

Klondike Source Limited

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The Manager
Stock Exchange of Newcastle Limited
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Dear Sir

Klondike Project – Hole DDH04-06 completes the 2004 Drill Program

The six-hole program of the 2004 field season has been completed for a total of 1,537 metres of NQ-size core.

DDH04-06

On 2 September 2004, diamond drill hole DDH04-06 (the final drill hole of the 2004 field season) was completed at a downhole depth of 286.8metres.

DDH04-06 was sited to test a soil geochemical gold and arsenic anomaly associated with the margin of a well-defined aeromagnetic “low” having dimensions of approximately 3km x 1.5km. The hole was collared approximately 200m inside the “low” and was drilled toward its centre.

Arsenopyrite mineralization, occasionally coarse-grained and in varying concentrations has been logged from 20 metres to 50 metres downhole. A major set of limonitic (oxidized sulphide) fractures that extends from 50 metres to 100 metres downhole is provisionally interpreted to be a further occurrence of the fracture-hosted quartz-sulphide mineralizing event that has been recognized in the earlier holes sited to the east of DDH04-06. Deeper in the hole, wide sections of occasionally intense silicification and finely-divided pyrite (no visible arsenopyrite) appear similar to that seen in Hole DH04-05 in which trace gold mineralization occurs with arsenopyrite. Assays for these sections are not expected before the end of September.

It is considered quite unlikely that DDH04-06 has intersected the actual source of the magnetic anomaly which provisionally, has been estimated to lie deeper than 350m below surface. Logging of the deepest parts of the hole have not so far suggested a possible explanation of the nature of the source.

DDH04-03

Recent assays and additional and detailed logging now show that hole DDH04-03 has intersected a 20m interval of moderately to strongly oxidized quartz, quartz-carbonate and quartz-sulphide-chlorite veinlets having anomalous gold and arsenic values. This is another occurrence of the gold-arsenic mineralizing event that was first recognised some 1,300 metres to the west in hole DDH05-05.

General

The large volume of data arising from the drilling and soil sampling programs is being compiled as it is received. Assays (gold and 34 elements) have been received for 241 core samples to date. Final analytical data for all drill core are expected by early October. An extensive suite of drill core samples for petrographic description is in transit from Canada; thin section preparation and description should be underway during October. Detailed interpretation and assessment of all drilling data (including petrography) will be undertaken over the next two to three months.

The last soil sample analyses for the season (final lines about to be sampled) are expected by mid October.

Provisional Conclusions

As at the completion of the 2004 drill program (the first holes in this area of very limited outcrop), some initial conclusions (subject to receipt of complete data sets and ongoing interpretation) are:

1. Foliation and schistosity (as determined from oriented core samples) appear substantially flat-lying throughout the area drilled (approximately 3km E-W and 1km N-S).
2. Anomalous gold-arsenic soil geochemistry is a reliable indicator of subsurface arsenical gold mineralization occurring as sets of near-vertical quartz-sulphide-chlorite-carbonate veinlets.
3. To date, gold values intersected in drilling are sub-economic.
4. Alteration is principally pervasive silicification, calcite-siderite veining and pervasive calcitisation.
5. An arsenical gold mineralising event has clearly occurred in the bedrock of the Klondike Hills; it is not clear however, if this is the only gold mineralizing event in the district.
6. The geochemical associations, alteration types and cross-cutting veins indicate the type of gold mineralization in the Klondike Hills differs substantially from the Pogo (Alaska) deposit.
7. Provisionally, it is considered likely that these drill holes have encountered a major silica-altered and weakly gold mineralised "halo" that could be peripheral to a substantial gold mineralized system; speculation on the relationship of the halo to any locus of mineralization awaits interpretation of the completed dataset.

In our Prospectus dated 13 November 2003, and considering that this is the first deep core-hole program ever undertaken in this part of the Klondike goldfield, we foreshadowed three possible outcomes from our drilling program:

- 1) we could be lucky and strike economic grade mineralization in the first holes, or
- 2) we would establish a much better understanding of the geology of the Klondike and likely mineralising processes that provided the sources of the major accumulation of alluvial gold, or
- 3) we might confirm the Boyle hypothesis (expressed in R W Boyle “Geochemistry of Gold” 1979) that there is no hardrock gold source left in the Klondike.

Not surprisingly, our drilling program has put us firmly in category 2. It is pertinent to recall that several major gold and basemetal deposits in “greenfields” exploration settings were not discovered until upwards of 20 or so holes had been drilled.

The question now becomes “*have we generated sufficient credible exploration data to justify further exploration and to attract a major gold explorer into the play?*”. The answer to this question will become more clear in coming weeks as we complete the compilation and interpretation of the data gathered this field season.

R G Adamson
Chief Executive Officer