

Klondike Source Limited



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28 April 2006

The Manager
Stock Exchange of Newcastle Limited
384 Hunter Street
NEWCASTLE NSW 2300

Dear Sir

Report for Quarter ending 31 March 2006

We submit the following quarterly report for Klondike Source Limited and its 100% owned subsidiary, KSL Exploration (Yukon) Limited (KSL Yukon) for the three months to 31 March 2006.

EXPLORATION – KLONDIKE GOLDFIELD

No exploration activities were conducted during the quarter.

KSL Tenements

The Company's present claim holdings are:

- 28 claims (100%), and
- 485 claims (56% joint venture interest with PacRim Resources Limited).

Most of the joint venture claims are current through 2010; their long term and associated exploration datasets comprise an asset which is crucial to future exploration in the Klondike district. Other companies are actively exploring the Klondike goldfield and any significant success should result in KSL's tenements rapidly appreciating in value. The Company is well positioned to capitalise on such assets in the event of exploration successes on adjacent properties.

Option granted over DOM Claims

During February 2006, the Company announced that its wholly owned subsidiary KSL Exploration (Yukon) Limited had granted Klondike Star Mining Corporation (KSMC) an exclusive right to purchase a 100% interest in one or more claims in the DOM block located in the eastern part of the Klondike goldfield. KSL holds a 56% interest in these claims through the KSL-managed joint venture with PacRim Resources Limited.

The purchase price for the 28 claim block is \$500,000 CDN, or \$18,000 CDN per claim if purchased individually. KSL will retain a royalty interest of 2.5% of net smelter returns in each claim purchased. The initial term of the Option is to 31 December 2006, and KSMC may extend this term provided it has made sufficient exploration expenditures to extend the claims renewal dates beyond 25 May 2007.

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PROPOSED ACQUISITION OF CROSSLAND MINES PTY LTD - URANIUM EXPLORATION

Structure of Offer

On 10 April 2006, the Company announced plans to merge with Crossland Mines Pty Ltd (Crossland) through an offer to acquire 100% of the issued capital of Crossland on the basis of 2.3654 KSL shares per Crossland share and the issue of an equivalent number of KSL options to the number of Crossland options on issue.

Crossland's issued securities consist of 13,999,053 shares and 15,325,099 options with an exercise price of 23 cents and which expire on 31 December 2007. If KSL is successful in acquiring 100% of Crossland, the Issued Capital of KSL will become 66,226,942 shares and 30,650,200 options. The current KSL shareholders will hold approximately 50% of the merged company upon completion of the merger.

Crossland has 20 shareholders who have each indicated their intention to accept the offer. The offer is conditional on KSL shareholder approval. It is proposed that KSL shareholders will vote on the proposed merger at the AGM to be held at the end of May 2006.

The focus of the merged company will be to explore for uranium deposits in northern Australia. A secondary objective will be to explore the tenements for diamond, gold and base metal deposits.

KSL has \$753,000 cash of which \$700,000 will be available to the Board of the merged company. It is proposed that these funds will be used to advance the Crossland property portfolio, acquire new tenements, and to prepare the company for an IPO on the ASX to raise \$4 million to advance exploration.

Proposed Board and Management of the Merged Company

Bob Cleary – Chairman
Geoff Eupene – Executive Director Exploration
Pat Elliott
Peter Walker.
Bob Richardson

Crossland Exploration Properties

Crossland's portfolio of exploration tenements is focused on uranium. It consists of 12 granted tenements and four applications which stretch from the Kimberley of WA, through the Northern Territory to North West Queensland. Certain of these tenements are also variously prospective for diamonds and base and precious metals.

This original Crossland tenement package was assembled during 2003 using an innovative proprietary IP that selected areas with features similar to those associated with known major mineral deposits. Follow-up work encountered encouraging signs of mineralisation in areas that hitherto had not been recognised as having potential, and this led to increased scrutiny of other target areas where earlier positive indications had not received much follow up. Crossland has raised \$750,000 from its shareholders, most of which has been expended on advancing the company's tenement package.

The merged company will retain KSL's claims in the Klondike Goldfield. As noted above, one group of claims is already under option to a Canadian gold exploration company.

Klondike Source Limited

Benefits to KSL through the acquisition of Crossland

The Board considers the takeover is attractive to KSL for the following reasons:

- Uranium oxide prices have escalated significantly as a result of the resurgence in nuclear power, higher alternative energy prices, and the recognition of the relative environmental benefits;
- Crossland's tenement portfolio is demonstrably prospective for uranium and for other metals and minerals; and
- Crossland's management team of Bob Cleary and Geoff Eupene, supported by geophysicist Bob Richardson, have impressive uranium exploration and operating experience.

FINANCIAL

At 31 March 2006 the Company had cash at bank of \$753,000.



Robert G Adamson MSc(Hons) MAusIMM CPGeo MMICA

Chief Executive Officer

Quarterly report to Newcastle Stock Exchange

Name of entity

Klondike Source Limited

ABN

64 087 595 980

Quarter ended ("current quarter")

31 March 2006

Consolidated statement of cash flows

Cash flows related to operating activities

1.1 Receipts from product sales and related debtors

1.2 Payments for

(a) exploration and evaluation

(b) development

(c) production

(d) administration (includes payment for work done during the 2005 year)

1.3 Dividends received

1.4 Interest and other items of a similar nature received

1.5 Interest and other costs of finance paid

1.6 Income tax rebate received

1.7 Other income

Net Operating Cash Flows

Cash flows related to investing activities

1.8 Payment for purchases of:

(a) prospects

(b) equity investments

(c) other fixed assets

1.9 Proceeds from sale of:

(a) prospects

(b) equity investments

(c) other fixed assets

1.10 Loans to other entities

1.11 Loans repaid by other entities

1.12 Other (provide details if material)

Net investing cash flows

1.13 Total operating and investing cash flows (carried forward)

| Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|-------------------------------|---------------------------------------|
| | |
| (26) | (26) |
| 11 | 11 |
| | |
| (15) | (15) |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| - | - |
| | |
| (15) | (15) |

| | | |
|--|------------|------------|
| 1.13 Total operating and investing cash flows (brought forward) | (15) | (15) |
| Cash flows related to financing activities | | |
| 1.14 Proceeds from issues of shares, options, etc. | | |
| 1.15 Proceeds from sale of forfeited shares | | |
| 1.16 Proceeds from borrowings | | |
| 1.17 Repayment of borrowings | | |
| 1.18 Dividends paid | | |
| 1.19 Other (provide details if material)- IPO share issue costs | | |
| Net financing cash flows | - | - |
| Net increase (decrease) in cash held | (15) | (15) |
| 1.20 Cash at beginning of quarter/year | 768 | 768 |
| 1.21 Exchange rate adjustments to item 1.20 | - | - |
| 1.22 Cash at end of quarter | 753 | 753 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | |
|---|---|
| 1.23 Aggregate amount of payments to the parties included in item 1.2 | 2 |
| 1.24 Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

Salaries, Directors fees and consultancy fees at normal commercial rates.

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

3.1 Loan facilities

3.2 Credit standby arrangements

| Amount available \$A'000 | Amount used \$A'000 |
|--------------------------------|---------------------------|
| - | - |
| - | - |

Estimated cash outflows for next quarter

4.1 Exploration and evaluation

4.2 Development

| | \$A'000 |
|--------------|-----------|
| 25 | |
| - | |
| Total | 25 |

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

5.1 Cash on hand and at bank

Deposits at call

Bank overdraft

Other - 30 day bank bills

| | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|-------------------------------|--------------------------------|
| 103 | | 105 |
| 20 | | 33 |
| 630 | | 630 |
| Total: cash at end of quarter (item 1.22) | 753 | 768 |

Changes in interests in mining tenements

6.1 Interests in mining tenements
relinquished, reduced or lapsed

6.2 Interests in mining tenements
acquired or increased

| Tenement reference | Nature of interest (Note (2)) | Interest at beginning of quarter | Interest at end of of quarter |
|-----------------------|-------------------------------------|--|-------------------------------------|
| | | | |
| | | | |

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|---|----------------------|-----------------|------------------|--|---|
| 7.1 Preference securities (description) | | | | | |
| 7.2 Changes during quarter | | | | | |
| (a) Increases through issues | | | | | |
| (b) Decreases through returns of capital, buy-backs, redemptions | | | | | |
| 7.3 Ordinary securities | | 31,504,900 | 31,504,900 | | |
| 7.4 Changes during quarter | | | | | |
| (a) Increases through issues of ordinary shares | | | | | |
| (b) Decreases through returns of capital, buy-backs, redemptions | | | | | |
| 7.5 Convertible debt securities (description) | | | | | |
| 7.6 Changes during quarter | | | | | |
| (a) Increases through issues | | | | | |
| (b) Decreases through returns of capital, buy-backs, redemptions | | | | | |
| 7.7 Options | | | | | |
| Description and conversion factor | | Total Number | Number Quoted | Exercise price | Expiry Date |
| Listed | | | | | |
| Nil | | | | | |
| Unlisted | | | | | |
| 31 December 2007 Options | 1 share for 1 option | 6,487,500 | Nil | 20 cents | 31-Dec-07 |
| 31 December 2007 Options | 1 share for 1 option | 5,987,600 | Nil | 25 cents | 31-Dec-07 |
| 31 December 2007 Options | 1 share for 1 option | 1,600,000 | Nil | 30 cents | 31-Dec-07 |
| 20 April 2009 Options | 1 share for 1 option | 1,250,000 | Nil | 20 cents | 20-Apr-09 |
| Total | | 15,325,100 | | | |
| 7.8 Issued during quarter | | Nil | | | |
| 7.9 Exercised during quarter | | Nil | | | |
| 7.10 Expired during quarter | | Nil | | | |
| 7.11 Debentures | | Nil | | | |
| 7.12 Unsecured | | Nil | | | |

Name of entity

Klondike Source Limited

Compliance statement

¹ This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to NSX (see note 4).

² This statement does give a true and fair view of the matters disclosed.

Sign here: ***R Waring*** Date: 28 April 2006

(Company Secretary)

Print name: Robert J Waring

Notes

- ¹ The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note
- ² The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent
- ³ **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- ⁴ The definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 1026: Statement of Cash Flows apply to this report.
- ⁵ **AIFRS** - International Accounting Standards have been complied with in this report.