

Advancing Wilber towards development

Buy

Event

- DRM released its Quarterly Activities Report.

Analysis

- More high-grade hits outside the current resource envelope.** The Wilber Lode quartz vein hosts a remarkably high-grade gold resource of 172koz at 25.3g/t. This maiden resource was based on a strike extent of 200m, however recent diamond drilling has extended the strike length of the Wilber Lode to almost 700m. Mineralisation remains open along strike and at depth.
- Resource upgrade for the Wilber Lode due by year end.** DRM has stopped drilling southern step outs and two rigs are now focused on completing infill drilling over the known 700m strike length. DRM is aiming to encapsulate the recent southern strike extensions and depth extensions of the Wilber Lode into an Inferred Resource. It is also aiming to upgrade the current resource to the Indicated category.
- Northern strike extension to be drilled in November.** A sub-audio magnetic (SAM) survey was recently completed, which identified the Wilber Lode beneath cover and highlighted a possible northern extension offset by faulting. This northern extension will be drill tested in November and has the potential to significantly increase the scale of the Wilber Lode. The SAM survey also highlighted additional parallel structures alongside the Wilber Lode.
- Fast tracking development.** DRM is aiming to complete a Bankable Feasibility Study and obtain a Mining Lease by mid 2012. The critical path item before financing and construction can occur is obtaining a Native Title Agreement for the Mining Lease application.
- Well funded to aggressively explore.** DRM has approximately \$16m in cash. This is more than sufficient to progress development studies and carry out an aggressive 130,000m drilling campaign across its entire project portfolio.

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 an average gold price of A\$1,300/oz.

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.

24 October 2011

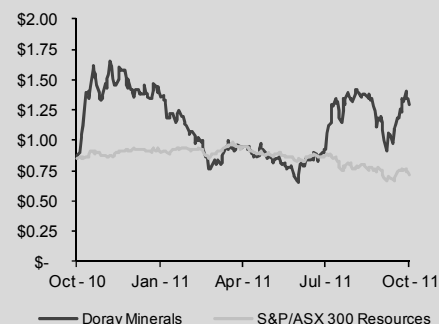
Company Information

Code	DRM
Last Price	\$1.30
12 Month Price Target	\$1.50
Total Shareholder Return	15.4%
Valuation	\$1.51
Shares on Issue	74.9m
Market Capitalisation	\$97.3m
Free Float	100%
Monthly Turnover	\$3.2m

Financial Summary

	FY11a	FY12e	FY13e	FY14e
Revenue (\$m)	0.0	0.0	0.0	100.1
EBITDA (\$m)	(2.5)	(1.0)	(1.0)	87.2
D&A (\$m)	0.1	0.0	0.0	22.1
EBIT (\$m)	(2.6)	(1.0)	(1.0)	65.1
Net Interest (\$m)	0.7	(0.6)	(0.7)	(0.9)
Tax (\$m)	0.0	0.0	(0.3)	3.6
Underlying NPAT (\$m)	(1.9)	(0.4)	(0.3)	62.4
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)	62.4
EPS (¢)	n/a	n/a	n/a	66.3
EPS growth (%)	n/a	n/a	n/a	n/a
CFPS (¢)	n/a	n/a	n/a	74.7
DPS (¢)	0.0	0.0	0.0	0.0
Cash (\$m)	20.0	16.9	5.1	37.4
Net debt (\$m)	(16.3)	(11.9)	24.9	(22.4)
Net debt / equity (%)	(59.0)	(22.8)	48.1	(19.6)
Interest cover (x)	n/a	n/a	1.5	n/a
ROE (%)	n/a	n/a	n/a	54.6
ROA (%)	n/a	n/a	n/a	47.2
NTA per share (¢)	29.3	55.5	55.1	121.4
PE (x)	n/a	n/a	n/a	2.0
EV/EBITDA (x)	n/a	n/a	n/a	1.1

Share Price Performance



Analyst Details

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

Step-out drilling successfully extends the Wilber Lode

- **High-grade discovery still has a lot more upside**

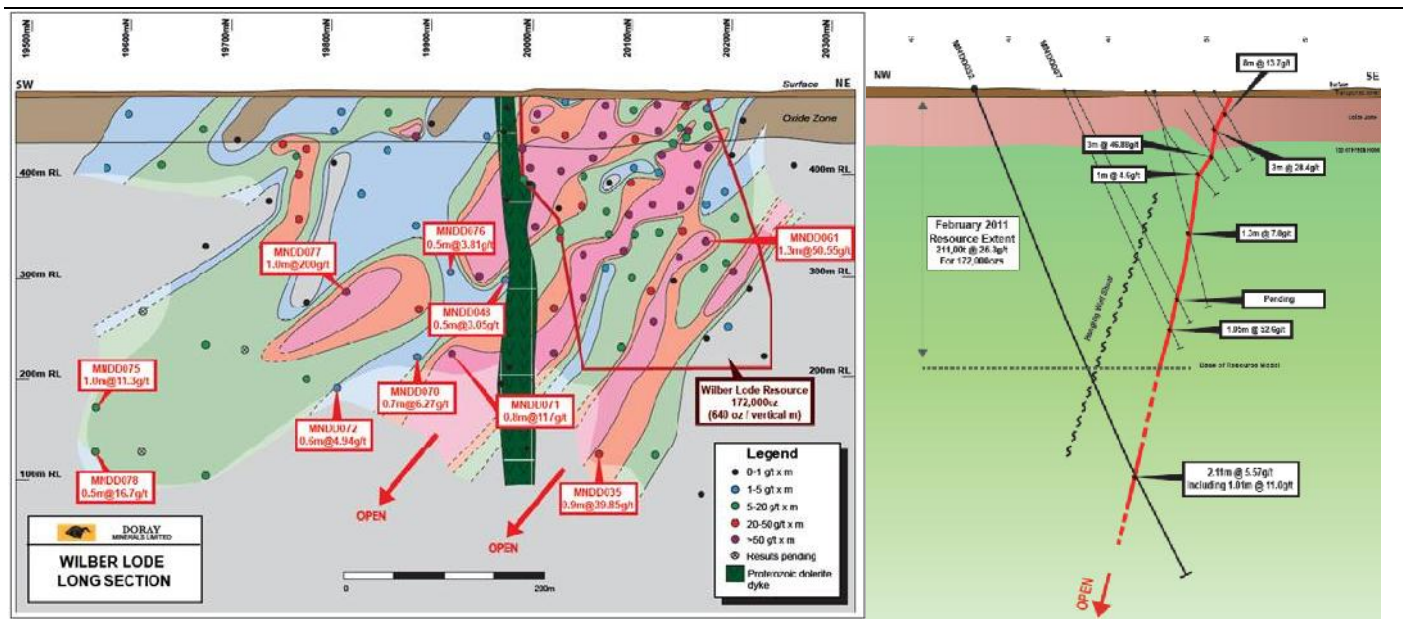
DRM is currently undertaking resource definition drilling along the high-grade Wilber Lode quartz vein at its 80%-owned Andy Well project, located north of Meekatharra in Western Australia. While the Company has delivered a maiden gold resource of 172koz at 25.3g/t, a recent extensional drilling program indicated that a substantial upgrade to this resource is probable.

The current resource is defined over a strike extent of 200m and to a depth of 270m. A number of assay results have confirmed high-grade mineralisation outside the current resource envelope.

Hole MNDD078 stepped out the quartz vein and intersected 0.5m at 16.7g/t gold more than 500m southwest and 100m deeper than the current resource envelope. Hole MNDD035 also extended the quartz vein and intersected 0.9m at 39.8g/t gold at 100m beneath the current resource.

We have built a modest amount of this upside into our financial modelling, which is based on a quartz vein mining reserve of 500kt at 20g/t gold. The Wilber Lode remains open along strike and at depth.

Figure 1. Long Section and Cross Section of the Wilber Lode



Source: Doray Minerals

Advancing the Wilber Lode towards development

- **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. The Company is progressing the project through a Bankable Feasibility Study (BFS) which is scheduled for completion by mid 2012.

- **Detailed studies and development activities already underway:**
 - Following the resource upgrade later this year, DRM will complete mining engineering studies for both a starter open-pit and underground mine.
 - 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).
 - There are two Native Title claimant groups which DRM must secure Land Access Agreements with in respect to the Andy Well tenement area. 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. DRM has participated in initial Working Group Meetings with the Ygunga-Nya Native title group.
 - Discussions with Main Roads WA regarding the interaction of mining activities with the Great Northern Highway have commenced. It appears likely that a traffic management plan can be implemented, avoiding the cost and time of moving about 3km of road.
 - A preliminary proposal with the Shire of Meekatharra for the location of a 90 man accommodation village has been tabled.
 - Environmental assessments have continued, including waste rock characterisation studies, hydrological test work, subterranean fauna, surface vegetation and flora surveys.

Table 1. 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

Preliminary financial modelling for the Wilber Lode

- **Development assumptions**

We have completed a scoping-level financial model for the Andy Well project. Prior to the completion of the Bankable Feasibility Study next year, our preliminary assumptions are at risk of material change.

Table 2. 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	97%
Annual gold production	75koz
Mine life	4.5 years
Capital cost (includes BHP royalty buy-out)	\$50m
Total cash cost (incl. development capex and royalties)	\$347/oz

Source: Blackswan Equities

- **Capital costs**

Due to its exceptionally high gold grades and simple metallurgy, the project will have a very low capital intensity. 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 \$50m.

The majority of this cost relates to the construction of a 120ktpa carbon-in-leach (CIL) processing plant, underground mine development and a new 90 man accommodation village in the town of Meekatharra. Given that mineralisation commences in the oxide zone only 5m below surface, an open-pit start up will also involve a modest pre-strip.

Our modelling incorporates development capex of US\$12m per year, based on 2km of decline development per year at a cost of \$6,000/m. The conceptual mine plan involves a 5m by 5m decline to be constructed within the basalt and porphyry footwall rocks.

- **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 \$347/oz, which includes the development capex of US\$12m per year and royalties. This places Andy Well in the lowest quartile of the industry cash cost curve.

Table 3. Operating Costs – Blackswan Forecasts

Cost Item	Cost Basis (Real Terms)	Cash Cost (\$/oz)
Development costs	\$6,000/m developed	172
Mining costs	\$35/t of ore mined	61
Processing costs	\$45/t of ore milled	72
Site admin costs	\$5/t of ore milled	8
Site cash cost		313
WA State royalty	2.5% of net revenue	34
Total cash cost		347

Source: Blackswan Equities

The mineralised quartz vein averages approximately 2m thick and is steeply dipping at 75°, lending itself to long hole open stoping. DRM has applied a geological cut-off to the resource.

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.

Valuation and earnings supported by the Wilber Lode

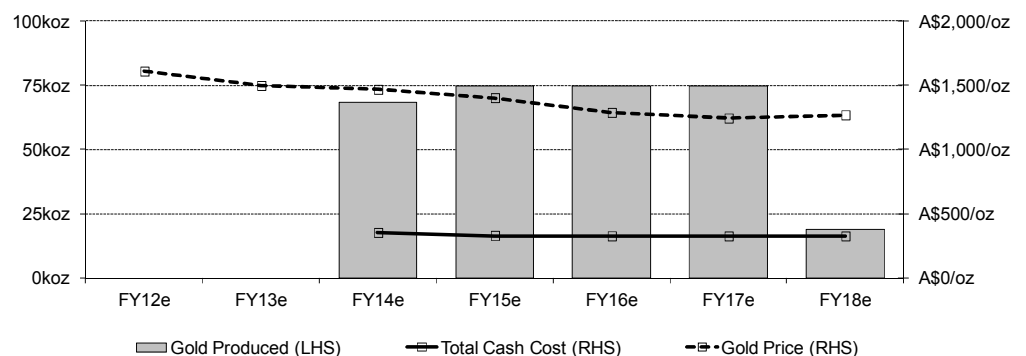
Production forecasts and DCF valuation

On our scoping-level estimates, a 120ktpa underground mine and on-site CIL plant will see Andy Well produce an average of 75koz 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.

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 \$136m, which equates to \$109m for DRM's 80% interest.

Figure 2. Production Profile – Blackswan Forecasts



Andy Well Production Summary (100%)

	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e
Gold Produced (koz)	0	0	68	75	75	75	19
Total Cash Cost (A\$/oz)	0	0	354	338	343	349	354
Gold Price (A\$/oz)	1,608	1,497	1,467	1,402	1,286	1,243	1,268
Cash Margin (A\$/oz)	1,608	1,497	1,112	1,064	944	894	914

Source: Blackswan Equities

Earnings and cash flow forecasts

DRM will burn through the majority of its current cash holding of \$16m by completing its planned 130,000m drilling program in FY12. We expect DRM to fund Andy Well's \$50m capex requirement in early 2012, via 50:50 debt and equity.

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 \$233m.

Doray Minerals Ltd (DRM)

Shares on Issue	74.9m
Market Capitalisation	\$97.3m
Year End	30-June

Recommendation: BUY

Date	24 October 2011
Share Price	\$1.30/share
12 Month Target Price	\$1.50/share

Equity Valuation, Price Target, 12 Month Return

Equity Valuation		
	A\$m	A\$/share
Andy Well	106.1	1.18
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	\$135.0m	\$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		15.4%
Dividend Yield		0.0%
12 Month Total Return		15.4%

Income Statement

Full Year Summary (A\$m)				
	FY11a	FY12e	FY13e	FY14e
Sales Revenue	0.0	0.0	0.0	100.1
EBITDA	(2.5)	(1.0)	(1.0)	87.2
Depreciation & Amortisation	0.1	0.0	0.0	22.1
EBIT	(2.6)	(1.0)	(1.0)	65.1
Net Interest Expense	0.7	(0.6)	(0.7)	(0.9)
Profit Before Tax	(1.9)	(0.4)	(0.3)	66.0
Income Tax Expense	0.0	0.0	0.0	3.6
Underlying NPAT	(1.9)	(0.4)	(0.3)	62.4
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)	62.4
Normalised Earnings	(1.9)	(0.4)	(0.3)	62.4

Production & Commodity Prices (Nominal Terms)

Key Assumptions				
	FY14e	FY15e	FY16e	FY17e
Gold Price (US\$/oz)	1349	1233	1093	1057
USD/AUD Rate (US\$)	0.92	0.88	0.85	0.85
Gold Price (A\$/oz)	1467	1402	1286	1243
Andy Well Production Summary (100%)				
	FY14e	FY15e	FY16e	FY17e
Gold Produced (koz)	68.4	74.9	74.9	74.9
Total Cash Cost (A\$/oz)	354	338	343	349

Cash Flow Statement

Full Year Summary (A\$m)				
	FY11a	FY12e	FY13e	FY14e
EBITDA	(2.5)	(1.0)	(1.0)	87.2
Inc/(Dec) in Working Capital	(4.5)	(9.6)	(9.7)	(9.9)
Other Items	0.0	0.0	0.0	0.0
Operating Cash Flow	(7.0)	(6.0)	(6.0)	82.2
Capital Expenditure	0.7	20.0	27.5	11.9
Other	0.0	0.0	0.0	0.0
Free Cash Flow	(7.6)	(26.0)	(33.5)	70.3
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	(8.5)	55.3
Cash at End Period	16.3	16.9	5.1	37.4
Net Cash/(Debt)	16.3	11.9	(24.9)	22.4

Financial Ratios

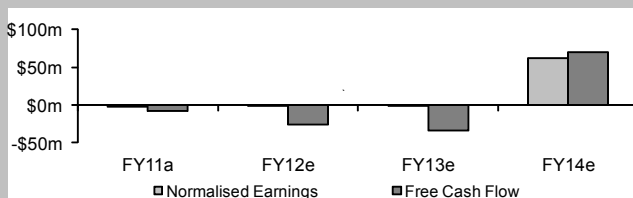
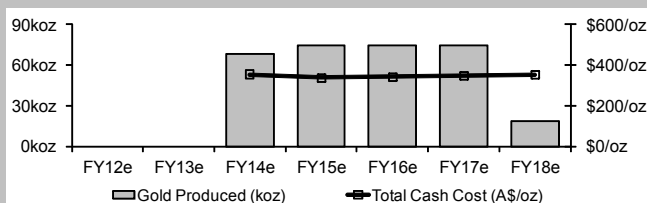
Earnings & Cash Flow Multiples (A\$)				
	FY11a	FY12e	FY13e	FY14e
EPS	n/a	n/a	n/a	66.3¢
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	2.0x
EV/EBIT	n/a	n/a	n/a	1.5x
EV/EBITDA	n/a	n/a	n/a	1.1x
GCFPS	n/a	n/a	n/a	87.3¢
P/GCF	n/a	n/a	n/a	1.5x
FCFPS	n/a	n/a	n/a	74.7¢
P/FCF	n/a	n/a	n/a	1.7x

Balance Sheet				
	FY11a	FY12e	FY13e	FY14e
Gearing (Debt/Equity)	0.0%	9.6%	57.8%	13.1%
Gearing (Net Debt/Equity)	-59.0%	-22.8%	48.1%	-19.6%
EBIT Interest Cover	n/a	n/a	1.5x	n/a
ROE	n/a	n/a	n/a	54.6%
ROA	n/a	n/a	n/a	47.2%
NTA Per Share	29.3¢	55.5¢	55.1¢	121.4¢

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	5.1	37.4
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	47.5	59.4
Other	0.2	3.9	3.9	0.0
Total Assets	28.6	58.3	82.9	132.2
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	2.0
Other	0.0	0.0	0.0	0.0
Total Liabilities	1.1	6.1	31.1	18.0
Net Assets	27.6	52.2	51.9	114.2
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)	59.4
Minority Interests	0.0	0.0	0.0	0.0
Total Shareholders' Equity	27.6	52.2	51.9	114.2



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
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
Duncan Relf	Dealers' Assistant	drelf@blackswanequities.com.au	+61 8 9346 0322
Jessica Ridley	Executive Assistant	jrldley@blackswanequities.com.au	+61 8 9346 0313
Tim Weir	Director – Senior Investment Advisor	tweir@blackswanequities.com.au	+61 8 9346 0303
John Winters	Investment Advisor	jwinters@blackswanequities.com.au	+61 8 9346 0323
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 Officer	teveritt@blackswanequities.com.au	+61 8 9346 0327
Karen Kernaghan	Manager - Portfolio Administration	kkernaghan@blackswanequities.com.au	+61 8 9346 0371
Grant Ormerod	Financial Controller	gormerod@blackswanequities.com.au	+61 8 9346 0341
Amanda Cabban	Receptionist	acabban@blackswanequities.com.au	+61 8 9346 0338

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