Doray Minerals Ltd

Blackswan Equities

A remarkably simple gold story

Buy

Event

- We initiate coverage of Doray Minerals Ltd (DRM) with a BUY.

Analysis

- **High-grade gold discovery at Andy Well is a company maker.** DRM is focussed on exploring for high-grade gold mineralisation at its 80%-owned Andy Well project, located north of Meekatharra in Western Australia. In March 2010, the Company discovered the Wilber Lode deposit and delivered a maiden resource within ten months of the discovery hole. The Wilber Lode quartz vein hosts a remarkably high-grade resource of 172koz at 25.3g/t gold.
- **Current drilling points to likely resource growth.** There are currently two diamond rigs completing infill and extensional drilling on the Wilber Lode. DRM has now drilled a total of 22,500m along the Wilber Lode and it is clear that the existing resource envelope will grow substantially. DRM expects to release a resource update for the Wilber Lode in Q4-CY11.
- **Well funded and fast tracking development.** Given the lucrative margins on offer at Andy Well, DRM has wasted no time in commencing a number of activities as part of a mine development. The Company is aiming to complete a Bankable Feasibility Study and obtain a Mining Lease by early-CY12. DRM is well placed to progress development with $20m in cash and no debt.
- **Valuation underpinned by robust economics.** Our forecasts envisage a 120ktpa underground mine and on-site CIL plant producing circa 76koz of gold per year at a total cash cost of $323/oz, over a 4.5 year mine life. Our estimate for the development cost of Andy Well is $40m. These attractive costs are due to the project's exceptionally high gold grades and simple metallurgy.
- **Aggressive $18m exploration budget approved.** DRM has commenced an extensive 145,000m drilling campaign in FY12. The Company will drill 70,000m in the wider Andy Well project area where at least seven parallel shear zones have been identified. The remaining drilling will take place across the Company's strategic tenements in the Murchison region of Western Australia and the Central Gawler Province of South Australia.

Earnings Impact

- **Transforming high grades into robust operating margins.** Once in full production, we forecast that Andy Well is set to generate free cash flow in excess of $50m per year, based on a gold price of A$1,300/oz. This will provide the project with a payback period of less than one year.

Recommendation and Price Target

- **We initiate coverage of DRM with a Buy.**
- **Our price target is $1.50/share, based on a P/NPV of 1.0x.**

15 August 2011

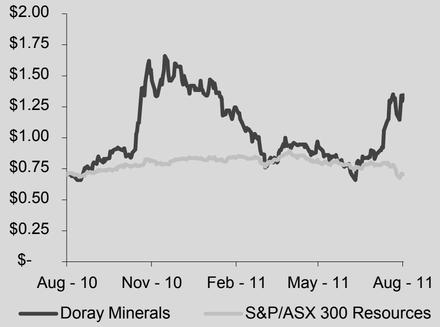
Company Information

Code	DRM
Last Price	$1.35
12 Month Price Target	$1.50
Total Shareholder Return	11.5%
Valuation	$1.51
Shares on Issue	74.6m
Market Capitalisation	$100.4m
Free Float	100%
Monthly Turnover	$2.9m

Financial Summary

	FY10a	FY11e	FY12e	FY13e
Revenue ($m)	0.1	0.0	0.0	0.0
EBITDA ($m)	(0.5)	(1.8)	(1.0)	(1.0)
D&A ($m)	0.0	0.0	0.0	0.0
EBIT ($m)	**(0.5)**	**(1.8)**	**(1.0)**	**(1.0)**
Net Interest ($m)	(0.1)	(0.5)	(0.9)	(0.9)
Tax ($m)	0.0	0.0	(0.1)	0.0
Underlying NPAT ($m)	**(0.4)**	**(1.3)**	**(0.1)**	**(0.1)**
Abnormals	0.0	0.0	0.0	0.0
OEI ($m)	0.0	0.0	0.0	0.0
Reported NPAT ($m)	**(0.4)**	**(1.3)**	**(0.1)**	**(0.1)**
EPS (¢)	n/a	n/a	n/a	n/a
EPS growth (%)	n/a	n/a	n/a	n/a
CFPS (¢)	n/a	n/a	n/a	n/a
DPS (¢)	0.0	0.0	0.0	0.0
Cash ($m)	7.0	20.0	20.9	4.3
Net debt ($m)	(7.0)	(20.0)	(15.9)	20.7
Net debt / equity (%)	(86.8)	(73.0)	(33.7)	43.8
Interest cover (x)	n/a	n/a	n/a	1.1
ROE (%)	n/a	n/a	n/a	n/a
ROA (%)	n/a	n/a	n/a	n/a
NTA per share (¢)	n/a	n/a	n/a	n/a
PE (x)	**n/a**	**n/a**	**n/a**	**n/a**
EV/EBITDA (x)	**n/a**	**n/a**	**n/a**	**n/a**

Share Price Performance



Analyst Details

Mark Savich, CFA
+61 8 9346 0320
msavich@blackswanequities.com.au

All currency is quoted in AUD unless otherwise stated

Blackswan Equities

Investment Thesis and Recommendation

Component	A$/share
Andy Well	1.14
Exploration	0.22
Corporate	(0.11)
Cash	0.22
Unpaid Capital	0.02
Equity Valuation	**1.51**

- **Price Target: $1.50/share / Recommendation: BUY**

  We derive an equity valuation for DRM of $135m or $1.51/share. Our price target is $1.50/share based on a P/NPV of 1.0x. As the Andy Well gold project is de-risked (via resource definition, a Mining Lease and feasibility studies) it has the potential to trade on a much higher P/NPV ratio.

  With the stock trading at $1.35/share we are targeting a 12 month total return of 11.5% Accordingly, we initiate coverage of DRM with a BUY.

- **Exciting high-grade discovery still has a lot more upside**

  Since making the high-grade gold discovery of the Wilber Lode quartz vein, DRM has rapidly advanced towards development. DRM reported a maiden resource of 172koz at 25.3g/t gold within ten months of the discovery hole. The Company continues to aggressively drill out the Wilber Lode and is yet to close off mineralisation to the south and at depth.

  Based on recent drilling results we anticipate a substantial upgrade of the existing resource base by the end of 2011. Defining the strike extent of the Wilber Lode quartz vein to the south is critical in order to determine the optimal throughput rate for a future CIL plant at Andy Well.

  Within the Andy Well project area there is the potential for multiple deposits on at least seven parallel interpreted shear zones. DRM has commenced an extensive drilling campaign involving approximately 70,000m at Andy Well in FY12.

  Aside from the Andy Well project, we believe the 80%-owned Side Well gold project looks promising. DRM recently completed a single line of aircore drill holes to test a structural target in interpreted Banded Iron Formation on the western side of the Meekatharra Greenstone Belt. The best intersections included 4m at 9.72g/t gold and 4m at 9.65g/t gold.

  DRM has approximately $20m in cash and is currently undertaking an aggressive 145,000m drilling campaign across its entire project portfolio.

- **Valuation underpinned by robust development potential**

  The Wilber Lode deposit has a number of very attractive characteristics including high gold grades, near surface mineralisation, simple metallurgy and relatively low country risk. Accordingly, we believe there is a high probability of a resource being swiftly converted into a low cost gold mine.

  DRM has wasted no time in commencing a number of activities as part of a proposed mine development. The critical path item before financing and construction can occur is obtaining a Native Title Agreement for the Mining Lease application.

  The Wilber Lode quartz vein lends itself to conventional underground mining methods, most likely long hole open stoping. Mine development will be constructed within the basalt and porphyry footwall rocks, which appear competent for underground mining. Furthermore, metallurgical test work has returned exceptional gold recoveries from gravity and cyanide leach test work, along with low reagent consumption and moderate milling characteristics.

  We forecast that a proposed mine development will have a capital cost of $40m and total cash cost of $323/oz of gold.

  We forecast DRM to ramp up to full production of 76koz of gold per year by late CY13. Our forecasts call for Andy Well to generate in excess of $50m in free cash flow per year. This provides the project with a payback period of one year. Our forecast nominal cumulative free cash flow over the project's 4.5 year mine life is $191m, based on a mining inventory of 320koz of gold.

Andy Well Gold Project – Background

- **DRM confirms historical high-grade drill hits**

  The Andy Well project is 80% owned by DRM, with the remaining 20% owned by a private vendor. The project is located 45km north of Meekatharra via the Great Northern Highway. It is also 65km from the 3Mtpa Bluebird mill (recently acquired by Reed Resources).

  There is no outcropping mineralisation at the surface of Andy Well which meant that gold was never detected by small-scale prospectors in the past.

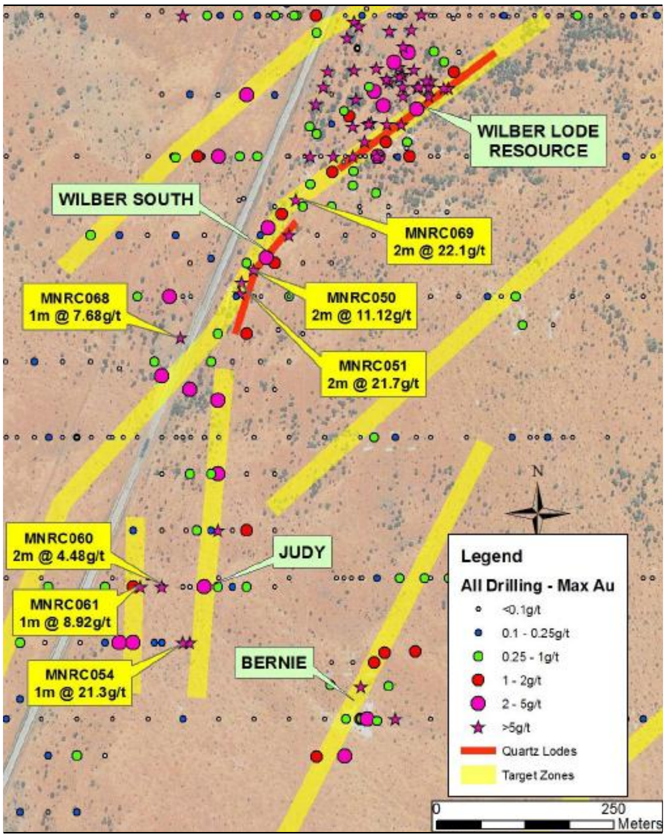
  Previous companies identified a series of structures which hosted gold mineralisation. A number of drill holes intersected high-grade gold mineralisation in the late 1990's. However, WMC Resources Ltd (WMC) sold the project in 1997 and there had been no systematic exploration until DRM acquired it in November 2009.

  DRM's management team had some knowledge of Andy Well's prospectivity from when they were employed at WMC. Detailed aeromagnetic surveys were used identify the prospective structures and in March 2010 an initial 2,000m drilling program (ten holes) successfully confirmed known mineralisation within the Wilber Lode quartz vein.

- **First drill hole hits exceptional gold grades**

  The first hole of the initial ten hole program at Andy Well intersected 9m at 43g/t gold and represented a promising blind discovery (the Wilber Lode) adjacent to the major highway. DRM has now completed 22,500m of drilling along the Wilber Lode, which has defined a quartz vein containing very high-grade gold mineralisation over a +400m strike length.

Figure 1. Plan View of Andy Well Showing Drill Holes



Source: Doray Minerals

Beyond the Wilber Lode, there is the potential for multiple deposits on at least seven parallel interpreted shear zones, such as the Judy and Bernie zones. DRM is planning an extensive drilling campaign over the second half of CY11.

- **Simple geology**

  Gold mineralisation in the Wilber Lode is hosted within an extremely consistent sulphidised quartz vein that averages between 2 to 3m thick and contains abundant visible gold. The vein is north-east trending and is hosted within a sheared basalt. It lies under approximately 5m of surficial cover.

  The initial interpretation is that the mineralised quartz vein varies from sub-vertical to north-westerly dipping and plunges to the north-east. However, DRM is still establishing a detailed understanding of the deposit.

  While the gold grades are exceptionally high, they are surprisingly consistent. Fine cross-cutting fractures appear to control the gold mineralisation within the quartz vein.

- **Discovery hole to maiden resource within ten months**

  DRM reported an Indicated and Inferred Resource for the Wilber Lode within ten months of the discovery hole. The resource includes both the high-grade Wilber Lode quartz vein and the shear hosted mineralisation within the oxide zone.

Table 1. Mineral Resource Estimate (100% Project Basis)

	Tonnes	Gold Grade (g/t)	Gold (oz)
Quartz Vein			
Indicated	130,000	24.1	101,000
Inferred	81,000	27.4	71,000
Total	**211,000**	**25.3**	**172,000**
Shear Zone			
Indicated	100,000	0.8	2,000
Quartz & Shear Zone			
Indicated	230,000	14.0	103,000
Inferred	81,000	27.4	71,000
Total	**311,000**	**17.5**	**174,000**

Source: Doray Minerals

The resource is based on 25 RC and 14 diamond holes drilled by DRM, as well as 3 RC and 1 diamond hole previously drilled by WMC. Drill spacing was a nominal 20m by 25m above the 300m RL, and a nominal 50m by 100m below. A block model for the Wilber Lode was based on a block size of 2m by 20m by 20m. Bulk density values were assigned to the model based on ore zone and weathering domains, with 2.75 applied to the fresh rock quartz vein.

A top-cut of 75g/t was used. A geological cut-off was applied rather than a bottom-cut, i.e. the whole quartz vein was included in the resource with a 2m block limit.

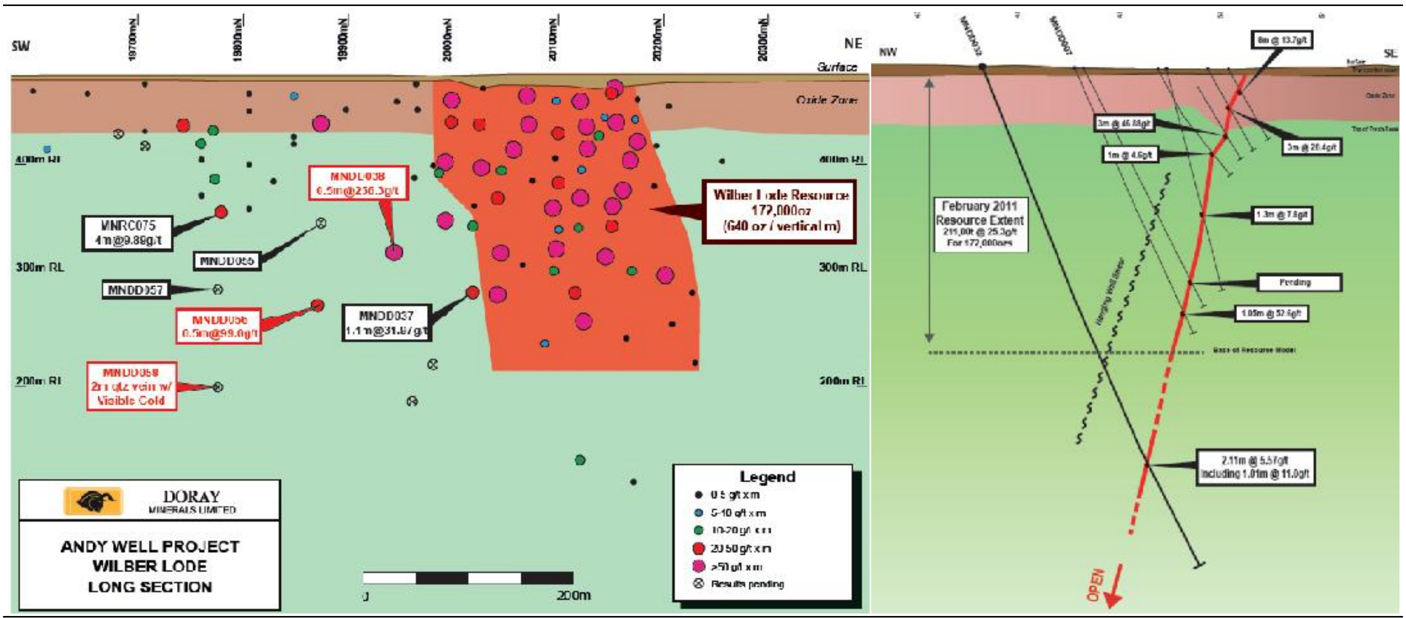
- **Drilling continues to significantly extend the quartz vein**

  Most importantly, drilling continues to extend mineralisation well beyond the existing resource envelope (the red area in the long section below):

  - The resource is defined to a depth of 270m, however Hole MNDD032 intersected 2.1m at 5.57g/t gold at 360m below surface. Mineralisation remains open at depth.
  - The resource is based on a strike extent of 200m, however Hole MNDD058 intersected 2m of quartz veining with visible gold and has extended the Wilber Lode to more than 400m of strike. Mineralisation remains open along strike to the south.

  Step-out drilling to the south is clearly demonstrating that the Wilber Lode resource will grow substantially. Accordingly, we have built this upside into our modelling, which is based on a quartz vein mining reserve of 500kt at 20g/t gold.

Figure 2. Long Section and Cross Section of the Wilber Lode



Source: Doray Minerals

- **Simple metallurgy**

  Metallurgical test work has been completed on the oxide, transitional and fresh zones and across a range of grades. Overall, based on the expected ore types and feed grades, the test work results were extremely positive and support the case for a low processing cost at Andy Well.

  Test work indicated excellent recoveries with an average gravity recovery in excess of 85% for fresh and transitional quartz vein material and an average total (gravity plus cyanide leach) recovery in excess of 97%. Samples had a grind size of 80% passing 125µm, however there is the potential to employ coarser grind sizes given the high gravity recovery.

  Most leachable gold was dissolved within only two hours, which indicates a rapid leaching time. The Willber Lode will require low average cyanide consumption of 0.49kg/t and low average lime consumption of 0.53kg/t.

  Comminution tests suggest moderate work indices for both bond rod mill work index of 14.9 kWhr/t and bond ball mill of 16.7kWhr/t. Bond abrasion index will be relatively high at 0.42, due to the predominately quartz vein composition of the ore.

  Fast leach characteristics will result in low reagent consumption and moderate milling characteristics will result in low power usage.

- **Analogue provides hope for a much larger deposit**

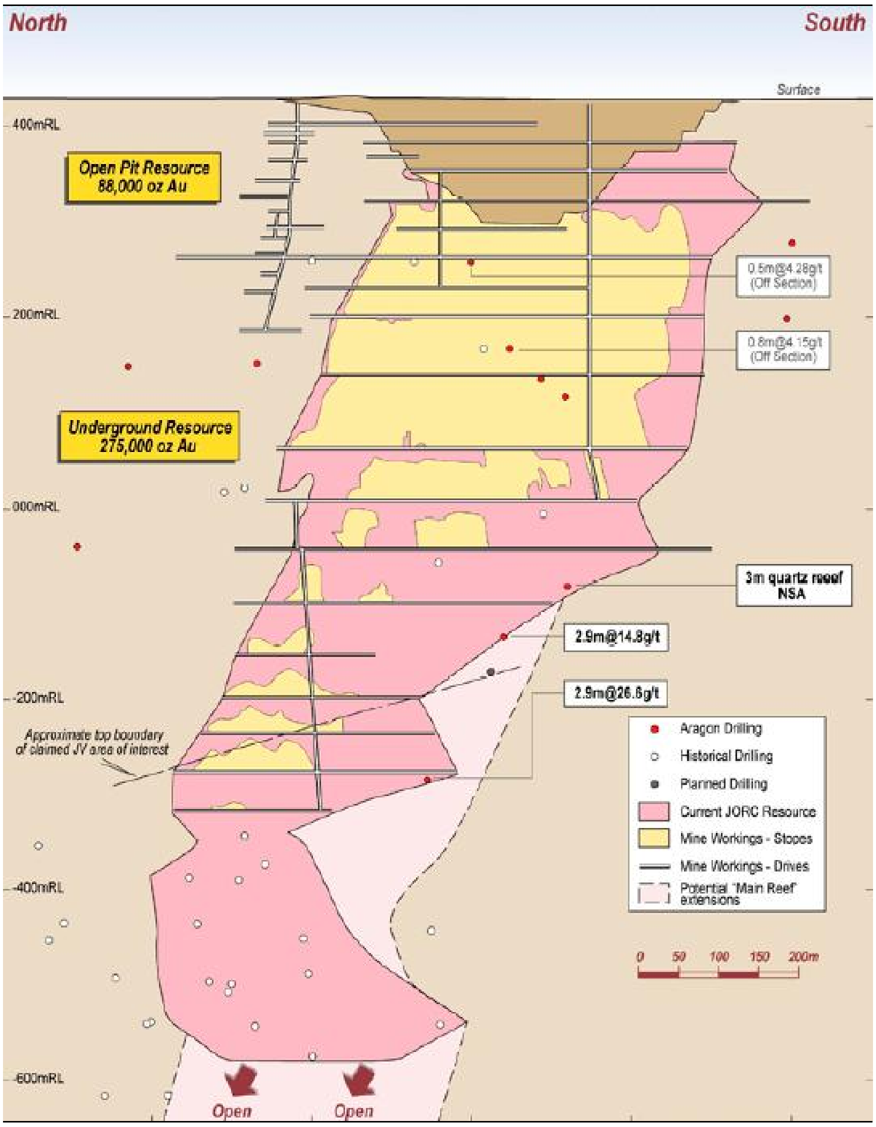
The best comparison for the Wilber Lode is the Great Fingall deposit, located south of Meekatharra. This is part of the Day Dawn Mining Centre which contains an extensive high-grade gold system where numerous gold bearing quartz veins have developed within the Great Fingall Dolerite host.

The Day Dawn Mining Centre has a long history of high grade production from underground mining. The Great Fingall mine has produced 1.9Mt at 19.5g/t gold for 1.2Moz and the Golden Crown mine has produced 648kt at 13.8g/t gold for 288koz.

The Great Fingall resource has a strike length of 500m and extends over 1km deep. The Great Fingall mine was one of the most prolific single mine gold producers in the Murchison region and averaged 1,500/oz per metrical metre.

The Wilber Lode resource currently has 640/oz per metrical metre, however we expect this to increase as the resource is extended along strike.

Figure 3. Long Section of the Great Fingall Deposit



Source: Aragon Resources

Andy Well Gold Project – Conceptual Development Plan

- **Mining**

  DRM is currently undertaking feasibility studies based on a conceptual underground mine development. First production is targeted for Q3-CY13, thus providing a two year timeframe for mine development and construction.

  Our modelling incorporates a 120ktpa underground mine commencing about 50m below surface where the deposit starts to move into primary mineralisation. After factoring in realistic resource growth along strike and approximately 10% mining dilution, our modelling is based on a mining reserve of 500kt of ore at 20g/t gold.

  The mineralised quartz vein averages 2 to 3m thick and is steeply dipping at 75°, lending itself to long hole open stoping.

  The conceptual mine plan involves a 5m by 5m decline to be constructed within the basalt and porphyry footwall rocks.

  Given that mineralisation commences in the oxide zone only 5m below surface, an open-pit startup is possible and provides upside that is not built into our current forecasts. The trade-off between starting with an open-pit or immediately developing an underground mine is being assessed by DRM.

- **Processing**

  Our modelling incorporates a conventional carbon-in-leach (CIL) plant with a throughput rate of 120kpa of ore, producing approximately 76koz of gold per year. After factoring in mining dilution, our modelling is based on an average LOM head grade of 20g/t gold. We would expect positive grade reconciliation at the mill.

  The resource occurs solely in the quartz vein and predominantly in fresh rock. Preliminary metallurgical test work has been completed and has indicated that average total gold recoveries should exceed 97%.

  Test work was carried out on a grind size of 125μm, however the optimal size is likely to be coarser. Further test work has shown that DRM can increase it to 250μm and only lose <3% recovery.

  At shallow depths a small portion of the resource occurs in the oxide zone. Our current forecasts do not include the open-pit mining or processing of this material.

- **Infrastructure**

  Power – While the Goldfields Gas Pipeline is close to the Andy Well tenements and the Meekatharra town is serviced with electricity, there is insufficient power to service a mine at Andy Well. DRM intends to use on-site diesel generated power.

  Water – The climate in Western Australia's Murchison district is warm and dry with an annual rainfall of 250mm, however this amount varies significantly from year to year. The area is subject to rainfall at the tail end of summer cyclones. It is very likely that there is suitable groundwater available to meet the requirements of a future mine.

  Mine Access – The topography is generally flat and the project area is serviced by the Great Northern Highway which runs through the Andy Well tenements (and actually straight over the deposit).

Andy Well Gold Project – Development Timeline

- **Fast-tracking development due to compelling economics**

  Andy Well has the potential to provide near-term gold production at very low capital and operating costs.

  Given the obvious high margins that will be achieved at Andy Well, DRM has wasted no time in commencing a number of activities as part of the proposed development.

- **Detailed studies and development activities already underway:**
  - Drilling is ongoing in order to define the strike extent of the deposit and to allow the optimal plant size to be determined.
  - Drilling for advanced geotechnical assessments is underway.
  - Initial mining engineering studies of both open-pit and underground mining options are underway. Trade-off analysis will be undertaken in order to determine whether to commence development with a shallow open-pit or go immediately underground.
  - Further metallurgical test work is being carried out in order to determine the maximum potential grind sizes and possible process flow sheets.
  - The critical path item before construction can commence is obtaining a Native Title Agreement for the Mining Lease application. The Mining Lease was pegged in December 2010 and no Mining Act objections were raised in response to the Mining Lease Application (M51/870).
  - DRM has commenced environmental assessments including subterranean fauna, waste rock characterisation studies, hydrological test work, surface vegetation and flora surveys.

Table 2. Development Milestones – Blackswan Forecasts

Activity	Timing
Resource update	Q4-CY11
Native Title Agreement & Mining Lease	Q1-CY12
Bankable Feasibility Study	Q2-CY12
Debt & equity financing	Q2-CY12
Commence construction	Q2-CY12
Commence underground mine development	Q3-CY12
Commission plant	Q2-CY13
First ore stoping	Q2-CY13
First gold pour	Q3-CY13

Source: Blackswan Equities

Andy Well Gold Project – Preliminary Financial Modelling

- **Development assumptions**

  Based on the conceptual development plan outlined above, we have completed a scoping-level financial model for the Andy Well project.

  Our scoping-level assumptions incorporated into our DCF valuation for Andy Well are preliminary in nature. Prior to the completion of detailed feasibility studies, the below assumptions are at risk of material change.

Table 3. Underground Development Parameters – Blackswan Forecasts

Variable	Assumption
Mining reserve tonnage	500kt
First production date	Sept Q 2013
Mining and milling rate (CIL plant capacity)	120ktpa
Milled gold grade	20g/t
Gold recovery	98%
Annual gold production	76koz
Mine life	4.5 years
Capital cost	$40m
Total cash cost (incl. development capex and royalties)	$323/oz

Source: Blackswan Equities

- **Capital costs**

  While the optimal design and size of the processing plant and underground mine will not be known until the completion of more drilling and feasibility studies, our scoping-level estimate for the total evaluation and development cost of Andy Well is $40m.

  Of the total cost, approximately half relates to the construction of an underground mine, 120ktpa carbon-in-leach (CIL) processing plant and mine infrastructure. The other half relates to a new 90 man camp in the town of Meekatharra and shifting the highway (given we believe it is likely that the deposit continues to extend south under the road).

  Our modelling also incorporates development capex of US$12m per year, based on 2km of decline development per year at a cost of $6,000/m.

- **Operating costs**

  Our scoping-level operating cost assumptions are derived from information we have obtained from numerous similar underground gold operations in Western Australia, including Ramelius' Wattle Dam and Silver Lake's Daisy Milano.

  We estimate that Andy Well's average LOM total cash cost will be $323/oz, which includes the development capex of US$12m per year and royalties.

Table 4. Forecast Operating Costs – Blackswan Forecasts

Cost Item	Cost Basis	Cash Cost ($/oz)
Development costs	$6,000/m developed	156
Mining costs	$35/t of ore mined	56
Processing costs	$45/t of ore milled	71
Site admin costs	$5/t of ore milled	8
Site cash cost		**291**
WA State royalty	2.5% of net revenue	32
Total cash cost		**323**

Source: Blackswan Equities

- **Project Financing and Hedging**

While the Company is yet to consider financing arrangements, our modelling for the Andy Well project's evaluation and development costs incorporates 50% debt financing and 50% equity (the funding mix does not materially impact our DCF valuation).

It is likely that project debt providers will require a modest amount of gold price hedging.

On our forecasts the payback period for the project's capex is one year (undiscounted).

- **Tax and Royalties**

Western Australian State Government royalty for gold is 2.5% of revenue. The Australian corporate tax rate of 30% will be applied to taxable income.

The vendor from whom DRM purchased 80% of the Andy Well project retains a potential royalty. If a decision to mine is made at Andy Well the vendor can either:

a) participate and contribute its 20% share of expenditures (for our modelling, we assume that the vendor retains a 20% interest in the project);
b) dilute its 20% interest;
c) convert its 20% interest into a 1% net smelter return (NSR) royalty.

Andy Well is also subject to a royalty payable to BHP Billiton (formerly WMC Resources Ltd) on the following terms:

a) $250k upon the definition of a 250koz gold resource;
b) $250k upon the definition of a 500koz gold resource;
c) $500k upon the definition of a 250koz upon the commencement of commercial production;
d) $500k on each anniversary of the commencement of commercial production, up to a maximum of $1.5m;
e) the maximum amount payable for the royalty is $2.5m (for our modelling, we assume that DRM buys out this maximum amount prior to production).

Andy Well Gold Project – Valuation and Earnings Forecasts

- **Production and cost estimates from our modelling**

On our scoping-level estimates, a 120ktpa underground mine and on-site CIL plant will see Andy Well produce an average of 76koz of gold over a 4.5 year mine life (80% attributable to DRM). This excludes the oxide zone which is likely to be amenable to open-pit mining and contains approximately 9koz.

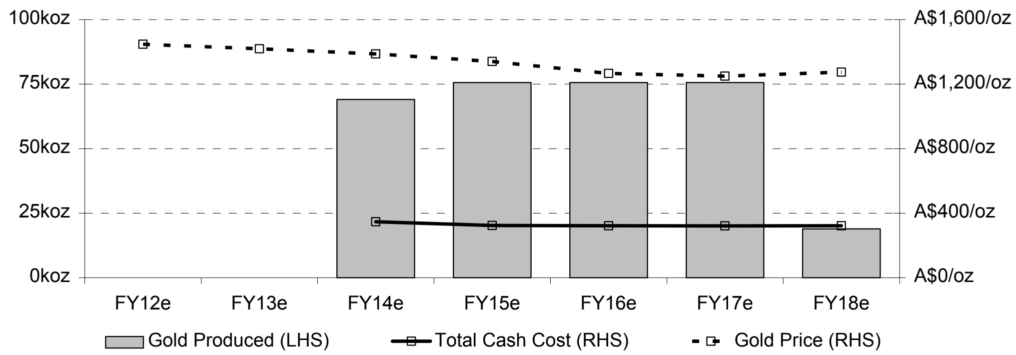
Our scoping-level estimate for the evaluation and development cost of Andy Well is $40m. Due to its exceptionally high gold grades and simple metallurgy, the project will have a very low capital intensity.

Our forecast total cash cost is $323/oz, which includes development capex and royalties. This places Andy Well in the lowest quartile of the industry cash cost curve.

We derive an NPV for the Andy Well of $127m, which equates to $102m for DRM's 80% interest.

Our gold price and USD/AUD exchange rate assumptions are below.

Figure 4. Andy Well Production Profile – Blackswan Forecasts



Andy Well Production Summary (100%)							
	FY12e	**FY13e**	**FY14e**	**FY15e**	**FY16e**	**FY17e**	**FY18e**
Gold Produced (koz)	0	0	69	76	76	76	19
Total Cash Cost (A$/oz)	0	0	346	324	322	322	322
Gold Price (A$/oz)	1,448	1,419	1,387	1,340	1,266	1,249	1,274
Cash Margin (A$/oz)	**1,448**	**1,419**	**1,041**	**1,016**	**944**	**928**	**952**

Source: Blackswan Equities

- **Earnings and cash flow forecasts**

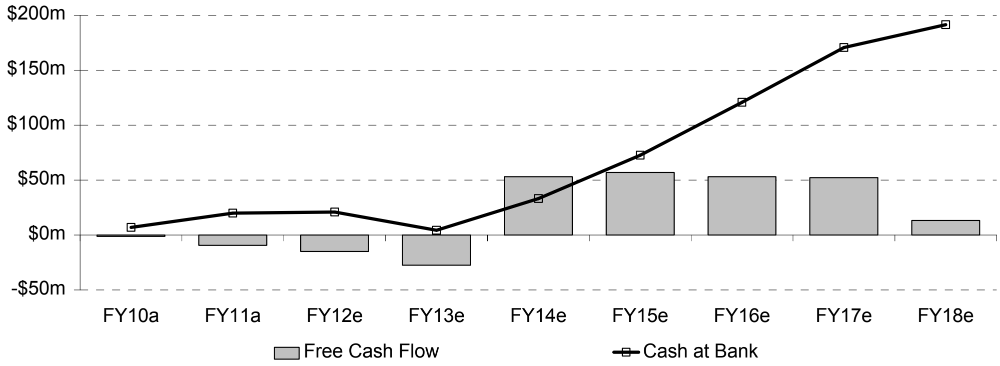
DRM will burn through the majority of its current cash holding of $20m by completing its planned 145,000m drilling program in FY12.

We expect DRM to fund Andy Well's $40m capex requirement in early CY12, via 50:50 debt and equity. We believe it is likely that DRM could raise more funds to advance its aggressive exploration campaign in WA.

Our gold price forecasts are based on short-term consensus forecasts which revert to a real long-term assumption of US$950/oz in December 2013. Given Andy Well's exceptional grade, the project will generate robust cash margins well below these price assumptions.

We forecast DRM to ramp up to full production by late CY13. Our forecasts call for Andy Well to generate in excess of $50m in free cash flow per year. This provides the project with a payback period of one year (undiscounted). Our forecast nominal cumulative free cash flow over the project's 4.5 year mine life is $191m.

Figure 5. Andy Well Free Cash Flow Generation – Blackswan Forecasts



Source: Blackswan Equities

- **Upside cases to our valuation:**
  - **Higher gold price:** The spot AUD gold price is currently A$1,750/oz, which is considerably higher than our average forecast of A$1,300/oz over Andy Well's forecasted 4.5 year mine life.
  - **High gold head-grade:** The conservative top-cut of 75g/t applied in the resource estimate is likely to result in positive grade reconciliation at the mill. While the resource grade for the quartz vein is 25.3g/t gold, we have modelled an average head-grade of 20g/t gold to factor in potential mining dilution.
  - **Resource growth:** Drilling has extended mineralisation well beyond the existing resource envelope. The Wilber Lode remains open at depth and along strike to the south. Our mining reserve assumption of 500kt of ore already factors in realistic potential along strike. However, depth extensions are likely to add mine life.

Table 5. Valuation Sensitivities

Flat Gold Price (A$/oz)	**900**	**1,100**	**1,300**	**1,500**	**1,700**	**1,900**
Andy Well NPV for 80% ($/share)	0.57	1.85	1.13	1.41	1.69	1.96
DRM Valuation ($/share)	0.94	1.22	1.50	1.78	2.06	2.34

Average Gold Grade (g/t)	**15.0**	**17.5**	**20.0**	**22.5**	**25.0**	**27.5**
Andy Well NPV for 80% ($/share)	0.69	0.92	1.14	1.37	1.60	1.83
DRM Valuation ($/share)	1.06	1.29	1.52	1.74	1.97	2.20

Mining Reserve (kt)	**200**	**300**	**400**	**500**	**600**	**700**
Andy Well NPV for 80% ($/share)	0.39	0.66	0.91	1.14	1.37	1.59
DRM Valuation ($/share)	0.77	1.03	1.28	1.52	1.74	1.96

Source: Blackswan Equities

Andy Well Gold Project – Summary of Risks

Evaluation of the Andy Well project is still in its early stages with a preliminary feasibility studies currently underway. Our valuation acknowledges a high degree of risk is inherent in evaluating any exploration project at this stage of its life (prior to the completion of detailed feasibility studies).

A significant amount of technical information is yet to be available and until such time as the requisite work is carried out we will not have more clarity around the risks. The potential quantitative impact of these risks is lessened due to the deposit's high gold grades.

Table 6. Key Risks

Risk Area	Description
Legal risk	DRM must obtain the necessary Native Title, Aboriginal Heritage and other government regulatory approvals. There are two Native Title claimant groups which DRM must secure Land Access Agreements with in respect to the Andy Well tenement area. We believe this is the greatest risk to potentially delaying the commencement of development. Native Title negotiations are ongoing. On the east side of the Great Northern Highway is the Yugunga Nya claimant group and on the west side is the Wajarri Yamatji group. Sandfire Resources recently signed a Land Access Agreement with the Yugunga Nya group in respect to its mine development at the DeGrussa project. Sandfire Resources was also successful in obtaining its Mining Lease nine months after submitting its application.
Resource definition risk	The principal assumption we make in valuing DRM is the delineation of a resource base that supports a 4.5 year mine life at a milling rate of 120ktpa. Our DCF valuation is based on a mining reserve of 500kt of ore, which assumes approximately 250% resource growth and 90% resource to reserve conversion.
Development risk	Given the nature of the Wilber deposit, we believe developing and operating efficient mining and milling facilities will be a relatively low risk. However, until metallurgical test work and geotechnical studies are finalised there remains a risk.
Modelling risk	All the estimates and assumptions incorporated into our DCF valuation for DRM are preliminary in nature. Prior to the completion of detailed feasibility studies, our assumptions are at risk of material change.

Source: Blackswan Equities

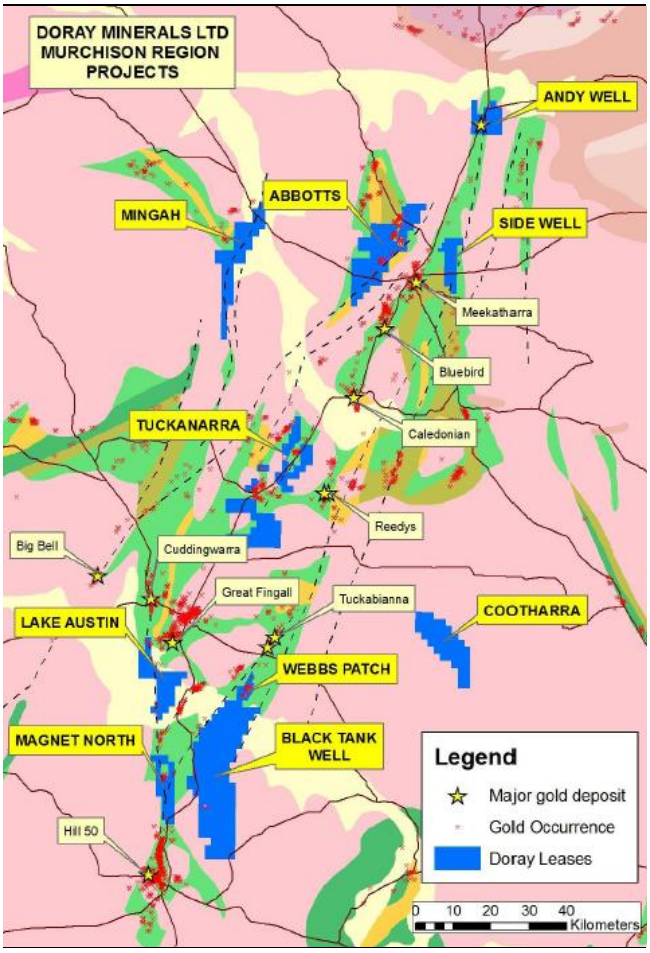
Doray Minerals Ltd – Company Background

Doray Minerals Ltd floated on the ASX in February 2010. Its initial portfolio comprised on gold exploration ground in the Murchison Region of Western Australia and the Central Gawler Province of South Australia.

The Company currently holds a strategic land position of 1,500km^2 in the Murchison region. Its tenements cover major mineralised structures along strike from world-class gold deposits.

Aside from the Andy Well project, we believe the 80%-owned Side Well gold project looks promising. DRM recently completed a single line of aircore drill holes to test a structural target in interpreted Banded Iron Formation on the western side of the Meekatharra Greenstone Belt. The best intersections included 4m at 9.72g/t gold and 4m at 9.65g/t gold.

Figure 6. Map of DRM's Projects in the Murchison Region



Source: Doray Minerals

- **Capital Structure**

The Company floated on 47.9m shares and has retained a tight capital structure with 74.6m shares currently on issue, or 89.1m on a fully diluted basis.

At 30 June 2011, the Company has a cash balance of $20m. The majority of this was raised in an $18m placement completed in December 2010 at $1.30/share. DRM currently has no debt.

Table 7. Substantial Shareholders

Shareholder	Ownership (Inc. Escrowed Shares)
Allan Kelly	12.1%
Heath Hellewell	5.4%
Quest Asset Partners	4.3%

Source: Blackswan Equities, Doray Minerals

Table 8. Board of Directors

Name	Position	Profile
Brett Fraser	Non-Executive Chairman	Mr Fraser has in excess of 25 years experience in the finance and securities industry. He has experience across the resource, finance, media, brewing, wine and health sectors. He is currently the Chairman of Drake Resources Ltd, Aura Energy Ltd and Blina Diamonds NL.
Allan Kelly	Managing Director	Mr Kelly has over 16 years experience in mineral exploration geology, geochemistry and project management throughout Australia and the Americas and previously held senior exploration positions with WMC and Avoca Resources Ltd from its inception in 2002.
Heath Hellewell	Technical Director	Mr Hellewell has over 16 years experience in mineral exploration geology and project management, including positions with De Beers and Resolute Ltd before joining Independence Group NL in 2000. He was part of the team at Independence which identified the Tropicana area, leading to the discovery of the Tropicana gold deposit.
Jay Stephenson	Non-Executive Director	Mr Stephenson has been involved in business development for over 20 years including approximately 16 years as Director, CFO and Company Secretary for various companies. He is currently a Non-Executive Director of Drake Resources Ltd, Strategic Minerals Corporation NL and Aura Energy Ltd.
Peter Alexander	Non-Executive Director	Mr Alexander is a geologist by profession and has over 30 years experience in mineral exploration and mining. He was Managing Director and CEO of Dominion Mining Ltd from 1997 until his retirement in January 2008, at which time he continued as a Non-Executive Director until the takeover by Kingsgate Consolidated in 2010. He is currently a Non-Executive Director of Kingsgate.
Leigh Junk	Non-Executive Director	Mr Junk is a mining engineer with 19 years experience in mine planning involving feasibility studies, project evaluation, production scheduling and mine design with several mining companies throughout Western Australia.

Source: Blackswan Equities, Doray Minerals

Doray Minerals Ltd (DRM)

Shares on Issue	**74.6m**
Market Capitalisation	**$100.4m**
Year End	**30-June**

Recommendation: BUY

Date	**15 August 2011**
Share Price	**$1.35/share**
12 Month Target Price	**$1.50/share**

Equity Valuation, Price Target, 12 Month Return

Equity Valuation	**A$m**	**A$/share**
Andy Well	101.8	1.14
Exploration	20.0	0.22
Corporate	(9.5)	(0.11)
Cash	20.0	0.22
Debt	0.0	0.00
Unpaid Capital	2.2	0.02
NPV	**$134.5m**	**$1.51/sh**
Real Discount Rate		*8.00%*

12 Month Price Target	
NPV (P/NPV: 1.0x)	**$1.50/sh**

12 Month Return	
Capital Return	11.5%
Dividend Yield	0.0%
12 Month Total Return	**11.5%**

Income Statement

Full Year Summary (A$m)	**FY10a**	**FY11e**	**FY12e**	**FY13e**
Sales Revenue	0.1	0.0	0.0	0.0
EBITDA	**(0.5)**	**(1.8)**	**(1.0)**	**(1.0)**
Depreciation & Amortisation	0.0	0.0	0.0	0.0
EBIT	**(0.5)**	**(1.8)**	**(1.0)**	**(1.0)**
Net Interest Expense	(0.1)	(0.5)	(0.9)	(0.9)
Profit Before Tax	**(0.4)**	**(1.3)**	**(0.1)**	**(0.1)**
Income Tax Expense	0.0	0.0	0.0	0.0
Underlying NPAT	**(0.4)**	**(1.3)**	**(0.1)**	**(0.1)**
Abnormal Items	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Reported NPAT	**(0.4)**	**(1.3)**	**(0.1)**	**(0.1)**
Normalised Earnings	**(0.4)**	**(1.3)**	**(0.1)**	**(0.1)**

Production & Commodity Prices (Nominal Terms)

Key Assumptions	**FY14e**	**FY15e**	**FY16e**	**FY17e**
Gold Price (US$/oz)	1276	1179	1077	1062
USD/AUD Rate (US$)	0.92	0.88	0.85	0.85
Gold Price (A$/oz)	1387	1340	1266	1249

Andy Well Production Summary (100%)	**FY14e**	**FY15e**	**FY16e**	**FY17e**
Gold Produced (koz)	69.1	75.6	75.6	75.6
Total Cash Cost (A$/oz)	346	324	322	322

Cash Flow Statement

Full Year Summary (A$m)	**FY10a**	**FY11e**	**FY12e**	**FY13e**
EBITDA	(0.5)	(1.8)	(1.0)	(1.0)
Inc/(Dec) in Working Capital	0.1	(4.2)	(9.9)	(9.9)
Other Items	0.0	0.0	0.0	0.0
Operating Cash Flow	**(0.4)**	**(6.8)**	**(6.0)**	**(6.0)**
Capital Expenditure	(0.9)	2.6	15.0	27.5
Other	0.0	0.0	0.0	0.0
Free Cash Flow	**(1.2)**	**(9.4)**	**(21.0)**	**(33.5)**
Equity Raised	8.2	20.7	20.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Inc/(Dec) in Borrowings	0.0	0.0	5.0	20.0
Financing Cash Flow	**8.2**	**20.7**	**25.0**	**20.0**
Effects of Exchange Rates	0.0	0.0	0.0	0.0
Movement in Net Cash	**7.0**	**11.3**	**4.0**	**(13.5)**
Cash at End Period	**7.0**	**20.0**	**20.9**	**4.3**
Net Cash/(Debt)	**7.0**	**20.0**	**15.9**	**(20.7)**

Financial Ratios

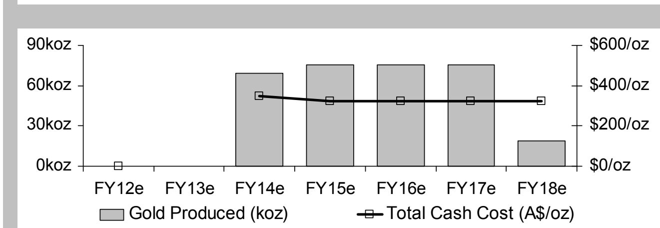
Earnings & Cash Flow Multiples (A$)	**FY10a**	**FY11e**	**FY12e**	**FY13e**
EPS	n/a	n/a	n/a	n/a
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	n/a
EV/EBIT	n/a	n/a	n/a	n/a
EV/EBITDA	n/a	n/a	n/a	n/a
GCFPS	n/a	n/a	n/a	n/a
P/GCF	n/a	n/a	n/a	n/a
FCFPS	n/a	n/a	n/a	n/a
P/FCF	n/a	n/a	n/a	n/a

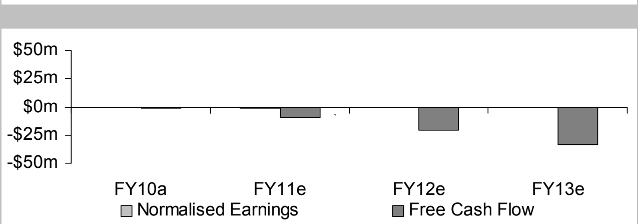
Balance Sheet	**FY10a**	**FY11e**	**FY12e**	**FY13e**
Gearing (Debt/Equity)	0.0%	0.0%	10.6%	52.9%
Gearing (Net Debt/Equity)	-86.8%	-73.0%	-33.7%	43.8%
EBIT Interest Cover	n/a	n/a	n/a	1.1x
ROE	n/a	n/a	n/a	n/a
ROA	n/a	n/a	n/a	n/a
NTA Per Share	n/a	n/a	n/a	n/a

Dividends	**FY10a**	**FY11e**	**FY12e**	**FY13e**
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	n/a	n/a	n/a	n/a
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

Balance Sheet

Full Year Summary (A$m)	**FY10a**	**FY11e**	**FY12e**	**FY13e**
Cash	7.0	20.0	20.9	4.3
Receivables	0.2	0.2	0.2	0.2
Inventory	0.0	0.0	0.0	0.0
Property, Plant & Equipment	0.1	0.1	0.1	0.1
Exploration Expenditure	1.2	5.0	14.0	23.0
Mine Development	0.0	2.6	17.6	45.1
Other	0.0	0.0	0.0	0.0
Total Assets	**8.5**	**27.9**	**52.8**	**72.7**
Payables	0.5	0.5	0.5	0.5
Debt	0.0	0.0	5.0	25.0
Provisions	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total Liabilities	**0.5**	**0.5**	**5.5**	**25.5**
Net Assets	**8.0**	**27.4**	**47.3**	**47.2**
Shareholders' Equity	8.3	29.0	49.0	49.0
Reserves	0.1	0.1	0.1	0.1
Retained Profits	(0.4)	(1.7)	(1.8)	(1.9)
Minority Interests	0.0	0.0	0.0	0.0
Total Shareholders' Equity	**8.0**	**27.4**	**47.3**	**47.2**





Analyst: Mark Savich, CFA | +61 8 9346 0320 | msavich@blackswanequities.com.au

Sales		Email	Telephone
Michael Bartley	Dealers' Assistant	mbartley@blackswanequities.com.au	+61 8 9346 0352
Brian Bates	Head of Retail Desk	bbates@blackswanequities.com.au	+61 8 9346 0314
Paul Berson	Senior Investment Advisor	pberson@blackswanequities.com.au	+61 8 9346 0328
Michael Bowden	Senior Investment Advisor	mbowden@blackswanequities.com.au	+61 8 9346 0307
James Clement	Institutional Sales	jclement@blackswanequities.com.au	+61 8 9346 0347
Paul Cooper	Investment Advisor	pcooper@blackswanequities.com.au	+61 8 9346 0316
Nick Dempster	Senior Investment Advisor	ndempster@blackswanequities.com.au	+61 8 9346 0357
Phil Grant	Senior Investment Advisor	pgrant@blackswanequities.com.au	+61 8 9346 0306
Tony Kenny	Director – Senior Investment Advisor	tkenny@blackswanequities.com.au	+61 8 9346 0302
Guy Lyons	Institutional Sales	glyons@blackswanequities.com.au	+61 8 9346 0331
Tim Lyons	Executive Chairman	tlyons@blackswanequities.com.au	+61 8 9346 0324
Jamie Mann	Senior Investment Advisor	jmann@blackswanequities.com.au	+61 8 9346 0301
Elise Ntoumenopoulos	Dealers' Assistant – Institutional Sales	entoumenopoulos@blackswanequities.com.au	+61 8 9346 0330
Rob Pass	Investment Advisor	rpass@blackswanequities.com.au	+61 8 9346 0370
Ben Rattigan	Investment Advisor	brattigan@blackswanequities.com.au	+61 8 9346 0323
Duncan Relf	Dealers' Assistant	drelf@blackswanequities.com.au	+61 8 9346 0322
Jessica Ridley	Executive Assistant	jridley@blackswanequities.com.au	+61 8 9346 0313
Tim Weir	Director – Senior Investment Advisor	tweir@blackswanequities.com.au	+61 8 9346 0303
Steve Wood	Senior Investment Advisor	swood@blackswanequities.com.au	+61 8 9346 0305
Research		**Email**	**Telephone**
Tony Lofthouse	Research Analyst – Resources	tlofthouse@blackswanequities.com.au	+61 8 9346 0315
Rob Martino	Research Analyst – Industrials	rmartino@blackswanequities.com.au	+61 8 9346 0317
Mark Savich	Research Analyst – Resources	msavich@blackswanequities.com.au	+61 8 9346 0320
Corporate		**Email**	**Telephone**
Tom Loh	Senior Advisor – Corporate	tloh@blackswanequities.com.au	+61 8 9346 0353
Administration		**Email**	**Telephone**
Tracey Everitt	Compliance Executive	teveritt@blackswanequities.com.au	+61 8 9346 0327
Karen Kernaghan	Manager - Portfolio Administration	kkernaghan@blackswanequities.com.au	+61 8 9346 0371
Grant Ormerod	Chief Operating Officer - Financial Controller	gormerod@blackswanequities.com.au	+61 8 9346 0341
Amanda Cabban	Receptionist	acabban@blackswanequities.com.au	+61 8 9346 0338
Sharna True	Portfolio Administrator	strue@blackswanequities.com.au	+61 8 9346 0309

Research Disclaimer

This research has been prepared by Blackswan Equities Ltd ABN 26 129 623 383 ("Blackswan"), holder of Australian Financial Services Licence No. 331703, for exclusive use by its clients. This document must not be copied either in whole or in part or distributed to any other person. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. This research contains general advice only and does not take into account your objectives, financial situation or needs.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction outside Australia where such distribution or availability or use would be contrary to law or regulation or which would subject Blackswan to any registration or licensing requirement within such jurisdiction.

Before acting on this general advice you should consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision. The price of securities can and does fluctuate. This research is based on information obtained from external sources which we believe to be reliable however Blackswan makes no representation or warranty that it is accurate, complete or up to date. All historical information is sourced from ASX company releases. Opinions expressed are subject to change without notice.

No officer, employee, or agent of Blackswan accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Blackswan officers, employees, or agents may have interests in the financial products referred to in this report by acting in various roles including adviser, underwriter or dealer, arranger, holder of principal positions, or broker. Further, they may buy or sell those securities as principal or agent and, as such, may effect transactions which are not consistent with the recommendations (if any) in this research. Blackswan or its associates may receive fees, brokerage or commissions for acting in those capacities and the reader should assume this is the case.

This research accurately reflects the personal views of the responsible analyst about the subject securities. The responsible analyst is employed by Blackswan under Australian Financial Services Licence No. 331703 and receives compensation based on overall revenues of Blackswan. Analyst disclosure of interests relevant to this report: The analyst attended a site visit to Doray Minerals' Andy Well project in July 2011.