

Klondike Source Limited

ABN 64 087 595 980

Annual Report
2002

DIRECTORS' REPORT

DIRECTORS

John L Gaskell (Chairman)
Robert G Adamson
Colin M Thomas
Raymond J Soper

SECRETARY

Robert J Waring

REGISTERED AND ADMINISTRATION OFFICE

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AUDITORS

PricewaterhouseCoopers

BANKERS

Westpac Banking Corporation

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CONTENTS

Directors' Report	2
Statement of Financial Performance.....	6
Statement of Financial Position	7
Statements of Cash Flows.....	8
Notes to the Financial Statements.....	9
Directors' Declaration.....	19
Independent Audit Report.....	20

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, or during the year ended 31 December 2002.

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:

John L Gaskell
Robert G Adamson
Colin M Thomas
Raymond J Soper

Directors' qualifications and experience

John L Gaskell

Non-Executive

Mr Gaskell acquired experience in mineral exploration in eastern Australia in the early 1970s. Subsequently he was the initial exploration director of Greenwich Resources, a UK-based company, and was the Managing Director of Savage Resources until the company's take-over by Pasminco Ltd. He is a non-executive director of Tri-Origin Australia Ltd.

Robert G Adamson

Exploration Director

Mr. Adamson has over 30 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 five years he has been an independent consultant closely associated with RobSearch Australia.

Colin M Thomas

Technical Director

Mr 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 the 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

Mr. 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 Buka Minerals Ltd., Consolidated Minerals Corporation (TSX Venture), GTN Resources Ltd, Huntley Investment Company Ltd and PlatSearch NL.

DIRECTORS' REPORT

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	
	2002	2001
John L Gaskell	0	0
Robert G Adamson	250,000	250,000
Colin M Thomas	1,750,050	1,750,050
Raymond J Soper	900,050	900,050

	Number of Options *		Number of Options **	
	2002	2001	2002	2001
John L Gaskell	600,000	600,000	0	0
Robert G Adamson	200,000	200,000	125,000	125,000
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

* These options are exercisable at 25 cents per share on or before 31 December 2004.

** 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 2005.

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 2002 was a loss of \$195,054 (2001: loss of \$218,363)

Dividends

No dividends were either paid or proposed for the period (2001– nil).

Review of operations

Operations of the consolidated entity during the year and the results of those operations have the following highlights:

- Limited systematic soil geochemical surveys tested prospective zones defined in 2000-2001.
- 210 soil samples were collected and analysed for gold and silver in three claim blocks.
- This work led to better definition of several anomalies.
- Specialist interpretation of government aeromagnetic survey data strengthened KSL's exploration concepts and confidence in the major gold prospectivity of proposed drilling targets.
- Tenement holdings were rationalised at the end of the year, with the major Pacrim JV tenement block reduced from 838 to 415 claims, and the 100% KSL-held claims reduced from 222 to 108.

DIRECTORS' REPORT

Significant changes in the state of affairs

To date, the Company has conducted ground exploration surveys for gold on two sets of mining claims. The larger block, where the Company has defined major drilling targets, is the subject of a joint venture with the Canadian company, Pacrim Resources Limited (previously called Barramundi Gold Limited). Klondike Source Limited has earned a 20% interest in these claims and under the terms of the JV is required to fund a further C\$545,000 in exploration to earn a 50% interest. The share price of Pacrim over the past 12 months has not reflected any value in the Klondike exploration play and, theoretically, has provided better investment leverage than an IPO for our company.

The Directors considered that the only way to resolve this problem was to amalgamate Pacrim's and Klondike Source Limited's interests into one company. By the end of the calendar year 2002, your Directors had completed negotiations for Pacrim to sell their interest in the Joint Venture to Klondike Source Limited in return for a 50% interest in the Company, subject to the Company raising A\$500,000 for an initial drilling program. In addition, there is an additional payment to Pacrim of A\$200,000 in cash or shares upon the Company having a successful IPO or JV which leads to a A\$2.5 million being raised or spent on exploration respectively.

Subsequent to year's end, Pacrim signed a "Letter of Intent" agreeing to these terms.

Matters subsequent to the end of the financial period

There were at the date of this report no matters or circumstances which have arisen since 31 December 2002 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 2002.

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. In the short-term, the Company is negotiating to fund a drilling program costing \$500,000 in the second half of 2003 either by a direct investment into the company under pre-IPO funding conditions. Alternatively, and more likely, investment will be by way of a farm-out to a publicly-listed third party, whereby initial investors will be asked to participate by way of an Information Memorandum to make a placement covering the cost of the drilling program to the third party.

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 11,832,500 options granted by the Company over unissued ordinary shares. There are 5,345,000 options exercisable at 25 cents into fully paid ordinary shares and they expire on 31 December 2004. There are 6,487,500 options exercisable at 20 cents into fully paid ordinary shares and expire on 31 December 2005. No shares have been issued in the period as the result of the exercise of options.

Meetings of Directors

During the year the Company's Directors held 7 meetings. Messrs Gaskell and Thomas attended 7, Mr Soper 6 and Mr Adamson 5.

DIRECTORS' REPORT

Directors Messrs Soper and Gaskell 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.

Environment

Klondike Source, through its subsidiary, KSL Exploration (Yukon) Limited, holds exploration tenements in the Yukon, 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

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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

C M THOMAS
Director

Sydney
30th April 2003

STATEMENTS OF FINANCIAL PERFORMANCE

Year ended 31 December 2002

	Note	Consolidated		Parent Entity	
		2002	2001	2002	2001
			\$		\$
Revenue from ordinary activities	2	2,222	3,721	1,068	3,664
Borrowing cost	3	(1,022)	(11)	(1,022)	(11)
Office rent		(60,000)	(25,000)	(60,000)	(25,000)
Exploration property write off		(95,977)	-	-	-
Other expenses from ordinary activities		(40,277)	(197,073)	(21,626)	(176,969)
Loss from ordinary activities before income tax expense		(195,054)	(218,363)	(81,580)	(198,316)
Income tax expense	4	-	-	-	-
Net loss from ordinary activities after income tax expense	21	(195,054)	(218,363)	(81,580)	(198,316)

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

STATEMENTS OF FINANCIAL POSITION

Year ended 31 December 2002

	Note	Consolidated		Parent Entity	
		2002	2001	2002	2001
			\$		\$
CURRENT ASSETS					
Cash		90,659	80,927	6,396	76,849
Receivables	5	14,706	8,673	12,599	4,266
TOTAL CURRENT ASSETS		105,365	89,600	18,995	81,115
NON-CURRENT ASSETS					
Receivables	5	-	-	711,865	684,019
Exploration properties	6	487,734	649,810	-	-
Investments	6	-	-	855	855
Plant and equipment	7	2,319	2,319	2,065	2,065
TOTAL NON-CURRENT ASSETS		490,053	652,129	714,785	686,939
TOTAL ASSETS		595,418	741,729	733,780	768,054
CURRENT LIABILITIES					
Payables	8	97,571	78,828	96,134	78,828
TOTAL CURRENT LIABILITIES		97,571	78,828	96,134	78,828
NON- CURRENT LIABILITIES					
Interest bearing liabilities	9	30,000	-	30,000	-
TOTAL NON-CURRENT LIABILITIES		30,000	-	30,000	-
TOTAL LIABILITIES		127,571	78,828	126,134	78,828
NET ASSETS		467,847	662,901	607,646	689,226
SHAREHOLDERS' EQUITY					
Contributed equity	10	1,175,010	1,175,010	1,175,010	1,175,010
Accumulated losses	21	(707,163)	(512,109)	(567,364)	(485,784)
TOTAL EQUITY		467,847	662,901	607,646	689,226

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

STATEMENTS OF CASH FLOWS

Year ended 31 December 2002

	Note	Consolidated		Parent Entity	
		2002	2001	2002	2001
			\$		\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payment to suppliers (inclusive of GST)		(88,586)	(207,121)	(73,672)	(188,536)
Interest received		2,222	3,721	1,068	3,664
Interest paid		(3)	(11)	(3)	(11)
NET CASH (OUTFLOWS) FROM OPERATING ACTIVITIES	19	(86,367)	(203,411)	(72,607)	(184,883)
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on mining interests (exploration)		(33,317)	(142,012)	-	-
Refund from government of exploration expenses		99,416		-	-
Loans to controlled entity		-	-	(27,846)	(162,986)
Payments for property, plant and equipment		-	(2,319)	-	(2,065)
NET CASH INFLOWS / (OUTFLOWS) FROM INVESTING ACTIVITIES		66,099	(144,331)	(27,846)	(165,051)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	242,500		242,500
Proceeds from long term borrowing		30,000		30,000	
NET CASH INFLOWS FROM FINANCING ACTIVITIES		30,000	272,500	30,000	242,500
NET INCREASE / (DECREASE) INCREASE IN CASH HELD		9,732	(105,242)	(70,453)	(107,434)
Cash at the beginning of the financial year		80,927	186,169	76,849	184,283
CASH AT THE END OF THE FINANCIAL YEAR	19	90,659	80,927	6,396	76,849

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

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.

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.

Future Funding

The financial statements have been prepared on a going-concern basis, the basis of which is dependent upon the Company being able to obtain additional funding to support future long term exploration, evaluation and development of its properties. If the Company is unable to obtain such funding, it may be required to vary future exploration, evaluation and development programmes, to realise assets and extinguish liabilities and commitments other than in the normal course of business and at amounts which are different to those which are currently stated in the accounts.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

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.

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.

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.

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 2002 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.

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.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	\$	\$	\$	\$
2. REVENUE				
Revenue from outside operating activities				
Interest received	2,222	3,721	1,068	3,664
Total revenue	2,222	3,721	1,068	3,664

3. OPERATING LOSS BEFORE ORDINARY ACTIVITIES & INCOME TAX EXPENSE

Borrowing costs	1,022	11	1,022	11
Foreign exchange losses	8,552	4,006	-	-
Rent	60,000	25,000	60,000	25,000

4. INCOME TAX

Loss from ordinary activities before income tax expense	195,054	218,363	81,580	198,316
Income tax calculated @ 30% (2001 – 30%)	(58,516)	(65,509)	(24,474)	(59,495)
Future income tax benefits not brought to account in respect of current year tax loss	58,516	65,509	24,474	59,495
Income tax attributable to operating loss	-	-	-	-

No provision for income tax is considered necessary in respect of the Company for the year ended 31 December 2002 or the year ended 31 December 2002.

No recognition has been given to any future income tax benefit which may arise from exploration expenditure carried forward (either capitalised as deferred exploration expenditure for accounting purposes or written off to the profit and loss account) and operating losses not claimed for tax purposes. The Consolidated Entity has estimated its carried forward operating losses not claimed of approximately \$1,297,360 (2001 - \$1,171,148). These amounts have not been brought to account in calculating any future tax benefit.

The directors estimate that the potential future income tax benefit at 31 December 2002 in respect of Australian tax losses not brought to account is \$91,191 (2001 - \$70,105) and in respect of Canadian tax losses not brought to account is \$298,017 (2001 - \$281,239).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

The benefit for tax losses will 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.

	Consolidated		Parent Entity	
	2002	2001	2002	2001
		\$		\$
5. RECEIVABLES				
Current				
Other debtors	14,706	8,673	12,599	4,266
	14,706	8,673	12,599	4,266
Non-current				
Loan to controlled entity	-	-	711,865	684,019

6. OTHER ASSETS

Non-current

Exploration properties

Costs brought forward	649,810	507,798	-	453,501
Costs incurred during the year	33,317	142,012	-	52,162
Refund from government	(99,416)			
Abandoned areas written off	(95,977)	-	-	
Transferred to controlled entity	-	-	-	(505,663)
Costs carried forward	487,734	649,810	-	-

The above amounts represent costs of 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. During the year the interest in the Joint Venture areas was transferred from Klondike Source Limited to KSL Exploration (Yukon) Limited.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

	Consolidated		Parent Entity	
	2002	2001 \$	2002	2001 \$
Investment in KSL Exploration (Yukon) Limited	-	-	855	855

7. PROPERTY PLANT & EQUIPMENT

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.

Consolidated	Plant & equipment \$
Carrying amount at 1 January 2002	2,319
Additions	-
Carrying amount at 31 December 2002	2,319

	Consolidated		Parent Entity	
	2002	2001 \$	2002	2001 \$
8. CURRENT LIABILITIES - ACCOUNTS PAYABLE				
Other creditors and accruals	97,571	78,828	96,134	78,828

The balance owing of consulting fees payable to RobSearch Australia Pty Ltd, which are payable when Klondike Source Limited is listed on a recognised stock exchange is \$95,075 (2001-\$91,775)

	2002		2001	
	2002	2001	2002	2001
9. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
Convertible note	30,000	-	30,000	-

Klondike Source Limited issued a convertible note up to a maximum of \$70,000 during the year ended 31 December 2002. At balance date \$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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2002

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.

10. SHARE CAPITAL

Issued Capital

11,975,100 fully paid ordinary shares
(2001 – 11,975,100)

1,175,010	1,175,010	1,175,010	1,175,010
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11. REMUNERATION OF DIRECTORS

2002	2001	2002	2001
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Income paid, payable or otherwise made available to the Directors of Klondike Source Limited from the Company as:

Directors' fees	-	50,000	-	50,000
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The number of directors of Klondike Source Limited whose remuneration (including superannuation contributions) falls within the following bands:

\$0 - \$9,999	0	0	0	0
\$10,000 - \$19,999	0	3	0	3
\$20,000 - \$19,999	0	1	0	1

No directors fees were paid during 2002 as the directors were paid consulting fees on for their time spent in relation to Klondike. Payment of these fees is contingent on the Company completing 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.

Consolidated		Parent Entity	
2002	2001	2002	2001
\$	\$	\$	\$

12. REMUNERATION OF AUDITORS

Total amounts receivable by the auditors of the Company for:

Audit of the Company's accounts	9,000	5,700	9,000	5,700
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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

13. RELATED PARTY DISCLOSURES

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

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

31 December 2002	R G Adamson	J L Gaskell	C M Thomas	R J Soper
Fully Paid Ordinary Shares	250,000	0	1,750,050	900,050
Options 20 cents - 2005	125,000	0	875,000	450,000
Options 25 cents - 2004	0	0	2,195,000	2,195,000

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 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 \$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 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 2002 amounted to \$56,152 (2001: \$118,692). \$95,075 is payable to RobSearch contingent on the Company completing 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.

Mr R J Soper is a director and has a significant financial interest in Ipseity Pty Limited, a company that provides marketing services to the Company. Services provided during the period ended 31 December 2002 amounted to \$15,623 (2001: \$10,000). Payment of these services is contingent on the Company completing 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 Mr R J Soper were under normal commercial terms and conditions.

Mr R G Adamson is a director of the Company. Geological services provided during the period ended 31 December 2002 amounted to \$4,675 (2001: \$38,676). Payment of these services is contingent on the Company completing 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 Mr R G Adamson were under normal commercial terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2002

Mr J L Gaskell is a director of the Company. Geological services provided during the period ended 31 December 2002 amounted to \$43,556. Payment of these services is contingent on the Company completing 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 Mr J L Gaskell were under normal commercial terms and conditions.

14. 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.

15. FINANCIAL REPORTING BY SEGMENT

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

16. CONTINGENT LIABILITIES

Amounts payable to RobSearch Australia Pty Limited of \$95,075 (2001 \$91,775) and directors fees of \$63,854 (2001-nil) are contingent on KSL raising working capital of at least \$2.5m by float or a like amount is spent by way of expenditure by joint venture partners of the Company's exploration properties.

17. 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. In addition, the consolidated entity has commitments to expend funds towards earning or retaining an interest under its joint venture agreement.

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	\$	\$	\$	\$
Payable not later than one year	-	21,159	-	-
Payable later than one year, but not later than two years	52,300	95,800	-	-
	52,300	116,959	-	-

No amount is payable not later than one year because Klondike has received a moratorium from the Canadian government for 12 months.

It is likely that variations to the terms of the current and future joint ventures, 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

18. 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 4.25% (2001-4.36%). 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		
		\$	\$	\$	\$	\$	
2002							
Financial assets							
Cash		90,659	-	-	-	90,659	
Receivables	5		-	-	-	14,706	
		<u>90,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,706</u>	
						<u>105,365</u>	
Weighted average interest rate		4.25%					
Financial liabilities							
Payable	8	-	-	-	-	97,571	
Convertible notes	9	30,000	-	-	-	30,000	
		<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,571</u>	
						<u>127,571</u>	
Weighted average interest rate		7.09%	-				
Net financial assets (liabilities)		<u>60,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(82,865)</u>	
						<u>(25,206)</u>	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

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

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	\$	\$	\$	\$
Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities to operating as follows:				
Operating (loss) after income tax	(195,054)	(218,363)	(81,580)	(198,316)
Write off of exploration properties	95,977	-	-	-
Change in operating assets and liabilities				
- Decrease / (Increase) in receivables	(6,033)	5,599	(8,333)	4,080
- Increase / (Decrease) in accounts payable	18,743	9,353	17,306	9,353
Net cash outflow from operating activities	(86,367)	(203,411)	(72,607)	(184,883)

20. SUBSEQUENT EVENTS

There has been no material subsequent events.

21. ACCUMULATED LOSSES

	2002	2001	2002	2001
Accumulated losses at the beginning of the financial year	(512,109)	(293,746)	(485,784)	(287,468)
Net loss	(195,054)	(218,363)	(81,580)	(198,316)
Retained losses at the end of the financial year	(707,163)	(512,109)	(567,364)	(485,784)

DIRECTOR'S DECLARATION

The directors declare that the financial statements and notes set out on pages 7 to 18:

- (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 2002 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 30th April 2003

On behalf of the Board

C M THOMAS
Director

Independent audit report to the members of Klondike Source Limited

Audit opinion

In our opinion, the financial report, set out on pages 7 to 19:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Klondike Source Limited and the Klondike Source Group (defined below) as at 31 December 2002 and of their performance for the year ended on that date
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and summary of our role

The financial report – responsibility and content

The preparation of the financial report for the year ended 31 December 2002 is the responsibility of the directors of Klondike Source Limited. It includes the financial statements for Klondike Source Limited (the Company) and for the Klondike Source Group (the Group), which incorporates Klondike Source Limited and the entities it controlled during the year ended 31 December 2002.

The auditor's role and work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:


- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report
- obtaining written confirmation regarding material representations made to us in connection with the audit
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.


PricewaterhouseCoopers


WD McCluskey
Partner

Sydney
30 April 2003