

## **CHAIRMAN'S ADDRESS**

**ADDRESS BY DR. DENIS CLARKE AT THE ANNUAL GENERAL**

**MEETING OF BEACONSFIELD GOLD N L**

**HELD**

**AT MORGANS AT 401, 401 COLLINS STREET, MELBOURNE**

**AT 3PM ON MONDAY 16 NOVEMBER 2009**

The past year for Beaconsfield Gold saw a dramatic turnaround in operational and financial performance that produced a profit after tax of \$9.1 million. Although the performance did not meet the higher expectations that we held a year ago, the Company has now demonstrated its credentials as a profitable, mid-tier gold producer.

I refer shareholders to the Annual Report for details on the year in review, and in this address I will comment only on a few key matters:

- Operational Performance
- Financial Performance
- Dividends
- Proposed Sale by Malaysia Smelting Corporation Berhad of its 22.1% Beaconsfield Gold Shareholding
- Some Opportunities and Challenges
- Share Price

## **Operational Performance**

The Annual Report outlines the performance of the Tasmania Mine and further detail will be provided in the address to this meeting by our Chief Executive Officer, Bill Colvin.

Record tonnages of ore were mined and milled for the production of 70,178 ounces of gold, more than double that of the previous year. The mine operated profitably and enabled the Company to report an operating cash flow of \$17 million, an improvement of \$46 million from the previous year. Grade, however, was lower than expected, a factor that flowed through to lower-than-expected gold production, higher resultant cash costs of A\$934 per ounce and lower-than-expected cash flow.

Safety is our prime consideration and the Mine uses world's best practice in the field of geotechnical management. To get the Mine back into production in 2008, the Company had no alternative but to adopt an innovative remote mining method to ensure safe mining. Although very effective from the safety point of view, the method has proven to be more costly, capital intensive and slower than was estimated when it was introduced in 2008. It is probably the most costly and challenging mining method used in any large-scale Australian gold mine. Additionally, the method partly accounted for a shortfall of about 10-15% experienced in the grade of ore mined, possibly through increased dilution or incomplete extraction of the orebody. The net result has been that the mine during the year in review underperformed by about 15% against our expectations. This underperformance, while not excessively large, was nonetheless disappointing. Corrective measures are being taken and, as Bill Colvin will explain, we plan to progressively introduce a different, more productive mining method to improve mine performance whilst retaining, or improving on, the safety benefits of the previous method.

The team at the mine, ably led by General Manager, Richard Holder, is focused on maximising productivity and efficiency to safely produce gold at the lowest possible cost. The challenge is great, but the team is innovative and persistent.

## **Financial Performance**

The turnaround in 2008/9 to an after tax profit of \$9.1 million after a loss of \$33 million in the previous year reflects mainly the improved gold production at the Tasmania Mine. Gold price was also 29% higher than in the previous year. Revenue from sale of gold and silver was \$84 million.

Cash Flow from operations of \$17.0 million enabled the Company to repay \$7.8 million of convertible notes and bank debt by 30 June 2009. In July the small remaining balance of the bank facility was repaid, leaving the Company free of bank debt for the first time in a decade. Additionally, the cash flow funded mine capital investment and exploration together totaling \$9.1 million.

Cash at 30 June 2009 was \$6.3 million.

Our issued capital increased slightly by \$3.7 million during the financial year with 25.9 million shares issued under the 1:10 rights issue. The number of shares on issue increased by 6.9%.

## **Dividend**

Directors are keen to recommence the payment of dividends at the earliest possible time. However, operations did not generate sufficient cash flow in 2008/9 for directors to prudently declare a dividend, given the requirements for debt repayments, capital investment and exploration expenditure.

Additionally, given the uncertainties associated with deep underground gold mining, the Board considers it is necessary and prudent to build up a significant cash reserve

before recommencing the payment of dividends. Hopefully, the improvements made in 2008/9, particularly the elimination of bank debt, will set a platform for the recommencement of dividends.

### **Proposed sale of MSC Shareholding**

Malaysia Smelting Corporation Berhad (“MSC”) became our cornerstone investor in early 2008. MSC shared our vision of growth for the Company and, importantly, its initial investment funded the close-out of all of the Company’s gold hedges, allowing us to participate fully in the improved gold prices. We understand the changes that global events have forced on many businesses and regret that the decision by MSC to focus on its core activities of tin production and marketing will involve it divesting its other assets, including its 22.1% stake in Beaconsfield Gold. We do not view the proposed sale as indicating a lack of confidence in Beaconsfield Gold’s future. We are working closely with MSC and its advisors on the divestment of this strategic stake.

### **Some Opportunities and Challenges**

The future is marked by both demanding challenges and significant opportunities for the Company. As Beaconsfield Gold is a single mine company, the challenges and opportunities relate mainly to the Tasmania Mine.

The principal challenges and opportunities are associated with:

- Gold Price

The future gold price is obviously outside of the control of the Company. There is a widely held perception that the gold price has increased significantly over the last

year. The gold price in US dollar terms has indeed risen recently to record levels, but the very substantial appreciation of the Australian dollar relative to the US dollar has resulted in the gold price in Australian dollars remaining almost flat in the last six months or so at about the same level as it was in November last year.

The opportunity in relation to the gold price arises from the fact that the mine's profitability (and indirectly the Company's share price) is very highly leveraged to the gold price. A small percentage increase in the Australian dollar gold price has a major impact on profitability (and indirectly the share price). For example, a 10% increase of A\$120 in the gold price would have added about \$8.5 million or 50% to last year's cash flow. Additionally, the in-ground value of the mine's resources (416,000 contained ounces in December 2008) would increase by an amount similar to the current \$45 million market capitalization of the Company.

The challenge in relation to gold price arises from the fact that the Tasmania Mine is among the deepest gold mines in Australia and has adopted a high-cost mining method to achieve the highest possible safety outcomes. As such, it is a high cost mine that is exposed to any significant decrease in the Australian dollar gold price. The Company has previously closed out all hedging and is intentionally fully exposed to the gold price. It is not practical for a company such as Beaconsfield Gold to substantially mitigate this risk by the hedging of a substantial proportion of gold production. Mitigation is best achieved by lowering costs of production and, as Bill Colvin will explain, we are making every effort to do so.

- Orebody Performance

Totally accurate estimation of the grade of those portions of the Tasmania Reef that are scheduled for mining over the next few years is simply not possible on the basis of relatively widely spaced drill holes because of the natural variability of the Reef. This is by no means unusual for gold deposits. Error margins of the order of plus or

minus 10-15% might reasonably be expected, indicating there is scope for grade to surprise on both the upside and downside. The possibility that actual grade may exceed estimated grade presents an opportunity for better-than-expected performance. Any shortfall in actual grade would decrease revenue; the challenge will be to mitigate this risk by optimising mine planning.

- **Productivity Improvements**

The greatest opportunity is to effectively implement the new remote mining method, which has the potential to significantly decrease the cost per tonne of ore mined. Mining is progressively moving to the F21 Zone, a virgin mining area suitable for use of the new method. Effective implementation will be a significant challenge for our mining team, but the team has the necessary expertise to succeed.

- **Exploration Success**

The opportunity for exploration success is great. The Tasmania Reef, both relatively close to current mine workings and more distant, is underexplored and further drilling has excellent potential to discover high-grade or “bonanza” zones that will increase the overall grade of ore produced in the future. Additionally, the Company’s gold and copper assets in western Victoria, as Bill Colvin will explain, have significant potential. Their value is not yet fully appreciated by most investors. The challenge will be to ensure exploration and development work is adequately funded so that the significant potential value can be realized as quickly as possible.

In summary, the Company has great opportunities that can, to steal a phrase from Shakespeare, “lead on to fortune”. We will continue to do everything possible to realise these opportunities no matter how great the challenges.

## **Share Price**

Our share price a year ago was approximately 10 cents. It rose to about 20 cents in April 2009 shortly after the Australian dollar gold price peaked, and it is currently around 11 cents. We are very disappointed in the share price performance and think that the current share price does not appropriately reflect either operational performance, the value of the Company's assets or the high leverage to the gold price that an investment in Beaconsfield Gold's shares provides. The market capitalization, currently around \$45 million, is low on almost any criteria relative to our peers in the gold mining industry. Given Beaconsfield Gold has an effective 100% beneficial interest in a substantial high-grade profitable gold mine, is debt free and is totally unhedged providing investors with full exposure to the gold price, it is difficult to pinpoint the reasons for the poor share price performance

In part, the decrease in share price reflected the decrease in operating margins as the Australian dollar gold price decreased from A\$1530 per ounce in February to about \$1200 today. However, it may also be attributed in part to the incorrect perception amongst investors that the Tasmania Mine has limited life. In fact, the substantial Reserve/Resource position of the Tasmania Mine provides considerable optionality value in relation to the gold price. Reserves at 31 December 2008 were 787,000 tonnes at 10.5 g/t gold or 265,000 contained ounces. Resources, inclusive of Reserves, were 979,000 tonnes at 13.2 g/t gold for 416,000 contained ounces. Diamond drilling, which is on-going, has confirmed the Tasmania Reef remains open at depth below the currently defined resource. The Reef, which has been continuous from surface to 1,300 metres depth, has a gold endowment of over 2.0 million ounces and we confidently expect the Reef to extend to far greater depth. The potential to extend current mine life is, therefore, substantial.

From an investor's viewpoint, Beaconsfield Gold shares should represent a most interesting leveraged play on the price of gold with some spice added by the prospects of corporate activity arising from the sale of the MSC shareholding.

I trust that the market will soon appropriately recognize the opportunity offered by an investment in Beaconsfield Gold.

In conclusion, I emphasise that deep gold mining is a business that fully tests the skills and tenacity of all involved. Fortunately the management, employees and contractors at the Tasmania Mine have risen to the task. I thank them all. I also acknowledge the intense efforts of our small corporate and exploration teams and of my fellow directors. Beaconsfield Gold has an excellent team to deal with the challenges and opportunities we face in the future.

I thank all shareholders for their continuing support and patience.