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Klondike Source Limited

ABN 64 087 595 980

Annual Report 2003

KLONDIKE SOURCE LIMITED

ABN 64 087 595 980

DIRECTORS

Patrick J D Elliott (Chairman)
Colin M Thomas
Raymond J Soper

CEO

Robert G Adamson

SECRETARY

Robert J Waring

REGISTERED AND ADMINISTRATION OFFICE

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AUDITORS

Barnes Dowell James

BANK

Westpac Banking Corporation

Stock Exchange Listing and NSX Code

The Company's shares are quoted on the official list of the Stock Exchange of Newcastle Limited and trade under NSX code KSL.

CONTENTS

Chairman's Letter	1
Directors' Report.....	2
Statements of Financial Performance.....	6
Statements of Financial Position.....	7
Statements of Cash Flows	8
Notes to the Financial Statements	9
Directors' Declaration.....	20
Independent Audit Report.....	21
Shareholder Information	22
Corporate Governance	24

CHAIRMAN'S LETTER

In calendar year 2003, the Company's efforts were entirely devoted to raising sufficient capital for an initial drilling program on our Klondike Goldfield claims and to securing listing of KSL's shares on the Stock Exchange of Newcastle (NSX).

An important milestone for raising capital was the signature in October 2003 of the PacRim/KSL Consolidation Agreement. This resulted in your Company having the right to a 100% interest in the major block of Joint Venture Claims which are the focus of the planned drilling program through the 2004 field season. Completion of the Agreement is expected during April 2004.

The Initial Public Offer (IPO) was closed on 27 February 2004 and successfully raised \$1.84 million, with subsequent listing on the Stock Exchange of Newcastle on 19 March 2004. Support for the IPO was spread throughout Australia, resulting in 166 new shareholders excited by the hardrock gold potential of the world famous Klondike Goldfield as identified by KSL's experienced technical management. We welcome new shareholders and acknowledge the patience of our initial investors who have supported the Company over the past four years.

The successful completion of the IPO was the result of much hard work by the Company's executive team and our Sponsoring Broker, WHI Securities, and thanks are due for their efforts and the support of other stockbrokers.

Now we look forward to having a successful drilling program which will commence in June 2004. Plans are well advanced for this program, with a drilling contract signed. A statutory planning notification for this program has been submitted to the Yukon Government authorities and we have every reason to believe it will be approved before the end of April.

By the time of the Annual General Meeting in May 2004, the Board of KSL will be enlarged, as foreshadowed in the Prospectus, by two nominees of PacRim Resources. The latter company will be our single largest shareholder and the major representative of Canadian stakeholders in the Klondike Source exploration project.

The enlarged Board of KSL will be mindful of major responsibilities not only to corporate governance as an Australian-listed company but also as a leading gold exploration company in Canada's Yukon Territory. We have established over the past five years, strong commercial and operational relationships in the Yukon Territory through our wholly owned subsidiary, KSL Exploration (Yukon) Limited, which holds KSL's exploration tenements. The Company will endeavour to enhance these Yukon relationships over the coming year.

Finally, may we wish our technical team the rewards which come from persistence and a successful drilling program in 2004.



P J D Elliott
Chairman

20 April 2004

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Klondike Source Limited and the entity it controlled at the end of, and during the year ended 31 December 2003.

Directors

The following persons were directors of Klondike Source Limited during the whole of the financial year and up to the date of this report:

Patrick J D Elliott (Chairman) (Appointed 30 May 2003)

Colin M Thomas

Raymond J Soper

Robert G Adamson (Resigned 16 October 2003, alternate director for C M Thomas from October 2003)

John L Gaskell (Resigned 30 May 2003)

Directors' qualifications and experience

Patrick J D Elliott (Appointed 30 May 2003)

Non-Executive Chairman

Pat Elliott has over 30 years experience in investment, financial and industrial management, having previously been employed by Consolidated Goldfields Australia Limited, Morgan Grenfell Australia Limited and Natcorp Investments Limited. He is currently a director of Argonaut Resources Ltd (Chairman), Magnesium International Limited (Deputy Chairman), Eastern Star Gas Limited, Marlborough Resources NL (Chairman) and St Francis Group Ltd.

Colin M Thomas

Technical Director

Colin Thomas is a graduate of St Andrews University, Scotland. He joined the then international natural resources consulting group, Robertson Research group in 1970, after 10 years in regional mapping for Government Geological Surveys in Africa (Tanzania and Botswana). He has specialised in regional and district geological studies for precious and base metals, uranium and diamonds, having undertaken significant projects for (among others) Newmont Australia, CRA/RTZ, Freeport Australia, Mobil Minerals Australia, Hindustan Copper Ltd (Indian government corporation) and BP Minerals NZ. In addition, he has major experience in the assessment and valuation of mineral exploration properties for equity fund raising. He is a director of RobSearch Australia, a wholly Australian owned natural resources, safety and environmental risk management and project consultancy, which commenced business as the Australian coal/mineral resources consultancy arm of the Robertson Research group PLC in 1970.

Raymond J Soper

Non-executive Director

Ray Soper is a mining engineer and company director, with 33 years experience in the mining industry. He has worked with MIM Holdings, Renison Goldfields, McKinsey and Co, Peko-Wallsend Ltd, Lachlan Resources and Resource Finance Corporation in the fields of mining, mineral economics, mining finance, exploration, technology development and related activities. He is a director of Continental Minerals Corporation (TSX Venture), GTN Resources Ltd, Huntley Investment Company Limited, Paradigm Gold Limited and PlatSearch NL.

Robert G Adamson (Resigned 16 October 2003)

Alternate Director for C M Thomas, Chief Executive Officer

Bob Adamson has over 35 years experience in exploration, initially with the CRA/RTZ group, followed by 14 years with the Newmont group. He was subsequently General Manager for BP Minerals NZ and then Managing Director of Cluff Pacific Resources and a Director of Cluff Zimbabwe (owner/operator of the largest gold mine in that country, the Freda Rebeca). Whilst with Newmont, he made major contributions to the discovery of the Telfer gold deposit in 1972. For the past ten years he has been an independent consultant and associated with RobSearch Australia. He is a director of Southern Cross Exploration NL.

John Gaskell resigned as a director on 30 May 2003.

DIRECTORS' REPORT

Directors' Remuneration

	Directors' Fees	Consulting Fees	TOTAL
P J D Elliott	-	-	-
C M Thomas	-	15,900	15,900
R J Soper	-	37,690	37,690
R G Adamson	-	13,985	13,985
J L Gaskell	37,101	-	37,101
	37,101	67,575	104,676

In addition, certain consulting fees were paid to companies related to the directors (refer to note 22).

All executive offices of the Company during the year were directors of the Company.

Directors' interests in shares and options

The relevant interest of each director in the share capital of the Company as at the date of this report is as follows:

	Number of Ordinary shares			
	2003	2002		
Patrick J D Elliott	2,500,000	2,500,000		
Colin M Thomas	1,750,050	1,750,050		
Raymond J Soper	1,117,540	900,050		
Robert G Adamson (alternate)	296,750	250,000		
	Number of Options *		Number of Options **	
	2003	2002	2003	2002
Patrick J D Elliott	-	-	1,250,000	-
Colin M Thomas	2,195,000	2,195,000	875,000	875,000
Raymond J Soper	2,195,000	2,195,000	450,000	450,000
Robert G Adamson (alternate)	200,000	200,000	125,000	125,000

* These options are exercisable at 25 cents per share on or before 31 December 2007.

** These options were granted with shares issued for the subscription of seed capital and are exercisable at 20 cents per share on or before 31 December 2007.

There were no options issued to directors or executives during the year.

Principal activities

The principal activity of the consolidated entity is the exploration for economic hardrock gold deposits in the Klondike area of Canada.

Results

The net result of operations after applicable income tax expense of the consolidated entity for the year ended 31 December 2003 was a loss of \$381,805 (2002: loss of \$195,054).

Dividends

No dividends were either paid or declared for the year (2002 – nil).

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2003.

DIRECTORS' REPORT

Review of operations

In April 2003, the Yukon Territory Government acquired the responsibility for administering the Territory's mining and mineral exploration under a devolution policy by Canada's Federal Government in Ottawa. To mark this event, the Territory Government suspended expenditure commitments on mineral claims for twelve months as from April 2003.

This benevolence of the Yukon Territory Government resulted in an extension of tenure for KSL's mineral interests into the period mid-June to December 2004. Consequently, the Company decided not to conduct any field exploration in 2003 and conserve its limited cash resources at the beginning of the year to cover the initial costs of raising the substantial funds required for a significant drilling program in the 2004 season.

At the end of March 2004, plans for a major drilling program, expected to commence in early June 2004, are well advanced. Contracts for drilling and field geological services have been signed with Yukon-based contractors.

The Company will continue its policy of contracting Yukon-based exploration personnel and companies whenever possible. There is excellent technical exploration support in the areas of drilling, geophysical and geological services locally available in the Yukon. KSL will benefit technically from maximising the use of this local expertise and at the same time minimise logistic costs.

The planned exploration program for 2004 will be directed in the field by KSL's technical management team of Bob Adamson and Colin Thomas.

Significant changes in the state of affairs

Other than the agreement with Pacrim Resources Limited to acquire their interest in the JV claims and undertaking the initial public offering (IPO) there were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

The Company's shares commenced trading on the Stock Exchange of Newcastle Limited (NSX) on 19 March 2004 after successfully completing the IPO which raised \$1,841,000 through the issue of 18,410,000 shares at 10 cents per share.

Likely developments

As the consolidated entity's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments. In the long-term, the Company is hoping to identify other precious and base metal exploration and evaluation targets.

Directors' benefits

During the year no director of the Company has received or become entitled to receive a benefit (other than a benefit included in the notes to the accounts) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Share Options

Particulars of options granted over unissued shares:

There are 11,975,100 options granted by the Company over unissued ordinary shares. No shares have been issued in the period as the result of the exercise of options. Full details of options on issue are shown in Note 16.

DIRECTORS' REPORT

Meetings of Directors

Attendance at directors' meeting during the year:

	Eligible to attend	Attended
Patrick J D Elliott (Appointed 30 May 2003)	5	5
Colin M Thomas	9	8
Raymond J Soper	9	8
Robert G Adamson (Resigned 16 October 2003)	7	6
J L Gaskell (Resigned 30 May 2003)	4	4

Directors Messrs Soper and Elliott are members of the Company's Audit Committee, which met once during the year. The Committee was set up to review the Company's financial systems, accounting policies and annual financial statements.

All directors were members of the Company's IPO Due Diligence Committee. The Committee met six times during the year to 31 December 2003.

Environment

Klondike Source, through its subsidiary, KSL Exploration (Yukon) Limited, holds exploration tenements in the Yukon Territory of Canada, that are subject to various governmental statutes and guidelines for environmental impacts in relation to exploration activities. These provide for the satisfactory rehabilitation of the areas of exploration. There have been no material known breaches of the licence conditions.

Directors' and auditors' indemnification

The Company has not, either during or since the end of the financial period, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

During or since the financial period, the Company has not paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Auditor

Barnes Dowell James holds office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.



Patrick J D Elliott

Director
Sydney

20 April 2004

STATEMENTS OF FINANCIAL PERFORMANCE

for the year ended 31 December 2003

	Note	Consolidated		Parent Entity	
		2003 \$	2002 \$	2003 \$	2002 \$
Revenue from ordinary activities	2	866	2,222	866	1,068
Administration costs		(112,715)	(8,467)	(108,893)	(8,467)
Borrowing cost	3	(2,651)	(1,022)	(2,651)	(1,022)
Consultants fees		(169,180)	(11,043)	(166,229)	(11,043)
Depreciation	3	(1,537)	-	(1,537)	-
Diminution of loans to controlled entity	3	-	-	(151,342)	-
Directors fees		(37,101)	-	(37,101)	-
Exploration property write off	3	-	(95,977)	-	-
Office rent	3	(49,428)	(60,000)	(49,428)	(60,000)
Other expenses from ordinary activities		(10,059)	(20,767)	(5,595)	(2,116)
Loss from ordinary activities before income tax expense		(381,805)	(195,054)	(521,910)	(81,580)
Income tax expense	4	-	-	-	--
Net loss from ordinary activities after income tax expense	17	(381,805)	(195,054)	(521,910)	(81,580)
Basic and diluted loss per share (cents)		(3.14)	(1.63)		

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

at 31 December 2003

		Consolidated		Parent Entity	
	Note	2003	2002	2003	2002
		\$	\$	\$	\$
CURRENT ASSETS					
Cash		364,570	90,659	351,453	6,396
Receivables	9	33,757	14,706	24,878	12,599
TOTAL CURRENT ASSETS		398,327	105,365	376,331	18,995
NON-CURRENT ASSETS					
Receivables	9	-	-	499,069	711,865
Deferred Exploration and Evaluation Expenditure	10	486,447	487,734	-	-
Investments	11	-	-	855	855
Plant and equipment	12	660	2,319	528	2,065
TOTAL NON-CURRENT ASSETS		487,107	490,053	500,452	714,785
TOTAL ASSETS		885,434	595,418	876,783	733,780
CURRENT LIABILITIES					
Payables	13	317,412	97,571	309,067	96,134
TOTAL CURRENT LIABILITIES		317,412	97,571	309,067	96,134
NON-CURRENT LIABILITIES					
Interest bearing liabilities	14	32,000	30,000	32,000	30,000
TOTAL NON-CURRENT LIABILITIES		32,000	30,000	32,000	30,000
TOTAL LIABILITIES		349,412	127,571	341,067	126,134
NET ASSETS		536,022	467,847	535,716	607,646
SHAREHOLDERS' EQUITY					
Contributed equity	15	1,624,990	1,175,010	1,624,990	1,175,010
Accumulated losses	17	(1,088,968)	(707,163)	(1,089,274)	(567,364)
TOTAL EQUITY		536,022	467,847	535,716	607,646

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2003

		Consolidated		Parent Entity	
	Note	2003	2002	2003	2002
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payment to suppliers (inclusive of GST)		(177,774)	(88,586)	(169,243)	(73,672)
Interest received		866	2,222	866	1,068
Interest paid		-	(3)	-	(3)
NET CASH (OUTFLOWS) FROM OPERATING ACTIVITIES	25	(176,908)	(86,367)	(168,377)	(72,607)
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on mining interests (exploration)		(1,161)	(33,317)	-	-
Refund from government of exploration expenses		-	99,416	-	-
Loans to controlled entity		-	-	61,454	(27,846)
NET CASH INFLOWS / (OUTFLOWS) FROM INVESTING ACTIVITIES		(1,161)	66,099	61,454	(27,846)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		111,980	-	111,980	-
Application monies received pursuant to IPO		338,000	-	338,000	-
Proceeds from long term borrowing		2,000	30,000	2,000	30,000
NET CASH INFLOWS FROM FINANCING ACTIVITIES		451,980	30,000	451,980	30,000
NET INCREASE / (DECREASE) IN CASH HELD		273,911	9,732	345,057	(70,453)
Cash at the beginning of the financial year		90,659	80,927	6,396	76,849
CASH AT THE END OF THE FINANCIAL YEAR	25	364,570	90,659	351,453	6,396

The above statements of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

As a result of applying the revised Accounting Standard AASB 1018 *Statement of Financial Performance*, revised AASB 1034 *Financial Report Presentation and Disclosures* and AASB 1040 *Statement of Financial Position* for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current reporting period.

Borrowings

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognized on an accruals basis.

Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to known or probable mineral resource capable of supporting a mining operation.

Exploration expenditure for each area of interest, other than that acquired from the purchase of another mining company, is written off as incurred, except that it is carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

A provision is raised against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable. The increase in the provision is charged against the results for the year. Exploration expenditure which no longer satisfies the above policy is written off. When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off firstly against any existing provision for that expenditure, with any remaining balance being charged to earnings. The provision against exploration expenditure is reversed when recoupment out of revenue to be derived from the relevant area of interest/mineral resource or from the sale of that area of interest, is assured and the asset is transferred to another class or sold.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the Company's rights of tenure to that area of interest are current.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of translation. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

Goods and Services Tax

Revenues, expenses and assets are recognized net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority it is recognized as part of the cost of an asset or as part of an item of expense; or
- for receivables and payables which are recognized inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authorities is included as part of other receivables or other payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authorities is classified as operating cash flows.

Income Tax

Tax-effect accounting is applied using the liability method, whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Joint Ventures

Interests in joint ventures are brought to account by including in the respective classifications, the share of individual assets employed, and liabilities and expenses incurred.

Leases

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal installments over the lease term.

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Klondike Source Limited ("Company") as at 31 December 2003 and the results of all entities for the year then ended. Klondike Source Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effect of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss statement and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss statement from the date on which control commenced. Where control of an entity ceases during a financial year, its results are only included for that part of the year during which control existed. There are no associated companies.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment are included at cost. Depreciation is provided on a straight line basis on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value at the end of the useful lives of the assets, over those estimated useful lives.

The following estimated useful lives are used in the calculation of depreciation

Plant and equipment 5 – 8 years

Receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

Restoration, Rehabilitation and Environmental Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities, and treated as exploration and evaluation expenditure.

Revenue Recognition

Interest revenue is recognized on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of GST.

Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

2. REVENUE

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Revenue from operating activities				
Interest received	866	2,222	866	1,068
Total revenue	866	2,222	866	1,068

3. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

The operating loss from ordinary activities before income tax expense has been determined after charging the following expenses:

Borrowing costs	2,651	1,022	2,651	1,022
Depreciation	1,537	-	1,537	-
Diminution of loan to controlled entity	-	-	151,342	-
Foreign exchange losses	2,477	8,552	-	-
Rent	49,428	60,000	49,428	60,000

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
4. INCOME TAX				
Loss from ordinary activities before income tax expense	381,805	195,054	521,910	81,580
Income tax calculated @ 30% (2002 – 30%)	(114,542)	(58,516)	(156,573)	(24,474)
Future income tax benefits not brought to account in respect of current year	114,542	58,516	156,573	24,474
Income tax attributable to operating loss	-	-	-	-

Future income tax benefits not recognised calculated at 30% (2002 - 30%) in respect of:

Revenue Losses	502,850	389,208	201,461	91,191
Timing differences	145,034	146,320	44,503	-
Total future tax benefits not recognised	647,884	535,528	245,964	91,191

The benefit for tax losses and timing differences will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

No franking credits are available for subsequent years.

5. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

All executive offices of the Company during the year were directors of the Company.

Income paid, payable or otherwise made available to the Directors of Klondike Source Limited from the Company as:

	2003	2002	2003	2002
Directors' remuneration	104,676	-	104,676	-

The number of directors of Klondike Source Limited whose remuneration (including superannuation contributions) falls within the following bands:

\$0 - \$9,999	1	3	1	3
\$10,000 - \$19,999	2	0	2	0
\$20,000 - \$29,999	0	0	0	0
\$30,000 - \$39,999	2	-	2	-

The directors' fees include consulting fees paid to directors only for time spent on Company business.

All executive officers of the Company during the year were directors of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

6. REMUNERATION OF AUDITORS

Total amounts receivable by the auditors of the Company for:

Audit of the Company's accounts	3,000	9,000	3,000	9,000
Other services – IPO Accountant's Report	2,000	-	2,000	-
	<u>5,000</u>	<u>9,000</u>	<u>5,000</u>	<u>9,000</u>

7. FINANCIAL REPORTING BY SEGMENTS

The consolidated entity operates predominantly in the one industry and in one geographical area, namely Canadian mineral exploration and evaluation.

8. EARNINGS PER SHARE

Basic and diluted

Weighted average number or shares used in basic and diluted earnings per share

12,208,263 11,975,100

Basic and diluted earning per share (cents per share)

(3.14) (1.63)

9. RECEIVABLES

Current

Other debtors	33,757	14,706	24,878	12,599
	<u>33,757</u>	<u>14,706</u>	<u>24,878</u>	<u>12,599</u>

Non-current

Loan to controlled entity	-	-	650,411	711,865
Less provision for diminution	-	-	(151,342)	-
	<u>-</u>	<u>-</u>	<u>499,069</u>	<u>711,865</u>

10. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Deferred exploration costs brought forward	487,734	649,810	-	-
Costs incurred during the year	1,161	33,317	-	-
Refund from government	-	(99,416)	-	-
Abandoned areas written off	-	(95,977)	-	-
Exchange rate fluctuation	(2,448)	-	-	-
	<u>486,447</u>	<u>487,734</u>	<u>-</u>	<u>-</u>

The above amounts represent costs of exploration areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 1. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
11. INVESTMENTS				
Investment in controlled entity				
Investment in KSL Exploration (Yukon) Limited				
(Incorporated in Canada – 100% owned				
(2002 100% owned))	-	-	855	855

12. PROPERTY PLANT & EQUIPMENT

Plant and Equipment

Cost	2,197	2,319	2,065	2,065
Accumulated Depreciation	(1,537)	-	(1,537)	-
	660	2,319	528	2,065

Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

Plant and Equipment

Carrying amount at 1 January 2003	2,319	2,319	2,065	2,065
Additions	-	-	-	-
Depreciation	(1,537)	-	(1,537)	-
Exchange rate fluctuation	(122)	-	-	-
Carrying amount at 31 December 2003	660	2,319	528	2,065

13. CURRENT LIABILITIES - ACCOUNTS PAYABLE

Other creditors and accruals	312,412	97,571	304,067	96,134
Application monies refundable - IPO	5,000	-	5,000	-
	317,412	97,571	309,067	96,134

14. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

Convertible note	32,000	30,000	32,000	30,000
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Klondike Source Limited issued a convertible note up to a maximum of \$70,000 during the year ended 31 December 2002 (Note 22). At balance date \$32,000 (2002 - \$30,000) had been drawn down under this facility. The interest rate imposed is the rate of interest per annum actually paid by Mr Colin Thomas, a Director of the Noteholder (Poduta Pty Limited), in respect of a loan by City Bank Mortgage Power to Mr Colin Thomas.

The note is convertible into new shares of Klondike, at the option of the holder, or repayable on 30 September 2004.

The Noteholder may require the Issuer to repay all or part of the amount owing to the Noteholder such number of new

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

shares at the applicable issue price as equals the amount to be repaid. The issue price is 10 cents per share if the shares are issued prior to listing of the Issuer on a recognised Stock Exchange. If the shares are issued after the listing of the Issuer on a recognised stock exchange, the issue price shall not be less than the greater of 20 cents, if the recognised stock exchange is the Australian Stock Exchange (ASX) or in the case of a recognised stock exchange other than the ASX, the issue price on listing, or the weighted average price of a share on the stock exchange over the Stock Exchange trading days immediately preceding the date of issue.

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
15. SHARE CAPITAL				
Issued Capital				
13,094,900 fully paid ordinary shares (2002 – 11,975,100)	1,309,490	1,197,510	1,309,490	1,197,510
Application monies received	338,000	-	338,000	-
Less share issue costs	(22,500)	(22,500)	(22,500)	(22,500)
	1,624,990	1,175,010	1,624,990	1,175,010
Movement in issued capital	Number	\$		
Shares on issue 1 January 2003	11,975,100	1,197,510		
Issued for cash and in respect of services rendered	1,119,800	111,980		
Shares on issue 31 December 2003	13,094,900	1,309,490		

Shares in respect of application monies received pursuant to the IPO had not been allotted at balance date.

16. OPTIONS

Expiry Date	Exercise Price	Issued 01 January 2003	Granted	Exercised	Surrendered	Issued 31/12/03
31 Dec 07	0.20	6,487,500	-	-	-	6,487,500
31 Dec 07	0.25	5,345,000	592,600	-	(450,000)	5,487,600
		11,832,500	592,600	-	(450,000)	11,975,100

The expiry date of these options was extended to 31 December 2007 at a general meeting of shareholders held during the year.

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
17. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the financial year	(707,163)	(512,109)	(567,364)	(485,784)
Net loss for the year	(381,805)	(195,054)	(521,910)	(81,580)
Retained losses at the end of the financial year	(1,088,968)	(707,163)	(1,089,274)	(567,364)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

18. CONTINGENT LIABILITIES

Amounts payable to RobSearch Australia Pty Limited of \$nil (2002 - \$95,075) and directors fees of \$nil (2002 - \$63,854) are contingent on KSL raising working capital of at least \$2.5million by float or a like amount is spent by way of expenditure by joint venture partners of the Company's exploration properties. As it is likely that these conditions will be met in full during the current financial year, these liabilities have now been recognised as current amounts payable in the financial statements.

19. COMMITMENTS

Exploration Tenement Expenditure Requirements

In order to maintain the consolidated entity's tenements in good standing with Canadian mining authorities, the Company will be required to incur exploration expenditure under the terms of each claim.

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Payable not later than one year	67,068	-	-	-
Payable later than one year, but not later than two years	58,283	52,300	-	-
	<u>125,351</u>	<u>52,300</u>	<u>-</u>	<u>-</u>

It is likely that variations to the terms of the current and future tenement holdings, the granting of new tenements and changes in tenement areas at renewal or expiry, will change the expenditure commitment to the consolidated entity from time to time.

20. JOINT VENTURES

The consolidated entity is a party to an exploration joint venture agreement with Pacrim Resources Limited (previously called Barramundi Gold Ltd). Under the terms of the joint venture agreement the consolidated entity will be required to contribute towards the exploration and other costs if it wishes to maintain or increase its percentage holding. The consolidated entity has earned a 20% participating interest and can earn up to a 50% participating interest in the joint venture by expending a total of \$1 million Canadian on an exploration work program as defined in the joint venture agreement. During the financial year, Pacrim Resources Limited agreed to sell its interest in the Joint Venture Claims to the Company.

21. LEASE COMMITMENTS

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Payable not later than one year	26,544	-	26,544	-
Payable later than one year, but not later than two years	22,120	-	22,120	-
	<u>48,664</u>	<u>-</u>	<u>48,664</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

22. RELATED PARTY DISCLOSURES

The directors in office during the year were Patrick J D Elliott, John L Gaskell, Robert G Adamson, Colin M Thomas and Raymond J Soper.

Interests in the shares and options of the Company held by current directors and their director-related entities are:

31 December 2003	P J D Elliott	C M Thomas	R J Soper
Fully Paid Ordinary Shares	2,500,000	1,750,050	1,117,490
Options 20 cents - 2007	1,250,000	875,000	450,000
Options 25 cents - 2007	-	2,195,000	2,195,000

Mr R G Adamson, an alternate director for Mr C M Thomas, holds 296,750 ordinary shares and 125,000 20 cent options and 200,000 25 cent options. All options expire on 31 December 2007.

Shares held by directors included those held by the directors and their director-related entities, including the spouses of such directors and relatives of such directors. All shares and options were issued or granted on terms no more favorable than to other shareholders.

Klondike Source Limited issued a convertible note up to a maximum of \$70,000 during the year ended 31 December 2002 to Poduta Pty Limited, a company in which Mr Colin Thomas is a director and has a significant financial interest in. At balance date \$32,000 had been drawn down under this facility. The interest rate imposed is the rate of interest per annum actually paid by Mr Colin Thomas, a Director of the Noteholder (Poduta Pty Limited), in respect of a loan by City Bank Mortgage Power to Mr Colin Thomas. The note is convertible into new shares of Klondike, at the option of the holder, or repayable on 30 September 2004. The Noteholder may require the Issuer to repay all or part of the amount owing to the Noteholder such number of new shares at the applicable issue price as equals the amount to be repaid. The issue price is 10 cents per share if the shares are issued prior to listing of the Issuer on a recognised Stock Exchange. If the shares are issued after the listing of the Issuer on a recognised stock exchange, the issue price shall not be less than the greater of 20 cents, if the recognised stock exchange is the Australian Stock Exchange (ASX) or in the case of a recognised stock exchange other than the ASX, the issue price on listing, or the weighted average price of a share on the stock exchange over the Stock Exchange trading days immediately preceding the date of issue.

Mr C M Thomas is a director and has a significant financial interest in RobSearch Pty Limited, a company that provides geological and administration services to the Company. Services provided during the period ended 31 December 2003 amounted to \$21,400 (2002 - \$56,152). \$98,675 (2002 - \$95,075) is payable to RobSearch when the Company completes a successful IPO or equivalent raising to raise a minimum of \$2.5 million or a like amount is spent by way of expenditure by joint venture partners of the Company's exploration properties. Services provided by RobSearch were under normal commercial terms and conditions.

23. SUBSEQUENT EVENTS

The Company's shares commenced trading on the Stock Exchange of Newcastle Limited (NSX) on 19 March 2004 after successfully completing an IPO which raised \$1,841,000 through the issue of 18,410,000 shares at 10 cents per share.

There were at the date of this report no other matters or circumstances which have arisen since 31 December 2003 that have significantly affected or may significantly affect:

- i) the operations of the consolidated entity,
- ii) the results of those operations, or
- iii) the state of affairs of the consolidated entity

in the financial years subsequent to 31 December 2003.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

24. FINANCIAL INSTRUMENTS

- (a) The Company receives interest on its cash balance and at balance date was exposed to a floating weighted average interest rate on cash balances of 4.75% (2002 - 4.25%). As surplus funds become available, they are deposited in its cash management account and are exposed to receiving a floating rate, which varies according to the amount of funds deposited. All other financial assets are non-interest bearing.
- (b) Net fair value of financial assets and liabilities: the net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities approximates their carrying value.
- (c) The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

Notes	Floating interest rate	Fixed interest maturing in:			Non-interest bearing	Total
		1 year or less	over 1 to 5 years	more than 5 years		
	\$	\$	\$	\$	\$	\$
2003						
Financial assets						
Cash	364,570	-	-	-	-	364,570
Receivables	5	-	-	-	33,757	33,757
	<u>364,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,757</u>	<u>398,327</u>
Weighted average interest rate	4.75%					
Financial liabilities						
Payable	8	-	-	-	317,412	317,412
Convertible notes	9	32,000	-	-	-	32,000
	<u>32,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,412</u>	<u>349,412</u>
Weighted average interest rate	7.59%					
Net financial assets (liabilities)	<u>332,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(283,655)</u>	<u>48,915</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

25. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES.

(a) Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities as follows:

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Operating (loss) after income tax	(381,805)	(195,054)	(521,910)	(81,580)
Depreciation	1,537	-	1,537	-
Write off of exploration properties	-	95,977	-	-
Diminution of loans to controlled entity	-	-	151,342	-
Unrealised foreign exchange loss	2,570	-	-	-
Change in operating assets and liabilities:				
- Decrease / (Increase) in receivables	(19,051)	(6,033)	(12,279)	(8,333)
- Increase / (Decrease) in accounts payable	219,841	18,743	212,933	17,306
Net cash outflow from operating activities	<u>(176,908)</u>	<u>(86,367)</u>	<u>(168,377)</u>	<u>(72,607)</u>
(b) Cash on hand comprises:				
Cash at banks	<u>364,570</u>	<u>90,659</u>	<u>351,453</u>	<u>6,396</u>

26. SUBSIDIARY AND ASSOCIATED UNDERTAKINGS.

Company	Country of Incorporation and Operation	Percentage of Equity Held	
		2003	2002
KSL Exploration (Yukon) Ltd	Canada	100%	100%

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 6 to 19:

- (a) comply with Accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Dated at SYDNEY this 20th day of April 2004

On behalf of the Board

A handwritten signature in black ink, appearing to read 'P J D Elliott', with a horizontal line underneath the name.

P J D Elliott
Chairman

INDEPENDENT AUDIT REPORT

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

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A J Dowell CA
M W James CA

Associate
M A Nakkan CA

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20 April 2004

Klondike Source Limited
Level 10, 80 Arthur Street
NORTH SYDNEY NSW 2060

SCOPE

We have audited the financial report of Klondike Source Limited and controlled entity for the financial year ended 31 December 2003 as set out on pages 6 to 20.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the result of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial report of Klondike Source Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2003 and of their performance for the year ended on that date: and
 - (ii) Complying with Accounting Standards in Australia and the Corporations Regulations 2001: and
- (b) other mandatory professional reporting requirements in Australia.

BARNES DOWELL JAMES
Chartered Accountants



.....
A.J. DOWELL
Partner

SHAREHOLDER INFORMATION

Information relating to shareholders at 26 March 2004

Substantial Shareholders	Number of Shares	%
Panstyn Investments Pty Ltd	2,500,000	7.93
Mr Glenn Tetley	2,000,000	6.35
Poduta Pty Ltd	1,750,000	5.56

Distribution of Shareholders - Analysis of Holdings as at 26 March 2004

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	1 - 1,000	2	100	0.00
	1,001 - 5,000	1	5,000	0.02
	5,001 - 10,000	5	50,000	0.16
	10,001 - 100,000	137	7,185,000	22.81
	100,001 and over	48	24,264,800	77.01
Totals		193	31,504,900	100.00

As at 26 March 2004 there were no shareholders with an unmarketable share parcel of less than 3,333 shares at the prevailing share price of 15 cents.

Top 20 Holdings as at 26 March 2004

Holder Name	Balance at 26-03-2004	%
Panstyn Investments Pty Ltd	2,500,000	7.94
Mr Glenn Tetley	2,000,000	6.35
Poduta Pty Ltd	1,750,000	5.56
Iipseity Pty Ltd	1,117,490	3.55
Baron Nominees Pty Limited	1,000,000	3.17
Yandal Investments Pty Ltd	1,000,000	3.17
Sunshore Holdings Pty Ltd	1,000,000	3.17
Henley Park Estate Pty Ltd	1,000,000	3.17
Australian Heritage Group Pty Ltd	1,000,000	3.17
Redcliff Pty Ltd	625,000	1.98
John M Clark Engineering Pty Ltd	625,000	1.98
Wildfire Investments Pty Ltd	500,000	1.59
Mr Ronald Hugh Beevor & Mrs Fiona Mary Beevor	500,000	1.59
WHI Securities Pty Ltd	500,000	1.59
Topfield Pty Limited	500,000	1.59
Eureka Capital Partners Pty Ltd	500,000	1.59
Mr Rodney Adler	500,000	1.59
Jaspon Holdings Pty Ltd	500,000	1.59
K Biggs Enterprises Pty Limited	400,000	1.27
Mr John P Tuite	400,000	1.27
Total of top 20 holders	17,917,490	56.87
Other holdings	13,587,410	43.13
Total Issued Capital	31,504,900	100.00

SHAREHOLDER INFORMATION

Restricted Securities

Each of the Directors of the Company has entered into a voluntary restriction agreement, in respect of their Shares totalling 5,664,340, for a period of 24 months from 19 March, 2004, or, for 12 months, if after that time, the Company's Shares achieve a weighted average market price over two months of not less than 40 cents. This has been agreed between KSL and NSX.

Shares will be issued to PacRim under the terms of the PacRim/KSL Consolidation Agreement (11,975,100) and will be subject to 24 month restriction from the date of Official Quotation of the Shares, being 19 March 2004. If after twelve months, the Company's Shares achieve an average market price of not less than 40 cents, a release from escrow will be granted by NSX.

Options on issue including holders of more than 20%

Expiry Date	Exercise Price \$	Number of Holders	Total Issued	Holders of more than 20%	
31/12/07	0.20	16	6,487,500	Nil	
31/12/07	0.25	10	5,487,600	R J Soper	36.97%
				C M Thomas	36.97%

Voting Rights

There are no restrictions on voting rights. On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Registered Office and Share Registry

The registered office and telephone number of the company and details of its share registry are provided in the Corporate Directory.

CORPORATE GOVERNANCE

Statement of Corporate Governance

The Directors of KSL are responsible to the Shareholders for the performance of the Company in both the short and the longer term and seek to balance these sometimes competing objectives in the best interests of the Company as a whole. Their principal focus is to enhance the interests of the Shareholders and ensure that the Company, including its controlled entity, is properly managed. The Board draws on relevant best practice principles, particularly those issued by the ASX Corporate Governance Council in March 2003. At its October 2003 meeting, the Board examined the KSL corporate governance practices compared to the best practice principles proposed by the ASX Corporate Governance Council. While KSL will align itself with the principles proposed by ASX, it is mindful that there may be some instances where compliance is not practicable for a company of KSL's current small size.

Functions of the Board

The functions of the Board include:

- review and approval of corporate strategies, the annual budget and financial and business plans;
- overseeing and monitoring organisational performance and the achievement of the Company's strategic goals and objectives thereby advancing the interests of the Shareholders and stakeholders;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditor;
- appointment of and assessment of, the Chief Executive Officer and the members of the senior management and technical teams;
- ensuring that there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the Company;
- ensuring the significant risks facing the Company and its controlled entity have been identified and
- appropriate and adequate control, monitoring and reporting mechanisms are in place;
- otherwise monitoring and reviewing the Company's controls and systems including those concerned with occupational health and safety and environment and human resource matters, so as to ensure compliance with laws and the highest ethical standards; and
- ensuring that the Shareholders are appropriately informed of the progress of the Company.

The Board of Directors

In recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman will be a Non-Executive Director. The Board will continuously review its performance and mix of skills to ensure they are appropriate to allow the Board to maximise its effectiveness and contribution to the Company.

The Board meets throughout the year and expects to have a minimum of six meetings per year.

Conflict of Interests

The Directors, either as employees of, or consultants to, the Company or through controlled entities connected with them, may provide services to the Company. In accordance with accepted corporate governance practice, the Directors concerned have declared their interests in those transactions to the Company and took no part in decisions relating to them.

Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities to the Company, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

CORPORATE GOVERNANCE

Committees

The Directors have established an Audit Committee, which is comprised of Mr P J D Elliott and Mr R J Soper both of whom are Non-Executive Directors. The Audit Committee will have direct access to management and will meet periodically with the external auditors to assess and review internal controls and the Company's statutory reporting. Its activities will assist in ensuring the independence of the external Auditors and provide ready access to the full Board.

Securities Trading and Trading Windows Policy

Directors, employees and key consultants must consult with the Chairman or an Executive Director or the Chief Executive Officer before dealing in Shares of the Company. Purchases or sales in the Company Shares by Directors, employees and key consultants may not be carried out other than in the "window", the window being the period commencing one day following and ending ten days following the date of an announcement of the Company leading, in the opinion of the Board, to an informed market. However, Directors, employees and key consultants are prohibited from buying or selling KSL shares at any time while exploration drilling is being carried out or if they are aware of price sensitive information that has not been made public.

Shareholder Communication

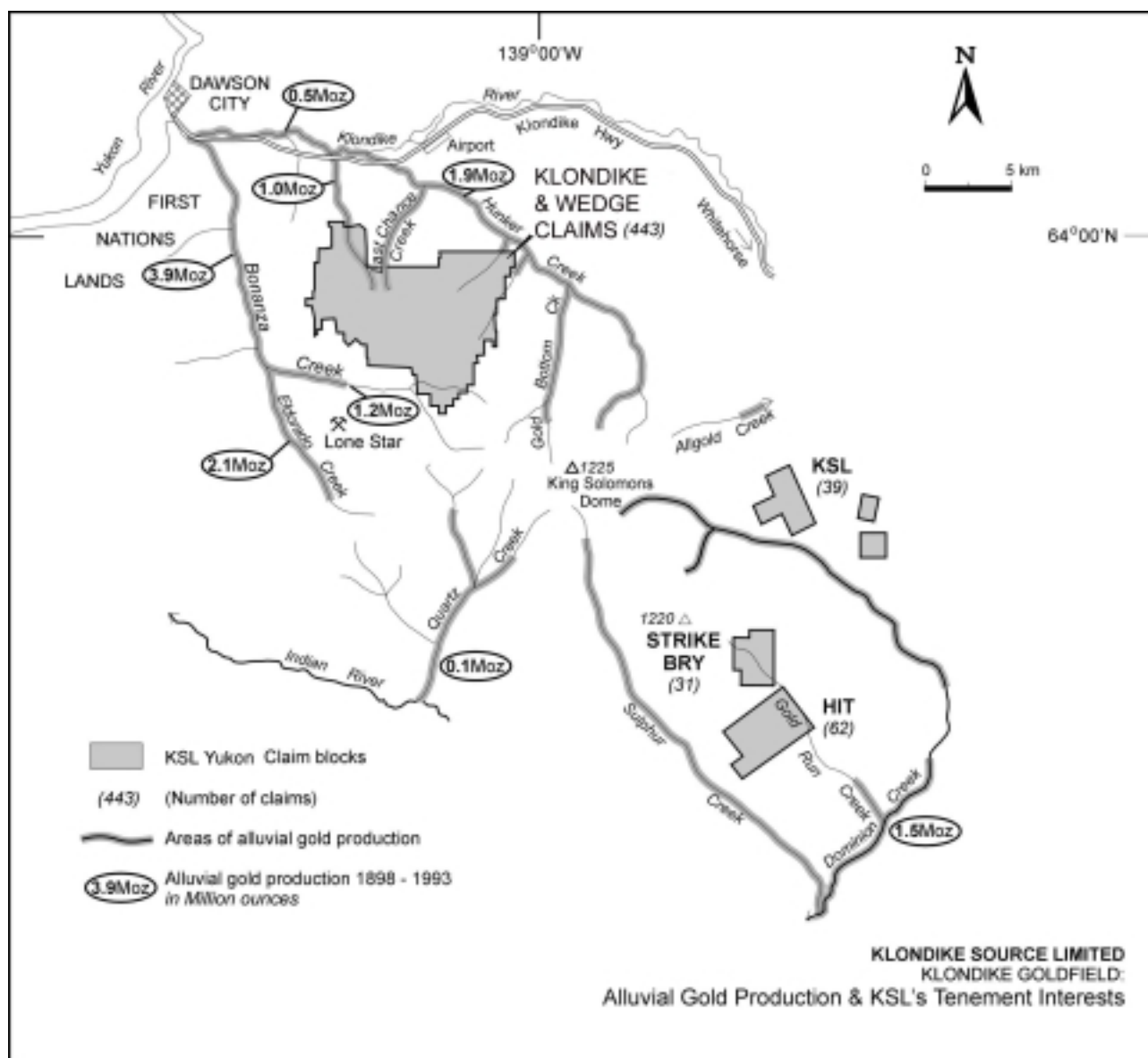
The Directors are keen to ensure that all Shareholders are kept fully informed. All announcements will be available on the Company's web site (www.klondikesource.com.au) after release to NSX.

Community Relations in the Yukon

The Company will respect the legitimate rights and titles of the native people and the concerns of the local communities who are likely to be interested in or affected by the Klondike Source Project. The Canadian Government and the indigenous people of the region have formally agreed as to which area are native lands (Settlement Lands) and which are not. All of the tenements in which KSL has an interest fall outside any Settlement Lands and consequently the Directors do not anticipate any native title concerns. The Company seeks to work constructively and in consultation with interested groups in accordance with Yukon and Canadian law.

Dividend Policy

Any determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend upon the availability of distributable earnings, the operating results and financial condition of KSL, future capital requirements, general business and financial conditions and other factors considered relevant by the Directors. No assurances in relation to the payment of future dividends, or the franking credits attached to such dividends, can be given to Shareholders.



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