

Newsletter Number # 1: Drummond Gold Shareholders Update

Dear Shareholder

Last Friday, Drummond Gold took a major step forward in the Company's progress towards early gold production and therefore early cash flow.

The Company announced that the basis for an agreement had been reached on the acquisition of the Maldon gold project, an important part of our strategy of building Drummond into a significant gold producer.

I would like to use this newsletter to tell you something about the Maldon project and also how it relates to our activities in the Drummond Basin, the Company's "heartland".

You will be well aware of the importance of gold mining in Victoria going back more than 150 years. Maldon is 30km southwest of Bendigo. From 1854, over more than 70 years, 1.75 million ounces of gold was produced at Maldon at an average grade of 28 g/t.

The most recent owner at Maldon, Alliance Resources Limited, realised the potential that lay within the ground of this rich and historic gold producing centre. Alliance concentrated on the Eaglehawk Reef which alone has been the source of 491,000 ounces of gold production over the years. Alliance has developed a decline commencing from the wall of an open pit at Union Hill, where gold was being produced as recently as the 1980's and 1990's. The 1,772-metre long decline extends right to the roof of the previously unmined Alliance South gold lode, 228 metres below the surface. Meanwhile, Alliance has continued to operate a CIL gold processing plant, which is included in the Maldon project, tolling gold bearing material supplied by third parties.

However, Alliance suspended development of the project in December last year to conserve cash to meet Alliance's commitments to the Four Mile uranium project in South Australia. It then decided to divest Maldon as the market wished to see Alliance as a pure uranium play. We are fortunate that John Dunlop is chairman of both Drummond and Alliance, and introduced Drummond to the opportunity that the Maldon project presents.

Consider the assets that the Maldon project comprises: A fully maintained decline into Alliance South with only 50 metres of cross cut development required to access the northern part of the gold lode. An operating gold treatment plant that is producing gold and has the capacity to treat up to 250,000 tonnes of ore per year depending on ore hardness. Other potential ore sources at Maldon, includes Ladies Reef which is only 140 metres to the west of the decline, where in 2007 one drill hole encountered 2.75 metres @ 22.1 g/t gold.

In the last few days announcements have been made advising that Drummond and Alliance have agreed to the basis of a transaction by which Drummond will acquire Maldon Resources Pty Ltd (a wholly owned subsidiary of Alliance and owner of the Maldon project) for shares in Drummond. The acquisition will be subject to an independent expert's valuation; further due diligence now being undertaken by Drummond; finalisation of documentation; the current board of Drummond remaining substantially the same following the Extraordinary General Meeting of shareholders on the 4 September 2009; statutory approvals and the approval of Drummond shareholders.

If we can achieve our timetables for acquiring the Maldon project and developing the Alliance South mine, we should be able to start producing gold at Maldon during the first (June) half of next calendar year, 2010.

We are, of course, continuing the work in the Drummond Basin in Queensland. However, the reality is that we have the opportunity to generate cash sooner from Maldon than from the Drummond Basin properties.

Put simply, surplus cash could be generated in the short term from the Maldon operation and could be available to finance our exploration and development in the Drummond Basin. If in the event that Maldon should, at the very least pay for itself, it would give us “gold producer status” – which greatly enhances our potential to raise additional capital for the Drummond Basin.

We continue to take a positive view of the Company’s prospects in the Drummond Basin and remain active in our exploration programs. We are greatly encouraged by the drill results issued last week for the Yandan project where only a few months ago we secured the right to earn a majority interest. Some of those encouraging results, our first diamond drill hole at Yandan’s East Hill discovery included 13m @ 5.91 g/t gold (including 3m @ 20.92 g/t gold), 2m @ 9.96 g/t gold and 1.9m @ 48.12 g/t gold.

To conclude, Maldon is part of an integrated strategy for Drummond. At Maldon, we are planning a mine whose scale and design are in keeping with the project – that is how others have succeeded in the past and how others are succeeding in Victoria today. Subject to due diligence and approvals, Maldon presents the earliest opportunity for Drummond to achieve the vital status of an Australian gold producer that is both profitable and sustainable. With its fully operational processing plant, Maldon has the potential to become a gold production hub in its region of Victoria, just as Mt Coolon has the potential to become a production hub in that region of Queensland.

With a successful gold mine operating at Maldon next year, our Company will be well positioned to press forward with exploration and development in the Drummond Basin.

If you require any further information on the recent announcements made by Drummond or in regard to this newsletter please contact me.

Yours sincerely

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