

Company Announcement Office  
ASX Limited  
20 Bridge Street  
Sydney, NSW 2000

10 November 2009

## **A Letter to Shareholders from the Chairman - the Rights Issue.**

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Dear Shareholder

The events of the past 18 months have transformed the world financial and commercial landscape and have impacted all corners of the resource industry.

From the perspective of the resources sector we have been left far from unscathed. When we listed Drummond Gold in December 2007 there was little indication that a Global Financial Crisis was in the wind. It was not long after our listing however, before the world began to feel the first impacts of the credit crisis and companies' share prices and capitalisation tumbled. As it turned out, Drummond was one of the last small public companies to successfully list before the onset of the crisis and the Company was fortunate to have emerged with sufficient funding.

The Company held hopes for early production from Mt Coolon and particularly from the Eugenia Deposit. The Company has worked hard to build minable resources, increasing its knowledge through drilling and geophysical programmes at Eugenia. It also commissioned a scoping study for a Central Treatment Plant and implemented mining studies which included pit optimisation from models developed from the independently prepared new resource estimate. Whilst the deposit remains highly prospective, it is sensitive to gold price movements and requires further work to achieve production status. However, Eugenia may provide an opportunity for small scale mining or be a contributor to a wider production scenario through a Central Treatment Plant in the future.

During the year, we raised additional funds primarily to fund a drilling programme at Yandan which we are acquiring through an earn-in Joint Venture from Straits Gold Pty Ltd. We successfully raised approximately \$0.5M before costs through a Share Purchase Plan and the issue of shares to sophisticated investors. The capital raisings at 4.0 cents and 3.5 cents respectively were successful; however it was completed at a time when the share price of Drummond, and indeed within similar experiences of many other junior resource companies, was substantially depressed.

In considering further capital requirements for the Company, the Directors have made the decision to offer shareholders an opportunity to participate in purchasing a significant parcel of shares at an attractive discount to the current market price. Our decision was made on the basis that the Company requires funding to continue with our advanced exploration activities at Mt Coolon and Yandan and for working capital and corporate expenditure. The Company will also require funding for the Maldon Gold Project and intends to reallocate funds raised under the rights issue to that project if the proposed acquisition proceeds.

The discount to market price was chosen so that as many of our shareholders as possible would have an opportunity to participate. If the acquisition of the Maldon Gold Project proceeds, the company intends to raise further funds.

Since our listing Drummond has been busy working on the assets at Mt Coolon attempting to build on resources and acquiring new knowledge that will enhance our drilling success and build on our current resource endowment. Recent exploration activities have specifically targeted the advanced resource targets at Mt Coolon (Koala), Yandan (East Hill) and Glen Eva and we have enhanced our knowledge, expanded our understanding and opened new windows of opportunity on these mineralised systems.

New resource estimates have been completed by independent external consultants for the Koala, Glen Eva and Eugenia deposits utilising more robust geological models. Work at Mt Coolon has incorporated recent studies completed on the Koala mine area, enhancing the Company's understanding of the Koala mineralisation system. Historic workings to the south at Golden Bar and to the north at the Tower Prospect, both within 500m of the Koala Mine, indicate potential for a large epithermal gold system that has received minimal previous exploration investigation. Geophysical surveys have been undertaken over the Koala area to aid in defining deep drilling targets to test the full potential of the system. The potential for additional resources is important not only to move to a production phase, but to also ensure longevity of a mining operation at Mt Coolon.

Our recently completed phase one drilling programme at East Hill, Yandan Project, has returned high grade intersections as detailed in recent announcements. The results have returned encouraging information which indicates the potential for an underground resource within trucking distance to Mt Coolon. Additional drilling is required and planned in the phase two programme to further expand our understanding of the full potential of the East Hill mineralisation.

Drummond is keen to progress its new understanding and knowledge gained over the past 12 months. The Company is excited about the prospects opened up by recent work both at Glen Eva and Koala. These projects, whilst always highly prospective have required the background assessments we have recently completed, to ensure the best possible outcome for success. Strong geophysical targets derived from previous work and from recently re-interpreted data have lead the Company to produce encouragingly strong drilling vectors for new discoveries from potential extensions at Koala and Glen Eva Mines.

The drilling programme recently completed at East Hill highlights the need for continued focus on the high grade extensions and newly interpreted geometry of the lode. The phase two drilling programme, planned for East Hill, targets these extensions and the newly interpreted orientation of the high grade veins.

Our strategy to become a gold producer has not waived and to this end the Yandan earn in, and now the opportunity to acquire the Maldon Gold Project demonstrates the Company's resolve to achieve this status. We must continue to strive to achieve producer status as we are all aware that markets are yet to respond to companies who are intent on, or forced to remain as explorers. It is our firm view as a board that only by achieving producer status is the company more likely to attract continuing investment and the associated positive impact on company value that goes with that. We believe the proposed Maldon acquisition can underpin an appropriate foundation for the company, and has the potential to see us move to producer status and provide the opportunity to generate cash flow from which surpluses may be directed to fund activities at Mt Coolon and Yandan.

The Directors are mindful that the Maldon Gold Project will require statutory and shareholder approval and should the proposed transaction not proceed, the funds raised in this rights issue will be used to continue activities at Mt Coolon and Yandan and for working capital.

Shareholder approval for the Maldon transaction is proposed to be sought early next year and further details will be provided to shareholders prior to the meeting. The announcement will contain detailed information regarding the Maldon Transaction and the Maldon Gold Project.

We are justifiably excited about Drummond's future.

There are only a fortunate few explorers that ever achieve an opportunity to enter a production phase in their lifecycles, and those that do frequently lose control of their discovery in the process. The Maldon transaction, should it be approved, gives us an opportunity for this early start and allows us the possibility to continue to build on our highly prospective ground at Mt Coolon. We are confident that the Drummond Basin will produce again, albeit not as soon as we had envisaged in late 2007. In short, the original objectives regarding the Drummond Basin have not changed.

I urge you to support the rights issue if you can. The board is absolutely committed to building shareholder value and return. We believe the outstanding assets we hold at Mt Coolon will deliver on these outcomes in the medium term and the proposed acquisition of the Maldon Gold Project will provide an opportunity to build on those assets and allow us to become a gold producer. From the adversity of the past 18 months Drummond has emerged with a challenging, though sound opportunity which it now seeks to convert with your support.

As always, I acknowledge the dedication and professionalism of the core Drummond team, which has been hard pressed, but at the same time, complimented externally on its steady yet committed efforts in the last 12 months.

Yours sincerely



**John Dunlop**  
Chairman

### **About Drummond Gold**

*Drummond Gold Limited is a gold and base metals company focussed on growth through exploration success and acquisition with an early production strategy. The Company operates in the well-known Drummond Basin of Central Queensland around the former gold mining centre of Mt Coolon and at nearby Yandan where it is earning a majority interest. The Company is planning early gold production through the proposed acquisition of the Maldon gold project in Victoria.*