

Resource upgrade supports the case for development

Buy

Event

- DRM has reported an upgraded resource estimate for the Andy Well project.

Analysis

- Andy Well gold resource upgrade meets expectations.** DRM has delivered a 90% increase in gold resources at its 80%-owned Andy Well project, located north of Meekatharra in Western Australia. We believe this resource update confirms that Andy Well is likely to be developed into a low cost gold mine.
- High-grade Wilber Lode underpins compelling economics.** The total Andy Well resource now stands at 806kt at 12.8g/t for 332koz of gold. The majority of the resource is contained within the Wilber Lode quartz vein, which hosts 664kt at 15.2g/t for 326koz of gold (previously 172koz at 25.3g/t). Importantly, 77% of the Wilber Lode resource is within the Indicated category.
- Lower grade results in a minor decrease in value.** Our revised valuation for DRM's 80% interest in Andy Well is \$103m, which represents a 6% downgrade. The value destruction from a decreased gold grade has been offset by an enlarged throughput rate. Our price target remains at \$1.50/share.
- Catalyst #1: RC drilling is currently testing the northern extension.** DRM has commenced a drilling program to test the interpreted northern extension of the Wilber Lode. The RC rig will then test additional parallel structures alongside the Wilber Lode. These targets have the potential to significantly increase the scale of the Wilber Lode beyond our current assumptions.
- Catalyst #2: RC drilling to test regional targets in early 2012.** DRM has planned an RC program to follow up impressive aircore intersections recorded at the Abbots and Side Well projects. Our price target of \$1.50/share ascribes no value to these exploration assets outside of the Andy Well tenement.
- Catalyst #3: On-market purchases fuel takeover speculation.** Ramelius Resources (RMS.ASX) is continuing to increase its stake in DRM to 7.7%. RMS has flagged that it sees opportunities for consolidation in the Murchison Region and we believe it could achieve valuable synergies by combining its low-grade Mt Magnet project with DRM's high-grade Andy Well resource.

Earnings Impact

- No change.

Recommendation and Price Target

- Retain our BUY and Price Target of \$1.50/share.**
- Valuation underpinned by robust economics.** The Wilber Lode deposit has high gold grades, near surface mineralisation, simple metallurgy and low country risk. We believe there is a high probability that this resource will be converted into a medium-scale and low cost gold mine.

6 December 2011

Company Information

Code	DRM
Last Price	\$1.44
12 Month Price Target	\$1.50
Total Shareholder Return	4.2%
Valuation	\$1.46
Shares on Issue	75.3m
Market Capitalisation	\$108.5m
Free Float	100%
Monthly Turnover	\$3.5m

Financial Summary

	FY11a	FY12e	FY13e	FY14e
Revenue (\$m)	0.0	0.0	0.0	134.8
EBITDA (\$m)	(2.5)	(1.0)	(1.0)	119.0
D&A (\$m)	0.1	0.0	0.0	30.6
EBIT (\$m)	(2.6)	(1.0)	(1.0)	88.4
Net Interest (\$m)	0.7	(0.6)	(0.7)	(1.1)
Tax (\$m)	0.0	0.0	(0.3)	4.6
Underlying NPAT (\$m)	(1.9)	(0.4)	(0.3)	84.9
Abnormals (\$m)	0.0	0.0	0.0	0.0
OEI (\$m)	0.0	0.0	0.0	0.0
Reported NPAT (\$m)	(1.9)	(0.4)	(0.3)	84.9
EPS (¢)	n/a	n/a	n/a	89.8
EPS growth (%)	n/a	n/a	n/a	n/a
CFPS (¢)	n/a	n/a	n/a	108.1
DPS (¢)	0.0	0.0	0.0	0.0
Cash (\$m)	20.0	16.9	0.1	57.5
Net debt (\$m)	(16.3)	(11.9)	29.9	(42.5)
Net debt / equity (%)	(59.0)	(22.8)	57.7	(31.1)
Interest cover (x)	n/a	n/a	1.5	n/a
ROE (%)	n/a	n/a	n/a	62.1
ROA (%)	n/a	n/a	n/a	54.0
NTA per share (¢)	29.1	55.2	54.9	144.7
PE (x)	n/a	n/a	n/a	1.6
EV/EBITDA (x)	n/a	n/a	n/a	0.8

Share Price Performance



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Resource Upgrade

- **A 90% increase to the February 2011 maiden resource**

The upgraded resource estimate is based on 72 RC and 88 HQ 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 within the February resource envelope, and a nominal 50m by 50m within the extended resource envelope.

The Indicated and Inferred resource includes both the high-grade Wilber Lode quartz vein and the shear hosted mineralisation within the oxide zone. The Wilber Lode quartz vein resource includes all contained material within the quartz vein, with no lower grade cut-off applied (i.e. a geological cut-off).

Gold mineralisation in the Wilber Lode is hosted within an extremely consistent sulphidised quartz vein that averages between 1 to 2m 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.

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

	Tonnes	Gold Grade (g/t)	Gold (oz)
Wilber Lode Quartz Vein			
Indicated	394,000	19.8	251,000
Inferred	270,000	8.6	75,000
Total	664,000	15.2	326,000
Footwall 1 Quartz Vein			
Inferred	22,000	3.6	2,000
Footwall 2 Quartz Vein			
Inferred	5,000	4.9	1,000
Shear Zone			
Indicated	115,000	0.7	3,000
Total Quartz Vein Resources			
Indicated	394,000	19.8	251,000
Inferred	297,000	8.1	78,000
Total	691,000	14.8	329,000

Source: Doray Minerals

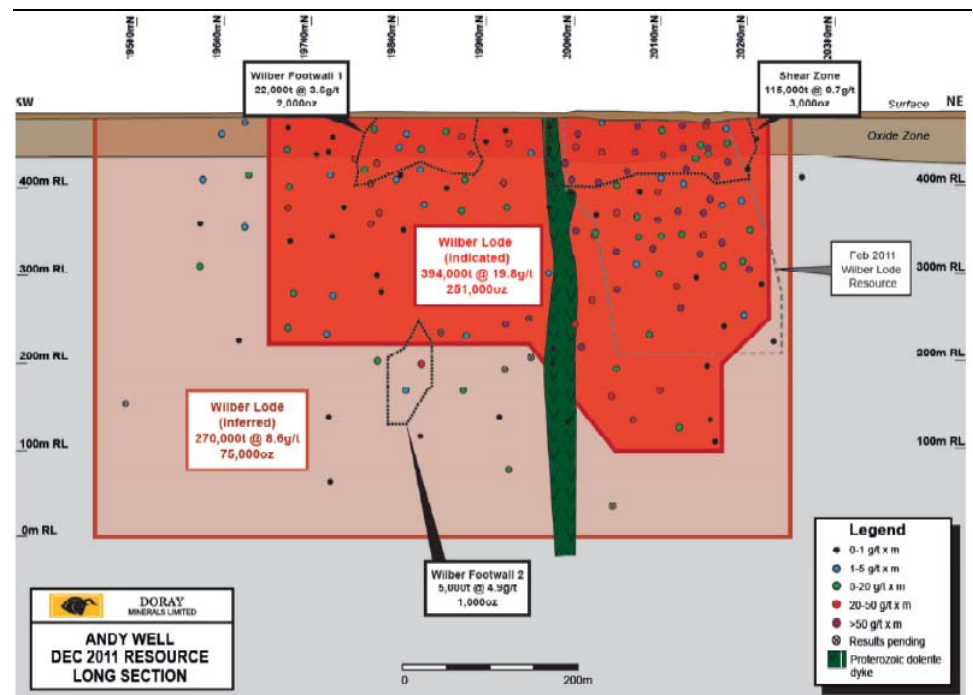
▪ **Resource looks attractive from a development point of view**

The resource is defined over a strike extent of 800m and to a depth of 480m. The total Wilber Lode quartz vein contains 691kt at 14.8g/t for 329koz of gold.

Our modelling is based on a quartz vein mining reserve of 620kt at 13g/t gold. This is supported by the quartz vein resource after factoring in 10% mining dilution.

Within this, there is a high-grade Indicated portion that comprises 394kt at 19.8g/t for 251koz of gold. From a development perspective, this high-grade portion can be extracted in the early years of mining and has a profound impact on the economics of the project.

Figure 1. Long Section of the Wilber Lode Resource



Source: Doray Minerals

▪ **Attractive characteristics include competent ground and simple metallurgy**

The mineralised quartz vein is steeply dipping at 75°. It will be amenable 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.

At shallow depths a small portion of the resource occurs in the oxide zone. Below that, mineralisation 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.

Preliminary Financial Modelling for Andy Well

- **Aspiring for first gold production in 2013**

Given the robust economics of a mine development at Andy Well, DRM has wasted no time in commencing a number of development activities. The Company is aiming to complete a Bankable Feasibility Study and obtain a Mining Lease by mid 2012.

- **Resource upgrade meets our expectation in ounces, but not in grade**

Our DCF valuation was previously based on a quartz vein mining reserve of 500kt at 20g/t gold. Our development scenario had assumed a milling rate of 120ktpa over a 4.5 year mine life.

Following the resource upgrade, our DCF valuation is now based on a quartz vein mining reserve of 620kt at 13g/t gold. This is supported by the quartz vein resource of 691kt at 14.8g/t after factoring in 10% mining dilution. Our revised development scenario assumes an enlarged milling rate of 150ktpa over a 4.5 year mine life.

- **Development assumptions revised to include an enlarged throughput rate**

We have revised our scoping-level financial model for the Andy Well project based on the resource upgrade. However, prior to the completion of the Bankable Feasibility Study next year, our preliminary assumptions continue to be at high risk of material change.

We estimate that Andy Well's average LOM total cash cost will be \$460/oz, which includes the development capex and royalties. While this is a considerable increase to our previous assumptions due to a lower gold grade, Andy Well will still sit in the lower half of the industry cash cost curve.

Table 2. Development Parameters – Blackswan Forecasts

Variable	New Assumptions	Previous Assumptions
Mining reserve tonnage	620kt	500kt
First production date	Q3 2013	Q3 2013
Mining and milling rate	150ktpa	120ktpa
Average milled gold grade	13g/t	20g/t
Gold recovery	97%	97%
Average annual gold production	60koz	75koz
Mine life	4.5 years	4.5 years
Capital cost (incl. BHP royalty buy-out)	\$50m	\$50m
Average total cash cost (incl. development & royalties)	\$460/oz	\$347/oz

Source: Blackswan Equities

Andy Well Valuation

▪ DCF valuation for Andy Well supports the current share price

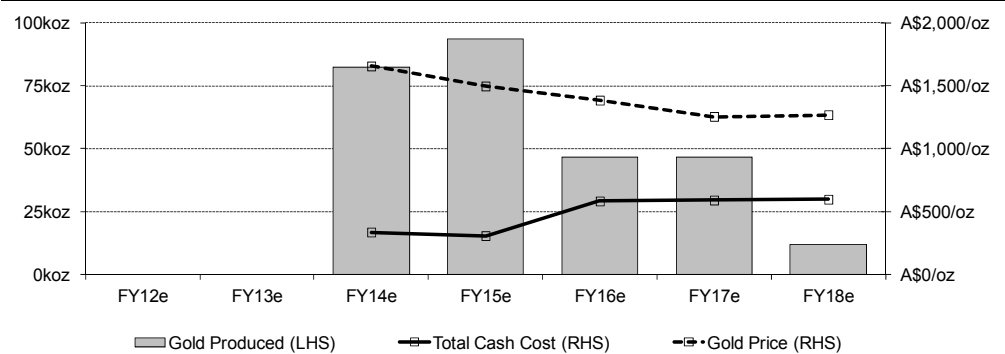
On our scoping-level estimates, a 150ktpa underground mine and on-site CIL plant will see Andy Well produce an average of 60koz of gold over a 4.5 year mine life (80% attributable to DRM). We include the oxide zone which is amenable to open-pit mining and contains approximately 8koz. We forecast DRM to ramp up to full production by late 2013.

The high-grade Indicated portion of the resource is mined earliest, resulting in higher production and lower cash costs in Years 1 and 2.

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

We derive an NPV_{8%} for the Andy Well of \$128m (previously \$138m), which equates to \$103m for DRM's 80% interest. This NPV reflects a 6% downgrade to our valuation for Andy Well.

Figure 2. Production Profile – Blackswan Forecasts



Andy Well Production Summary (100%)

	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e
Gold Produced (koz)	0	0	82	94	47	47	12
Total Cash Cost (A\$/oz)	0	0	335	306	582	589	596
Gold Price (A\$/oz)	1,805	1,998	1,656	1,497	1,385	1,255	1,268
Cash Margin (A\$/oz)	1,805	1,998	1,322	1,191	803	666	672

Source: Blackswan Equities

▪ Upside beyond our valuation to be driven by exploration

While early aircore drilling at the Abbots and Side Well projects have intersected high-grade gold mineralisation, our valuation of \$1.50/share ascribes no value to DRM's exploration assets outside the Andy Well project. We will wait for additional drilling data from the upcoming RC drilling programs before attributing any value to these projects. However, we believe there is clear upside to come from DRM's other projects in the Murchison Region.

Regional Exploration

- **Early aircore drilling at Abbots returns exciting hits**

DRM has completed a program of aircore drilling at its 80%-owned Abbots gold project, located about 30km southwest of Andy Well. Drilling has tested targets on a 30km long regional shear zone which has hosted a number of historic gold workings. Historic drilling was mostly shallow and wide-spaced with as much as 1km between drill lines.

Best results from the program included 47m at 2.7g/t gold, 8m at 5.5g/t and 4m at 6.1g/t. These results follow the previously announced intersections of 20m at 1.0g/t and 1m at 27.2g/t.

- **Initial aircore drilling at Side Well also encouraging**

DRM has completed a single line of aircore drilling at its 80%-owned Side Well gold project, also located about 30km south of Andy Well. Drilling tested a structural target in interpreted Banded Iron Formation on the western side of the Meekatharra Greenstone Belt.

Best results from the program included 2m at 6.9g/t gold, 11m at 1.3g/t and 5m at 6.7g/t.

- **Four rigs to be turning in the new year**

The Company currently has one diamond rig infill drilling the Wilber Lode resource, one RC rig testing the northern extension to the Wilber Lode and one aircore rig testing near surface targets at Andy Well.

DRM has contracted a second RC rig to test Abbots and Sidewell to approximately 200m depth. This is scheduled to arrive at site in Q1 of 2012.

Doray Minerals Ltd (DRM)

Shares on Issue	75.3m
Market Capitalisation	\$108.5m
Year End	30-June

Recommendation: BUY

Date	6 December 2011
Share Price	\$1.44/share
12 Month Target Price	\$1.50/share

Equity Valuation, Price Target, 12 Month Return

Equity Valuation	A\$m	A\$/share
Andy Well	102.8	1.14
Exploration	20.0	0.22
Corporate	(9.5)	(0.11)
Cash	16.3	0.18
Debt	0.0	0.00
Unpaid Capital	2.2	0.02
NPV	\$131.7m	\$1.46/sh
Real Discount Rate		8.00%

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

12 Month Return	
Capital Return	4.2%
Dividend Yield	0.0%
12 Month Total Return	4.2%

Income Statement

Full Year Summary (A\$m)	FY11a	FY12e	FY13e	FY14e
Sales Revenue	0.0	0.0	0.0	134.8
EBITDA	(2.5)	(1.0)	(1.0)	119.0
Depreciation & Amortisation	0.1	0.0	0.0	30.6
EBIT	(2.6)	(1.0)	(1.0)	88.4
Net Interest Expense	0.7	(0.6)	(0.7)	(1.1)
Profit Before Tax	(1.9)	(0.4)	(0.3)	89.5
Income Tax Expense	0.0	0.0	0.0	4.6
Underlying NPAT	(1.9)	(0.4)	(0.3)	84.9
Abnormal Items	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Reported NPAT	(1.9)	(0.4)	(0.3)	84.9
Normalised Earnings	(1.9)	(0.4)	(0.3)	84.9

Cash Flow Statement

Full Year Summary (A\$m)	FY11a	FY12e	FY13e	FY14e
EBITDA	(2.5)	(1.0)	(1.0)	119.0
Inc/(Dec) in Working Capital	(4.5)	(9.6)	(9.7)	(10.1)
Other Items	0.0	0.0	0.0	0.0
Operating Cash Flow	(7.0)	(6.0)	(6.0)	114.0
Capital Expenditure	0.7	20.0	32.5	11.8
Other	0.0	0.0	0.0	0.0
Free Cash Flow	(7.6)	(26.0)	(38.5)	102.2
Equity Raised	20.7	25.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Inc/(Dec) in Borrowings	0.0	5.0	25.0	(15.0)
Financing Cash Flow	20.7	30.0	25.0	(15.0)
Effects of Exchange Rates	0.0	0.0	0.0	0.0
Movement in Net Cash	13.0	4.0	(13.5)	87.2
Cash at End Period	16.3	16.9	0.1	57.5
Net Cash/(Debt)	16.3	11.9	(29.9)	42.5

Production & Commodity Prices (Nominal Terms)

Key Assumptions	FY14e	FY15e	FY16e	FY17e
Gold Price (US\$/oz)	1524	1317	1177	1067
USD/AUD Rate (US\$)	0.92	0.88	0.85	0.85
Gold Price (A\$/oz)	1656	1497	1385	1255

Andy Well Production Summary (100%)	FY14e	FY15e	FY16e	FY17e
Gold Produced (koz)	82.4	93.6	46.8	46.8
Total Cash Cost (A\$/oz)	335	306	582	589

Financial Ratios

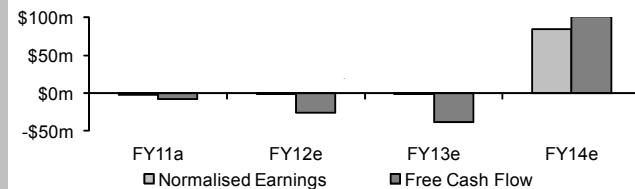
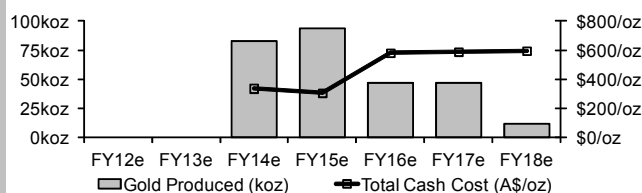
Earnings & Cash Flow Multiples (A\$)	FY11a	FY12e	FY13e	FY14e
EPS	n/a	n/a	n/a	89.8¢
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	1.6x
EV/EBIT	n/a	n/a	n/a	1.1x
EV/EBITDA	n/a	n/a	n/a	0.8x
GCFPS	n/a	n/a	n/a	120.6¢
P/GCF	n/a	n/a	n/a	1.2x
FCFPS	n/a	n/a	n/a	108.1¢
P/FCF	n/a	n/a	n/a	1.3x

Balance Sheet	FY11a	FY12e	FY13e	FY14e
Gearing (Debt/Equity)	0.0%	9.6%	57.8%	11.0%
Gearing (Net Debt/Equity)	-59.0%	-22.8%	57.7%	-31.1%
EBIT Interest Cover	n/a	n/a	1.5x	n/a
ROE	n/a	n/a	n/a	62.1%
ROA	n/a	n/a	n/a	54.0%
NTA Per Share	29.1¢	55.2¢	54.9¢	144.7¢

Dividends	FY11a	FY12e	FY13e	FY14e
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)	FY11a	FY12e	FY13e	FY14e
Cash	20.0	16.9	0.1	57.5
Receivables	0.6	0.6	0.6	0.6
Inventory	0.0	0.0	0.0	0.0
Property, Plant & Equipment	0.6	0.6	0.6	0.6
Exploration Expenditure	7.3	16.3	25.3	34.3
Mine Development	0.0	20.0	52.5	64.3
Other	0.2	3.9	3.9	0.0
Total Assets	28.6	58.3	82.9	157.3
Payables	1.1	1.1	1.1	1.1
Debt	0.0	5.0	30.0	15.0
Provisions	0.0	0.0	0.0	4.4
Other	0.0	0.0	0.0	0.0
Total Liabilities	1.1	6.1	31.1	20.5
Net Assets	27.6	52.2	51.9	136.8
Shareholders' Equity	29.1	54.1	54.1	54.1
Reserves	0.7	0.7	0.7	0.7
Retained Profits	(2.3)	(2.6)	(3.0)	82.0
Minority Interests	0.0	0.0	0.0	0.0
Total Shareholders' Equity	27.6	52.2	51.9	136.8



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