

Klondike Source Limited



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31 January 2005

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

Dear Sir,

Report for Quarter ending 31 December, 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 31 December 2005.

EXPLORATION

Klondike Gold Field

Nuggety Gold in Drill Core Samples

As reported in the September 2004 Quarter, spotty (nuggetty) gold distribution was demonstrated (assays ranging 0.07 to 2.40 g/t gold) for the interval 290.02m-290.30m in hole DDH04-05. Subsequent check assaying of another 13 samples selected from all holes showed that a further arsenical gold-mineralised interval in DDH04-05 exhibits spotty gold (assays range 0.259 to 0.829 g/t gold). The other check assayed intervals, including the program's best intersection (0.951 g/t gold from 19.4m to 20.6m in DDH04-06), all showed acceptable repeatability.

Claim Status and Future Work

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. We are developing interpretations for presentation in a technical report aimed at attracting a joint venture partner to fund the next phase of diamond drilling in the Klondike Project.

New Projects

The Company continues to seek and consider proposals for outstanding exploration opportunities. Our objective is either to:

1. contribute critical technical know-how and sufficient exploration expenditure to generate drill targets of significant economic potential, or
2. use our existing resources to participate in a suitable seed capital opportunity

The Board may then consider increasing the Company's share capital and moving to an ASX listing.

The Company recently made a farm-in proposal to an unlisted company which holds a portfolio of properties in a highly-prospective region of North America. Negotiations are in progress.

Klondike Source Limited

PACRIM RESOURCES JOINT VENTURE

On 3 December 2004, the Company announced that it had terminated the agreement with PacRim Resources (set out in the KSL Prospectus) by which the Company was to acquire 100% of the Klondike Project claims upon the issue to PacRim of 11,975,100 shares (being 26.57% of the expanded capital) plus 11,975,100 options. As a result, the Company's capital structure and board composition are unchanged (see below), and the pre-existing joint venture arrangements with PacRim continue.

KSL has also notified PacRim that having kept the joint venture claims in good standing, together with expenditure of over CN\$1,000,000 on exploration, KSL Yukon had earned a 50% participating interest in the Joint Venture.

On 10 December 2004, the Company issued a call to PacRim to contribute its proportionate share of 2004 exploration expenditure consequent upon continuation of the joint venture. At expiry of the call date (15 January 2005) PacRim had not met the call and are deemed to have accepted dilution. Current interests in the Klondike Joint Venture claims are:

KSL Exploration (Yukon) Limited	56%
PacRim Resources Limited	44%

CURRENT KSL CAPITAL STRUCTURE

Shares issued to Founders/Directors and seed capital subscribers pre IPO	13,094,900	@ 10 cents
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Shares issued pursuant to IPO	<u>18,410,000</u>	@ 10 cents
Total current issued shares	31,504,900	

Options issued to Founders/Directors and seed capital subscribers pre IPO	1,975,100	<u>Exercise Price</u>	<u>Expiry</u>
Options issued pursuant to IPO	500,000	25/ 20 cents	Dec 2007
Options issued to Founders (AGM 2004)	1,600,000	25	Dec 2007
Options issued per ESOP Oct 2004	<u>1,300,000</u>	30 cents	Dec 2007
Total current issued options	15,375,100	20 cents	May 2009

FINANCIAL

Cash on hand at 31 December 2004 was \$802,000. Essential corporate and exploration expenditure is approximately \$20,000 per month.

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")

31 December 2004

Consolidated statement of cash flows

Cash flows related to operating activities

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(14)	(560)
(b) development		
(c) production		
(d) administration	(24)	(430)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	11	47
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other income -		
Net Operating Cash Flows	(27)	(943)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	-	(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)		
Net investing cash flows	-	(3)
1.13 Total operating and investing cash flows (carried forward)	(27)	(946)

1.13 Total operating and investing cash flows (brought forward)	(27)	(946)
Cash flows related to financing activities		
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)
Net financing cash flows	-	1,383
Net increase (decrease) in cash held	(27)	437
1.20 Cash at beginning of quarter/year	829	365
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	802	802

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	10
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	20
4.2 Development	-
Total	20

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	120	28
Deposits at call	82	201
Bank overdraft		
Other - 30 day bank bills	600	600
Total: cash at end of quarter (item 1.22)	802	829

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Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased	439 claims	Klondike JV (KSL earning interest)	20%	50%

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)
7.1 Preference securities (description)				
7.2 Changes during quarter				
(a) Increases				
(b) Decreases				
7.3 Ordinary securities	31,504,900	25,840,560		
7.4 Changes during quarter				
(a) Increases	Nil	Nil		
(b) Decreases	Nil	Nil		
7.5 Convertible debt securities (description)				
7.6 Changes during quarter				
(a) Increases				
(b) Decreases				
7.7 Options				
Description and conversion factor	Total Number	Number Quoted	Exercise price	Expiry Date
Listed				
Nil				
Unlisted				
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			
Listed				
Nil				
Unlisted				
31 Dec 2007 Options 1 for 1	1,600,000	Nil	30 cents	31 Dec 2007
20 Apr 2009 Options 1 for 1	1,300,000	Nil	20 cents	20 April 2009
31 Dec 2007 Options 1 for 1	500,000	Nil	25 cents	31 Dec 2007
7.9 Exercised during quarter	Nil			
7.10 Expired during quarter	Nil			
7.11 Debentures	Nil			
7.12 Unsecured	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: 28 January 2005

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.