

Gold explorer hits the ground running

Drummond Gold, one of the latest mining company newcomers to the Australian Securities Exchange, may be a junior but it certainly isn't an exploration rookie. By **Charles Amery**



Drummond Gold chairman John Dunlop.

The company began listed life in December 2007, but unlike other starting-from-scratch resource-seeking hopefuls, the Queensland-based Drummond was well out of the blocks with a drill program under its belt and JORC-compliant gold resource in its pocket.

The gold and base metals exploration company hit the ground running in 2008 with \$6.5 million in the bank from an over-subscribed initial public offering, four mining leases, two past-producing mines and a portfolio of tenements in the historic Mt Coolon area of central Queensland.

Drummond has a 272,000 ounce JORC-compliant gold resource; has been drilling in the region since 2006; has a massive historical database on its tenements; boasts a highly experienced management team; and has a business plan and strategy firmly in place and operational.

Its Mt Coolon exploration base is in the Drummond Basin, known for its epithermal gold deposits with a potential to yield high "bonanza" gold grades. It is an area Drummond directors believe is probably Australia's most under-explored and prominent region for large and world-class epithermal vein and stockwork-style gold.

The Pajingo gold mine near Charters Towers, until recently operated by Newmont Mining, has yielded 2.5 million ounces since opening in 1987.

The founders of what became Drummond Gold initially developed selection strategies and project targets in Australia in 2004 and late the following year negotiated the purchase of the Mt Coolon project, including a massive database of information for its leases and tenements covering all exploration and operational data from Wirralie Mines.

In February 2006 Mt Coolon Gold Mines

(MCGM) was formed and the purchase completed. By the middle of that year the company had bought equipment, hired staff, constructed offices and accommodation, collated data and begun reverse circulation (RC) drilling at its Eugenia prospect.

Privately funded, it completed 3740m and added 80,000oz of gold to the JORC-compliant resource base for a total of 160,000oz of contained gold at Eugenia before the end of 2006.

"In 2006 the operation was funded by the founders' private cash," Drummond Gold managing director and one of its founders Andrew Vigar told *RESOURCESTOCKS*.

"The project grew and we decided to go to a public company in April 2007, forming Drummond Gold Limited and transferring ownership of MCGM.

"This was followed by a major exploration program in 2007, capital raising of \$7 million with the IPO heavily oversubscribed, and listing on the ASX just before Christmas 2007."

Drummond's mining leases and exploration tenements extend over 808 square kilometres, including the Conway project recently purchased from Newcrest Exploration. It has applied for a further 2582sq.km of exploration tenements within 100km of the old gold town of Mt Coolon.

With 2008 now under way, Drummond is progressing its well-defined projects and targets and a vision that chairman John Dunlop describes as "becoming a significant gold and base metal producer".

He believes this can be achieved through the "discovery and development or acquisition of high-grade gold vein deposits" similar in style to Pajingo and Cracow as well as targeting development of bulk low-grade deposits.

The initial production objective is to



Some historic remnants of the Mt Coolon diggings.

expand the company's resource base through the discovery of extensions to its existing resources, both open pit and underground.

"We are very much focused on increasing the viability of our known projects," Vigar said. "If in 2008 we can double our current resources and convert a large portion to reserves that would give us enough to go ahead. We believe we need a five-year plus project and minimum 30,000 to 50,000 ounces of gold a year operation over those five years to go to construction."

The company's JORC resources come from its resource definition project at Eugenia, which accounts for about 60% and former mines Mt Coolon (Koala) and Glen Eva.

The total resource of 272,000oz is from 2.833 million tonnes at three grams per tonne with measured resources at 6000oz, indicated resources at 154,000oz and inferred resources of 112,000oz.

The company has two further prospects at an advanced stage and more than 10 others at target evaluation stage.

At the Mt Coolon (Koala) mine two lodes have been identified and a re-evaluation undertaken of mine resources. The remaining resources occur beyond the limits of the underground workings, below the open pit and in the old tailings.

Drummond has been investigating the potential to deepen the existing Koala open pit together with limited open pit workings through the upper levels of the old underground mine.

The Koala region outside the mine lease area also includes a number of prospects located on a favourable north-west striking trend.

"The historic Mt Coolon [Koala] mine looks as though extension is viable at current gold prices," Vigar said. "Renison [Goldfields Consolidated] completed a decline in 1988 giving access to the underground portion of ore body, but it was never mined. The decline is in good condition and would give us early access into the underground mine."

The decline is 600m long with a cross cut that has intersected the old main shaft, which could be used for ventilation and dewatering.

"Koala was underground in the 1930s with the open pit in the mid-90s being on different portions of the vein system," Vigar added. "Gold prices were much lower than present when these operations were suspended."

"There are also 200,000 tonnes of tailings grading 1.6 grams of gold to the tonne from the 1930s. It will be a virtual re-opening of the Koala mine."

The other former mine is Glen Eva. Ross Mining identified three main lodes, but in

1997 decided it was not viable to recover an open pit extension.

The resource of interest to Drummond is the mineralisation lying below and to the side of the open pit on the strike extensions. With an average grade of 8.5g/t gold and the old open cut giving early access to underground development, the company believes it could get back into production quickly.

One of its bright lights is the already JORC compliant Eugenia prospect, which is currently on an exploration permit. However, Drummond is looking to turn it into a mining lease.

Drummond completed 35 RC drill holes for 3740m in 2006 in the central and southern portions of the deposit, which confirmed the geological continuity of the mineralisation.

One hole, EURC018 from 162m to 164m, returned 2m at 4g/t gold and intersected high grade mineralisation at a vertical depth of 140m below surface, highlighting the good potential for depth extensions. It defined a series of 11 mineralised zones using a general cut off grade of 0.7g/t gold over 2m down-hole composites on sections.

Eugenia has now been tested with 187 RC and diamond drill holes over an area of about 700m x 700m.

"The group strategy is to spend at least 40% of company budget on direct drilling and assay costs," Vigar said. "You have to drill; it is the path to exploration success."

"We have set aside a total of \$4.1 million in our financial years' 2008 and 2009 budgets for drilling and assaying."

"We were a fully operational company when listed in December 2007. We were not raising money to start exploration; we were already doing it so we had a clear idea of our costs. We have prioritised our targets, have a business plan for financial years 2008 and 2009 and are currently on budget."

"Priority projects are Mt Coolon [Koala], an old 1930s lease; Glen Eva, also an old mine lease, with drilling to extend the resources; and Eugenia, open in all directions and at depth. We will also do advanced exploration at the Conway, Badiands and Golden Bar prospects looking to advance these to resource estimation."

Recent work by Drummond has also highlighted the significance of the TPM magnetite-copper-gold skarn associated with the Manaman intrusive complex, increasing the potential for a discovery of an intrusion-related gold deposit. Drilling for these major targets is supported and funding-assisted by a Queensland Government cooperative drilling initiative (CDI) drilling grant.

The company expects the TPM deposit to be a possible opportunity for producing

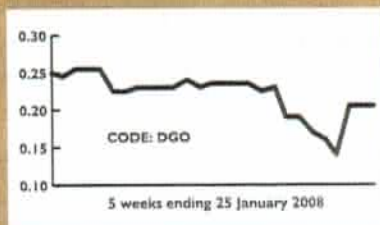
magnetite from a shallow open pit for coal washing use in the nearby Bowen Basin mines, as well as copper and gold.

Vigar said a scoping study had been commissioned looking at the best location for a central treatment plant and whether known resources could be put through it at a profit – not only those owned by Drummond but from other locations and deposits within trucking distance.

A geologist and a former Western Mining Corporation and Conzinc Rio Tinto man, Vigar was instrumental in founding Drummond. He is part of a team with extensive experience in exploration, mine development, production and corporate finance that includes chairman John Dunlop and directors Brice Mutton (ex Mt Isa Mines executive) and Ross Hutton (also on the board of Kagara Zinc).

"I would be happy if by the end of December 2008 we are well on the way to increasing our resource base sufficiently to allow advancing of the scoping study towards a feasibility level," Vigar said. "This is a big task for a new company, but we believe we have the people and resources to do it." **RS**

drummond gold at a glance



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Market Capitalisation

\$8.4 million (at press time)

Major Shareholders

Mt Coolon Holdings 13.94%

Andrew Vigar 9.23%

ANZ Nominees 7.9%

Ross and Marie Hutton 4.98%