

29 January, 2008

Drummond Gold (DGO)

Buy

Drummond Gold (DGO) successfully raised A\$7m via an IPO listing on the ASX late in 2007 to fund exploration on its wholly owned Drummond Basin tenements in central Queensland where a JORC compliant gold resource of 272koz has been delineated to date.

Drummond Gold is backed by a highly experienced board including Ross Hutton (Kagara Zinc) and John Dunlop (Alliance, Alkane) with extensive experience in the development of mining projects. The company has strong cash backing, and access to capital for acquisitions as it seeks to establish early cash flow.

Since the team formed in 2004, a number of potential acquisitions were examined before the purchase of Mt Coolon in 2005. Following acquisition of 100% of the project in 2006, the company carried out a mining scoping study indicating the viability of a central processing facility to mill ores from a number of satellite deposits in the area.

Exploration has been ongoing, with geophysics flown, drilling carried out and establishment of a comprehensive database of information from past explorers (including Ross Mining) who had carried out little work since the early 1990's.

Two drilling rigs have been operating at the projects, and are due to recommence in coming weeks with assay results from the 2007 program pending. Key management personnel have all invested substantial amounts of money in the business, and have access to capital to fund acquisitions through institutional investors who have had previous success backing the individuals involved. Managing Director is Andrew Vigar, Chairman of the Brisbane Mining Club and with 26yrs experience in epithermal deposits, including senior roles with CRA, Emperor Gold and WMC.

Drummond Gold stands out from many exploration companies, in that a large amount of exploration work has been conducted pre-listing, and is ongoing; the company has an existing gold resource within both mining and exploration leases; management has a proven track record of discovering, building, and operating mines; and management have invested a large amount of money in the business prior to going to the market.

In summary, Drummond Gold is well placed for success, with a large number of prospects within the tenements and the right people behind it. We commence covering the stock with a BUY recommendation and price target of A\$0.40.

Investment Summary

Issued Price A\$ps	\$0.25
Current Price	\$0.19
12-mth Price Target	\$0.40
Materials	
www.drummondgold.com.au	
Issued Capital M (ordinary shares)	63.3M
Market Cap \$M	\$12.0M
Cash at hand (Dec 31 2007)	\$6.5m

KEY POINTS

- Highly experienced Board, including Ross Hutton (Kagara Zinc) and Chairman John Dunlop (Alliance, Alkane)
- Management has invested A\$2.4m of their own money, and increased JORC resource 34% to 272koz in 06/07;
- Opportunity for early cashflow from centralised gold treatment plant;
- Open cut ore should be free digging, cheap to mine/process;
- Growth through organic & acquisition means. Access to capital to fund acquisitions;
- News flow: 2 drill rigs were operating in 2007 with assays due in coming weeks; resource will grow, QLD Gov funding potential;
- Extensive tenements, limited exploration in last 15yrs. Geological setting similar to Mt Leyshon, Pajingo, Red Dome and Kidston;
- Cheap on a market cap/resource ounce basis (A\$21/oz vs often used guide of A\$50/oz).

Drummond Area Deposits - Production & Resources

Deposit	Styles	Mt	g/t Au	M oz
Glen Eva	Epithermal vein	0.25	6.2	0.05
Eugenia	Epithermal bulk	2.13	2.3	0.16
Koala	Epithermal vein	1.18	8.3	0.32
Twin Hills	Epithermal vein	2.18	4.7	0.33
Yandan	Epithermal bulk	15.05	1.1	0.53
Wirralie	Epithermal bulk	15.3	2	1
Mt Leyshon	IRG gold bulk	47	1.4	2.1
Pajingo	Epithermal vein	9.27	10.1	3
Total		92.4	2.5	7.46

} DGO

Board of Directors and Management

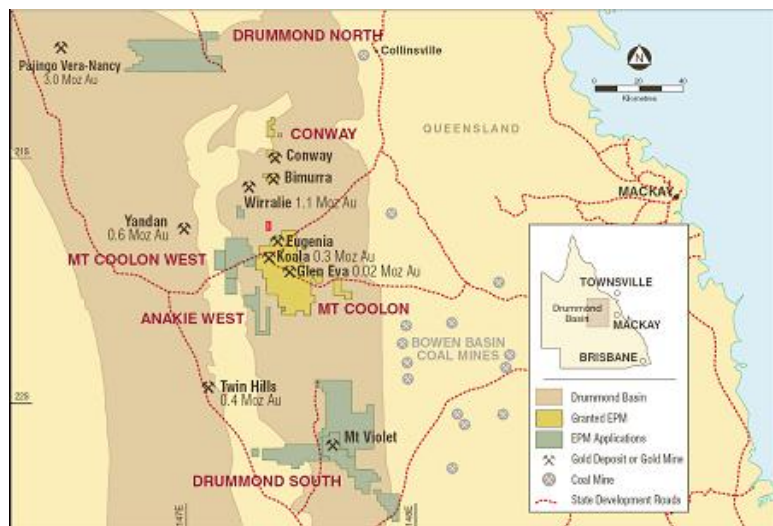
Chairman: John Dunlop (non-exec)

Managing Director: Andrew Vigar

Exec-Director: Brice Mutton (director, exploration)

Non-Exec Director: Ross Hutton

Company Sec: Michael Ilett



Location of Drummond Gold's Queensland Tenements

Overview

Drummond Gold's operations are centred on the town of Mt Coolon, located inland from Mackay and Townsville, in close proximity to coal mines of Queensland's Bowen Basin (adjacent).

The profits from the old Mt Coolon Gold mine in the 1930's was partly responsible for the early establishment of WMC as one of Australia's largest mining companies.

The central tenements were previously held by Ross Mining, with open cut operations carried out across three pits in the early 1990's. The remnant resources have been built on by the new owners since 2006, increasing by 30% to around 272koz Au.

The company raised A\$7m via an oversubscribed ASX listing in December 2007 to fund a detailed exploration program across the tenements, with the aim of increasing the resource base and identifying new deposits in the area through geophysics, soil sampling and targeted drilling campaigns.

Board & Management

John S Dunlop – Non-executive Chairman. BE (Mining) & MEngSc (Mining) UMelb, FAusIMM, FIMMM, MSME, MCIMM, MMICA, CP. Mr Dunlop is a mining engineer and certificated mine manager with 35 years of international and local mining experience, After 20 years in various roles with BHP and finally Aztec Mining, he has worked as a freelance mining engineer and consultant based in Perth, Western Australia. He is also Chairman of Alliance Resources Ltd, Alkane Resources Ltd and Gippsland Ltd. He is a former Director of the Australasian Institute of Mining and Metallurgy (the AusIMM) and current Chairman of the Mineral Industry Consultants Association (MICA). Mr Dunlop joined DGO in August 2007.

Andrew Vigar – Managing Director. BSc (Applied Geology) QUT 1977, FAusIMM, MSEG. Mr Vigar has twenty six years experience in epithermal gold, senior positions with Emperor, WMC, Costain and CRA (Rio Tinto). 10 years consulting, past manager of SRK Consulting Brisbane, current chairman of Mining Associates. Chairman of the AusIMM Geoscience Taskforce, past chairman of the International Mine Geology 2000 and 2003 conferences. Chairman of the Brisbane Mining Club.

Brice Mutton - Exploration director. BSc (Applied Geology) UNSW 1973, FAusIMM, MAIG. Mr Mutton is a Geologist with 26 years experience in the resources industry, from exploration to mining and corporate management. He has held senior positions with MIM Holdings and various MIM group companies over the period 1974 to 1998. He was Chief Geologist at Mt Isa and Hilton Mines from 1988 to 1992 and Managing Director of Giants Reef Mining from 1998 to 2000.

Ross Hutton - Non-executive director. B. Eng (Min), MAusIMM. Mr Hutton is a Mining Engineer and Project Manager with over 30 years experience in the minerals industry. He has been a Vice President of Savage Zinc US operations and is a current director of Kagara Zinc Limited. Ross was responsible for the successful permitting and construction of both the Ernest Henry and the Kagara mine (Mt Garnet) process plants.

Michael J Ilett – Company Secretary. B.Bus(Acc), Grad.Dip (Corp Gov), MBA, ACIS, CA. Michael is a Chartered Accountant and Chartered Company Secretary with over 20 years commercial experience. In 2002 he was awarded the QUT MBA medallion. He has been involved in a number of public company listings and capital raisings on the ASX and London's Alternative Investment Market (AIM).

Mine	Location	Resource Category									Total			cut-off
		measured			indicated			inferred			t	Au g/t	Au oz	Au g/t
		t	Au g/t	Au oz	t	Au g/t	Au oz	t	Au g/t	Au oz				
Koala	Ross Pit Deepening	27,000	3.69	3,203	60,300	3.55	6,878	41,025	3.90	5,143	128,325	3.69	15,224	1.0
	Ross Pit Extension	16,748	3.55	1,911	13,750	2.88	1,275	1,815	2.14	125	32,313	3.19	3,311	1.0
	Hectorina Pit	13,265	2.94	1,253	17,551	6.98	3,936	386	2.22	28	31,202	5.20	5,216	1.0
	Underground Extension				140,164	8.40	37,836	60,480	7.61	14,796	200,644	8.16	52,631	5.0
	Tailings from 1930's				218,400	1.61	11,305				218,400	1.61	11,305	0.0
	Total	57,013	3.47	6,367	450,165	4.23	61,230	103,706	6.03	20,090	610,884	4.46	87,687	
Eugenia	in whittle pit - direct mill				384,736	3.49	43,120	152,466	3.22	15,779	537,202	3.41	58,899	1.3
	in whittle pit - heap leach				138,494	0.97	4,306	32,520	1.05	1,102	171,014	0.98	5,408	0.7
	outside pit				502,261	1.55	25,093	921,021	2.39	70,748	1,423,282	2.09	95,841	0.7
	Total				1,025,491	2.20	72,519	1,106,007	2.46	87,629	2,131,498	2.34	160,148	
Glen Eva	Underground below pit				72,023	8.88	20,562	18,090	7.13	4,147	90,113	8.53	24,709	5.0
Total		57,013	3.47	6,367	1,547,679	3.10	154,311	1,227,803	2.83	111,867	2,832,495	2.99	272,545	

DGO Resources as at October 2007

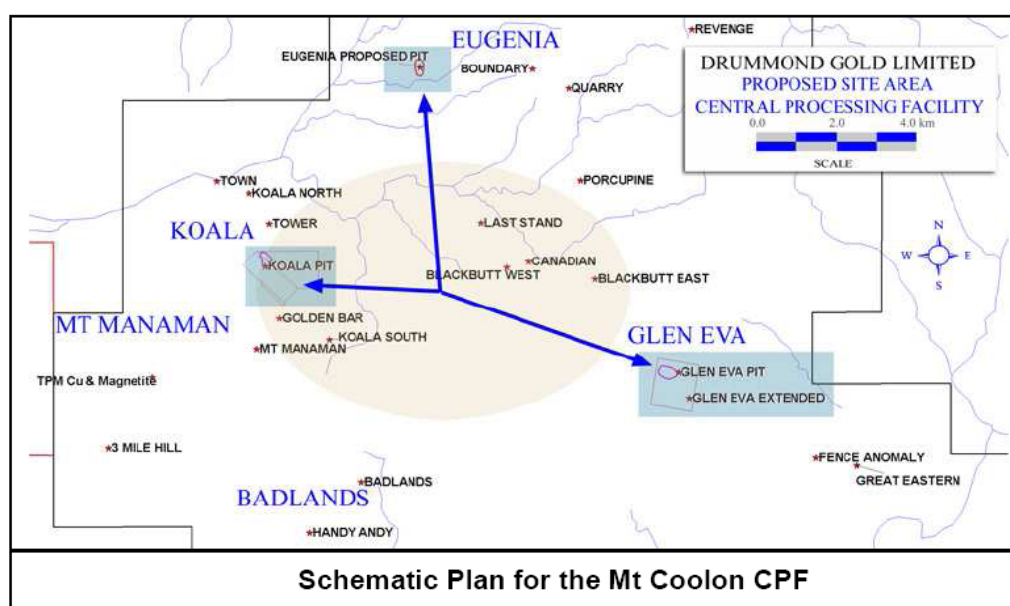
Tenements

The company holds a 100% interest in 10 Exploration Permit Minerals (“EPM”) covering 734 sq km² at Mt Coolon and one of 74 sq km² at Rosetta, plus applications covering an additional 2,500 sq km² elsewhere in the Drummond Basin. The Drummond Basin model of DGO offers a number of interrelated exploration deposit type targets. The most significant to date are epithermal gold with possibilities for intrusive related breccia gold-silver, intrusive related polymetallic veins, mesothermal veins, copper-gold skarn and copper-gold porphyry. JORC compliant gold resources of 2.8 million tonnes at a weighted average grade of 3g/t Au containing 272,000 oz have been outlined from 3 deposits in the immediate Mt Coolon area: Eugenia, Koala and Glen Eva. Due to adoption of realistic cutoff grades, the majority of these resources are expected to be convertible to reserves.

The Company’s portfolio includes;

- Two (2) existing mines on four MLs, Mt Coolon (Koala) and Glen Eva;
- Three (3) advanced projects, including one with resources already defined (Eugenia);
- Ten (10) drill ready Prospects at the Advanced or Target Evaluation stages;
- Twelve (12) Project areas containing 60 discrete Prospects;
- Six (6) Generative project areas.

The Drummond Basin is Australia’s best known areas for world class epithermal gold deposits. The first systematic exploration commenced in 1983 and this work located three epithermal deposits which were subsequently developed as gold mines: Pajingo, Wirralie and Yandan. Exploration of the Drummond Basin to date has resulted in excess of 4 million ounces of actual gold production from these deposits. Mining commenced at Pajingo in 1987 and production peaked in 2003 at 341,000 ounces per annum. The mine is currently operated as high grade vein underground mine by Newmont.



Production Strategy

The initial production objective for DGO is to discover extensions to and additional high grade epithermal vein deposits within its existing resources at the Eugenia, Koala and Glen Eva deposits, sufficient to produce a target 100,000 oz gold output per annum but with initial production possible below this level. Influencing this decision will be the success of both the prime exploration program targeting high grade epithermal grade deposits and the near surface program designed to increase resources at the existing Eugenia and Koala gold deposits. Past production from Mt Coolon has either had a plant attached to the mine (as was the case with the Koala underground mine in the 1930’s) or ore was transported 50 km away to an off-site plant at Yandan.

The location of such a plant would most likely be within the current Mt Coolon tenements which have good road access and access to grid electricity via the unused Wirralie transmission line. The proposed site area is centrally located relative to the 3 existing gold deposits as illustrated in the above figure, being only 3 to 6km from each deposit. The gold in the Mt Coolon region is not refractory and contains low sulphur values. The company believes conventional carbon in leach (CIL) technology is likely to provide excellent recoveries. This will be confirmed by further test-work. Heap leaching of lower grade material will also be considered.

Subject to the production schedule and the mining sites, the plant would be located near to a low grade open cut operation with the understanding that higher grade open cut and underground mines can adequately cover the extra ore haulage cost.

Pit optimisation for the currently defined resources at Eugenia was completed for DGO in November 2006. A scoping study based on an AUD\$800 per ounce gold price indicated that an open pit operation could profitably produce 51,000 oz of gold over 3 years. In-pit resource (undiluted) is 540,000t @ 3.41 g/t Au. DGO has commenced environmental and metallurgical studies to support a mining lease application.

Nearby Mines

The existing 700,000tpa underground operation at Pajingo commenced in 1997, and combined with the earlier open pit operations, has produced nearly 2.5 million ounces at an average grade of 11.4g/t Au and metallurgical recoveries of 96%. Peak production has exceeded 340kozpa. The operation is now maturing and no longer meets Newmont's strategic requirements. Under Newmont's current plan the mine will have exhausted its reserve in mid 2008, however there are resources within the mine leases which remain unmined. Newmont also operates the Waihi mine in New Zealand, another example of low sulphidation epithermal, similar to Drummond Gold's targets.

Straits Resources Limited (ASX: SRL) is planning to follow up on the 2005 discovery at Yandan Deeps below and immediately along strike from the open pit deposits where two drill holes about 40m apart returned 176 m at 2.4 g/t gold from 211m and 194m at 2.1 g/t gold from 192m depth (SRL, 17/10/05). These intersections (not true width) were made up of narrow intercepts of high grade sub-vertical vein systems, including 27m@8.1g/t gold from 301m depth and 8.5m@10.1g/t gold from 347m depth (SRL 9/08/05).

Newcrest's Cracow Project (500km south) is on a similar vein system to Mt Coolon. The mine was approved in 2002, and the underground mine development involved the refurbishment and upgrading of the pre-existing treatment plant. Mining commenced in December 2003 and first gold production was in November 2004. Newcrest manages the mining operation and exploration in the district. Resources stand at 1.97Mt @ 10.6 g/t Au for 0.67Moz Au (NCM's 70% share) with current reserves of 0.55Mt @ 12 g/t Au for 0.21Moz Au (NCM's 70% share). The mine is believed to be for sale, with a mine life estimated to 2013. The operation produces around 80kozpa, at cash costs of around A\$320/oz.

Value Assessment

The company had A\$6.5m in the bank as at 31/12/2007, with an enterprise value less than A\$6m (total market capitalisation of A\$12m).

The market value of the tenements is likely to have increased markedly over the last twelve months with the active exploration program corresponding with the increase in the gold price to over A\$1000/oz. For comparison, many junior companies on the ASX trade at an implied value of around A\$50 per resource ounce, higher depending on grade.

Drummond Gold is trading at less than half this value, or A\$21/oz. The JORC compliant resource is predicted to increase as resource definition drilling is ongoing, with upgrades anticipated in 2008.

Key Projects

Eugenia Epithermal Gold. The Eugenia deposit was discovered by ACM Gold Ltd in November 1989 using stream and then soil geochemistry and was followed up by Saracen and then Ross Mining with extensive drilling in 1992/93. Work conducted by DGO in 2006 outlined *JORC Resources of 2.1 Mt at an average grade of 2.3g/t gold for a contained 160,150 ounces*. The dominant host rocks are pyroclastic volcanics. Outcrop is very limited with thick soil cover. High grade gold mineralised material occurs as quartz-carbonate veinlets identified in gently dipping zones over an area of about 700m north-south and east-west. The Eugenia resource remains open at depth, along strike and to the east.

Mt Coolon (Koala). Discovered in 1913, the Koala mine produced around 200koz of gold between 1914 and 1939 at a grade around 15g/t Au. The gold ore occurs as narrow (2 to 5m wide) steeply dipping discontinuous high grade reefs within a wider (5 to 10m wide) alteration zone. Previous explorers include Ross Mining, RGC and Newmont. A 600m long decline was constructed by RGC in 1987 and remains in good condition. Ross Mining developed at open pit at the site, mining some 0.3mt of high grade ore in 1995-1996. A scoping study in 1997 concluded the remaining underground operation would be viable at a gold price around A\$450/oz. Remaining resources identified are around *0.6mt@4.5g/tAu for about 90koz Au*, with the majority in the underground portion (200kt@8.2g/tAu).

Glen Eva. The Glen Eva deposit is located approximately 10 km east-southeast from the Koala Mine. It was discovered by Dominion from low order gold in soils near outcropping barren sinters. Ross Mining defined an epithermal gold vein deposit below the sinter material and subsequently developed an open cut mine in 1997 to recover 21,000 oz at an average grade 4 g/t Au. A small resource remains at the bottom of the Glen Eva pit. The resource of interest to DGO is the mineralisation lying below and to the side of the pit and along strike. To date about *90kt@8.5g/tAu* has been identified.

Badlands. The Badlands Prospect is located approximately 6 km south-southeast of the Koala Mine. It was discovered by ACM during regional stream sediment sampling programme in 1989. The mineralisation at the Badlands Prospect consists of narrow (<2cm) quartz stringers outcropping along limited strike lengths of 10m and hosted by fine to medium grained volcanics. Badlands is interpreted to be an intrusive-related quartz-sulphide vein system (lead, zinc, silver, gold). Limited drilling was previously conducted, however the large soil anomaly remains essentially unexplained. DGO recently completed a drilling program in the area, with assays due to be received in coming weeks.

Mt Manaman The Mt Manaman intrusive complex is a low rise located approximately 5 km south of Mt Coolon. DGO considers that there is strong evidence for the existence of alkalic porphyry related gold-copper deposits in this area, similar to Ridgeway or Mt Leyshon. The potential was identified by Newmont in 2002, however no follow up drilling was carried out. The blind targets will be the subject of a deep drilling program, partially funded by the Queensland Government CDI grant.

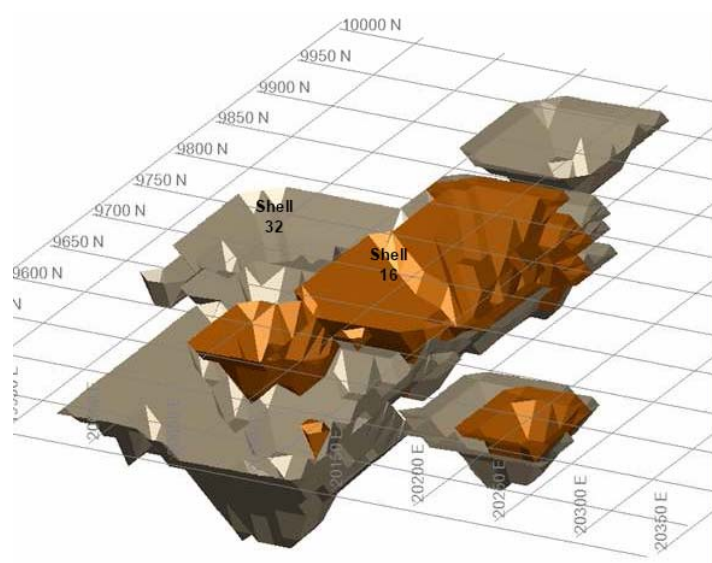
TPM A magnetite-skarn related deposit (IOCG) is the subject of exploration in this area, however the magnetite body has previously been assessed for suitability for coal washing material. It is partially oxidised and thin, therefore may not be suitable, though copper-gold mineralisation has been identified by past explorers. The magnetite mineralisation trends north south for at least 5km, with a potential second body identified to the north, beneath around 150m of cover. This has been recently drilled, with results due in coming weeks.

Other Projects DGO recently acquired the Conway project from Newcrest Mining (NCM). Conway is located about 40 km north of Mt Coolon. Ross Mining identified a resource of 15,000 oz in a shallow open-cut along an east-west trending 3 metres wide quartz breccia vein containing grades of 1 to 5 g/t Au. Mineralisation appears to extend to the east under cover. Numerous additional narrow ore grade gold intersections in the area are reported, and the company believes good potential exists to establish further resources suitable for trucking to Mt Coolon.

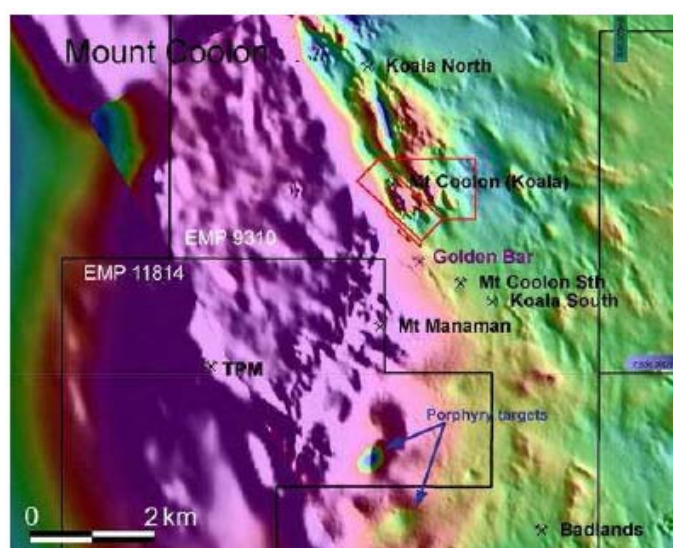
Conclusion/Recommendation

Drummond Gold (DGO) appears to be a well-resourced junior gold company, with intentions of becoming a gold producer in coming years through establishment of a centralised gold treatment plant to treat shallow nearby deposits. Based on the exploration potential of the ground, combined with existing resource base, DGO appears well placed to succeed on this front.

We initiate coverage with a BUY recommendation and a A\$0.40 price target, which is based on exploration success, continued growth in the resource base and the expectation that the Board will add shareholder value through appropriately timed acquisitions.



Optimised pit, Eugenia (DGO, 2007)



Magnetic image showing location of projects

RISK STATEMENT The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their SHAW advisor before making any investment decision.

Company Directors

Mr John S. F. Dunlop (Ch)

Mr Andrew J Vigar (MD)

Mr Brice K Mutton (Exec Dir)

Mr Ross C Hutton (Non-exec Dir)

Mr Michael Illet (Co. secretary/CFO)

Company Activities

Drummond Gold Limited (DGO) is a Queensland based mineral exploration company, presently focused on exploration and development of the gold deposits in the vicinity of Mt Coolon.

Disclosures and Disclaimers

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