

# Klondike Source Limited

ABN 64 087 595 980

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30 July 2004

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

Dear Sir

## Report for Quarter ending 30 June 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 June 2004.

### HIGHLIGHTS

- Exploration activities include the completion of three diamond drill holes in the area of Prospect A. While no economically significant gold assays have been intersected in these initial holes, valuable information relating to the geology and structural setting of the Klondike Goldfield has been obtained for the first time.
- Since the end of the quarter, two more holes have been drilled. Assays are still awaited for the deeper parts of DDH04-05 which intersected strongly sulphidic schists with several types of quartz veins and major (20 to 30 m long) zones of intense silicification.
- Drilling and soil geochemical sampling continues in other areas of the claims block.
- A sixth hole, DDH04-06, is currently being drilled into Prospect B where a co-incident magnetic anomaly and geochemical anomaly signify a possible structure.

### EXPLORATION

#### Permitting

A Mining Land Use Notification enabling the 2004 diamond drilling program was approved on 14 May 2004.

#### Diamond Core Drilling

KSL's deep diamond drilling program in the core of the Klondike Gold Field is the first such program conducted. The drilling program has two main objectives. The first is to locate economic gold mineralization. The second objective is to learn about the third dimension of the Klondike Gold Field – the geology, the structural setting, and the relationship of mineralization to these.

Diamond drilling commenced in the second week of June 2004. By 30th June, three NQ diamond core holes (DDH04-01, 02 and 03) had been completed for a total of 736.7 metres

drilled. Hole depths ranged from 209 to 286 metres downhole. All holes were drilled on an azimuth of 045° (45° E of N) and declination of 60°.

These three holes tested soil geochemical anomalies located on north-facing slopes of Prospect A. Drill site access was impeded by steep slopes and underlying permafrost. Drilling encountered frequent intervals of broken (fractured) ground resulting in variable core recoveries.

Pervasive weathering and oxidation extends to over 50m depth and oxidised fractures were intersected up to 130m downhole. Substantial sections of all three holes intersected pyrite-mineralised, quartz-veined schists.

By the end of the period, 82 samples of half-core of 0.5 m to 2.0 m in length, had been assayed. Although several geochemically anomalous intervals occur, no values exceeding 0.1g/t gold were intersected.

Since the end of June, a further two drill holes (DDH04 – 04 and 05) have been completed with 513.59 metres drilled. No assays have yet been received for hole DDH04-04. Assays of 16 half core samples from DDH04-05, largely from the uppermost 100m of the hole, while less than 0.1g/t gold are generally geochemically anomalous. Assays are still awaited for the deeper parts of DDH04-05 which intersected strongly sulphidic schists with several types of quartz veins and major (20 to 30 m long) zones of intense silicification.

### Interpretation

This is the first diamond core drilling program carried out in the central sector of the Klondike Goldfield. Whilst assay results so far (limited to Prospect A) have not indicated mineralization of economic potential, the rapidly expanding database of lithologic, structural, geochemical and petrographic information being derived from core logging and sampling will materially assist interpretation of the goldfield's geology and determine the nature and orientation of further exploration.

Shareholders may recall that in the Prospectus, the company stated that there were three possible outcomes. First, we could be lucky and encounter potentially economic gold mineralization in our initial holes. Second, we could gain valuable geological information that might offer new understandings of the geology, and point to potential for styles of mineralization different to our initial expectations, but sufficient to encourage further exploration, whether using shareholder funds, or from joint venture participation by a larger company. Third, our work might demonstrate that the long held Canadian view that there is no gold left in the Klondike is endorsed.

Results to date indicate that by the end of the current program, we will likely be in the second category, although awaited assays for DDH04-05 and the yet to be drilled DDH04-06 could change that conclusion. It remains our view that the historical gold production of 13 million ounces (which continues today) shows that the Klondike goldfield has considerable potential for the discovery of significant hard rock gold mineralisation.

It is planned to conclude the current field season's drill program with a drill hole (DDH04-06) to test a recently sampled geochemical anomaly located within a well-defined aeromagnetic feature adjacent to the western end of Prospect A.

### Soil Sampling

During the period, a total of 270 soil samples extending over 13.5 line km were collected within the Company's claim blocks.

**TENEMENTS**

A total of 382 new claims were staked during the period and 24 claims were allowed to lapse.

The Company now holds 490 claims outright and 443 claims through the joint venture with PacRim Resources Limited.

Yours faithfully

***Robert G Adamson***

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 June 2004**

### Consolidated statement of cash flows

#### Cash flows related to operating activities

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(220)	(235)
(b) development		
(c) production		
(d) administration (includes payment for work done during the 2003 year)	(120)	(312)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	14	22
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>(326)</b>	<b>(525)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(1)	(1)
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>(1)</b>	<b>(1)</b>
<b>1.13 Total operating and investing cash flows (carried forward)</b>	<b>(327)</b>	<b>(526)</b>

<b>1.13 Total operating and investing cash flows (brought forward)</b>	(327)	(526)
<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	(10)	(120)
<b>Net financing cash flows</b>	(10)	1,383
<b>Net increase (decrease) in cash held</b>	(337)	857
1.20 Cash at beginning of quarter/year	1,559	365
1.21 Exchange rate adjustments to item 1.20	-	-
<b>1.22 Cash at end of quarter</b>	<b>1,222</b>	<b>1,222</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	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

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.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	350
4.2 Development	-
<b>Total</b>	<b>350</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 \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	295	414
Deposits at call	333	553
Bank overdraft		
Other - 30 day bank bills	594	592
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,222</b>	<b>1,559</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		See below		
6.2 Interests in mining tenements acquired or increased		See below		

A total of 382 new claims were staked during the period and 24 claims were allowed to lapse.

## 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 (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
<b>7.1 Preference securities (description)</b>				
7.2 Changes during quarter				
(a) Increases				
(b) Decreases				
<b>7.3 Ordinary securities</b>	31,504,900	25,840,560		
7.4 Changes during quarter				
(a) Increases	Nil			
(b) Decreases	Nil			
<b>7.5 Convertible debt securities (description)</b>				
7.6 Changes during quarter				
(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
7.8 Issued during quarter	Nil			
7.9 Exercised during quarter	Nil			
7.10 Expired during quarter	Nil			
<b>Listed</b>				
<b>Unlisted</b>				
7.11 Debentures	Nil			
7.12 Unsecured	Nil			

## Klondike Source Limited

### 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: 30 July 2004

Print name: Robert J 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.