

# Klondike Source Limited

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Dear Shareholder

With the end of the year upon us, it is timely to provide you with a short review of the status of the Company and its projects, and to indicate our strategy for the coming year.

We are currently completing compilation and interpretation of results from the drilling, geochemical and geological programs carried out on the Klondike Project during the 2004 Yukon field season (May-October). The 2004 exploration expenditure has been sufficient to ensure that the majority of the Klondike Joint Venture claims are in good standing for the next five years.

While the drill program did not locate economic grades of gold mineralisation, the first diamond core holes drilled in the central Klondike have provided valuable new geological information. Our drill core has provided the first real subsurface data in an area where reliable surface outcrop is sparse. However, because of the relatively large distances between holes, there is considerable uncertainty in correlating vein and alteration assemblages and some of the rock types. Clearly, we still have a very limited geological data set with which to work. Nevertheless, it may be significant that the two holes drilled nearest to a well-defined aeromagnetic 'low' near the centre of the property have provided the best gold values. The prospectivity of the area about the 'low' appears to be enhanced by trends in soil geochemistry that have become more evident due to expansion of the geochemical database by the 2004 sampling program.

We are continuing to refine these provisional conclusions and our other interpretations in order to prepare a detailed technical report aimed at attracting a joint venture partner to fund the next phase of hard rock gold exploration in the Klondike Project.

Through the announcement of 3 December 2004 to the NSX (also on KSL website) you would be aware of the termination of the agreement with PacRim Resources (set out in the Prospectus) by which the Company was to acquire 100% of the Klondike Project claims by issuing 11,975,100 shares (being 26.57% of the expanded capital) plus 11,975,100 options. The principal effects of this termination are:

- KSL's capital structure and board composition is unchanged,
- The pre-existing joint venture arrangements are maintained, and
- KSL's earned interest in JV claims is 50%, and increases to 56% in the event PacRim elects not to contribute their share of 2004 expenditure.

At mid December 2004, the Company has \$760,000 of cash reserves ie. cash backing of 2.4 cents per share. A rebate by the Yukon Territory Government of approximately CND100,000 (being 25% of eligible 2004 exploration expenditure) is expected to be received during the first quarter of 2005.

An amount of \$20,000 has been budgeted for the purpose of completing the compilation and interpretation exercise and attracting a joint venture partner. The Board is considering how best to apply the balance of shareholder funds in shareholders' best interests. At this time we are looking for and considering options to acquire other exploration properties. Essentially, we are seeking opportunities where the Company can add significant value by contributing critical technical know-how and a modest level of expenditure. We then aim to increase the Company's share capital and move to a listing on the ASX. Further information will be made available when the Board has taken decisions in this regard.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'R.G. Adamson', written in a cursive style.

Robert G Adamson  
Chief Executive Officer