significantly affect:

i) the operations of the consolidated entity,

ii) the results of those operations, or

iii) the state of affairs of the consolidated entity

in the financial years subsequent to 31 December 2005.

28. FINANCIAL INSTRUMENTS

(a) The Company receives interest on its cash balance and at balance date was exposed to a floating weighted average interest rate on cash balances of 4.75% (2004 - 4.25%). As surplus funds become available, they are deposited in its cash management account and are exposed to receiving a floating rate, which varies according to the amount of funds deposited. All other financial assets are non-interest bearing.

(b) Net fair value of financial assets and liabilities: the net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities approximates their carrying value.

(c) The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

28. FINANCIAL INSTRUMENTS *(continued)*

	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	over 1 to 5 years	more than 5 years	Non-interest bearing	Total
		$	$	$	$	$	$
2005							
Financial assets							
Cash	7	117,280	630,000	-	-	-	747,280
Receivables	9	-	-	-	-	28,230	28,230
		117,280	630,000	-	-	28,230	775,510
Weighted average interest rate		3.25%					
Financial liabilities							
Payables	13	-	-	-	-	195,646	195,646
		-	-	-	-	195,646	195,646
Weighted average interest rate		-					
Net financial assets (liabilities)		117,280	630,000	-	-	(167,416)	579,864

	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	over 1 to 5 years	more than 5 years	Non-interest bearing	Total
		$	$	$	$	$	$
2004							
Financial assets							
Cash	7	129,963	600,000	-	-	-	729,963
Receivables	9	-	-	-	-	210,946	210,946
		129,963	600,000	-	-	210,946	940,909
Weighted average interest rate		5.25%					
Financial liabilities							
Payable	13	-	-	-	-	162,659	162,659
Convertible notes	15	32,000	-	-	-	-	32,000
		32,000	-	-	-	162,659	194,659
Weighted average interest rate		7.59%					
Net financial assets (liabilities)		97,963	600,000	-	-	48,287	746,250

29. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITES

(a) Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities as follows:

	Consolidated		Parent Entity	
	2005 **$**	2004 $	**2005** **$**	2004 $
Operating (loss) after income tax	**(606,233)**	(782,660)	**(620,376)**	(782,354)
Depreciation	**1,703**	2,859	**1,050**	906
Gain on sale of assets	**(362)**	-	**-**	-
Provision for exploration properties	**(750,000)**	750,000	**-**	-
Exploration properties written off	**1,203,211**	-	**164,281**	**-**
Diminution of loans to controlled entity	**-**	-	**371,175**	560,588
Option expense	**-**	70,935	**-**	70,935
Provision for minesite rehabilitation	**15,000**	-	**15,000**	-
Unrealised foreign exchange loss	**(19,884)**	63,266	**-**	-
Change in operating assets and liabilities:				
- Decrease / (Increase) in receivables	**52,478**	(42,575)	**22,365**	(20,217)
- Increase / (Decrease) in accounts payable	**33,440**	(153,533)	**35,700**	(150,385)
- Decrease / (Increase) in Corporate taxes receivable	**130,585**	(134,614)	**-**	-
Net cash inflow (outflow) from operating activities	**59,938**	(226,322)	**(10,805)**	(320,527)

(b) Cash on hand comprises:

Cash and cash equivalents	**747,280**	**729,963**	**716,316**	**717,491**

30. DETAILS OF CONTROLLED ENTITIES

Company	Country of Incorporation and Operation	Percentage of Equity Held	
		2005	2004
KSL Exploration (Yukon) Ltd	Canada	**100%**	100%

31. IMPACT OF AIFRS

Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS).

(i) At the date of transition to AIFRS: 1 January 2004

	Note	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
ASSETS				
Current assets				
Cash and cash equivalents		364,570	-	364,570
Receivables		33,757	-	33,757
Total current assets		398,327	-	398,327
Non-current assets				
Deferred exploration and evaluation expenditure		486,447	-	486,447
Plant and equipment		660	-	660
Total non-current assets		487,107	-	487,107
Total assets		885,434	-	885,434
LIABILITIES				
Current liabilities				
Payables		317,412	-	317,412
Total current liabilities		317,412	-	317,412
Non-current liabilities				
Interest bearing liabilities		32,000	-	32,000
Total non-current liabilities		32,000	-	32,000
Total liabilities		349,412	-	349,412
Net assets		536,022	-	536,022
EQUITY				
Contributed equity		1,624,990	-	1,624,990
Retained earnings		(1,088,968)	-	(1,088,968)
Total equity		536,022	-	536,022

31. IMPACT OF AIFRS *(continued)*

(ii) At the end of the last reporting period under previous AGAAP: 31 December 2004

	Note	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
ASSETS				
Current assets				
Cash and cash equivalents		729,963	-	729,963
Receivables		210,946	-	210,946
Total current assets		940,909	-	940,909
Non-current assets				
Deferred Exploration and Evaluation Expenditure		448,190	-	448,190
Plant and equipment		13,605	-	13,605
Total non-current assets		461,795	-	461,795
Total assets		1,402,704	-	1,402,704
LIABILITIES				
Current liabilities				
Payables		162,659	-	162,659
Other current liabilities		1,220	-	1,220
Interest bearing liabilities		32,000		32,000
Total current liabilities		195,879	-	195,879
Non-current liabilities		-	-	-
Total non-current liabilities		-	-	-
Total liabilities		195,879	-	195,879
Net assets		1,206,825	-	1,206,825
EQUITY				
Contributed equity		3,007,518	-	3,007,518
Reserves	**(b)**	-	70,935	70,935
Retained earnings	**(b)**	(1,800,693)	(70,935)	(1,871,628)
Total equity		1,206,825	-	1,206,825

31. IMPACT OF AIFRS *(continued)*

(iii) Reconciliation of loss for the year ended 31 December 2004

	Note	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
Revenue from ordinary activities		45,640	-	45,640
Administration expense		(152,616)	-	(152,616)
Borrowing costs		(246)	-	(246)
Consultants' expenses	**(b)**	(128,757)	(70,935)	(199,692)
Depreciation expense		(2,859)	-	(2,859)
Directors' fees		(20,000)	-	(20,000)
Exploration property provision		(750,000)	-	(750,000)
Occupancy expense		(26,568)	-	(26,568)
Foreign exchange gains		224,794	-	224,794
Other expenses from ordinary activities		(24,695)	-	(24,695)
Loss from ordinary activities before income tax expense		(835,307)	(70,935)	(906,242)
Income tax benefit relating to ordinary activities		123,582	-	123,582
Net loss attributable to the members of KSL		(711,725)	(70,935)	(782,660)

(iv) Reconciliation of cash flow statement for the year ended 31 December 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(v) Notes to the reconciliation

(a) Provision

AASB137 requires provision to be raised in respect of liabilities which are in existence and can be readily estimated. Klondike Source Ltd has raised a provision for rehabilitation in respect of the Klondike tenements which reflects the expected cost of rehabilitation at the end of the site's useful life and discounted to net present values.

(i) At 1 January 2004

There is no impact on the 1 January 2004 accounts.

(ii) At 31 December 2004

There is no impact on the 31 December 2004 accounts.

(iii) At 31 December 2005

The provision has been increased by $15,000.

(b) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the Group is required to recognise an expense for those options that were issued to directors and consultants after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 January 2004

For the group there has been no change in retained earnings.

(ii) At 31 December 2004

For the group there has been a decrease in retained earnings of $70,935 and a corresponding increase in reserves.

(iii) For the year ended 31 December 2004

For the group there has been an increase in consultants costs of $70,935.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 6 to 24, are in accordance with the Corporation Act 2001 and:
   (a) comply with Accounting standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 31 December 2005 and of their performance for the year ended on that date of the Company and economic entity.

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporation Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

3. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated at SYDNEY this 29th day of March 2006

On behalf of the Board

R J Soper
Director

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

Partners
C H Barnes FCA
A J Dowell CA
M W James CA

Associate
M A Nakkan CA

North Sydney
Level 13, 122 Arthur St
North Sydney NSW 2060

Manly
Level 5, 22 Central Ave
Manly National Building
Manly NSW 2095

Correspondence
PO Box 1664
North Sydney NSW 2059

Telephone
(02) 9956 8500
Facsimile
(02) 9929 7428
email:
bdj@bdj.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KLONDIKE SOURCE LIMITED

Scope

We have audited the financial report of Klondike Source Limited and controlled entities for the financial year ended 31 December, 2005 as set out on pages 6 to 25.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 28 of the financial report has not changed as at the date of providing our audit opinion.

Website: www.bdj.com.au

Audit Opinion

In our opinion, the financial report of Klondike Source Limited is in accordance with:

(a) the *Corporations Act 2001,* including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December, 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporation Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

BARNES DOWELL JAMES
Chartered Accountants

....
A.J. DOWELL
Partner

29 March 2006

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BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

Partners
C H Barnes FCA
A J Dowell CA
M W James CA

Associate
M A Nakkan CA

North Sydney
Level 13, 122 Arthur St
North Sydney NSW 2060

Manly
Level 5, 22 Central Ave
Manly National Building
Manly NSW 2095

Correspondence
PO Box 1664
North Sydney NSW 2059

Telephone
(02) 9956 8500
Facsimile
(02) 9929 7428
email:
bdj@bdj.com.au

AJD:KG

29 March, 2006

The Directors
Klondike Source Limited
Level 10, 80 Arthur Street
NORTH SYDNEY NSW 2060

Dear Sirs,

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF KLONDIKE SOURCE LIMITED

In relation to our audit of the financial report of Klondike Source Limited for the financial year ended 31 December, 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours faithfully
BARNES DOWELL JAMES

....
A.J. DOWELL
Partner

SHAREHOLDER INFORMATION

Information relating to shareholders at 15 March 2006

Substantial Shareholders	Number of Shares	%
Panstyn Investments Pty Ltd	2,500,000	7.94
Mr Glenn Tetley	2,000,000	6.35
Poduta Pty Ltd	1,750,000	5.55

Distribution of Shareholders - Analysis of Holdings as at 15 March 2006

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	1 - 1,000	2	100	0.00
	1,001 - 5,000	0	0	0.00
	5,001 - 10,000	1	6,000	0.02
	10,001 - 100,000	147	7,646,500	24.27
	100,001 and over	35	23,852,300	75.71
	Totals	**185**	**31,504,900**	**100.00**

As at 15 March 2006 there were 13 shareholders with an unmarketable share parcel of less than 14,285 shares at the prevailing share price of 3.5 cents.

Top 20 Holdings as at 15 March 2006

Holder Name	Balance at	%
Panstyn Investments Pty Ltd	2,500,000	7.94
Mr Glenn Tetley	2,000,000	6.35
Poduta Pty Ltd	1,750,000	5.55
Ipseity Pty Ltd	1,117,490	3.55
Australian Heritage Group Pty Ltd	1,000,000	3.17
Baron Nominees Pty Limited	1,000,000	3.17
Henley Park Estate Pty Ltd	1,000,000	3.17
Sunshore Holdings Pty Ltd	1,000,000	3.17
Yandal Investments Pty Ltd	1,000,000	3.17
John M Clark Engineering Pty Ltd	625,000	1.98
Redcliff Pty Ltd	625,000	1.98
Mr Ronald Hugh Beevor & Mrs Fiona Mary Beevor	500,000	1.59
Eureka Capital Partners Pty Ltd	500,000	1.59
Jaspon Holdings Pty Ltd	500,000	1.59
WHI Securities Pty Ltd	500,000	1.59
Wildfire Investments Pty Ltd	500,000	1.59
K Biggs Enterprises Pty Limited	400,000	1.27
National Nominees Limited	400,000	1.27
Mr John P Tuite	400,000	1.27
Huic Nominees Pty Limited	375,000	1.19
Total of top 20 holders	**17,692,490**	**56.15**
Other holdings	**13,812,410**	**43.85**
Total Issued Capital	**31,504,900**	**100.00**

SHAREHOLDER INFORMATION

Restricted Securities

Each of the Directors of the Company has entered into a voluntary restriction agreement, in respect of their Shares totalling 5,664,340, for a period of 24 months from 19 March 2004, or, for 12 months, if after that time, the Company's Shares achieve a weighted average market price over two months of not less that 40 cents. This has been agreed between KSL and Newcastle Stock Exchange Limited. The escrow period ended on 19 March 2006.

Options on issue including holders of more than 20%

Expiry Date	Exercise Price $	Number of Holders	Total Issued	Holders of more than 20%	
31/12/07	0.20	16	6,487,500	P J D Elliott	33.83%
31/12/07	0.25	10	5,987,600	R J Soper	36.97%
				C M Thomas	36.97%
31/12/07	0.30	2	1,600,000	R J Soper	50.00%
				C M Thomas	50.00%
20/04/09	0.20	5	1,250,000	P J D Elliott	46.15%
				R G Adamson	30.77%

Voting Rights

There are no restrictions on voting rights. On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Five-year summary of performance Table (Consolidated)

		2001	2002	2003	2004	2005
Gross Revenue	$	3,721	2,222	866	45,640	40,022
Net profit/(loss) before tax	$	(218,363)	(195,04)	(381,307)	(906,244)	(610,262)
Total assets	$	741,729	595,418	855,434	1,402,704	798,762
Total liabilities	$	78,828	127,571	349,412	195,879	212,319
Shareholders' funds	$	662,901	467,847	536,022	1,206,825	586,443
Earnings per share (loss)	Cents	(2.00)	(1.63)	(3.14)	(2.80)	(1.92)

The 2004 and 2005 figures have been prepared under AIFRS.

The Company has not paid any dividends in the period.

CORPORATE GOVERNANCE

Statement of Corporate Governance

The Directors of KSL are responsible to the Shareholders for the performance of the Company in both the short and the longer term and seek to balance these sometimes competing objectives in the best interests of the Company as a whole. Their principal focus is to enhance the interests of the Shareholders and ensure that the Company, including its controlled entity, is properly managed. The Board draws on relevant best practice principles, particularly those issued by the ASX Corporate Governance Council in March 2005. At a number of meetings, the Board examined the KSL corporate governance practices compared to the 10 best practice principles proposed by the ASX Corporate Governance Council. While KSL will align itself with the principles proposed by ASX, it is mindful that there are some instances where compliance is not practicable for a company of KSL's current small size.

The following comments set out the Company's position relative to each of the 10 principles contained in the ASX Corporate Governance Council's report.

Principle 1: The Company has not yet formalised and disclosed the functions reserved to the Board and those delegated to management.

Principle 2: The Company complies with most of the recommendations within this area; however, the Chairman is not independent as he is a substantial shareholder but he is separate from the Chief Executive Officer. The Company does not have a Board nomination committee.

Principle 3: The Company does not have a formal code of conduct, again reflecting the Company's size and the close interaction of individuals throughout the organisation.

Principle 4: The Audit Committee consists of the Non-Executive Directors, Messrs Elliott and Soper. These Directors have applicable expertise and skills for this Committee. This structure does not meet the ASX's guidance regarding independence, in that it should have a majority of independent directors and have at least three members.

Principle 5: Whilst the Company does not have formal written policies regarding disclosure, it uses strong informal systems underpinned by experienced individuals.

Principle 6: Whilst the Company does not have a communications strategy to promote effective communication with shareholders, as it believes this is excessive for small companies, the Company does communicate regularly with shareholders via its website.

Principle 7: The Company is a small exploration company and does not believe that there is significant need for formal policies on risk oversight and management of risk.

Principle 8: There has been no formal performance evaluation of the Board during the past financial year, although its composition is reviewed at a Board meeting at least annually.

Principle 9: Directors believe that the size of the Company makes individual salary and contractor negotiation more appropriate than formal written remuneration policies.

Principle 10: Due to the Company's size and relative level of operational activity which makes legal compliance a less onerous task than with larger companies, the Company does not have a formal code of conduct to guide compliance with legal and other obligations.

Functions of the board

The functions of the Board include:

- review and approval of corporate strategies, the annual budget and financial and business plans;
- overseeing and monitoring organisational performance and the achievement of the Company's strategic goals and objectives thereby advancing the interests of the Shareholders and stakeholders;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditor;
- appointment of and assessment of, the Chief Executive Officer and the members of the senior management and technical teams;
- ensuring that there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the Company;

- ensuring the significant risks facing the Company and its controlled entity have been identified;
- appropriate and adequate control, monitoring and reporting mechanisms are in place;
- otherwise monitoring and reviewing the Company's controls and systems including those concerned with occupational health and safety and environment and human resource matters, so as to ensure compliance with laws and the highest ethical standards; and
- ensuring that the Shareholders are appropriately informed of the progress of the Company.

The board of Directors

In recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman will be a Non-Executive Director. The Board will continuously review its performance and mix of skills to ensure they are appropriate to allow the Board to maximise its effectiveness and contribution to the Company.

The Board meets throughout the year and expects to have a minimum of six meetings per year.

Conflict of interests

The Directors, either as employees of, or consultants to, the Company or through controlled entities connected with them, may provide services to the Company. In accordance with accepted corporate governance practice, the Directors concerned have declared their interests in those transactions to the Company and took no part in decisions relating to them.

Independent professional advice

Directors have the right, in connection with their duties and responsibilities to the Company, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Committees

The Directors have established an Audit Committee, which is comprised of Mr P J D Elliott and Mr R J Soper both of whom are Non-Executive Directors. The Audit Committee will have direct access to management and will meet periodically with the external auditors to assess and review internal controls and the Company's statutory reporting. Its activities will assist in ensuring the independence of the external Auditors and provide ready access to the full Board.

Securities trading and trading windows policy

Directors, employees and key consultants must consult with the Chairman or an Executive Director or the Chief Executive Officer before dealing in Shares of the Company. Purchases or sales in the Company Shares by Directors, employees and key consultants may not be carried out other than in the "window", the window being the period commencing one day following and ending ten days following the date of an announcement of the Company leading, in the opinion of the Board, to an informed market. However, Directors, employees and key consultants are prohibited from buying or selling KSL shares at any time while exploration drilling is being carried out or if they are aware of price sensitive information that has not been made public.

Shareholder communication

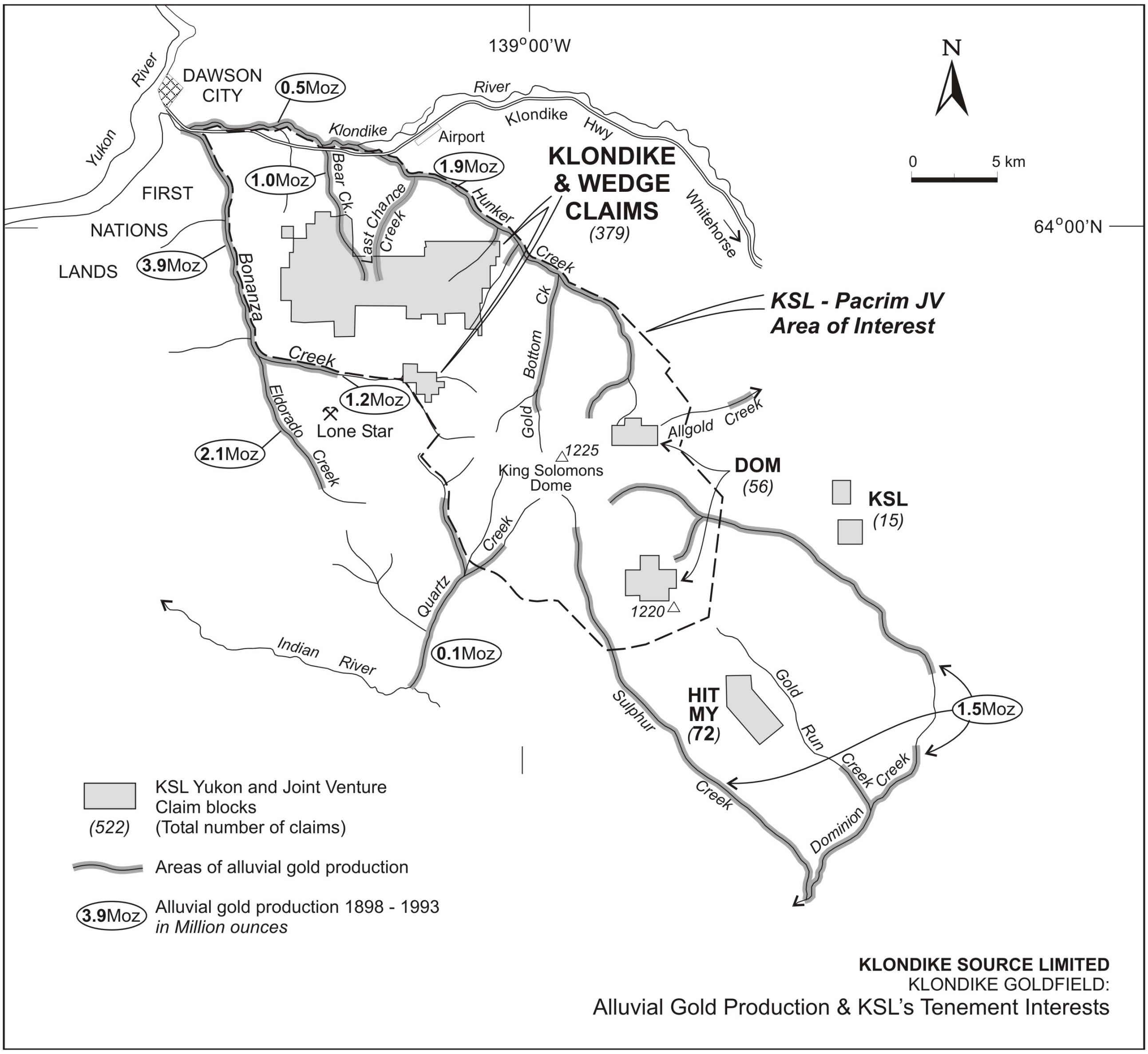
The Directors are keen to ensure that all Shareholders are kept fully informed. All announcements will be available on the Company's web site (www.klondikesource.com.au) after release to NSX.

Community relations in the Yukon

The Company will respect the legitimate rights and titles of the native people and the concerns of the local communities who are likely to be interested in or affected by the Klondike Source Project. The Canadian Government and the indigenous people of the region have formally agreed as to which area are native lands (Settlement Lands) and which are not. All of the tenements in which KSL has an interest fall outside any Settlement Lands and consequently the Directors do not anticipate any native title concerns. The Company seeks to work constructively and in consultation with interested groups in accordance with Yukon and Canadian law.

Dividend policy

Any determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend upon the availability of distributable earnings, the operating results and financial condition of KSL, future capital requirements, general business and financial conditions and other factors considered relevant by the Directors. No assurances in relation to the payment of future dividends, or the franking credits attached to such dividends, can be given to Shareholders.



Klondike Source Limited

Level 10, 80 Arthur Street, North Sydney, NSW 2060

Telephone: 02 – 9957 3199
Facsimile: 02 – 9954 4011
Email: info@klondikesource.com.au
Website: www.klondikesource.com.au