

Klondike Source Limited



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14 April 2005

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

Dear Sir,

Report for Quarter ending 31 March, 2005

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 2005.

EXPLORATION – KLONDIKE GOLDFIELD

Geological Interpretation

Compilation and interpretation of drilling and geochemical data is now virtually complete. Holes drilled during 2004 encountered mainly quartz mica Klondike Schists and lesser chloritic and carbonaceous schists, all with sub-horizontal schistosity.

Although mineralisation of economic potential was not intersected (best: 0.95 g/t gold over 1.2 metres in DDH04-06), the interpretation of this drillhole data (lithologic, structural, geochemical, petrographic, etc) has significantly improved our understanding of the Klondike goldfield geology.

A widespread, low-temperature hydrothermal alteration event (carbonate-dominant) which has affected most lithologies, is seen in all six holes. In the two western-most holes (DDH04-05 and 06) this early event was followed by deposition of veinlets of carbonate-clay-chlorite, and weakly auriferous arsenopyrite and other sulphides. Intensity of the alteration and gold-arsenic mineralisation generally increases toward a broad aeromagnetic 'low' located northwest of the holes. The magnetic anomaly is interpreted as a buried, probably intrusive body that has been strongly altered by the veinlet-generating hydrothermal event. This is presently interpreted as a weakly mineralised epithermal episode of different character from, and rather later than the main gold mineralising event in the district. Evidence for the earlier event, thought to be the likely primary source for most of the alluvial gold, is provided by the widespread carbonate-(sulphide) alteration that occurs (with variable intensity) in all the 2004 drill holes.

KSL Tenements and Database

The Company's present claim holdings are:

- 87 claims (100%), and
- 788 claims (56% joint venture interest with PacRim Resources Limited)

KSL possesses one of the largest claim holdings in the Klondike Goldfield, and a very extensive district-wide database which includes the new drilling data. It has been commented that this is a well-organised database that has considerable value for explorationists and academics alike.

Most of the joint venture claims have sufficient expenditure to remain current for about five years. Their term and the associated datasets comprise an asset which is crucial to future exploration and academic research in the Klondike district. This provides the Company with potential leverage in negotiating with other parties regarding the next stage exploration of these claims. Furthermore, the Company also is well positioned in the event that exploration, already underway by other parties on adjacent properties, is successful.

Klondike Source Limited

Other Party Activity

Since June last year, there has been a steady increase in exploration activity in the Klondike, and at least one drilling program is reported to have commenced early this spring (March 2005). Presently, much of this activity is occurring in areas to the south of the Company's claims.

KSL is monitoring and evaluating the announcements of these companies, as well as maintaining a continuing dialogue with university and government geologists who are carrying out research on the geology of the Klondike.

Farm-Out Negotiations

KSL is actively following up parties who have at various times expressed interest in participating in exploration of the Klondike Goldfield. Negotiations are currently in progress.

Pacrim Resources Joint Venture

Early March 2005, the Company was advised that a Whitehorse legal firm holds a judgement against PacRim Resources Ltd 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 PacRim is the registered holder. The Company has legal advice that the writ attaches only to PacRim's interest in the claims and a sale cannot be forced until the writ has been registered for one year. As such, this is believed not to adversely affect KSL's interests in the claims.

NEW PROJECTS

The Company has looked at a number of project opportunities. So far, none have met our criteria. We continue to seek and consider proposals that can add value to the Company. Our objective is either to:

1. contribute critical technical know-how and sufficient exploration expenditure to generate drill targets of significant economic potential, or
2. use our existing resources to participate in a suitable seed capital opportunity.

FINANCIAL

Cash on hand at 31 March 2005 was \$692,000. Essential corporate and exploration expenditure is approximately \$20,000 per month.

DISCLOSURE

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Robert Adamson who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Adamson is a technical consultant to the Company. Mr Adamson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Robert Adamson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



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 2005

Consolidated statement of cash flows

Cash flows related to operating activities

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(13)	(13)
(b) development		
(c) production		
(d) administration (includes payment for work done during the 2003 year)	(30)	(30)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	5	5
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other income -		
Net Operating Cash Flows	(38)	(38)
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)	(38)	(38)

1.13 Total operating and investing cash flows (brought forward)	(38)	(38)
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	(38)	(38)
1.20 Cash at beginning of quarter/year	730	730
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	692	692

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	19
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

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- 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

-

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

Total	15
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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
21	48
71	82
600	600
692	730

Total: cash at end of quarter (item 1.22)

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 (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	25,840,560		
7.4 Changes during quarter					
(a) Increases through issues ordinary shares					
Increase through issue of ordinary shares pursuant to IPO					
(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	5,487,600	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	31-Dec-07
7.8 Issued during quarter		Nil			
7.9 Exercised during quarter		Nil			
7.1 Expired during quarter		Nil			
7.11 Debentures		Nil			
7.12 Unsecured		Nil			

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law 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:



Date: 15 April 2005

(Company Secretary)

Print name Robert 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 or notes attached to this report.
- 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 which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 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 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows apply to this report.
- 5 **Accounting Standards** NSX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.