

Drummond Gold Limited
ABN 96 124 562 849

Annual Report for the financial year ended 30 June 2008

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Corporate governance statement

The Board of Directors is responsible for the Corporate Governance of Drummond Gold Limited (“the Company or DGL”) and protecting the rights and interests of Shareholders to whom it is accountable. In considering its approach to Corporate Governance the Company has considered the ASX Corporate Governance Council (2003): Principles of Good Corporate Governance and Best Practice Recommendations.

Drummond Gold Limited’s current practice when compared with ten Principles of Good Corporate Governance and Best Practice Recommendations is outlined in the following commentary:-

(1) Lay solid foundations for management and oversight

The Company has a Board Charter, an Audit Charter and Nomination and Remuneration Charter that clearly defines the respective roles and responsibilities of the Board and management. As part of the Company’s policies, the Board has input into the development of the Company’s corporate strategy, understanding and monitoring the budget and the consideration of risk factors.

The Directors have been provided with a formal letter of appointment, together with a number of documents that set out the terms and conditions of their appointment, any special duties attaching to their position, details of their duties, functions and responsibility, company policies on dealing with conflicts of interest, trading securities, access to professional advice and company records and documents.

The Company complies with the recommendations in this regard.

(2) Structure the Board to add value

In accordance with the Principles of Good Corporate Governance and Best Practice Recommendations, the Company has assessed the Independence of its Directors as follows:

Name of Director	Position	Independence
Mr. J. S. Dunlop	Chairman (Non-Executive Director)	Independent
Mr. D. J. Grewar	Managing Director	Not independent as employed in executive capacity.
Mr. B. K. Mutton	Exploration Director	Not Independent as employed in executive capacity
Mr. R.C. Hutton	Non-Executive Director	Not Independent as is a substantial shareholder of the Company
Mr. A. J. Vigar	Non-Executive Director	Not Independent as is a substantial shareholder of the Company

Best practice recommendation 2.1 requires that a majority of the Board should be independent directors. The Board does not believe that it is warranted to have a majority of independent Directors due to the Company’s size and its focus on the exploration and evaluation of its mining tenements. The Company has an independent Chairman and the Board consists of three Non-Executive Directors and two Executive Directors. The Managing Director does not exercise the role as Chairman. Details of the expertise and experience of the Directors can be found on the Company’s website and in the Directors’ Report.

The Company has formed a Nomination and Remuneration Committee to assess the skills, performance and remuneration of existing Directors, Board performance and set criteria for the appointment and removal of Directors. The Nomination and Remuneration Committee comprises of Mr. J. S. Dunlop and Mr. R.C. Hutton (Chairman of the Committee).

The Board and Committee charters can be found on the Company’s website.

(3) Promote ethical and responsible decision-making

The Company has developed a Corporate Ethics and Security Trading Policy designed to ensure proper dealing in the company’s securities as part of the Company’s Corporate Governance Framework. This policy defines ethical conduct and sets out circumstances in which the Directors, Officers and employees are permitted to deal in securities.

The Company endeavours to foster a culture requiring that the Directors and Officers act with the utmost integrity, objectivity and in compliance with the spirit of the law and Company policies.

(4) Safeguard integrity in financial reporting

The Company requires that the Managing Director and the Chief Financial Officer provide the Board a statement in writing that the Company’s financial reports present fairly, in all material respects, are in accordance with accounting standards, and that practices are in place to maintain confidence in the Company’s integrity in financial reporting.

The Company has established an audit committee with a formal charter. Best practice recommendation 4.3 requires that the audit committee consist of a majority of independent Directors and at least three members. Due to the size, nature and level of complexity of the Company, the Board does not believe that it is necessary to have a majority of independent Directors on the Audit Committee, nor that it should consist of at least three members.

The Audit Committee comprises of Mr. J. S. Dunlop and Mr. R. C. Hutton (Chairman of the Audit Committee). Details of the qualifications of the Audit Committee members are contained in the Company's Directors' Report.

(5) Make timely and balanced disclosure

The Directors are made aware of their disclosure requirements and their obligations with respect to the listing rules including listing rule 3.1 which requires continuous disclosure of any information that is not generally available and would have a material affect on the price or value of Drummond Gold's securities. The Company has developed a Statement of Corporate Governance Policies that contains procedures relating to timely and balanced disclosure.

(6) Respect the rights of shareholders

The Company will regularly update its website to promote efficient communication with its shareholders. The website includes copies of policies, procedures and charters, which are designed to enable compliance with ASX Corporate Governance best practices. The auditors will be invited to attend the Company's Annual General Meeting to answer shareholders queries.

(7) Recognise and manage risk

The Board will be responsible for establishing policies on risk, oversight and management. The Audit Committee is also responsible for reviewing and managing risk and ensuring that the company has effective internal controls to deal with business process and risk management that will monitor the risks associated from both the internal and external environments.

The Managing Director and Chief Financial Officer will make an annual statement in writing to the Board with respect to the internal controls and the company risk management policies and procedures. The Company's risk management and compliance and control system is operating effectively in all material respects.

(8) Encourage enhanced performance

The Remuneration and Nomination Committee undertakes an annual performance evaluation of itself, the senior staff including key Executives and Directors which is outlined in the Remuneration and Nomination Committee Charter.

The senior management is required to supply the Board in a timely manner with information in a form, and of a quality appropriate to enable the Board to effectively discharge its duties.

(9) Remunerate fairly and responsibly

The remuneration policies are included in the Remuneration and Nomination Charter which is posted on the Company's website. The Remuneration and Nomination Committee will decide upon the procedures, policies and key performance indicators used to measure the performance of key Executives and Directors. Any equity based Executive remuneration may be made in accordance with thresholds approved by shareholders and be developed over time. The Remuneration and Nomination Committee makes recommendations to the Board on performance and remuneration.

The members of the Remuneration Committee during the year were Mr. J. S. Dunlop and Mr. R. C. Hutton. Details of the qualifications of the members of the Remuneration and Nomination Committee are contained in the Company's Annual Report.

(10) Recognise the legitimate interests of stakeholders.

The Company has developed a Statement of Corporate Governance Practices which is posted on the Company's website. This statement will be reviewed and updated to suit the Company's changing requirements. All employees, management and Directors will be expected to comply with the Statement of Corporate Governance Practices.

Directors' report

The Directors of Drummond Gold Limited ("the Company") submits herewith the annual financial report of Drummond Gold Limited and its subsidiary Mt Coolon Gold Mines Pty Ltd ("Consolidated Entity") for the financial year 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors and Directors' Details

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Mr. John S. Dunlop - Chairman BE (Mining), MEngSc (Mining), P Cert Arb, FAusIMM(CP), FIMMM, MAIME, MCIMM

John, aged 58, is an Australian mining engineer and certificated Mine Manager with over 35 years of international and local mining experience, both surface and underground, and in a variety of base metal, industrial and precious metal production and management situations. He has over 20 years experience in various roles with the University of Melbourne, BHP and finally Aztec Mining, where he was General Manager Operations. Since 1992 John has worked as a freelance mining engineer and consultant based in Perth, Western Australia. He is also Chairman of Alliance Resources Limited since November 1994, Alkane Resources Limited and Non-Executive Director of Gippsland Limited. He is a former Director of the Australasian Institute of Mining and Metallurgy (the AusIMM) and is the current Chairman of the Mineral Industry Consultants Association (MICA).

He was a former Director of Encore Metals NL from November 1999 to November 2006.

Mr. J. S. Dunlop joined the Company on 1 August 2007 and is a Non-Executive Chairman with responsibility for the Corporate Governance, conduct of the Board and leadership. As Chairman he will ensure that the Company maintains a well-balanced, suitably qualified, focused and motivated management team working for the benefit of all shareholders. Mr. J. S. Dunlop is a member of the Audit Committee and Remuneration and Nomination Committee.

Mr. Doug J. Grewar – Managing Director BBus, MSc (Mineral Economics) (Dist), GAICD

Doug, aged 48, is a mining engineer and joined the Company on 26 May 2008 from DownerEDi Mining (formerly Roche Bros) where he held the position of Executive General Manager Mining East. Mr. D. J. Grewar has previously held senior executive roles with Macmahon Contractors and CSR Readymix. He has overseen extensive and diverse business portfolios, provided leadership and been accountable for many projects across the mining sector both in underground and surface operations throughout Australia and New Zealand. He has extensive project management, mine development and mining operations experience across all mineral sectors. Mr. D. J. Grewar became the Managing Director on 1 June 2008.

Mr. Brice K. Mutton – Executive Director Exploration BSc (Appl Geology) UNSW, FAusIMM, MAIG, MSEG.

Brice, aged 57, is a geologist with over 30 years experience in the resources industry ranging from exploration to mining and corporate management. Brice gained 20 years experience in a range of positions with various MIM group companies. He was Chief Geologist at Hilton and Mount Isa Mines from 1988 to 1992. He was Executive Assistant to the CEO MIM Holdings from 1992 to 1994, Deputy General Manager MIM Petroleum Exploration 1995 to 1996 and General Manager Exploration Support, MIM Exploration from 1996 to 1998. During this time he represented MIM and industry associations nationally and internationally. In between periods with MIM from 1979 to 1983 he worked on major mining and civil engineering projects in Australasia with Snowy Mountains Engineering Corporation and Golder Associates. He was Managing Director of Giants Reef Mining at Tennant Creek from 1998 to 2000. More recently he has consulted to the resources industry through Brice Mutton & Associates. Brice was appointed on 5 April 2007.

Mr. B. K. Mutton is the registered Senior Site Executive (SSE) for the company's Mining Leases, is responsible for the day to day management of the field operations at its Mt Coolon base as well as the development and execution of the Company's exploration program.

Mr. Ross C. Hutton – Non-Executive Director B. Eng (Min), MAusIMM.

Ross, aged 60, is a Mining Engineer with over 35 years experience in the minerals industry ranging from technical mining, metallurgical and exploration background to project management and executive management roles. He has worked in corporate and consultative roles managing activities from feasibility studies to operations both in Australia and internationally. He held the position of V.P. Smelting and Mining - Pasminco USA and more recently was Superintendent for the construction of the Mt Garnet concentrator and mine in North Queensland for Kagara Ltd and Project Manager for the bankable feasibility study of a large base metal project in Iran. Mr. R. C. Hutton has been a Director of Kagara Limited since July 2003 and was appointed Non-Executive Director on 5 April 2007.

Mr. R. C. Hutton is responsible for the oversight of development studies and projects and is the Chairman of the Audit Committee and Remuneration and Nomination Committee.

Mr. Andrew J. Vigar – Non-Executive Director BSc (Applied Geology) QUT, FAusIMM, MSEG

Andrew, aged 52, is a geologist with over 30 years experience in the minerals industry having been involved in all areas from regional exploration to mining, with an emphasis on evaluation and mine work. He has held senior positions with Emperor Gold, WMC, Costain Australia and CRA (Rio Tinto) prior to commencing full-time consulting in 1996. Prior to joining the Company full-

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time, he was Principal of the consultancy Mining Associates Pty Ltd and is the current past Chairman of the AusIMM Geoscience Committee and the Brisbane Mining Club. Mr. A. J. Vigar was appointed to the Company on 5 April 2007 and resigned as Managing Director on 31 May 2008 and become a Non-Executive Director on 1 June 2008.

Mr. Michael J. Ilett – Company Secretary and Chief Financial Officer BBus(Accy), GradDipAdvAcctg, GradDipCorpGov, MBA, ACIS, CA

Michael, aged 42, is a Chartered Accountant and a member of Chartered Secretaries Australia Limited with over 20 years' commercial experience. In 2003 he was awarded the MBA Medallion from the Queensland University of Technology and in 2004 he was awarded the J. S. Goffage Prize from Chartered Secretaries Australia Limited.

Mr. M. J. Ilett has been involved with a number of public mining company listings and capital raisings including the dual listing of an Australian public company on London's Alternative Investment Market (AIM). From 2002 to 2005 Michael held the position of Company Secretary and Chief Financial Officer for a publicly listed mining company that operated an exploration and evaluation project in Iran. Michael has business interests in India and China in the mining services and solar industries and Director of a multinational mining equipment manufacturer. He is also the Chief Financial Officer for Queensland Gold and Minerals Limited.

Principal activities

The principal activity of the Company is exploration for gold and other minerals through the Company's wholly owned subsidiary Mt Coolon Gold Mines Pty Ltd.

Operating Results

The net loss from operations of the Consolidated Entity for the year ended 30th June 2008 was \$876,004 (2007: net loss \$373,888).

Review of operations

The Company's objective is to become a significant gold and base metals producer through the discovery and acquisition of high grade gold vein and base metal deposits. Integral to this objective is the concept of a central treatment plant to treat ore from the discovery of deposits on the Company's tenements and potentially from other locations in the Drummond Basin. From the time of admission until the end of the financial year the Company has used its cash and cash equivalents that it had upon admission in a way that is consistent with the Company's objectives.

The Company proceeded with the significant step of floating on the Australian Securities Exchange (ASX) on Friday 21 December 2007. The initial public offering (IPO) was closed early and oversubscribed raising \$7 million with the issue of 28 million shares at \$0.25 each. The company's security code is DGO. The IPO followed a successful period operating firstly as a private company, Mt Coolon Gold Mines Pty Ltd (MCGM), established 28 February 2006, before vending into Drummond Gold Limited in June 2007, a public unlisted company. Drummond Gold Limited (DGL) was incorporated on 5 April 2007.

Drummond Gold Limited established its office in November 2007 at Suite 8, 60 Macgregor Terrace, Bardon QLD 4065, an inner city suburb of Brisbane, Queensland. The office of approx 100sqm is an administrative and services base for the company's business. During the year the Company progressed in the following activities and areas:

- Growing and developing the executive management team and Board with the appointment on 1 June 2008 of Mr Doug Grewar as Managing Director; and
- Progressing the Company's development and acquisition strategy by reviewing a number of opportunities.

MCGM, a wholly owned subsidiary, remains the operating entity of all the company's tenure, which is centred on the township of Mt Coolon in Central Queensland. MCGM holds a group of tenements positioned in the lower eastern geological province of the Drummond Basin, known as Mt Coolon, located 190 km west of Mackay in the former Bowen Shire which is now part of the Whitsunday Regional Council.

During the year the Company's subsidiary MCGM progressed in the following activities and areas:

- Continued an extensive review, validation and assessment of its purchased exploration and mining data base;
- Key projects and prospects were evaluated and ranked for future work;
- Continued field-based exploration comprising reconnaissance, rock chip and soil survey work - July through to Dec 2007 and May 2008 to end June 2008. A heavy wet season extending from December 2007 to end April 2008 curtailed the field based work and drilling during this period;
- Two separate drilling campaigns were undertaken. The August to November 2007 campaign was completed, with drilling undertaken on Mt Coolon (Koala) Mine lease, Badlands Prospect and the TPM Prospect. The drilling campaign advanced the prospectivity with further evaluations continuing;
- Drilling also commenced in a separate campaign over the Mt Manaman project, testing for conceptual intrusion-related gold targets. The Company was successful in gaining a QDME grant of \$150,000 to assist the drilling. The campaign was suspended in Dec 2007 due to inaccessibility caused by wet weather, resuming again in June and still current at the end of the reporting period, expected completion August 2008;
- Drilling for the field year 2008, the next campaign commenced in May 2008, where several holes were completed on the newly acquired tenement EPM 7259 Conway. Drilling then moved to Eugenia in June and was current at the end of the reporting period;

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- A development scoping study was awarded to Ausenco to assist evaluating a Central Treatment Plant Concept, for the Company's Projects, the final report to be completed in the September Quarter 2008;
- The Company in early 2006 applied for a Conditional Surrender and consolidation for all of its ten existing key exploration tenements, which was granted on 13 June 2008 as EPM 15902 Mt Coolon. The Company continues to hold four key mining leases (ML's) over the Mt Coolon (Koala) Mine and Glen Eva Mine, encompassed within EPM 15902 for a period of five years;
- The company expanded its portfolio of key tenements and prospects with the purchase of EPM 7259, Conway (23 sub Blocks) from Newcrest Operations Limited. The EPM was formerly known as "Rosetta Extended", lies approx. 60km north of Mt Coolon and contains three separate epithermal systems with up to 15 separate significant prospects identified;
- The Company also applied in mid 2006 for additional six tenements throughout the eastern Drummond Basin, which were included in the IPO of DGL. EPM 16274 was granted on 15 May 2008. The company awaits QDME grant of the remaining application. Two EPMA's were subsequently withdrawn being EPMA 16474 and EPMA 16470;
- An additional application was made in June 2008 for EMPA 17705 Twin Hills West;
- A new Environmental Authority was granted with EPM 15902 including an Environmental Management Plan which allows access within Endangered Regional Ecosystems under certain conditions. The approval was important as it allows exploration over Eugenia and Koala North and other identified areas;
- A Plan of Operations covering the ML's was active 31 August 2007. A new plan, based on exploration only, reached an advanced stage ready for submission;
- Cultural Heritage training continued on-site and further site surveys and clearances were obtained from the Jangga People to progress the Company's immediate exploration programs;
- Consolidated and progressively improved the Mt Coolon site office base and accommodation on the company's own one acre block of land;
- Hired staff and contractors;
- Grew and improved it's field equipment, vehicles and ancillary gear support and
- Landowner and community liaison continued through the period, including becoming a member of the Mt Coolon Progress Association and the Collinsville & Scottsville Historical Society.

Impact of reverse acquisition accounting

Under AIFRS the formation of the consolidated entity has been accounted for as a business combination. In applying the principles of Australian Accounting Standard AASB 3 Business Combinations to the group:

- Drummond Gold Limited is the legal parent entity of the consolidated entity and presents consolidated financial information; and
- Mt Coolon Gold Mines Pty Ltd (MCGM) which is neither the legal parent nor legal acquirer is deemed to be the accounting parent of the group.

This reflects the requirements of AASB 3 that in situations where a number of existing entities are combined with a new entity, an existing entity shall be deemed to be the acquirer, subject to consideration of factors such as relative fair values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition.

The following disclosure clarifies the impact of reverse acquisition accounting on the consolidated financial statements as compared with the financial statement disclosure which would otherwise have been presented with Drummond Gold Limited as the acquirer. This additional disclosure has been included to ensure that users of the financial statements are provided with sufficient information on the impact of reverse acquisition accounting to enable them to develop a full understanding of the financial position and performance of the consolidated entity for the financial year.

The primary impacts of reverse acquisition accounting on the consolidated financial statements for the year ended 30 June 2008 are set out below. There is no impact on the company financial statements which reflect the company's activities since incorporation on 5th April 2007.

Under reverse acquisition accounting MCGM is deemed to be the acquirer of Drummond Gold Limited. The consolidated financial statements include:

- the profit and loss and cash flow statement for the period ended 30 June 2008 of:
 - (i) Drummond Gold Limited for the year ended 30 June 2008
 - (ii) MCGM for the year ended 30 June 2008;
- the comparative profit and loss and cash flow statement for the year ended 30 June 2007 of:
 - (i) Drummond Gold Limited from date of acquisition 15 June 2007 to 30 June 2007; and
 - (ii) MCGM for the year ended 30 June 2007; and
- the book value of MCGM assets and liabilities acquired.

If reverse acquisition accounting had not been adopted and the Company was deemed to be the acquirer, the consolidated financial statements would have included:

- the profit and loss and cash flow statement of Drummond Gold Limited and MCGM for the year ended 30 June 2008.

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- the profit and loss and cash flows of Drummond Gold Limited and MCGM from period of incorporation of Drummond Gold Limited 5 April 2007 to 30 June 2007; and
- the fair value of MCGM assets and liabilities acquired.

Changes in state of affairs

On 21 December 2007 the Company was admitted to the official list and quotation on the Australian Securities Exchange. Other than above, there was no significant change in the state of affairs of the consolidated entity during the financial year.

Subsequent events

There has not been any other matter or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of the operations, or the state of the affairs of the consolidated entity in future financial years.

Future developments

The Company will continue to proactively advance its exploration, development and acquisition strategy. A focus will be on growth opportunities to deliver shareholder value at the earliest opportunity, in addition to advancing its existing asset base. The Company will continue the exploration and evaluation of the existing and new potential targets at Mt Coolon.

Health and Safety Policy

The Company is committed to developing a culture which supports the health and safety of all employees, contractors, customers and communities associated with its business and operations.

Environmental regulations

The Company is subject to environmental regulation in respect of its exploration activities in Australia and is committed to undertaking all its operations in an environmentally responsible manner. The Company is also subject to environmental regulation in relation to its former mining activities in Queensland by the Environmental Protection Agency of Queensland. The Company complies with the Mineral Resources Act (1989) and Environmental Protection Act (1994).

Cultural and community performance obligations

The Company has held discussions with the Jangga People who are the traditional landowners in the Mt Coolon region. The Company has a Cultural Heritage Management Agreement with respect to the Jangga People. The Company has liaised with the landholders in this region and held discussions in relation to the use of infrastructure and exploration and evaluation on their land.

It is the Company's policy that the activities will not cause disturbance or encroachment or offence to any cultural site or belief or member of traditional landowner groups or to any landholder or business enterprise falling within the exploration tenements of the Company.

Dividends

No dividends have been paid or proposed since the start of the financial year, and the Directors do not recommend the payment of a dividend in respect of the financial year.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Drummond Gold Limited	9,325,000	Ordinary Shares	30 cents	31 December 2009
Drummond Gold Limited	9,325,000	Ordinary Shares	40 cents	31 July 2010

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme. There was no exercise of options during or since the financial year.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of Directors' and Officers' Insurance insuring the Directors and Officers of the Company against a liability incurred as such a Director and Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an Officer or auditor of the Company or of any related body corporate against a liability incurred by such an Officer or auditor.

Directors' meetings

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The following table sets out the number of Directors' meetings (including Directors' meetings requiring circulating resolutions), committee meetings held during the financial year and the number of meetings attended by each Director while they were a Director or committee member:

Directors	Board of Directors		Nomination & Remuneration Committee		Audit Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr. J. S. Dunlop (i)	22	21	2	2	2	2
Mr. D. Grewar (ii)	3	3	-	-	-	-
Mr. B. K. Mutton	25	25	-	-	-	-
Mr. R. C. Hutton (iii)	25	23	2	2	2	2
Mr. A. J. Vigar	25	25	-	-	-	-

During the financial year, twenty-five Board meetings including meetings requiring circulating resolutions, two Nomination and Remuneration Committee meetings and two Audit Committee meetings were held.

- (i) From his appointment on 1st August 2007, Mr. J. S. Dunlop was entitled to attend twenty two Board meetings.
- (ii) From his appointment as a Director on 1st June 2008, Mr. D. Grewar was entitled to attend three Board meetings.
- (iii) Mr. J. S. Dunlop and Mr. R. C. Hutton are the only members of the Nomination and Remuneration Committee and Audit Committee.

Directors' shareholdings

The following table sets out each Director's direct and indirect interest and relevant interest in fully paid ordinary shares in the Company as at the date of this report:

Directors	Fully paid ordinary shares Number	Indirect holding (i)	Total shares held (beneficial interest)	Relevant Interest
Mr. J. S. Dunlop	281,700	-	281,700	281,700
Mr. D. Grewar	-	-	-	-
Mr. B. K. Mutton (i)	1,888,947	1,323,766	3,212,713	1,888,947
Mr. R. C. Hutton (i)	3,208,603	2,654,611	5,863,214	12,033,818
Mr. A. J. Vigar (i)	5,860,293	4,611,157	10,471,450	14,685,508

- (i) The indirect holding represents the Directors' beneficial interest of the 8,825,215 fully paid ordinary shares held by Mt Coolon Gold Mines Trust. Mr. R. C. Hutton and Mr. A. J. Vigar each have a relevant interest in all the fully paid ordinary shares held by the Mt Coolon Gold Mines Trust. Mr. B. K. Mutton has a 5.2% beneficial interest (but not a relevant) interest in the Mt Coolon Gold Mines Trust.

The following table sets out each Director's direct and indirect interest and relevant interest in options in the Company as at the date of this report:

Directors	Options held (i)	Indirect holding (ii)	Total options held (beneficial interest)	Relevant Interest
Mr. J. S. Dunlop				
31 December 2009	562,500	-	562,500	562,500
31 July 2010	562,500	-	562,500	562,500
Mr. D. Grewar (i)				
31 December 2009	1,500,000	-	1,500,000	1,500,000
31 July 2010	1,500,000	-	1,500,000	1,500,000
Mr. B. K. Mutton (ii)				
31 December 2009	470,236	330,942	801,178	470,236
31 July 2010	470,236	330,942	801,178	470,236
Mr. R. C. Hutton (ii)				
31 December 2009	790,151	663,653	1,453,804	2,996,455
31 July 2010	790,151	663,653	1,453,804	2,996,455
Mr. A. J. Vigar (ii)				
31 December 2009	1,463,073	1,152,789	2,615,862	3,669,377
31 July 2010	1,463,073	1,152,789	2,615,862	3,669,377

- (i) It is noted that options held includes Mr. D. J. Grewar's entitlement under his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010 to be issued by Drummond Gold Limited. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. As granting of these options is subject to shareholders' approval, the Company has not issued these options to Mr. D. J. Grewar at the date of this report.
- (ii) The indirect holding represents the Directors' beneficial interest of the 2,206,304 31 December 2009 options and 2,206,304 31 July 2010 options held through the Mt Coolon Gold Mines Trust. Mr. R. C. Hutton and Mr. A. J. Vigar each have a relevant interest in all options held by the Mt Coolon Gold Mines Trust. Mr. B. K. Mutton has a 5.2% beneficial interest (but not a relevant) interest in the Mt Coolon Gold Mines Trust.

Remuneration report

The remuneration report, which forms part of the Directors' Report, sets out the information about the remuneration of the Consolidated Entity's key management personnel and relevant group executives for the financial year ended 30 June 2008. The prescribed details for each person covered by this remuneration report are detailed below under the following headings:-

- A. Key management personnel and relevant group executives' details
- B. Remuneration policy for key management personnel
- C. Relationship between remuneration policy and company performance
- D. Remuneration of the key management personnel and relevant group executives
- E. Key terms of employment contracts

A. Key management and relevant group executives' details

The following persons have been identified as acting as key management personnel and/or relevant group executives of the Company and the Consolidated Entity during the financial year:

- Mr. J. S. Dunlop (Non-Executive Chairman) appointed 1 August 2007;
- Mr. D. J. Grewar (Managing Director), commenced 26 May 2008 and appointed Managing Director on 1 June 2008;
- Mr. R. C. Hutton (Non-Executive Director) appointed on 5 April 2007;
- Mr. A. J. Vigar (Non-Executive Director) was Managing Director from 5 April 2007 to 31 May 2008 and Non-Executive Director from 1 June 2008;
- Mr. B. K. Mutton (Executive Director) appointed on 5 April 2007;
- Mr. M. J. Ilett (Company Secretary and Chief Financial Officer) appointed on 5 April 2007; and
- Mr. M. C. Farmer (Exploration Manager) was Exploration Manager from 14 April 2008 to 20 June 2008.

B. Remuneration policy for key management personnel

The Board of Directors is responsible for determining and reviewing compensation arrangements for key management personnel. The Remuneration and Nomination Committee makes recommendations to the Board on performance and remuneration of the key management personnel.

Executive Remuneration

Contracts for services for the executive members of the key management personnel are reviewed on a regular basis to ensure that they properly reflect the duties and responsibilities of the individuals concerned. The executive remuneration is based on a number of factors including length of service, relevant market conditions, knowledge and industry experience, organisational experience, performance of the Company and competitive factors within the industry. There is no guaranteed pay increases included in senior executives' contracts. The executives are not entitled to any retirement benefits other than those provided under the superannuation guarantee legislation.

Non- Executive Directors

The Non-Executive Directors' fees are reviewed on a regular basis against industry benchmarks. On continuous service of ten years Mr. J. S. Dunlop will be entitled to receive a bonus equal to one year's Director's Fees paid at a level equal to that payable during the tenth year of service. During the financial year Mr. J. S. Dunlop also received a share based payment for agreeing to become a Chairman.

All other Non-Executive Directors received no equity-based payments during the year. Other than compulsory payments made under the superannuation guarantee legislation, and the long service leave entitlement due to Mr. J. S. Dunlop, there are no retirement benefits provided to Non-Executive Directors.

C. Relationship between remuneration policy and company performance

The Key Management Personnel and relevant group executives' remuneration do not comprise of any elements that are related to performance.

Mr. J. S. Dunlop was provided 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010 for agreeing to become the independent Chairman of the Company. The granting of these options was not dependent on the satisfaction of a performance condition as they were provided as an incentive to join the Company.

Mr. D. J. Grewar is entitled under his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010 to be issued by Drummond Gold Limited. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting and vesting of these options is subject to shareholders' approval. Each option will be exercisable into one fully paid ordinary share. The monetary value of the options at 30 June 2008 is assessed to be \$56,700.00. At the date of this report the shareholders had not approved the granting of the options to Mr. D. J. Grewar. There is no further service or performance criteria that need to be met in relation to these options granted and these options will be issued for nil consideration.

Drummond Gold Limited

Directors' report

The granting of the options to Mr. D. J. Grewar is not dependent on the satisfaction of a performance condition. The offer of options was provided for agreeing to become the Managing Director of the Company and to motivate the Managing Director from the time of the appointment.

There is no policy in place that limits the Chairman's and Managing Director's exposure to risk in relation to the options.

The performance of the Company in the mining industry will be dependent upon the Company meeting the following corporate objectives:-

- conducting exploration that discovers major gold and base metal deposits;
- seeking long term cash flow and profitability through the production from a Central Treatment Plant processing ore from a number of sources; and
- actively pursue acquisition opportunities in the Drummond Basin and elsewhere to enhance the Company's production capacity.

The table below sets out summary information about the Consolidated Entity's earnings, movements in shareholders wealth for the two years to 30 June 2008:

Description	30 June 2008	30 June 2007
Revenue	\$275,762	\$9,336
Net loss before tax	\$876,004	\$373,888
Net loss after tax	\$876,004	\$373,888
Share price at start of year (i)	25 cents	N/A
Share price at end of year (i)	10 cents	N/A
Interim dividend	-	-
Final dividend	-	-
Return of capital	-	-
Basic loss per share	1.77 cents per share	33.06 cents per share
Diluted loss per share	1.77 cents per share	33.06 cents per share

- (i) The Company issued fully paid ordinary shares under its Prospectus dated 6 November 2007 at an issue price of 25 cents per share. It is noted that the Company was admitted on the official list of the Australian Securities Exchange on 21 December 2007.

D. Remuneration of the key management personnel and relevant group executives

The following tables provide information about the remuneration of the Consolidated Entity's key management personnel and relevant group executives for the previous two financial years:

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment	Total
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation		Options & rights	
2008	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Mr. J. S. Dunlop (i)	54,586				3,450		61,000	119,036
Mr. R. C. Hutton (ii)	64,508				-		-	64,508
Mr. A. J. Vigar (iii)	152,980				13,406		-	166,386
Executive Directors								
Mr. D. J. Grewar (iv)	39,097				1,674		56,700	97,471
Mr. B. K. Mutton (v)	184,346				13,500		-	197,846
Company Secretary								
Mr. M. J. Ilett (vi)	144,664				-		-	144,664
Senior Management								
Mr. M. C. Farmer (vii)	36,206				3,258		-	39,464

- (i) Included in the salary and fees for Mr. J. S. Dunlop are professional consulting fees of \$16,253 invoiced for work undertaken by John S. Dunlop & Associates Pty Ltd which is a related party of Mr. J. S. Dunlop.
- (ii) Included in the salary and fees for Mr. R. C. Hutton are professional consulting fees of \$36,748 invoiced for work undertaken by Arenlea Pty Ltd and professional consulting fees of \$1,926 invoiced for work undertaken by Swangrove Pty Ltd which are both related parties of Mr. R. C. Hutton.
- (iii) Included in the salary and fees for Mr. A. J. Vigar are professional consulting fees of \$4,025 invoiced for work undertaken by Forum Pacific Gold Pty Ltd which is a related party of Mr. A. J. Vigar.
- (iv) Included in the share based payment is the fair value of Mr. D. J. Grewar's entitlement pursuant to his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents

Drummond Gold Limited
Directors' report

on or before 31 July 2010 to be issued by Drummond Gold Limited. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting and vesting of these options is subject to shareholders' approval and these options had not been issued at the date of this report.

- (v) Included in the salary and fees for Mr. B. K. Mutton are professional consulting fees of \$28,000 invoiced for professional work undertaken by Brice Mutton & Associates Pty Ltd which is a related party of Mr. B. K. Mutton.
- (vi) Included in the salary and fees for Mr. M. J. Ilett are professional consulting fees of \$144,664 invoiced for professional work undertaken by Kaus Australis Pty Ltd which is a related party of Mr. M. J. Ilett.
- (vii) Mr. M. C. Farmer was employed as an Exploration Manager between 14 April 2008 and 20 June 2008.

The following table has been disclosed for completeness purposes and provides information about the remuneration of the Consolidated Entity's key management personnel and relevant executives as compensation for their services as Directors and Executives of Mt Coolon Gold Mines Pty Ltd (wholly owned subsidiary that existed for the full financial year) during the 30 June 2007 year (refer to Note 4 for details of impact of reverse acquisition accounting):

	Short-term employee benefits				Post-employment benefits Super-annuation	Other long-term employee benefits	Share-based payment Options & rights	Total
	Salary & fees	Bonus	Non-monetary	Other				
2007	\$	\$	\$	\$	\$	\$	\$	
Non-Executive Directors								
Mr. J. S. Dunlop	-	-	-	-	-	-	-	-
Mr. R. C. Hutton (iii)	114,155	-	-	-	-	-	-	114,155
Executive Directors								
Mr. A. J. Vigar (ii)	474,100	-	-	-	-	-	-	474,100
Mr. B. K. Mutton (i)	257,509	-	-	-	-	-	-	257,509
Executive Officers								
Mr. M. J. Ilett (iv)	19,750	-	-	-	-	-	-	19,750
Mr. T. Charlton	156,113	-	-	-	-	-	-	156,113

During the 30 June 2007 financial year Mt Coolon Gold Mines Pty Ltd incurred outgoings from the following related parties:-

- (i) Brice Mutton & Associates, a party related to Mr. B. K. Mutton, invoiced \$257,509 in professional consulting services and reimbursement of outlays to the Group;
- (ii) Mining Associates Pty Ltd, a party related to Mr. A. J. Vigar invoiced \$474,100 in professional consulting services and reimbursement of outlays to the Group. It is noted that this invoice includes payments for geological and consulting services, outgoings, and rent and office expenses.
- (iii) Swangrove Pty Ltd, a party related to Mr. R. C. Hutton invoiced \$114,155 in professional consulting services and reimbursement of outlays to the Group; and
- (iv) Kaus Australis Pty Ltd, a party related to Mr. M. J. Ilett invoices \$19,750 in professional consulting services to the Group.

None of the remuneration paid to the key management personnel is related to performance.

Bonus and share-based payments granted as compensation for the current financial year

No bonuses were granted during the financial year.

On 23 November 2007 Mr. J. S. Dunlop was issued by Drummond Gold Limited for nil consideration 500,000 options each exercisable at 30 cents on or before 31 December 2009 and 500,000 options each exercisable at 40 cents on or before 31 July 2010. Each option may be exercisable into one fully paid ordinary share.

The terms and conditions for each grant affecting the compensation to Mr. J. S. Dunlop are outlined as follows:

Option series	Exercise Price	Grant date	Expiry date	Grant date fair value	Vesting date
(1) Issued 23 November 2007	30 cents	23/11/2007	31/12/2009	6 cents	Vests at date of grant.
(2) Issued 23 November 2007	40 cents	23/11/2007	31/07/2010	7 cents	Vests at date of grant.

There is no further service or performance criteria that need to be met in relation to the options granted under series (1) and (2) before the interest vests in the recipient.

Details of the options granted to Mr. J. S. Dunlop during the current financial year are highlighted as follows:

Option Series	No. granted	No. vested	% of grant vested	% of grant forfeited	% of compensation for the year consisting of options
(1) Issued 23 November 2007	500,000	500,000	100%	n/a	51%
(2) Issued 23 November 2007	500,000	500,000	100%	n/a	51%

During the financial year none of the options granted to Mr. J. Dunlop were exercised. There were no other share-based payments made to any other key management personnel or relevant Executives during the financial year.

Value of options issued to Directors and Executives

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the key management personnel and/or relevant Executives during the financial year:

	Value of options granted at the grant date (i) \$	Value of options exercised at the exercise date \$	Value of options lapsed at the date of lapse \$
Mr. J. S. Dunlop	61,000	-	-

- (i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

Anticipated share-based payments granted as compensation in future reporting periods

Mr. D. J. Grewar is entitled under his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010 to be issued by Drummond Gold Limited. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting and vesting of these options is subject to shareholder approval. Each option will be exercisable into one fully paid ordinary share. The monetary value of the options at 30 June 2008 is assessed to be \$56,700.00. At the date of this report the shareholders had not approved the granting of the options to Mr. D. J. Grewar. There is no further service or performance criteria that need to be met in relation to these options granted and these options will be issued for nil consideration.

E. Key terms of employment contracts

Contracts for services of key management personnel and relevant executives

Remuneration and other terms of employment for the Directors and other key management personnel are formalised in service agreements. The contractual arrangements contain certain provisions typically found in contracts of this nature.

Mr. John. S. Dunlop

The Company has entered into an agreement with Mr. J. S. Dunlop dated 1 June 2008 pursuant to which Mr. J. S. Dunlop has agreed to act in the capacity as a Non-Executive Chairman of the Company. The key terms of the agreement are as follows:-

- Annual Director's Fees: \$60,000 per annum plus Superannuation Guarantee Legislation of nine (9) per cent per annum whilst Mr. J. S. Dunlop remains as a Chairman of the Company.
- Term of the Agreement: One (1) year from 1 June 2008;
- Option Period: Mr. J. S. Dunlop has the option to extend the contract for an additional year which extends the term of the contract until 31 May 2009;
- Consulting Fees: \$175 per hour (exclusive of GST) for each hour worked and invoiced on projects approved by the Board, other than for work that forms part of his Director's duty, to a maximum amount of \$5,000 per month (excluding GST) unless otherwise agreed by the Company;
- Long Service Leave: On continuous service of ten years Mr. J. S. Dunlop will be entitled to receive a bonus equal to one year's Director's Fees paid at a level equal to that payable during the tenth year of service;
- Termination due to resignation: Mr. J. S. Dunlop is required to provide one (1) month's notice and be paid one (1) month's Director's Fees during this notice period;
- Termination due to company notice: The Company is required to provide three (3) month's notice and make a payment of four (4) month's Director's Fees in lieu of notice; and
- Termination due to change in control: In the event that a party acquires more than 50% of the Company and Mr. J. S. Dunlop is terminated, he shall be entitled total remuneration payable in respect of four (4) months' Director's fees.

Mr. Doug. J. Grewar

The Company has entered into an agreement with Mr. D. J. Grewar dated 22 May 2008 pursuant to which Mr. D. J. Grewar has agreed to act in the capacity as Managing Director of the Company. The key terms of the agreement are as follows:-

- Base Salary Package: \$405,000 per annum inclusive of the Superannuation Guarantee Legislation of nine (9) per cent per annum and all other benefits that the Company is legally obliged to pay except for health insurance;
- Incentive Package: Mr. D. J. Grewar is entitled under his employment contract to 1,000,000 options exercisable at 30

Drummond Gold Limited

Directors' report

cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010;

- Term of the Agreement: Two (2) years from 22 May 2008 with a further term of not less than two (2) years to be negotiated; and
- Termination: The Company may terminate the agreement at any time by giving Mr. D. J. Grewar notice in writing and paying out the balance of the term of the agreement. Mr. D. J. Grewar may terminate the contract at any time by giving three (3) months' notice.

Mr. Brice K. Mutton

The Company has entered into an agreement with Brice Mutton & Associates Pty Ltd dated 1 June 2008 pursuant to which Mr. B. K. Mutton has agreed to act in the capacity an Executive Director. The key terms of the agreement are as follows:-

- Term of the Agreement: Three (3) months from 1 June 2008;
- Option Period: Mr. B. K. Mutton and the Company have an option to extend the contract by mutual consent;
- Consulting Fees: \$175 per hour (exclusive of GST) for each hour worked to a maximum amount of \$28,000 per month (excluding GST) or any other maximum amount per month as mutually approved by Mr. B. K. Mutton and the Board; and
- Termination due to change in control: In the event that a party acquires more than 50% of the Company and Mr. B. K. Mutton is terminated, he shall be entitled total remuneration payable in respect of four (4) months' Non-Executive Director's fees.

Mr. Ross C. Hutton

The Company has entered into an agreement with Mr. R. C. Hutton dated 1 June 2008 pursuant to which Mr. R. C. Hutton has agreed to act in the capacity as a Non-Executive Director of the Company. The key terms of the agreement are as follows:-

- Annual Director's Fees: \$35,000 per annum plus Superannuation Guarantee Legislation of nine (9) per cent per annum whilst Mr. R. C. Hutton remains as a Director of the Company.
- Term of the Agreement: One (1) year from 1 June 2008;
- Option Period: Mr. R. C. Hutton has the option to extend the contract for an additional year which extends the term of the contract until 31 May 2009;
- Consulting Fees: \$175 per hour (exclusive of GST) for each hour worked and invoiced on projects approved by the Board, other than for work that forms part of his Director's duty, to a maximum amount of \$5,000 per month (excluding GST) unless otherwise agreed by the Company;
- Termination due to resignation: Mr. R. C. Hutton is required to provide one (1) month's notice and be paid one (1) month's Director's Fees during this notice period;
- Termination due to company notice: The Company is required to provide three (3) month's notice and make a payment of four (4) month's Director's Fees in lieu of notice; and
- Termination due to change in control: In the event that a party acquires more than 50% of the Company and Mr. R. C. Hutton is terminated, he shall be entitled total remuneration payable in respect of four (4) months' Directors' fees.

Mr. Andrew J. Vigar

The Company has entered into an agreement with Mr. A. J. Vigar dated 1 June 2008 pursuant to which Mr. A. J. Vigar has agreed to act in the capacity as a Non-Executive Director of the Company. The key terms of the agreement are as follows:-

- Annual Director's Fees: \$35,000 per annum plus Superannuation Guarantee Legislation of nine (9) per cent per annum whilst Mr. A. J. Vigar remains as a Director of the Company.
- Term of the Agreement: One (1) year from 1 June 2008;
- Option Period: Mr. A. J. Vigar has the option to extend the contract for an additional year which extends the term of the contract until 31 May 2009;
- Consulting Fees: \$175 per hour (exclusive of GST) for each hour worked and invoiced on projects approved by the Board, other than for work that forms part of his Director's duty, to a maximum amount of \$5,000 per month (excluding GST) unless otherwise agreed by the Company;
- Termination due to resignation: Mr. A. J. Vigar is required to provide one (1) month's notice and be paid one (1) month's Director's Fees during this notice period;
- Termination due to company notice: The Company is required to provide three (3) month's notice and make a payment of four (4) month's Director's Fees in lieu of notice; and
- Termination due to change in control: In the event that a party acquires more than 50% of the Company and Mr. A. J. Vigar is terminated, he shall be entitled total remuneration payable in respect of four (4) months' Directors' fees.

Mr. Michael J. Ilett

The Company has entered into an agreement with Kaus Australia Pty Ltd dated 1 June 2008 pursuant to which Mr. M. J. Ilett has agreed to provide certain consultancy services to the Company and be appointed as the Company Secretary. The terms of the agreement are as follows:-

- Consulting fee: Hourly rate of \$125 per hour (exclusive of GST);
- Outgoings: Provision to reimburse Kaus Australia Pty Ltd for all reasonable and necessary expenses incurred by it or Mr. M. J. Ilett in the performance of the services under the agreement;
- Term of the Agreement: One (1) year from 1 June 2008;
- Termination due to resignation: Mr. M. J. Ilett is required to provide one (1) month's notice and be paid one (1) month's consulting fees during this notice period;
- Termination due to company notice: The Company is required to provide three (3) month's notice and make a payment equal to the invoice provided for services provided in the proceeding three (3) prior to the date of the change in control event; and
- Termination due to change in control: In the event that a party acquires more than 50% of the Company and the services of Kaus Australis Pty Ltd is terminated, Kaus Australis Pty Ltd shall be entitled total remuneration payable in respect of three (3) months' invoice equal to the invoice provided for services provided in the proceeding three (3) months prior to the date of the change in control event.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 28 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 16 of the Annual Report.

Signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors



Mr. D. J. Grewar
Managing Director
Brisbane, 2 September 2008

The Board of Directors
Drummond Gold Limited
Level 4
67 St Paul's Terrace
Spring Hill Qld 4004

2 September 2008

Dear Board Members

Drummond Gold Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Drummond Gold Limited.

As lead audit partner for the audit of the financial statements of Drummond Gold Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Graham McHarrie
Partner
Chartered Accountants

Independent Auditor's Report to the members of Drummond Gold Limited

Report on the Financial Report

We have audited the accompanying financial report of Drummond Gold Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 19 to 50.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Drummond Gold Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Drummond Gold Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Graham McHarrie
Partner
Chartered Accountants
Brisbane, 2 September 2008

Directors' declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) the Directors have been given declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Mr. D. J. Grewar
Managing Director

Brisbane, 2 September 2008

**Income statement
for the financial year ended 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Continuing operations					
Interest revenue		274,162	9,336	273,715	1,670
Other Income		1,600	-	-	-
Marketing expenses		(48,951)	-	(48,951)	-
Operating lease rental expenses:					
Minimum lease payments		(16,397)	-	(16,397)	-
Occupancy expenses		(14,035)	(16,319)	(7,168)	-
Depreciation expenses		(39,879)	(21,990)	(3,666)	-
Consultants and contractor expenses		(348,585)	(227,452)	(278,959)	-
Administration expenses		(667,849)	(116,289)	(559,828)	-
Finance costs		(402)	(1,174)	-	-
Impairment Loss	8	-	-	(3,000,000)	-
Other expenses		(15,668)	-	(2,028)	(25,117)
Loss before tax		(876,004)	(373,888)	(3,643,282)	(23,447)
Income tax expense	6	-	-	-	-
Loss for the year		(876,004)	(373,888)	(3,643,282)	(23,447)
Attributable to:					
Equity holders of the parent		(876,004)	(373,888)	(3,643,282)	(23,447)
		<u>(876,004)</u>	<u>(373,888)</u>	<u>(3,643,282)</u>	<u>(23,447)</u>
Loss per share					
Basic (cents per share)	17	(1.77)	(33.06)		
Diluted (cents per share)	17	(1.77)	(33.06)		

The period for the Company is the year ended 30 June 2008 and 5 April 2007 to 30 June 2007 for the comparative year. The period for the Consolidated Entity is the year ended 30 June 2008 and year ended 30 June 2007 for the comparative year.

Notes to the financial statements are included on pages 24 to 50.

**Balance sheet
as at 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Current assets					
Cash and cash equivalents		5,086,067	1,107,969	5,068,481	1,057,214
Trade and other receivables	7	134,925	49,693	71,664	1,681
Other financial assets	8	-	1,315	-	-
Total current assets		5,220,992	1,158,977	5,140,145	1,058,895
Non-current assets					
Trade and other receivables	7	287,665	256,841	7,324	-
Other financial assets	8	-	-	4,677,001	4,918,608
Property, plant and equipment	9	403,254	234,189	74,748	-
Exploration and evaluation expenditure	10	4,991,796	2,133,896	-	-
Other	11	953	1,264	953	1,264
Total non-current assets		5,683,668	2,626,190	4,760,026	4,919,872
Total assets		10,904,660	3,785,167	9,900,171	5,978,767
Current liabilities					
Trade and other payables	12	830,903	221,714	232,849	27,614
Provisions	13	32,670	6,566	4,277	-
Total current liabilities		863,573	228,280	237,126	27,614
Non-current liabilities					
Provisions	13	263,449	257,801	618	-
Total non-current liabilities		263,449	257,801	618	-
Total liabilities		1,127,022	486,081	237,744	27,614
Net assets		9,777,638	3,299,086	9,662,427	5,951,153
Equity					
Issued capital	14	11,059,742	3,822,886	13,211,456	5,974,600
Reserves	15	117,700	-	117,700	-
Accumulated losses	16	(1,399,804)	(523,800)	(3,666,729)	(23,447)
Total equity		9,777,638	3,299,086	9,662,427	5,951,153

Notes to the financial statements are included on pages 24 to 50.

Statement of changes in equity for the financial year ended 30 June 2008

	Fully paid ordinary shares \$	Option premium reserve \$	Accumulated losses \$	Total \$
Consolidated				
Balance at 1 July 2006	1,000	-	(149,912)	(148,912)
Loss for the period	-	-	(373,888)	(373,888)
Total recognised income and expense	-	-	(373,888)	(373,888)
Issue of shares	3,824,501	-	-	3,824,501
Share issue costs	(2,615)	-	-	(2,615)
Balance at 30 June 2007	3,822,886	-	(523,800)	3,299,086
Balance at 1 July 2007	3,822,886	-	(523,800)	3,299,086
Loss for the year	-	-	(876,004)	(876,004)
Total recognised income and expense	-	-	(876,004)	(876,004)
Issue of shares	8,066,550	-	-	8,066,550
Share issue costs	(829,694)	-	-	(829,694)
Issue of options	-	117,700	-	117,700
Balance at 30 June 2008	11,059,742	117,700	(1,399,804)	9,777,638
Company				
Balance on incorporation	-	-	-	-
Loss for the period	-	-	(23,447)	(23,447)
Total recognised income and expense	-	-	(23,447)	(23,447)
Issue of shares	5,981,800	-	-	5,981,800
Share issue costs	(7,200)	-	-	(7,200)
Balance at 30 June 2007	5,974,600	-	(23,447)	5,951,153
Balance at 1 July 2007	5,974,600	-	(23,447)	5,951,153
Loss for the year	-	-	(3,643,282)	(3,643,282)
Total recognised income and expense	-	-	(3,643,282)	(3,643,282)
Issue of shares	8,066,550	-	-	8,066,550
Share issue costs	(829,694)	-	-	(829,694)
Issue of options	-	117,700	-	117,700
Balance at 30 June 2008	13,211,456	117,700	(3,666,729)	9,662,427

The period for the Company is the year ended 30 June 2008 and 5 April 2007 to 30 June 2007 for the comparative year. The period for the Consolidated Entity is the year ended 30 June 2008 and year ended 30 June 2007 for the comparative year.

Notes to the financial statements are included on pages 24 to 50.

**Cash flow statement
for the financial year ended 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Cash flows from operating activities					
Government subsidy received		1,600	-	-	-
Payments to suppliers and employees		(954,461)	(260,909)	(645,739)	(128)
Interest and other costs of finance paid		(402)	(1,174)	-	-
Income taxes paid		-	-	-	-
Net cash provided by (used in) operating activities	23	(953,263)	(262,083)	(645,739)	(128)
Cash flows from investing activities					
Interest received		272,197	3,469	267,968	-
Amounts advanced to related parties		-	-	(2,758,393)	(518,608)
Proceeds from repayment of related party loans		1,315	1,000	-	-
Payments for property, plant and equipment		(208,944)	(211,431)	(78,414)	-
Payments for security deposits		(34,511)	(188,841)	(11,011)	-
Payments for formation expenses		-	(1,264)	-	(1,264)
Payments for exploration and evaluation cost		(2,335,552)	(1,700,870)	-	-
Net cash provided by (used in) investing activities		(2,305,495)	(2,097,937)	(2,579,850)	(519,872)
Cash flows from financing activities					
Proceeds from issues of equity securities		8,066,550	3,824,501	8,066,550	1,581,800
Payment for share issue costs		(829,694)	-	(829,694)	(4,586)
Repayment of borrowings		-	(352,126)	-	-
Net cash provided by (used in) financing activities		7,236,856	3,472,375	7,236,856	1,577,214
Net increase in cash and cash equivalents		3,978,098	1,112,355	4,011,267	1,057,214
Cash and cash equivalents at the beginning of the financial year					
Effects of exchange rate changes on the balance of cash held in foreign currencies		-	-	-	-
Cash and cash equivalents at the end of the financial year	23	5,086,067	1,107,969	5,068,481	1,057,214

The period for the Company is the year ended 30 June 2008 and 5 April 2007 to 30 June 2007 for the comparative year. The period for the Consolidated Entity is the year ended 30 June 2008 and year ended 30 June 2007 for the comparative year.

Notes to the financial statements are included on pages 24 to 50.

**Notes to the financial statements for the year ended 30
June 2008**

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Drummond Gold Limited

Notes to the financial statements

1. General information

Drummond Gold Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the code DGO), incorporated in Australia and operating in Queensland. Drummond Gold Limited's registered office and its principal place of business are as follows:

Registered office

Suite 8, 60 MacGregor Terrace
Bardon Qld 4065

Principal place of business

Lot 1 Mill Street
Mt Coolon Qld 4804

The entity's principal activity is exploration for gold and other minerals through the Company's wholly owned subsidiary Mt Coolon Gold Mines Pty Ltd.

2. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 "Presentation of Financial Statements (revised October 2006)"; and
- AASB 7 "Financial Instruments Disclosures".

Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective. Those relevant to the entity are considered below.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010

Initial application of the following Standards is not expected to have any material impact on the financial report of the Group and the company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
• AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
• Improvements to IFRSs (2008)	1 January 2009	30 June 2010

3. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 27 August 2008.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Refer to note 4 for impact of reverse acquisition accounting.

(b) Going concern

In preparing the financial statements the Directors note that the ability of the Company and the Consolidated Entity to continue as going concerns is dependent upon:

- the containment of operating expenses at a level that is commensurate with the Company's and Consolidated Entity's revenue generating potential;
- the ability of the Company to raise sufficient capital and equity;
- the Company continuing to enhance the value of the retained assets including the possibility of developing their assets through joint venture arrangements;
- exploitation of the exploration and evaluation tenements; and
- the disposal of assets at a fair value that generates adequate cash flow to the Company and Consolidated Entity.

At the date of signing the financial report the total current cash funds available of \$3,619,522 and the available funds exceed the estimated minimum and committed expenditure for the next 12 months.

At the date of this report and having considered the above factors, the Directors are confident that the Group will be able to continue as going concerns and be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of the recorded assets amounts or the amounts and classification of liabilities that might be necessary should the Company and Consolidated Entity not continue as going concerns.

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Significant accounting policies (cont'd)

(d) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(f) Derivative financial instruments

The Group has not yet entered into derivative financial instruments which would be used to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps.

(g) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(h) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

3. Significant accounting policies (cont'd)

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more

events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale- equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flow from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises a retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(i) **Exploration and evaluation assets**

An exploration and evaluation asset shall only be recognised in relation to an area of interest if the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
 - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of *economically recoverable reserves*, and active and significant operations in, or in relation to, the areas of interest are continuing.

Development costs

Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a unit of production basis matched to the future economic benefits over the useful life of the project.

(j) **Exploration and evaluation expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

3. Significant accounting policies (cont'd)

(k) Impairment of other tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(l) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

3. Significant accounting policies (cont'd)

(m) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3(c). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Property, plant and equipment

Land and buildings are measured at an historical cost basis.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve, net of any related taxes, is transferred directly to retained earnings.

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(p) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

3. Significant accounting policies (cont'd)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(q) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(s) Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of benefits will be required to settle the obligation and the provision can be measured reliably. The estimated future obligations include the costs of restoring the affected exploration and evaluation areas contained in the Group's tenements.

The provision for future restoration is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs will be reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of restoration and rehabilitation relating to exploration and evaluation assets is capitalised into the cost of the related asset and is amortised on the same basis as the related asset. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same way, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(t) Government Grants

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include

3. Significant accounting policies (cont'd)

government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impact of reverse acquisition accounting

Under AIFRS the formation of the consolidated entity has been accounted for as a business combination. In applying the principles of Australian Accounting Standard AASB 3 Business Combinations to the group:

- Drummond Gold Limited is the legal parent entity of the consolidated entity and presents consolidated financial information; and
- Mt Coolon Gold Mines Pty Ltd (MCGM) which is neither the legal parent nor legal acquirer is deemed to be the accounting parent of the group.

This reflects the requirements of AASB 3 that in situations where a number of existing entities are combined with a new entity, an existing entity shall be deemed to be the acquirer, subject to consideration of factors such as relative fair values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition.

The following disclosure clarifies the impact of reverse acquisition accounting on the consolidated financial statements as compared with the financial statement disclosure which would otherwise have been presented with Drummond Gold Limited as the acquirer. This additional disclosure has been included to ensure that users of the financial statements are provided with sufficient information on the impact of reverse acquisition accounting to enable them to develop a full understanding of the financial position and performance of the consolidated entity for the financial year.

The primary impacts of reverse acquisition accounting on the consolidated financial statements for the year ended 30 June 2008 are set out below. There is no impact on the company financial statements which reflect the company's activities since incorporation on 5th April 2007.

Under reverse acquisition accounting MCGM is deemed to be the acquirer of Drummond Gold Limited. The consolidated financial statements include:

- The profit and loss and cash flow statement for the period ended 30 June 2008 of:
 - (i) Drummond Gold Limited for the year ended 30 June 2008
 - (ii) MCGM for the year ended 30 June 2008;
- The comparative profit and loss and cash flow statement for the year ended 30 June 2007 of:
 - (i) Drummond Gold Limited from date of acquisition 15 June 2007 to 30 June 2007; and
 - (ii) MCGM for the year ended 30 June 2007; and
- The book value of MCGM assets and liabilities acquired.

If reverse acquisition accounting had not been adopted and the Company was deemed to be the acquirer, the consolidated financial statements would have included:

- The profit and loss and cash flow statement of Drummond Gold Limited and MCGM for the year ended 30 June 2008.
- The profit and loss and cash flows of Drummond Gold Limited and MCGM from period of incorporation of Drummond Gold Limited 5 April 2007 to 30 June 2007; and
- The fair value of MCGM assets and liabilities acquired.

4. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Exploration, evaluation and development expenditure

The exploration, evaluation and development expenditure is reviewed regularly to ensure that the capitalised expenditure is only carried forward to the extent that it is expected to be recouped through the successful development of the areas of interest or when activities in the areas of interest have not yet reached a stage which permit reasonable assessment of the existence of economically recoverable reserves.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with Directors by reference to the fair value of the options at the date at which they are granted. The fair value is determined using a Black-Scholes model.

Provision for Rehabilitation

The provision of rehabilitation is based on the present obligations of the estimates of the future sacrifice of economic benefits required to meet environmental liabilities on the Group's tenements based on an assessment by the Queensland Government's Environmental Protection Agency.

5. Business and geographical segments

The Group operates predominately in one business segment being the evaluation and exploration of mineral deposits in the Drummond basin in Central Queensland.

6. Income taxes

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Tax expense/(benefit) comprises:				
Current tax expense/(benefit)	-	-	-	-
Total tax expense/(benefit)	-	-	-	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss from continuing operations	(876,004)	(373,868)	(3,643,282)	(23,447)
Income tax benefit calculated at 30%	262,801	112,160	1,092,985	7,034
Tax effects of amounts which are not deductible in calculating taxable income	(35,477)	(653)	(935,477)	-
Deferred tax assets not brought to account	(227,324)	(111,507)	(157,508)	(7,034)
Total tax expense/(benefit)	-	-	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

Unrecognised deferred tax balances

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
The following deferred tax assets have not been brought to account:				
-Share issue costs	200,423	1,728	200,423	1,728
-Accruals	-	-	12,416	7,500
-Tax losses revenue	432,078	155,359	196,059	467
	632,501	157,087	408,898	9,695

Drummond Gold Limited

Notes to the financial statements

6. Income Tax (cont'd)**Recognised deferred tax assets and liabilities**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Tax losses revenue	1,333,884	528,915	-	76
Accruals	77,878	32,735	1,739	-
Employee entitlements	11,783	2,258	1,468	-
Payables	3,344	666	2,569	-
Provision for rehabilitation	77,052	77,052	-	-
Formation costs	227	303	227	303
<u>Deferred tax liabilities:</u>				
Interest receivable	(2,350)	(1,760)	(1,724)	(379)
Prepayments	(4,279)	-	(4,279)	-
Exploration and evaluation expenditure	(1,497,539)	(640,169)	-	-
	-	-	-	-

The taxation benefits of tax losses and temporary differences not brought to account will only be obtained if:

- (i) assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;
- (ii) conditions for deductibility imposed by the law are complied with; and
- (iii) no changes in tax legislation adversely affecting the realisation of the benefit from the deductions.

No deferred tax asset has been recognised as it is not considered probable that there will be sufficient future taxable profits available against which the unused tax losses can be utilised in the foreseeable future.

7. Trade and other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Current</u>				
Interest receivable	7,832	5,867	7,417	1,670
Prepayments	14,264	-	14,264	-
Other- deposits	3,687	-	3,687	-
Goods and services tax receivable	109,142	43,826	46,296	11
	134,925	49,693	71,664	1,681
<u>Non Current</u>				
Other – deposits	7,324	-	7,324	-
Environmental bonds – mining tenements (i)	280,341	256,841	-	-
	287,665	256,841	7,324	-
	422,590	306,534	78,988	1,681

- (i) The Environmental Bonds are lodged with the Department of Mines and Energy and will not be refundable until the Consolidated Entity has received clearance advice from the Environmental Protection Authority at a time when the Consolidated Entity surrenders its exploration permits or mining leases.

Drummond Gold Limited

Notes to the financial statements

8. Other financial assets

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Investments carried at cost:				
<u>Non-current</u>				
Investment in the subsidiary (i)	-	-	4,400,000	4,400,000
Less impairment loss (ii)			(3,000,000)	-
	-	-	1,400,000	4,400,000
Loans carried at amortised cost:				
<u>Current</u>				
Loan to other related party	-	1,315	-	-
<u>Non-current</u>				
Loan to the subsidiary (iii), (iv)	-	-	3,277,001	518,608
	-	1,315	3,277,001	518,608
	-	1,315	4,677,001	4,918,608
Disclosed in the financial statements as:				
Current other financial assets	-	1,315	-	-
Non-current other financial assets	-	-	4,677,001	4,918,608
	-	1,315	4,677,001	4,918,608

- (i) The Company holds 22,000,000 fully paid ordinary shares in its wholly owned subsidiary Mt Coolon Gold Mines Pty Ltd.
- (ii) The ultimate recovery of the carrying amount of the investment in the subsidiary is primarily dependent upon the successful development and commercial exploitation or alternatively the sales of relevant areas of interest in the subsidiary for at least their carrying value. In assessing the recoverable amount of the investment in Mount Coolon Gold Mines Pty Ltd, the Company considered that the recent movement in the share price as an indication of impaired and decided to make a provision for an impairment loss of \$3,000,000 to reflect recoverable amount of the investment in its subsidiary. The impairment loss of \$3,000,000 has been included in other expenses in the Company's profit and loss statement for the current financial year.
- (iii) The receivable from the subsidiary is unsecured and not interest bearing.
- (iv) The ultimate recovery of the loan to the subsidiary is dependent upon the subsidiary discovering commercially viable reserves and the successful development and exploitation of the areas of interest or alternatively concluding a sale of the underlying areas of interest for at least their carrying value.

9. Property, plant and equipment

	2008 Consolidated					
	Freehold land at cost	Motor vehicles at cost	Leasehold and freehold improvements at cost	Furniture at cost	Other plant and equipment at cost	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2007	51,668	44,487	114,620	8,355	37,049	256,179
Additions	-	66,909	17,112	17,249	107,674	208,944
Balance at 30 June 2008	51,688	111,396	131,732	25,604	144,723	465,123
Accumulated depreciation/ amortisation and impairment						
Balance at beginning of period	-	(8,335)	(10,055)	(562)	(3,038)	(21,990)
Depreciation expense	-	(13,343)	(11,624)	(1,527)	(13,385)	(39,879)
Balance at 30 June 2008	-	(21,678)	(21,679)	(2,089)	(16,423)	(61,869)
Net book value						
As at 30 June 2008	51,668	89,718	110,053	23,515	128,300	403,254

Drummond Gold Limited

Notes to the financial statements

9. Property, plant and equipment (cont'd)

2007 Consolidated					
Freehold land at cost	Motor vehicles at cost	Leasehold and freehold improvements at cost	Furniture at cost	Other plant and equipment at cost	Total
\$	\$	\$	\$	\$	\$
Balance at 1 July 2007	-	21,589	23,159	-	44,748
Additions	51,668	22,898	91,461	37,049	211,431
Balance at 30 June 2007	51,668	44,487	114,620	37,049	256,179
Accumulated depreciation/ amortisation and impairment					
Balance at 1 July 2007	-	-	-	-	-
Depreciation expense	-	(8,335)	(10,055)	(3,038)	(21,990)
Balance at 30 June 2007	-	(8,335)	(10,055)	(3,038)	(21,990)
Net book value					
As at 30 June 2007	51,668	36,152	104,565	34,011	234,189

2008 Company					
Freehold land at cost	Motor vehicles at cost	Leasehold and freehold improvements at cost	Furniture at cost	Other plant and equipment at cost	Total
\$	\$	\$	\$	\$	\$
Balance at 1 July 2007	-	-	-	-	-
Additions	-	36,394	3,507	25,043	78,414
Balance at 30 June 2008	-	36,394	3,507	25,043	78,414
Accumulated depreciation/ amortisation and impairment					
Balance at incorporation	-	-	-	-	-
Depreciation expense	-	(323)	(177)	(2,531)	(3,666)
Balance at 30 June 2008	-	(323)	(177)	(2,531)	(3,666)
Net book value					
As at 30 June 2008	-	36,071	3,330	22,512	74,748

2007 Company					
Freehold land at cost	Motor vehicles at cost	Leasehold and freehold improvements at cost	Furniture at cost	Other plant and equipment at cost	Total
\$	\$	\$	\$	\$	\$
Balance at incorporation	-	-	-	-	-
Additions	-	-	-	-	-
Balance at 30th June 2007	-	-	-	-	-
Accumulated depreciation/ amortisation and impairment					
Balance at incorporation	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Balance at 30th June 2007	-	-	-	-	-
Net book value					
As at 30th June 2007	-	-	-	-	-

9. Property, plant and equipment (cont'd)

The following useful lives are used in the calculation of depreciation:

Leasehold and freehold improvements	10 – 40 years
Motor vehicles	5 – 12 years
Furniture and fittings	10 – 20 years
Other plant and equipment	3 – 20 years

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Buildings	-	-	-	-
Leasehold improvements	11,624	10,055	177	-
Motor vehicle	13,343	8,335	323	-
Furniture and fittings	1,527	562	635	-
Other plant and equipment	13,385	3,038	2,531	-
	<u>39,879</u>	<u>21,990</u>	<u>3,666</u>	<u>-</u>

The carrying value of the land and buildings has been measured on a historical cost basis.

10. Exploration and evaluation expenditure

	2008 Consolidated				
	Mining information at cost	Exploration permits at cost	Rehabilitation expenditure at cost	Exploration and Evaluation at cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance at 1 July 2007	100,000	157,226	256,841	1,619,829	2,133,896
Additions	-	15,487	-	2,845,997	2,861,484
Disposals	-	-	-	-	-
Balance at 30 June 2008 (i)	<u>100,000</u>	<u>172,713</u>	<u>256,841</u>	<u>4,465,826</u>	<u>4,995,380</u>
Accumulated depreciation/ amortisation and impairment					
Balance at beginning of period	-	-	-	-	-
Amortisation expense	-	-	-	3,584	3,584
Balance at 30 June 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,584</u>	<u>3,584</u>
Net book value					
As at 30 June 2008	<u>100,000</u>	<u>172,713</u>	<u>256,841</u>	<u>4,462,242</u>	<u>4,991,796</u>
	2007 Consolidated				
	Mining information at cost	Exploration permits at cost	Rehabilitation expenditure at cost	Exploration and Evaluation at cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance at 1 July 2006	100,000	8,368	68,000	-	176,368
Additions	-	148,858	188,841	1,619,829	1,957,528
Disposals	-	-	-	-	-
Balance at 30 June 2007 (i)	<u>100,000</u>	<u>157,226</u>	<u>256,841</u>	<u>1,619,829</u>	<u>2,133,896</u>
Accumulated depreciation/ amortisation and impairment					
Balance at beginning of period	-	-	-	-	-
Amortisation expense	-	-	-	-	-
Balance at 30 June 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value					
As at 30 June 2007	<u>100,000</u>	<u>157,226</u>	<u>256,841</u>	<u>1,619,829</u>	<u>2,133,896</u>

Drummond Gold Limited

Notes to the financial statements

10. Exploration and evaluation expenditure (cont'd)

- (i) The above amounts represent capitalised costs of exploration areas of interest carried forward as an asset in accordance with the accounting policy set out in note 3 (i). The ultimate recoupment of the exploration and evaluation expenditure in respect to the areas 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 the sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect to each relevant area of interest is not charged to the income statement until a mining operation is commenced or when tenements are relinquished.

11. Other assets

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Non-current</u>				
Other – Formation expenses	953	1,264	953	1,264
	953	1,264	953	1,264

12. Trade and other payables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables (i)	512,624	111,499	115,702	2,614
Other – accrued expenses	259,594	109,115	72,183	25,000
Other – superannuation payable	11,148	-	8,562	-
Other- PAYG payable	47,537	-	36,402	-
Other – fringe benefits tax payable	-	1,100	-	-
	830,903	221,714	232,849	27,614

- (i) The average credit period on purchases of goods is 30 days. No interest is charged on the trade payables.

13. Provisions

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Current</u>				
Employee benefits (i)	32,670	6,566	4,277	-
	32,670	6,566	4,277	-
<u>Non-current</u>				
Employee benefits (ii)	6,608	960	618	-
Provision for rehabilitation expenditure (iii)	256,841	256,841	-	-
	263,449	257,801	618	-
	296,119	264,367	4,895	-
<u>Provision for rehabilitation expenditure</u>				
Balance at 1 July 2007	256,841	68,000	-	-
Addition for the period	-	188,841	-	-
Balance at 30 June 2008	256,841	256,841	-	-

- (i) The current employee benefits are represented by provisions for annual leave totalling \$32,670. The average number of employees during the year was 5 and 2 employees during the previous financial year. The consolidated entity contributes 9% of the employees' wages and salary towards various accumulated superannuation funds.
- (ii) The non current employee benefits are represented by provisions for long service leave totalling \$6,608 accrued but not expected to be taken within 12 months.
- (iii) The non current provision for rehabilitation expenditure represents the present value of the Director's best estimates of the future sacrifice of economic benefits required to meet environmental liabilities on the Group's tenements.

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Notes to the financial statements

14. Issued capital

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
63,300,000 fully paid ordinary shares (2007: 29,961,999)	11,059,742	3,822,886	13,211,456	5,974,600
	11,059,742	3,822,886	13,211,456	5,974,600

	Consolidated 2008 \$	Consolidated 2007 \$
	Fully paid ordinary shares	
Balance at beginning of financial year	3,822,886	1,000
Acquisition of Mt Coolon Gold Mines Pty Ltd	-	2,242,702
Issue of shares to seed investors	3,150	1,549,999
Issue of shares to other investors	1,063,400	31,800
Issue of shares in Initial Public Offering	7,000,000	-
Share issue costs	(829,694)	(2,615)
Balance at end of financial year	11,059,742	3,822,886

	Company 2008		Company 2007	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	29,961,999	5,974,600	-	-
Issue of shares to investors	-	-	4	1
Acquisition of Mt Coolon Gold Mines Pty Ltd	-	-	22,000,000	4,400,000
Issue of shares to seed investors	21,000	3,150	7,749,995	1,549,999
Issue of shares to other investors	5,317,001	1,063,400	212,000	31,800
Issue of shares in Initial Public Offering	28,000,000	7,000,000	-	-
Share issue costs	-	(829,694)	-	(7,200)
Balance at end of financial year	63,300,000	13,211,456	29,961,999	5,974,600

At the date of this report a total of 19,755,055 fully paid ordinary shares are escrowed for two years from the date of quotation. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Other share options on issue

Details of unissued shares or interests under option as at 30 June 2008 report are as follows:

Issuing entity	Number of shares under option (i)	Class of shares	Exercise price of option	Expiry date of options
Drummond Gold Limited	9,325,000	Ordinary Shares	30 cents	31 December 2009
Drummond Gold Limited	9,325,000	Ordinary Shares	40 cents	31 July 2010

- (i) Excluded in the total of the number of shares under option is the option entitlement to Mr. D. J. Grewar under his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting of these options is subject to shareholders' approval.

Each option entitles the holder to purchase one share. Persons entitled to exercise these options have no right, by virtue of the options, to participate in any share issue by the Company or any other body corporate. A total of 3,820,236 options exercisable at 30 cents on or before 31 December 2009 and a total of 3,820,236 options exercisable at 40 cents on or before 31 July 2010 are escrowed for one year from the date of quotation. A total of 5,504,764 options exercisable at 30 cents on or before 31 December 2009 and a total of 5,504,764 options exercisable at 40 cents on or before 31 July 2010 are escrowed for two years from the date of quotation.

Drummond Gold Limited

Notes to the financial statements

15. Reserves

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Share-based payments- option reserve				
Equity-settled employee benefits	117,700	-	117,700	-
	<u>117,700</u>	<u>-</u>	<u>117,700</u>	<u>-</u>
Option reserve				
Balance at beginning of financial year	-	-	-	-
Movements:				
Issue of options to Mr. J. S. Dunlop (i)	61,000	-	61,000	-
Proposed issue of options to Mr. D. J. Grewar (ii)	56,700	-	56,700	-
Balance at end of financial year	<u>117,700</u>	<u>-</u>	<u>117,700</u>	<u>-</u>

- (i) The movement in relation to the issue of options to Mr. J. S. Dunlop represents the fair value of 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010 issued to Mr. J. S. Dunlop for nil consideration during November 2007.
- (ii) The movement in relation to the proposed issue of options to Mr. D. J. Grewar represents an entitlement under his employment agreement to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010 and to a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010 if he is still employed on 18 March 2009. The granting and vesting of these options is subject to shareholder approval. At the date of this report the shareholder had not approved the granting of the options to Mr. D. J. Grewar. The movement in the option reserve represents the fair value of the options as at 30 June 2008 as determined by Australian accounting standards.

16. Accumulated losses

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at beginning of financial year	(523,800)	(149,912)	(23,447)	-
Net loss attributable to members of the parent entity	(876,004)	(373,888)	(3,643,282)	(23,447)
Balance at end of financial year	<u>(1,399,804)</u>	<u>(523,800)</u>	<u>(3,666,729)</u>	<u>(23,447)</u>

17. Loss per share

	Consolidated	
	2008	2007
	Cents per share	Cents per share
Basic loss per share		
From continuing operations	(1.77)	(33.06)
Total basic loss per share	<u>(1.77)</u>	<u>(33.06)</u>
Diluted loss per share		
From continuing operations	(1.77)	(33.06)
Total diluted loss per share	<u>(1.77)</u>	<u>(33.06)</u>

Basic loss per share

The net loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2008	2007
	\$	\$
Net loss	(876,004)	(373,888)
Losses used in the calculation of basic loss per share from continuing operations	<u>(876,004)</u>	<u>(373,888)</u>

Drummond Gold Limited

Notes to the financial statements

17. Loss per share (cont'd)

	2008	2007
	No.	No.
Weighted average number of ordinary shares for the purposes of basic loss per share	49,630,754	1,131,016

Diluted loss per share

The losses used in the calculation of diluted loss per share is as follows:

	2008	2007
	\$	\$
Net loss	(876,004)	(373,888)
Earnings used in the calculation of diluted loss per share	(876,004)	(373,888)
Adjustments to exclude profit for the period from discontinued operations		-
Earnings used in the calculation of diluted loss per share from continuing operations	(876,004)	(373,888)

	2008	2007
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic loss per share.	49,630,754	1,131,016

Weighted average number of ordinary shares used in the calculation of diluted loss per share	49,630,754	1,131,016
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The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share:

	2008	2007
	No.	No.
Options	18,650,000	-

Options issued as a result of seed capital and issued to Mr. J. S. Dunlop are not considered to be potential ordinary shares and have not been included in the determination of diluted loss per share. These options have not been included in the determination of the basic loss per share. Details relating to the options are included in note 14.

18. Dividends

There were no dividends paid or proposed during the current or previous financial year.

19. Commitments for expenditure

The possibility of Native Title claim applications at some future time, under the provisions of the Native Title Act (1993), may affect access to and tenure of exploration tenements. Any substantial claim may have an effect on the value of the tenement affected by the claim. No provision has been made in the accounts for the possibility of a Native Title claim application.

In order to maintain current rights to tenure of exploration tenements, the Company will be required to outlay amounts in respect of tenement rent to the relevant governing authorities and to meet certain annual exploration expenditure commitments. It is likely that variations to the terms of the current and future tenement holdings, the granting of new tenements and changes at renewal or expiry, will change the expenditure commitments for the Company from time to time.

These outlays (exploration expenditure and rent) which arise in relation to granted tenements inclusive of tenement applications granted subsequent to 30 June 2008 are as follows:-

(i) Exploration Commitments

Commitments for payments under exploration permits and mineral leases in existence at the reporting date but not recognised as liabilities payable are as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Exploration and evaluation expenditure</u>				
Not longer than 1 year	695,000	483,700	-	-
Longer than 1 year and not longer than 5 years	3,589,000	555,700	-	-
Longer than 5 years	-	-	-	-
	4,284,000	1,039,400	-	-

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Notes to the financial statements

19. Commitments for expenditure (cont'd)**(ii) Remuneration commitments**

Commitments for payment of salaries under long term employment contracts in existence at reporting date but not recognised as a liability payable:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Salaries under long term employment contracts</u>				
Not longer than 1 year	407,400	-	407,400	-
Longer than 1 year and not longer than 5 years	367,974	-	367,974	-
Longer than 5 years	-	-	-	-
	<u>775,374</u>	<u>-</u>	<u>775,374</u>	<u>-</u>

20. Contingent liabilities and contingent assets

The Directors are not aware of any contingent liabilities or contingent assets that are likely to have a material effect on the results of the Group as disclosed in these financial statements.

21. Leases**Operating leases**

Leasing arrangements

Operating leases relate to an office lease terms of four years, with an option to extend for a further four years. The office lease contracts contain market review clauses in the event that the Company exercises its option to renew.

Non-cancellable operating lease commitments

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Not longer than 1 year	44,441	-	44,441	-
Longer than 1 year and not longer than 5 years	110,516	-	110,516	-
Longer than 5 years	-	-	-	-
	<u>154,957</u>	<u>-</u>	<u>154,957</u>	<u>-</u>

22. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2008 %	2007 %
Parent entity			
Drummond Gold Limited	Australia		
Subsidiary			
Mt Coolon Gold Mines Pty Ltd	Australia	100	100

The parent entity and subsidiary are not within a tax-consolidated group.

23. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	5,086,067	1,107,969	5,068,481	1,057,214

(b) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net loss for the year	(876,004)	(373,888)	(3,643,282)	(23,447)
Interest income	(272,197)	(3,469)	(267,968)	-
Depreciation	39,879	21,990	3,666	-
Formation costs written off	311	-	311	-
Impairment loss investment in subsidiary	-	-	3,000,000	-
Exploration expenditure written off	3,584	-	-	-
Share-based remuneration	117,700	-	117,700	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Interest receivable	(1,965)	(5,867)	(5,747)	(1,670)
Trade and other receivables	(19,546)	(32,278)	(46,284)	(11)
Prepayments	(14,264)	-	(14,264)	-
Increase/(decrease) in liabilities:				
Trade and other payables	37,487	127,479	205,234	25,000
Provisions – employee benefits	31,752	6,565	4,895	-
Net cash from operating activities	(953,263)	(259,468)	(645,739)	(128)

24. Financial instruments

(a) Financial risk management objectives

The Board monitors and manages the financial risk relating to the operations of the Group. The Group's activities include exposure to market risk, fair value interest rate risk and price risk, credit risk, liquidity risk and cash flow interest rate risk. The overall risk management program focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on the financial performance. Risk management is carried out under the direction of the Board of Directors.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

(c) Market price risk

The Group is involved in the exploration and development of mining tenements for base metals including gold and copper. Revenue associated with metal sales, and the ability to raise funds through equity and debt are dependent upon the commodity price for resources.

(d) Interest rate risk

There is a limited amount of interest rate risk relating to the cash and cash equivalents that the company holds in deposits. The Group will be exposed to further interest rate risk if it intends to borrow funds in the future for acquisition and development.

(e) Credit risk management

The Group does not have any significant credit risk exposure.

(f) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

(h) Cash flow and interest rate risk

The Group's income and operating cash flows are not materially exposed to changes in market interest rates.

(i) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The capital structure of the Group includes cash and cash equivalents, equity attributable to equity holders of the parent, comprising of issued capital, reserves and accumulated losses as disclosed in notes 14, 15 and 16 respectively. The Group operates its exploration and evaluation activities through its wholly owned subsidiary. None of the Group's entities are subject to externally imposed capital requirements. The Group intends to use a variety of capital market issues to meet anticipated funding requirements. The Group currently has no short-term or long-term borrowings.

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Notes to the financial statements

24. Financial instruments (cont'd)
Liquidity and interest risk tables

The following tables details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The table have been drawn up based on undiscounted cash flows and details the Group's exposure to interest rate risk as at 30 June 2008 and as at 30 June 2007:

2008	Weighted average effective interest rate %	Maturity					Total
		Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	5 + years \$	
Financial assets							
Non-interest bearing	-	440,198	-	-	-	-	440,198
Variable interest rate instrument	6.00%	1,068,459	-	-	-	-	1,068,459
Fixed interest rate instruments	7.70%	4,000,000	-	-	-	-	4,000,000
		<u>5,508,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,508,657</u>
Financial liabilities							
Non-interest bearing	-	512,624	-	-	-	-	512,624
		<u>512,624</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>512,624</u>

2007	Weighted average effective interest rate %	Maturity					Total
		Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	5 + years \$	
Financial assets							
Non-interest bearing	-	51,008	-	-	-	-	51,008
Variable interest rate instrument	5.95%	1,107,969	-	-	-	-	1,107,969
		<u>1,158,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,158,977</u>
Financial liabilities							
Non-interest bearing	-	111,499	-	-	-	-	111,499
		<u>111,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,499</u>

The following tables details the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The table have been drawn up based on undiscounted cash flows and details the Group's exposure to interest rate risk as at 30 June 2008 and as at 30 June 2007:

2008	Weighted average effective interest rate %	Maturity					Total
		Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	5 + years \$	
Financial assets							
Non-interest bearing	-	79,010	-	-	-	4,677,001	4,756,011
Variable interest rate instrument	6.00%	1,068,459	-	-	-	-	1,068,459
Fixed interest rate instruments	7.70%	4,000,000	-	-	-	-	4,000,000
		<u>5,147,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,677,001</u>	<u>9,824,470</u>
Financial liabilities							
Non-interest bearing	-	115,702	-	-	-	-	115,702
		<u>115,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,702</u>

2007	Weighted average effective interest rate %	Maturity					Total
		Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	5 + years \$	
Financial assets							
Non-interest bearing	-	1,681	-	-	-	4,918,608	4,920,289
Variable interest rate instrument	5.95%	1,057,214	-	-	-	-	1,057,214
		<u>1,058,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,918,608</u>	<u>5,977,503</u>
Financial liabilities							
Non-interest bearing	-	27,614	-	-	-	-	27,614
		<u>27,614</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,614</u>

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Notes to the financial statements

25. Key management personnel compensation

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	676,387	1,021,627	676,387	-
Post-employment benefits	35,288	-	35,288	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	117,700	-	117,700	-
	<u>829,375</u>	<u>1,021,627</u>	<u>829,375</u>	<u>-</u>

Further details of the key management personnel compensation can be found in the Remuneration Report section of the Directors' Report.

26. Share-based payments

The following share-based payment arrangements were made to Mr. J. S. Dunlop during the current reporting period:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
(1) Issued 23 November 2007	500,000	23/11/2007	31/12/2009	30 cents	6 cents
(2) Issued 23 November 2007	500,000	23/11/2007	31/07/2010	40 cents	7 cents

Mr. J. S. Dunlop was provided 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010 on becoming the independent chairman of the Company. The granting of these options was not dependent on the satisfaction of a performance condition and was issued by the Company as an incentive to attract a suitable Chairman. In accordance with the terms of the share based arrangement the options vest at the date of the issue.

The following share-based payment arrangements were made to Mr. D. J. Grewar which are likely to be granted during the subsequent financial year:

Options series	Number	Expiry date	Exercise price \$	Fair value at 30 June 2008 \$
(3) Issued at shareholders' meeting	1,000,000	31/12/2009	30 cents	2.3 cents
(4) Issued at shareholders' meeting	1,000,000	31/07/2010	40 cents	2.8 cents
(5) Issued after 18 March 2009	500,000	31/12/2009	30 cents	2.3 cents
(6) Issued after 18 March 2009	500,000	31/07/2010	40 cents	2.8 cents

Mr. D. J. Grewar is entitled under his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting of these options is subject to shareholder approval. At the date of this report the shareholders had not approved the granting of the options to Mr. D. J. Grewar.

The granting of the options to Mr. D. J. Grewar is not dependent on the satisfaction of a performance condition. The offer of options was made as an incentive to attract a suitable Managing Director and to motivate the Managing Director from the time of the appointment. No other share-based payment arrangements were in existence during the period.

The total of the fair value of the share options granted to Mr. J. S. Dunlop during the financial year and likely to be granted during the next financial year to Mr. D. J. Grewar is \$117,700. Options were priced using the Black Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility since listing on the Australian Securities Exchange on 21 December 2007.

Inputs into the model	Option series					
	Series (1)	Series (2)	Series (3)	Series (4)	Series (5)	Series (6)
Grant date share price	N/A	N/A	N/A	N/A	N/A	N/A
Exercise price	30 cents	40 cents	30 cents	40 cents	30 cents	40 cents
Expected volatility	56%	56%	99.94%	99.94%	99.94%	99.94%
Maturity	31/12/2009	31/07/2010	31/12/2009	31/07/2010	31/12/2009	31/07/2010
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	6.45%	6.45%	6.7%	6.6%	6.7%	6.6%

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Notes to the financial statements

26. Share-based payments (cont'd)

The following reconciles the outstanding share options provided as share based payments at the beginning and end of the financial year:

	2008	
	Number of options	Exercise price \$
Balance at beginning of the financial year	-	-
Granted during the financial year - 31/12/2009 (i)	2,000,000	\$0.30
Granted during the financial year - 31/07/2010 (ii)	2,000,000	\$0.40
Exercised during the financial year	-	-
Expired during the financial year	-	-
Balance at end of the financial year -31/12/2009 (i)	2,000,000	\$0.30
Balance at end of the financial year - 31/07/2010 (ii)	2,000,000	\$0.40
Exercisable at end of the financial year - 31/12/2009 (i)	2,000,000	\$0.30
Exercisable at end of the financial year - 31/07/2010 (i)	2,000,000	\$0.40

- (i) Included in the number of options is the entitlement to Mr. D. J. Grewar for 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting of these options is subject to shareholder approval. At the date of this report the shareholders had not approved the granting of the options to Mr. D. J. Grewar

27. Related party transactions

Parent entity

The parent entity in the Group is Drummond Gold Limited which was incorporated in Brisbane, Australia on 5 April 2007.

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in the subsidiary are disclosed in note 22 to the financial statements.

(b) Transactions with key management personnel

i. Key management personnel compensation

The aggregate compensation made to key management personnel compensation are disclosed in note 25 of the financial statements and details of the compensation made to key management personal has been provided in the remuneration report which forms part of the Directors' Report.

ii. Key management personnel equity holdings

Fully paid ordinary shares of Drummond Gold Limited held directly or indirectly:

	Balance at 1 July	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June	Relevant Interest	Balance held nominally
	No.	No.	No.	No.	No.	No.	No.
2008							
Mr. J. S. Dunlop	-	-	-	281,700	281,700	281,700	-
Mr. D. J. Grewar	-	-	-	-	-	-	-
Mr. B. K. Mutton	3,194,713	-	-	18,000	3,212,713	1,888,947	-
Mr. R. C. Hutton	5,805,214	-	-	58,000	5,863,214	12,033,818	-
Mr. A.J. Vigar	10,453,450	-	-	18,000	10,471,450	14,685,508	-
Mr. M. J. Ilett	710,625	-	-	174,002	884,627	884,627	-
Mr. M. Farmer	-	-	-	-	-	-	-
2007							
Mr. J. S. Dunlop	-	-	-	-	-	-	-
Mr. D. J. Grewar	-	-	-	-	-	-	-
Mr. B. K. Mutton (i)(ii)(ii)	-	-	-	3,194,713	3,194,713	1,870,947	-
Mr. R. C. Hutton (i)(ii)(iii)	-	-	-	5,805,214	5,805,214	11,975,818	-
Mr. A.J. Vigar (i)(ii)(iii)	-	-	-	10,453,450	10,453,450	14,667,508	-
Mr. M. J. Ilett (ii)(iii)(iv)	-	-	-	710,625	710,625	710,625	-
Mr. T. C. Charlton (i)(iii)	-	-	-	1,885,996	1,885,996	1,885,996	-
Mr. M. Farmer	-	-	-	-	-	-	-

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Notes to the financial statements

27. Related party transactions (cont'd)

- (i) The Directors and key management include shares that they hold either directly or indirectly through the Mt Coolon Gold Mines Trust which holds 8,825,215 shares in the Company.
- (ii) On 5 April 2007, Mr. A. J. Vigar, Mr. B. K. Mutton, Mr. R. C. Hutton and Mr. M. J. Ilett were issued one new ordinary share in Drummond Gold Limited at an issue price of 25 cents per share.
- (iii) On 15 June 2007 Drummond Gold Limited acquired 100% of the equity of Mt Coolon Gold Mines Pty Ltd in a scrip for scrip transaction for the consideration of \$4,400,000 represented by 22,000,000 new ordinary shares at its deemed fair value of 20 cents per share. As the result of the scrip for scrip transaction the following shares were received either directly or indirectly in Drummond Gold Limited:

Management personnel/ Directors	Shares received No.
Mr. A.J. Vigar	10,453,449
Mr. B. K. Mutton	3,194,712
Mr. R. C. Hutton	5,805,213
Mr. M. J. Ilett (iv)	660,630
Mr. T. Charlton	1,885,996
Total	22,000,000

- (iv) On 26 June 2007, Mr. M. J. Ilett was issued 49,995 new ordinary shares in Drummond Gold Limited at an issue price of 20 cents per share.

Share options of Drummond Gold Limited

Directors	Balance at 1 July No.	Granted as compensation No.	Exer- cised No.	Net other change No. (iii)	Bal at 30 June (beneficial interest) No.	Bal vested at 30 June No.	Vested but not exerci- sable No.	Vested and exercisable No.	Options vested during year No.
2008									
Mr. J. S. Dunlop (i)									
31 December 2009	-	500,000	-	62,500	562,500	562,500	-	562,500	562,500
31 July 2010	-	500,000	-	62,500	562,500	562,500	-	562,500	562,500
Mr. D. J. Grewar (ii)									
31 December 2009	-	1,500,000	-	-	1,500,000	1,000,000	1,000,000	-	1,000,000
31 July 2010	-	1,500,000	-	-	1,500,000	1,000,000	1,000,000	--	1,000,000
Mr. B. K. Mutton									
31 December 2009	-	-	-	801,178	801,178	801,178	-	801,178	801,178
31 July 2010	-	-	-	801,178	801,178	801,178	-	801,178	801,178
Mr. R. C. Hutton									
31 December 2009	-	-	-	1,453,804	1,453,804	1,453,804	-	1,453,804	1,453,804
31 July 2010	-	-	-	1,453,804	1,453,804	1,453,804	-	1,453,804	1,453,804
Mr. A. J. Vigar									
31 December 2009	-	-	-	2,615,862	2,615,862	2,615,862	-	2,615,862	2,615,862
31 July 2010	-	-	-	2,615,862	2,615,862	2,615,862	-	2,615,862	2,615,862
Mr. M. J. Ilett									
31 December 2009	-	-	-	208,157	208,157	208,157	-	208,157	208,157
31 July 2010	-	-	-	208,157	208,157	208,157	-	208,157	208,157

- (i) These options were granted to Mr. J. S. Dunlop as consideration for his agreement to act as the Company's Chairman.
- (ii) Included in the share options is the entitlement for Mr. D. J. Grewar under his employment contract to 1,000,000 options exercisable at 30 cents on or before 31 December 2009 and 1,000,000 options exercisable at 40 cents on or before 31 July 2010. If Mr. D. J. Grewar is still employed on 18 March 2009, he is also entitled a further 500,000 options exercisable at 30 cents on or before 31 December 2009 and 500,000 options exercisable at 40 cents on or before 31 July 2010. The granting of these options is subject to shareholders' approval.
- (iii) On October 2007, the Company issued 8,825,000 options exercisable at 30 cents on or before 31 December 2009 and 8,825,000 options exercisable at 40 cents on or before 31 July 2010 on the basis of one option for every share held. The holdings for these options include the beneficial interest in which the Directors hold either directly or indirectly through the Mt Coolon Gold Mines Trust which holds 2,206,304 options exercisable at 30 cents on or before 31 December 2009 and 2,206,304 options exercisable at 40 cents on or before 31 July 2010.

Further details of the options granted as compensation during the 2008 financial year are contained in note 26 and in the Remuneration Report which can be found in the Directors' Report.

27. Related party transactions (cont'd)

(c) Transactions with other related parties

Transactions between the Group and other related parties

During the current financial year the following expenses, other than those included in key management personnel compensation in note 25, were incurred by the Group:-

- (i) John S. Dunlop & Associates Pty Ltd, a party related to Mr. J. S. Dunlop, invoiced a total of \$2,831 for reimbursement of outlays;
- (ii) Mining Associates Pty Ltd, a party related to Mr. A. J. Vigar invoiced a total of \$84,851 for professional consulting services and reimbursement of outlays to the Group. It is noted that this invoice includes payments for geological and consulting services, outgoings, and rent and office expenses;
- (iii) The Brisbane Mining Club, a party related to Mr. A. J. Vigar, invoiced a total \$1,000 for the sponsorship of drinks at a Brisbane Mining Club function;
- (iv) Ms. Rebecca Levis, a party related to Mr. A. J. Vigar, invoiced a total of \$9,720 for marketing and advertising work;
- (ii) Brice Mutton & Associates Pty Ltd, a party related to Mr. B.K. Mutton, invoiced a total of \$41,817 for reimbursement of outlays; and
- (v) Kaus Australis Pty Ltd, a party related to Mr. M. J. Ilett, invoiced a total of \$212 for reimbursement of outlays.

Transactions between Drummond Gold Limited and Mt Coolon Gold Mines Pty Ltd

It is noted that on 15 June 2007 Drummond Gold Limited acquired 100% of the equity of Mt Coolon Gold Mines Pty Ltd in a scrip for scrip transaction for the consideration of \$4,400,000 represented by 22,000,000 new ordinary shares at a deemed fair value of 20 cents per share.

At the end of the financial year the Company had a loan receivable from Mt Coolon Gold Mines Pty Ltd of \$3,277,001 included in non current financial assets of the Company. The loan receivable at the beginning of the financial year was \$518,608. The Board of Drummond Gold Limited has agreed to defer the settlement on this loan until Mt Coolon Gold Mines Pty Ltd is able to repay the loan through the production and sale of gold and other commodities. It is unlikely Mt Coolon Gold Mines Pty Ltd will become a producer in the next 12 months.

All amounts advanced to or payable to related parties are unsecured and are subordinate to other liabilities. No interest is charged on the outstanding balance. The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed to the Company by Mt Coolon Gold Mines Pty Ltd. Transactions and balances between the Company and its subsidiary were eliminated in the preparation of the consolidated financial statements of the Group.

28. Remuneration of auditors

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Auditor of the parent entity				
Audit or review of the financial report	55,265	34,000	55,265	28,000
	55,265	34,000	55,265	28,000
Related practice of the parent entity auditor				
Other non-audit services – investigation IPO	45,650	-	45,650	-
Other non-audit services – corporate services	2,770	12,716	-	-
	48,420	12,716	45,650	-

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Notes to the financial statements

29. Tenements

Mt Coolon Gold Mines Pty Ltd holds a 100% interest in 4 Mining Leases (MLs) comprising 300.052 hectares. Mt Coolon Gold Mines Pty Ltd holds a 100% interest in 3 Exploration Permit Minerals ("EPM") covering 89,088 hectares, plus applications covering an additional 96,512 hectares elsewhere in the Drummond Basin. All the mining tenements are held in Queensland Australia.

A renewal has been lodged with the DME for EPM 7259.

Tenement No.	Name	Area (Sub Blocks)	Area (Hectares)	Grant Date	Expiry Date
EPM 7259	Rosetta	23	5,888	18/05/1990	17/05/2008
EPM 15902	Mt Coolon	230	58,880	13/06/2008	12/06/2013
EPM 16476	Mt Violet West	76	24,320	15/05/2008	14/05/2013
Total Area		329	89,088		

Mining Lease No.	Name	Area (Hectares)	Grant Date	Expiry Date
ML 1029	Koala 1	70.82	30/05/1974	31/01/2014
ML 1085	Koala Camp	4.902	27/01/1994	31/01/2014
ML 1086	Koala Plant	97.55	27/01/1994	31/01/2014
ML 10227	Glen Eva	126.78	05/12/1996	31/12/2016
Total Area		300.052		

Tenement Application No.	Name	Area (Sub Blocks)	Area (Hectares)	Application Date	Comments
EPMA 16382	Mt Coolon West	58	14,848	26/04/2007	Offer to grant received
EPMA 16472	Anakie West	59	15,104	18/05/2007	Offer to grant received
EPMA 16526	Mt Violet Central	74	18,944	15/05/2007	Application contested
EPMA 17254	Mt Violet North	96	24,576	18/01/2008	Originally part of EPM16476
EPMA 17255	Mt Violet North East	74	18,944	18/01/2008	Originally part of EPM16476
EPMA 17655	Twin Hills-ARV	16	4,096	01/06/2008	Application contested
Total Area		377	96,512		

30. Subsequent events

There are no subsequent events which are likely to have a material effect on the Company or the Group's financial statements.

Additional Securities Exchange Information as at 18 August 2008

Number of holders of equity securities

Ordinary share capital

63,300,000 fully paid ordinary shares are held by 625 individual shareholders.

19,755,055 fully paid ordinary shares are subject to escrow for 24 months from 21 December 2007.

All issued ordinary shares carry one vote per share.

Options

A total of 9,325,000 options exercisable at 30 cents on or before 31 December 2009 are held by 58 individual option holders (31 December 2009 Options).

3,820,236 31 December 2009 Options are subject to escrow for 12 months from 29 October 2007.

5,504,764 31 December 2009 Options are subject to escrow for 24 months from 21 December 2007.

A total of 9,325,000 options exercisable at 40 cents on or before 31 July 2010 are held by 58 individual option holders (31 July 2010 Options).

3,820,236 31 July 2010 Options are subject to escrow for 12 months ending 29 October 2007.

5,504,764 31 July 2010 Options are subject to escrow for 24 months from 21 December 2007

The 31 December 2009 Options and 31 July 2010 Options do not carry a right to vote.

Distribution of holders of equity securities

	Fully paid Ordinary Shares		31 December 2009 Options		31 July 2010 Options	
	Number	%	Number	%	Number	%
1 – 1,000	4	0.00	0	0.00	0	0.00
1,001 – 5,000	20	0.11	9	0.23	9	0.23
5,001 – 10,000	184	2.46	5	0.23	5	0.23
10,001 – 100,000	339	21.44	19	4.50	19	4.50
100,001 and over	78	75.99	25	95.04	25	95.04
	625	100.00	58	100.00	58	100.00

Holding less than a marketable parcel

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Twenty largest shareholders of quoted equity securities

Ordinary shareholders	Fully paid ordinary shares	
	Number	Percentage
ANZ NOMINEES LIMITED	5,000,000	7.90%
ANZ NOMINEES LIMITED <CASH INCOME A/C>	2,060,000	3.25%
THOMAS JONATHAN CHARLTON	1,650,315	2.61%
TESORO M B PTY LTD	1,500,000	2.37%
ACCORD INVESTMENT CORPORATION PTY LTD	1,000,000	1.58%
MR IAN CHARLES PITCHER & MRS LINDAL KAY PITCHER	930,000	1.47%
RINGEWIND PTY LTD	660,630	1.04%
MR WILLIAM NAGL	650,000	1.03%
COST NOMINEES LIMITED	620,000	0.98%
NATUKA PTY LIMITED	516,000	0.82%
MR ROBERT DOUGLAS DAVIDSON & MRS ANNE ELIZABETH DAVIDSON	500,000	0.79%
RABOSS PTY LTD	500,000	0.79%
FINANCE ASSOCIATES PTY LTD	436,000	0.69%
ACCORD INVESTMENT CORPORATION PTY LTD	400,000	0.63%
RABOSS PTY LTD	400,000	0.63%
MR SERGIO CAMOZZI	320,000	0.51%
MR CHING WOO GOH	320,000	0.51%
MR CHRISTOPHER BRIAN MUIR	300,000	0.47%
MR RODNEY STEWART CHARLTON & MRS HELGA LISA ANNE LINE CHARLTON	290,000	0.46%
B & S WRIGHT PTY LTD	250,000	0.39%
	18,302,945	28.92%

Substantial shareholders

Ordinary shareholders	Fully paid ordinary shares	
		Number
MR. A. J. VIGAR		14,685,508
MR. R. C. HUTTON		12,033,818
MT COOLON HOLDINGS PTY LTD		8,825,215
ANZ NOMINEES LIMITED		5,000,000
		<u>40,544,541</u>

Unquoted equity security holdings greater than 20%

Mt Coolon Holdings Pty Ltd holds 4,412,608 31 December 2009 Options and holds 4,412,608 31 July 2010 Options.

Corporate Directory

Directors:	Mr. J. S. Dunlop (Chairman) Mr. D. Grewar (Managing Director) Mr. B. K. Mutton (Executive Director) Mr. R. C. Hutton (Non-Executive Director) Mr. A. J. Vigar (Non-Executive Director)
Company secretary and chief financial officer	Mr. M. J. Ilett
Registered office and principal administrative office:	Suite 8, 60 MacGregor Terrace BARDON QLD 4065 P.O. Box 844 Paddington Qld 4064 Telephone: + 61 7 3367 2144 Facsimile: + 61 7 3367 2165
Share registry:	Link Market Services Limited Level 12, HSBC Building 300 Queen Street Brisbane Qld 4000 Telephone: + 61 2 8280 7454 Facsimile: + 61 2 8280 0303
Auditors:	Deloitte Touche Tohmatsu Level 25, Riverside Centre 123 Eagle Street BRISBANE QLD 4000
Lawyers:	McCullough Robertson Lawyers Level 11, Central Plaza Two 66 Eagle Street BRISBANE QLD 4000
Stock exchange listings:	Drummond Gold Limited shares are quoted on the Australian Securities Exchange (ASX Code: DGO).
Website:	www.drummondgold.com.au