



Doray Minerals SPECULATIVE BUY

Current Price: **\$1.48**

Ticker: **DRM**
Sector: **Materials**

Shares on Issue (m): **74.6**
Market Cap (\$m): **110.0**
Cash (\$m): **13.0**
Enterprise Value (\$m): **97.0**

52 wk High/Low: **\$1.73** **\$0.62**
12m Av Daily Vol (m): **0.24**

Directors:

Peter Alexander Non-Executive Chairman
Allan Kelly Managing Director
Heath Hellewell Technical Director
Jay Stephenson Non-Executive Director
Leigh Junk Non-Executive Director

Substantial Shareholders:

Directors 17.0%
Ramelius Resources 8.1%
Quest Asset Partners 5.2%

Share Price Graph



Analysts:
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31 January 2012

A drop of golden sun

December Q report:

Doray Minerals (DRM) announced a Resource upgrade at Andy Well (80% DRM) during the December Q, increasing the inventory by ~90%:

- 664kt @ 15.2g/t for 326koz

Development stepped up during the Q, with in-fill drilling, engineering studies and environmental work well underway.

Impact:

Positive

Argonaut's updated valuation is \$2.00 (was \$2.03) assuming a 180ktpa operation, US\$1,100/oz long term gold, 75kozpa production, 13.8g/t head grade, 96% metallurgical recovery, A\$40m capital expenditure, A\$533/oz cash costs and a four year mine life. First gold is anticipated late 2013.

View:

Positive

DRM is fast tracking development of Andy Well and concurrently pursuing aggressive exploration with a 130,000m drilling program underway.

Resource growth potential:

- The Wilber Lode is still open in several directions, extensional drilling is planned to test further extensions
- Numerous parallel structures such as Judy, Wendy and Bernie will be tested
- The upgraded Resource has provided clear evidence of potential endowment at Andy Well that is in excess of 500koz

Development Potential:

- High grade deposit with low capex and opex anticipated
- Existing infrastructure including road, water and proximity to townsite
- Regional consolidation with Ramelius Resources – RMS owns 8.1% of DRM

Recommendation:

Spec Buy

Andy Well is the king of Meekatharra in terms of grade. The interim Resource upgrade is another step towards defining a +500koz high grade camp at Andy Well. Argonaut notes the substantial Resource potential from both within Andy Well as well as other tenements within DRM's Murchison Portfolio.

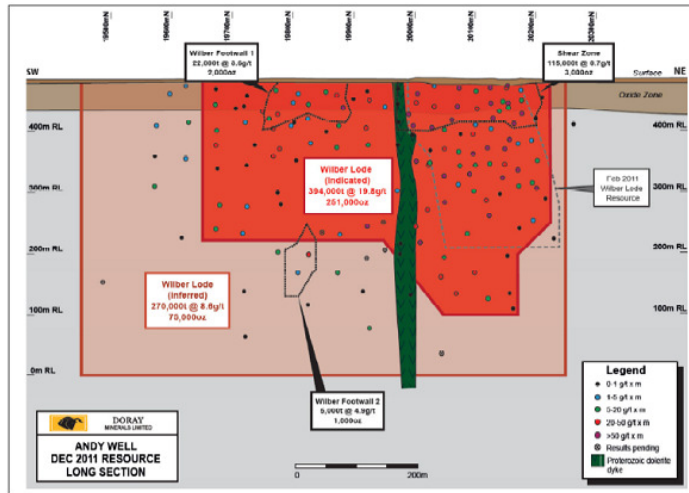


Resource Potential (DRM 80%)

Resource upgrade is another step towards defining a 500koz high grade camp...

The Resource upgrade is another step towards defining a 500koz high grade camp at Andy Well. The existing Resource of 326koz at Wilber is set to grow further with the deposit open in several directions and drilling underway.

Figure 1: Long section, Wilber Lode

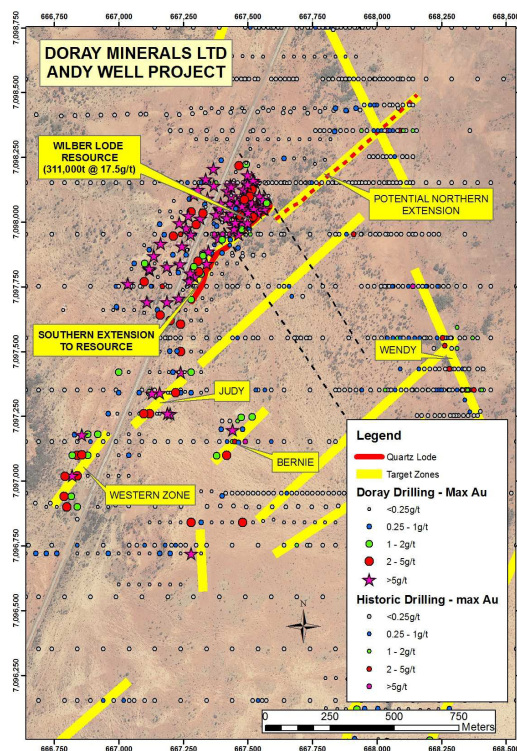


Source: DRM, modified by Argonaut

...more mineralised structures likely to be found...

Given that metal bearing fluids forced upwards invariably follow more than one pathway and generally spread out, the Wilber Lode is unlikely the only vein of this kind at Andy Well. The current drilling campaign would test a number of parallel structures (Figure. 2). Notable, several prospects have previously returned promising hits from shallow drilling (e.g. Judy - 2m @ 18.7 g/t, Bernie - 8m @ 13.9g/t).

Figure 2: Multiple parallel structures to be tested



...most of them remain to be tested and several have returned promising shallow hits

Source: DRM



Murchison portfolio

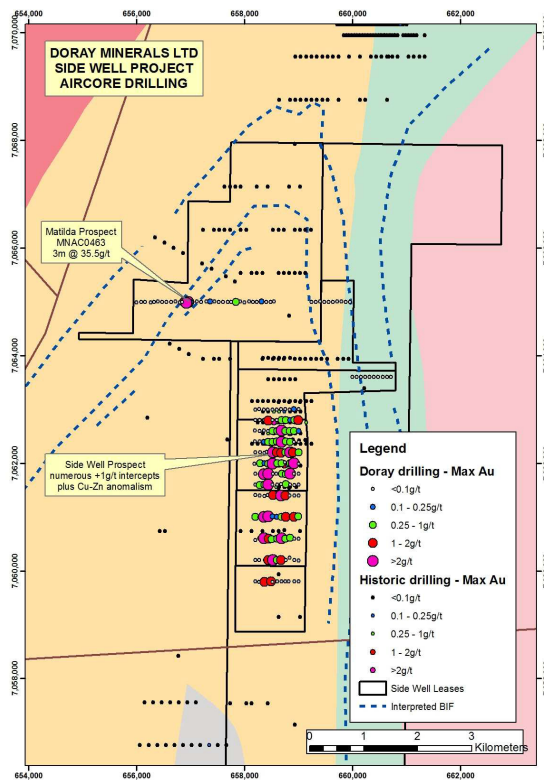
~1,700km² in the Murchison Goldfields

DRM currently holds ~1,700km² of tenement in the Murchison Goldfields.

Side Well (80%)

Aircore drilling has outlined two areas of immediate interest (Figure. 3).

Figure 3: Side Well prospects



...2 priority targets identified at Side Well...

Source: DRM

The Matilda prospect is located in a BIF/mafic unit along strike from the Meekatharra gold camp. Previous high grade hits of 3m @ 35.5g/t were never followed up, and the structure is open >1.6km along strike.

At the Side Well prospect, the company has defined a 3km mineralised structure. Best result include 5m @ 6.7g/t.

...RC drilling underway at Side Well...

Follow up RC drilling commenced in December 2011.

Abotts (80%)

Maiden drilling at Abotts was completed this Q, with better results returning 3m @ 63.4g/t and 6m @ 4.2g/t. The region has a number of historical workings but had no systematic exploration since 1997.

The combined strike of the mineralisation at Abotts is ~5.5km.

Follow up RC drilling is pencilled in for March Q 2012.



Valuation revision

Argonaut values 80% of Andy Well at \$120m...

Argonaut values 80% of Andy Well at \$120m using the project parameters presented in Table 1. A single vendor retains a 20% interest.

Table 1: Argonaut's project parameters, and valuation

Key Project Assumptions		
Andy Well Project		
Ownership	%	80
Ore milled	ktpa	180
Gold grade*	g/t Au	13.8
Gold recovery	%	96
Gold production*	koz	75
Mine Life	yrs	4
Capex	A\$m	40
Sustaining capex	A\$m pa	2
Cash Costs*	\$/oz	533
Fiscal		
Government royalty	%	2.5
Tax Rate	%	30
Discount Rate	%	7.7

*Denotes average over life of mine

...and DRM shares at \$2.00...

Summary Valuation		
Doray Minerals	A\$m	A\$ps
Andy Well	120	1.31
Additional Resources	3	0.04
Andy Well Exploration	30	0.33
Murchison Projects	10	0.11
Corporate	-8	-0.09
Unpaid Capital	16	0.17
Cash at 30 September	12	0.13
Debt	0	0.00
Total @ 11% Discount Rate	183	2.00

Source: DRM

...exploration success should see significant valuation upside

The updated valuation assumes a 312koz minable inventory and an accelerated 4 year mine life. The nameplate of the proposed plant is 160ktpa but there could be scalability in the design, and Argonaut is running an optimized 180ktpa scenario.

Exploration success extending the mineralisation at depth and / or proving up parallel structures could see a significant extension to the mine life and valuation increase. An additional year of mine life translates to ~25cps.

A total valuation of \$183m or \$2.00 per share is estimated, assuming \$150/oz for unmined Resources and a \$30m exploration upside at Andy Well.



Regional picture

Meekatharra has a number of gold projects advancing...

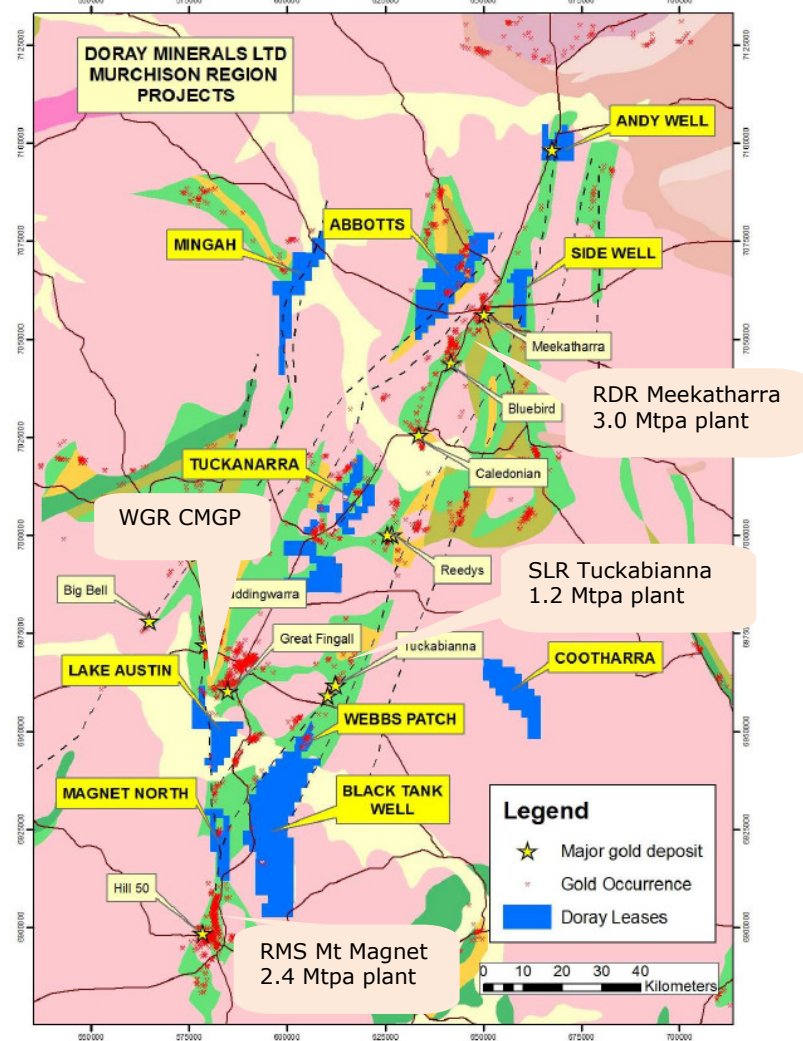
The Meekatharra region has several gold projects in development (refer to Figure 4). The region overall has an abundance of processing capacity, but a scarcity of high grade projects.

Regional consolidation is considered likely. DRM is prudently evaluating a stand alone operation at Andy Well, but potential exists for Andy Well to supply high grade ore to the under utilised plant capacity in the region, currently relying on lower grade feed.

The potential of DRM has been recognised by Ramelius Resources (RMS), who has increased its holding in DRM to 8.1%. RMS's Mt Magnet Project is located ~240km south of Andy Well.

...region has an abundance of processing facility but lack of very high grade projects...

Figure 4: DRM holding in the Meekatharra region



...DRM has a strategic tenement holding in the region...

Source: DRM

King of Meekatharra

Andy Well is one of the highest grade discoveries in Australia

Andy Well is the king of Meekatharra in terms of grade. The interim Resource upgrade is another step towards defining a +500koz high grade camp at Andy Well. Argonaut notes the substantial Resource potential from both within Andy Well (Wilber north, Judy, Bernie, Wendy) as well as other tenements within DRM's Murchison Portfolio (e.g. Side Well, Abbotts).

Given the highly encouraging results so far and the strong likelihood of ongoing exploration success, Argonaut maintains a Spec Buy recommendation.

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