

# Klondike Source Limited



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27 October 2004

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

Dear Sir,

## Report for Quarter ending 30 September, 2004

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 30 September 2004.

## EXPLORATION

### Diamond Core Drilling - Klondike Gold Field

The Company's 2004 program of six deep diamond drill holes in the core of the Klondike gold field was completed on 2 September (for locations see attached figure).

Since 1 July 2004, three diamond core holes (DDH04-04, 05 and 06) have been completed for a total of 800 metres of drilling. Check assays for some earlier holes and assays for the final hole (DDH04-06) were received during October. Altogether some 340 core samples have been assayed, all for gold and silver plus 33 other elements. A total of 18 rock samples collected from the drill core have been investigated by petrological thin section examination.

The following table reports intercepts to a cut-off of 0.2 grams per tonne (g/t) gold or 10 g/t silver.

| <u>Hole</u> | <u>From</u> | <u>To</u> | <u>Length (m)</u> | <u>Au g/t</u> | <u>Ag g/t</u> | <u>As ppm</u> |
|-------------|-------------|-----------|-------------------|---------------|---------------|---------------|
| DDH04-01    | 123.00      | 125.88    | 2.88              | 0.018         | 1,070         | 35            |
|             | 128.80      | 130.45    | 1.65              | 0.006         | 10.9          | 3             |
| DDH04-05    | 235.76      | 235.91    | 0.15              | 0.259         | <0.2          | 5,900         |
|             | 289.88      | 290.30    | 0.42              | 0.332         | 0.5           | 589           |
| DDH04-06    | 19.40       | 20.60     | 1.20              | 0.951         | <0.2          | 9,930         |

# Klondike Source Limited

Spotty (nuggetty) gold distribution was indicated by initial check assays for the interval 290.02-290.30 in hole DDH04-05. Subsequently, the entire sample sent to the laboratory was used in making repeat assays which resulted in a total of 12 assays reporting values ranging from 0.07 up to 2.40 g/t gold. Check assaying of select samples from other holes is now under consideration.

## Preliminary Interpretations

Provisional conclusions are that precious metal mineralisation may be zoned from east to west within the area drilled.

1. Holes DDH04-05 and 06, at the western end of the drill grid have clearly encountered gold + arsenic mineralization, while approximately 2.5km to the east, mineralisation in hole DDH04-01 consists of silver + trace gold (nil arsenic).
2. It appears that the intensity of gold mineralization increases westward. This trend suggests that the anomalous aeromagnetic 'low' (dimensions of approximately 3km x 1.5km) that is located immediately northwest of holes DDH04-05 and 06 (see attached figure) could be associated with a significant locus of gold mineralization.
3. Preliminary petrological observations indicate that at least two stages of hydrothermal alteration are present in the area of holes DDH04-05 and 06; an early low temperature stage of near-neutral fluids, followed by moderately acidic fluids depositing veinlets of carbonate, clay and some chlorite and sulphides. At this time, it is not clear which of these hydrothermal alteration events was accompanied by gold mineralization.

The multi-element core analyses provide an extensive geochemical data resource which also is being examined for geochemical signatures that could corroborate the observed precious metal trends and alteration episodes.

The Company is encouraged by these results. They add further weight to the opinion stated in the Company's release to the Newcastle Stock Exchange dated 15 September 2004, that the 2004 drill program is considered to have encountered a weakly gold mineralized "halo" that could be peripheral to a substantial gold mineralized system.

It is expected that the data collation and interpretations now underway will provide the technical basis for a target-oriented drill program for 2005.

## **GENERAL**

The Company is considering several proposals that may have the potential to significantly expand its portfolio of gold exploration properties.

## **DISCLOSURE**

Relevant sections in the above statement are based on information compiled by Robert Gerard Adamson, a corporate member of the Australasian Institute of Mining and Metallurgy having over five years relevant experience.

*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")

**30 September 2004**

### Consolidated statement of cash flows

#### Cash flows related to operating activities

|                                                                          | Current<br>quarter<br>\$A'000 | Year to date<br>(9 months)<br>\$A'000 |
|--------------------------------------------------------------------------|-------------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors                      |                               |                                       |
| 1.2 Payments for                                                         |                               |                                       |
| (a) exploration and evaluation                                           | (311)                         | (546)                                 |
| (b) development                                                          |                               |                                       |
| (c) production                                                           |                               |                                       |
| (d) administration (includes payment for work done during the 2003 year) | (94)                          | (406)                                 |
| 1.3 Dividends received                                                   |                               |                                       |
| 1.4 Interest and other items of a similar nature received                | 14                            | 36                                    |
| 1.5 Interest and other costs of finance paid                             |                               |                                       |
| 1.6 Income taxes paid                                                    |                               |                                       |
| 1.7 Other income -                                                       |                               |                                       |
| <b>Net Operating Cash Flows</b>                                          | <b>(391)</b>                  | <b>(916)</b>                          |

#### Cash flows related to investing activities

|                                                                        |              |              |
|------------------------------------------------------------------------|--------------|--------------|
| 1.8 Payment for purchases of:                                          |              |              |
| (a) prospects                                                          |              |              |
| (b) equity investments                                                 |              |              |
| (c) other fixed assets                                                 | (2)          | (3)          |
| 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)                               |              |              |
| <b>Net investing cash flows</b>                                        | <b>(2)</b>   | <b>(3)</b>   |
|                                                                        |              |              |
| <b>1.13 Total operating and investing cash flows (carried forward)</b> | <b>(393)</b> | <b>(919)</b> |

|                                                                        |            |            |
|------------------------------------------------------------------------|------------|------------|
| <b>1.13 Total operating and investing cash flows (brought forward)</b> | (393)      | (919)      |
| <b>Cash flows related to financing activities</b>                      |            |            |
| 1.14 Proceeds from issues of shares, options, etc.                     | -          | 1,503      |
| 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        | -          | (120)      |
| <b>Net financing cash flows</b>                                        | -          | 1,383      |
| <b>Net increase (decrease) in cash held</b>                            | (393)      | 464        |
| 1.20 Cash at beginning of quarter/year                                 | 1,222      | 365        |
| 1.21 Exchange rate adjustments to item 1.20                            | -          | -          |
| <b>1.22 Cash at end of quarter</b>                                     | <b>829</b> | <b>829</b> |

**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 | 53 |
| 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<br>\$A'000 | Amount used<br>\$A'000 |
|-----------------------------|------------------------|
| -                           | -                      |
| -                           | -                      |

**Estimated cash outflows for next quarter**

|                                | \$A'000   |
|--------------------------------|-----------|
| 4.1 Exploration and evaluation | 15        |
| 4.2 Development                | -         |
| <b>Total</b>                   | <b>15</b> |

**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.

|                                                  | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|--------------------------------------------------|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                     | 28                         | 295                         |
| Deposits at call                                 | 201                        | 333                         |
| Bank overdraft                                   |                            |                             |
| Other - 30 day bank bills                        | 600                        | 594                         |
| <b>Total: cash at end of quarter (item 1.22)</b> | <b>829</b>                 | <b>1,222</b>                |

**Changes in interests in mining tenements**

|                                                                   | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|-------------------------------------------------------------------|--------------------|-------------------------------|----------------------------------|----------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed |                    |                               |                                  |                            |
| 6.2 Interests in mining tenements acquired or increased           |                    |                               |                                  |                            |

There was no change in tenements during the 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<br>number | Number<br>quoted | Issue price<br>per security<br>(see note 3)<br>(cents) | Amount paid up<br>per security<br>(see note 3)<br>(cents) |
|------------------------------------------------------|--|-----------------|------------------|--------------------------------------------------------|-----------------------------------------------------------|
| <b>7.1 Preference securities (description)</b>       |  |                 |                  |                                                        |                                                           |
| <b>7.2 Changes during quarter</b>                    |  |                 |                  |                                                        |                                                           |
| (a) Increases                                        |  |                 |                  |                                                        |                                                           |
| (b) Decreases                                        |  |                 |                  |                                                        |                                                           |
| <b>7.3 Ordinary securities</b>                       |  | 31,504,900      | 25,840,560       |                                                        |                                                           |
| <b>7.4 Changes during quarter</b>                    |  |                 |                  |                                                        |                                                           |
| (a) Increases                                        |  | Nil             | Nil              |                                                        |                                                           |
| (b) Decreases                                        |  | Nil             | Nil              |                                                        |                                                           |
| <b>7.5 Convertible debt securities (description)</b> |  |                 |                  |                                                        |                                                           |
| <b>7.6 Changes during quarter</b>                    |  |                 |                  |                                                        |                                                           |
| (a) Increases                                        |  |                 |                  |                                                        |                                                           |
| (b) Decreases                                        |  |                 |                  |                                                        |                                                           |
| <b>7.7 Options</b>                                   |  |                 |                  |                                                        |                                                           |
| Description and conversion factor                    |  | Total Number    | Number Quoted    | Exercise price                                         | Expiry Date                                               |
| <b>Listed</b>                                        |  |                 |                  |                                                        |                                                           |
| Nil                                                  |  |                 |                  |                                                        |                                                           |
| <b>Unlisted</b>                                      |  |                 |                  |                                                        |                                                           |
| 31 Dec 2007 Options 1 for 1                          |  | 6,487,500       | Nil              | 20 cents                                               | 31 Dec 2007                                               |
| 31 Dec 2007 Options 1 for 1                          |  | 5,487,600       | Nil              | 25 cents                                               | 31 Dec 2007                                               |
| <b>7.8 Issued during quarter</b>                     |  | Nil             |                  |                                                        |                                                           |
| <b>7.9 Exercised during quarter</b>                  |  | Nil             |                  |                                                        |                                                           |
| <b>7.10 Expired during quarter</b>                   |  | Nil             |                  |                                                        |                                                           |
| <b>Listed</b>                                        |  |                 |                  |                                                        |                                                           |
| <b>Unlisted</b>                                      |  |                 |                  |                                                        |                                                           |
| <b>7.11 Debentures</b>                               |  | Nil             |                  |                                                        |                                                           |
| <b>7.12 Unsecured</b>                                |  | Nil             |                  |                                                        |                                                           |
|                                                      |  |                 |                  |                                                        |                                                           |

## Quarterly report to Newcastle Stock Exchange

### 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.

Signed: ***Robert J Waring***  
(Company Secretary)

Date: 27 October 2004

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.