

23 August, 2010

### Doray Minerals Ltd (DRM)

**Buy**

#### Bonanza Gold!

#### Event

Doray Minerals (DRM) continue to announce impressive drilling results from the Andy Well prospect, near Meekatharra in Western Australia. The results include 7m @ 67.8g/t Au, 4m @ 22.6g/t Au and 3m @ 75.4g/t Au all at shallow depth. The high grade results followed up historic drilling which inadequately tested extensions at depth and along strike. Whilst a JORC resource is yet to be established, DRM believes the prospect has the potential to host a substantial gold deposit. Average grade of the Andy Well prospect to date appears to be up to 30g/t, clearly bonanza grades with excellent development potential. Further drilling is underway to test potential depth extensions, and the company is well funded.

#### Background

Doray Minerals joined the ASX in February 2010 following a A\$4.6m capital raising. The primary purpose of the vehicle was to follow up exploration on gold tenements in the Murchison region (Meekatharra) of Western Australia which has had limited exploration since being sold by BHP post the takeover of WMC in 1999. Tenements are adjacent to Silver Lake Resources (SLR, A\$429m diluted market capitalisation).

In addition to the Andy Well results, the company is following up other areas including the Lake prospect at DRM's Magnet North project where shallow high-grade gold mineralisation has been outlined over a 400m strike length. Our current valuation on DRM is A\$0.73ps, and we initiate with a Buy, A\$1.20ps target price.

DRM also have a number of other exploration properties in Western Australia and South Australia. The company is managed by Allan Kelly (ex-Avoca, WMC) and supported by Heath Hellewell, previously involved with discovery of the Tropicana gold project (IGO, 30%).

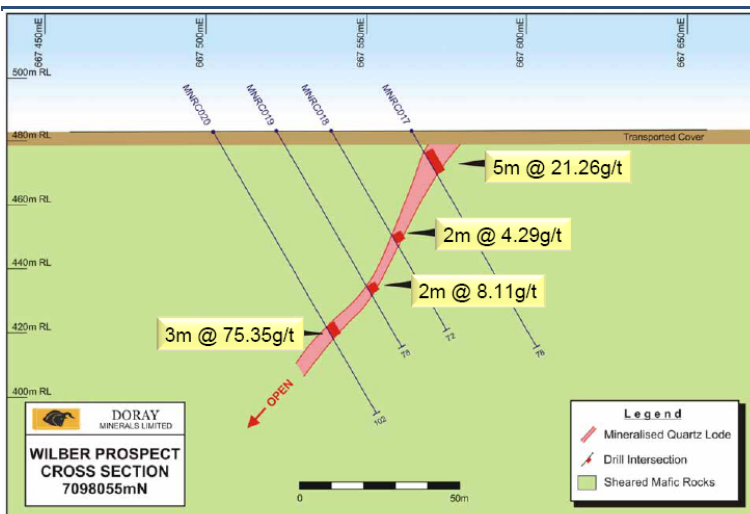


Figure 1: Cross section of high-grade Andy Well (Wilber) prospect

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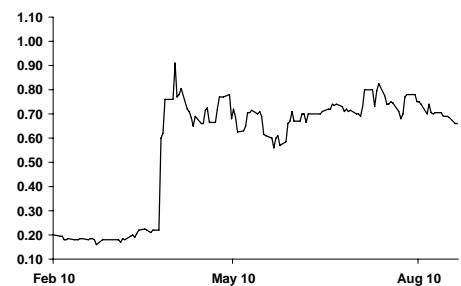
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#### Investment Summary

Share Price \$ps	<b>A\$0.66</b>
Target Price (12 month) \$ps	<b>A\$1.20</b>
Materials	
<a href="http://www.dorayminerals.com.au">www.dorayminerals.com.au</a>	
Issued Capital M (fully diluted)	<b>70.7M</b>
Market Cap \$M (fully diluted)	<b>\$47M</b>
Net Cash (est.)	<b>A\$6.5M</b>
Analyst Name	<b>Geoff Muers</b>

#### Share Price Chart



Year Hi-Lo \$ps	<b>\$1.10 - \$0.15</b>		
Avg Monthly Vol (M)	<b>11.1</b>		
<b>Performance %</b>	<b>1 m</b>	<b>3 m</b>	<b>12 m</b>
Absolute	-2.9%	na	na
Rel Top 200	-1.7%	na	na

#### Shareholders

Board/Management	<b>22%</b>
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#### Company Activities

DRM is a dedicated mineral explorer formed in August 2009 for the purpose of acquiring and developing mineral properties.

*Shaw, and its wholly owned subsidiary Shaw Corporate Finance Pty Limited, acted for the company in the role of Lead Manager and Sponsoring Broker within the past 12 months, for which they received a fee. Shaw, its associates, employees and authorised representatives have an interest in the financial products of the Company.*



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## Andy Well Prospect (DRM, 80%)

The Andy Well prospect is situated in the Murchison area of north-west WA, near the town of Meekatharra. It is located on the northern tip of a greenstone belt hosting deposits such as Meekatharra/Paddys Flat (3moz), Tuckabianna (1moz) and Hill 50 (2moz). The Andy Well prospect (EL 51/1217) was granted in January 2008. In November 2009, DRM entered into an agreement with the vendors (Wilson & Murchison Resources Pty Ltd) to acquire an 80% interest in the EL (and a number of others). The minority partner (now Murchison) is free-carried to completion of BFS (or equivalent). Previous explorers include WMC with ABM Resources acquiring the ground post the BHP-WMC merger. A royalty is payable up to A\$2.5m on various stages being achieved from a resource of 250koz (A\$250k payment) to other stages including mining.

The geology of the prospect includes weathered metamorphic and intrusive rocks, with quartz veining and banded iron formation outcrops. The greenstones are tightly folded, and cut by late intrusive dolerite dykes. Gold mineralisation at Andy Well is associated with ultramafic and felsic porphyry's and altered mafic schists.

The area has been subject to some historic drilling, with the last work carried out in 2000 prior to DRM's recent campaign. Historic intersections include 10m @ 7.2g/t Au and 19m @ 2.86 g/t Au. Only around 12% of the prior drill holes were completed to more than 100m in total depth, with only shallow drilling conducted in the southern half of the prospect. DRM believed there was potential to outline a significant gold deposit due to the widely spaced drilling and extensive distribution of mineralisation across 2km of strike length and over 200m in width.

A 2000m RC drilling program was commenced in early March, with initial results reported on the 30 March 2010 revealing shallow high grade gold mineralisation, confirming previous drilling work. The program was designed to follow-up north-east trending structures, inadequately tested by prior work. Initial results included 12m @ 21.5g/t Au from 16m, 8m @ 62.5g/t Au from 60m in one drill hole and 9m @ 43g/t Au in the third hole with 3 in 4 holes hitting mineralisation. Further drill results to the north extended the strike length, with high grade intercepts including 5m @ 75g/t Au. Visible gold is reported in the drill-core, associated with the quartz reef structures.

The company believes the tenement has potential host a significant gold deposit (0.5-1.0moz) with a grade of >15g/t gold. The company is drawing comparisons to Silver Lake Resources who is also exploring in the Murchison Region and have several moderate to high grade deposits (*inc. Moyagee, 820kt @ 8.5g/t, immediately north of DRM's Magnet North project. SLR recently announced results from the Numbers prospect- refer to Map, Appendix 1).*

*Previous drilling inadequately tested the prospect*

*Comparisons to Silver Lake's Murchison projects*

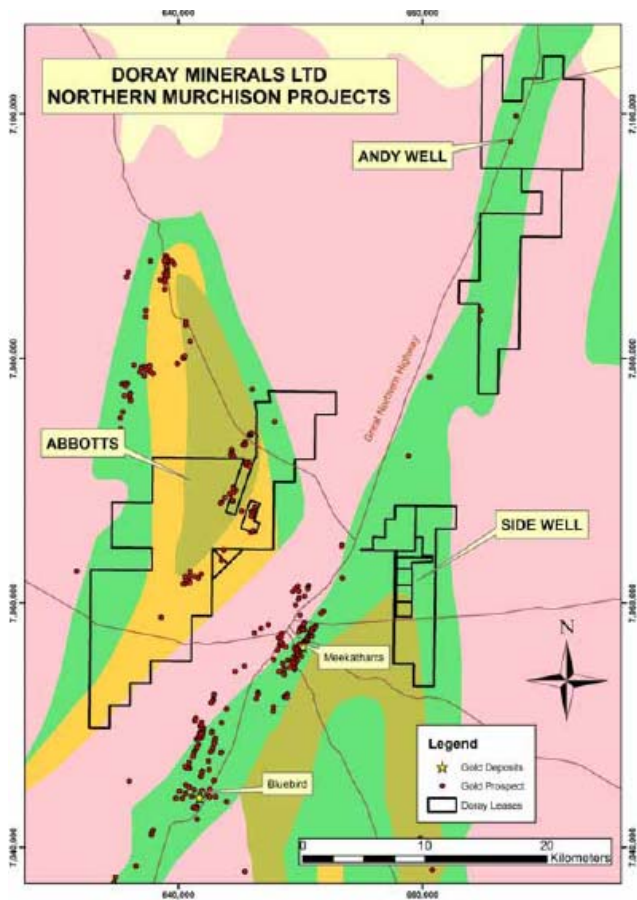


Figure 2: Map showing Andy Well tenement area

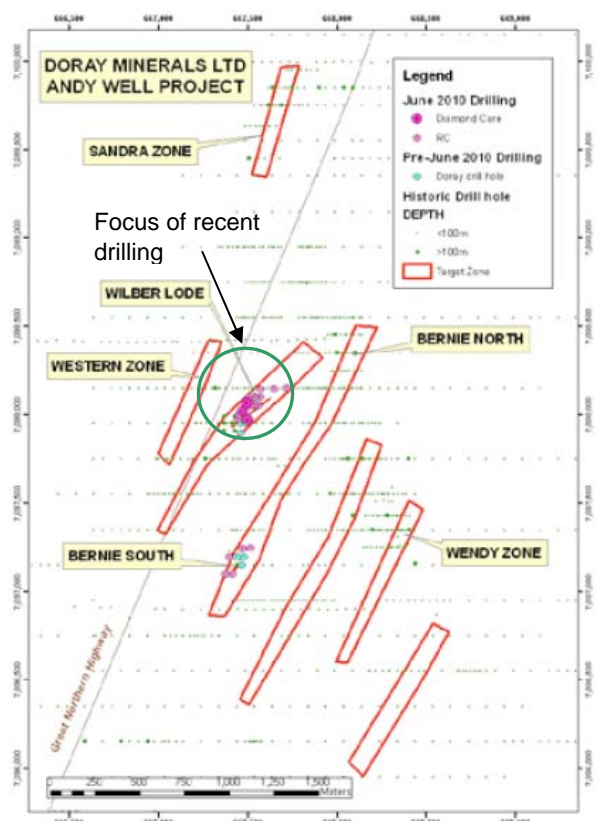


Figure 3: Historical drilling work with previous results

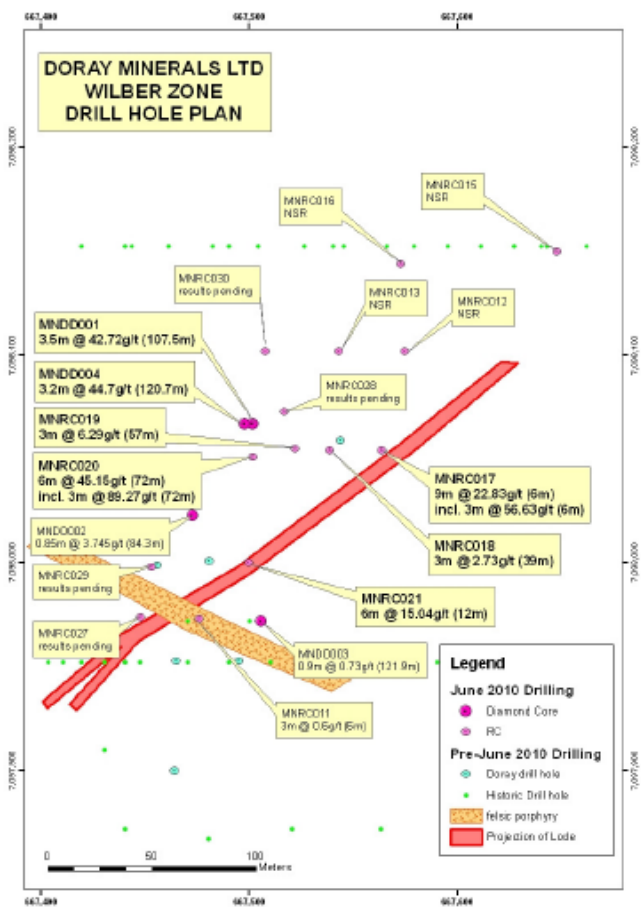


Figure 4: Recent drillholes at the Wilber prospect, Andy Well

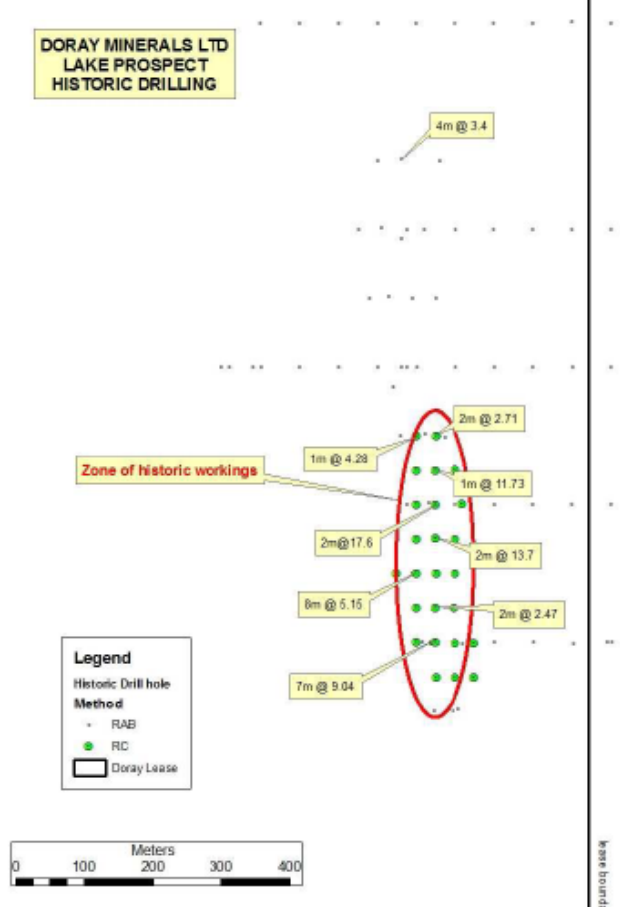


Figure 5: Historical drilling results at the Lake Prospect

The Company is also encouraged by other prospects, with drilling planned

### Other Prospects

DRM recently announced it had identified a 400m long zone of shallow, high-grade gold mineralisation at its "Lake" Prospect, in the Murchison Region of Western Australia (Figure 5, above). The Lake Prospect is located within Exploration Licence Application E21/140 of which Doray has an 80% interest. The Lake Prospect is located on the northern shore of Lake Austin, within the Company's Magnet North Project (refer to map, Appendix 1). The prospect was drill tested by a previous explorer in 1990 with a series of 60m deep, angled- RC holes, which defined shallow high-grade gold mineralisation over a strike length of approximately 400m (above). The mineralisation wasn't tested below a vertical depth of 40m and importantly for DRM there has been no follow-up drilling since.

Other projects where drilling is planned in coming months include Webbs Patch (south of Tuckabianna, 1Moz) where a 1.3km exploration target has been identified, and the 3-5g/t Brilliant prospect remains open at depth and along strike (Appendix 1). Other targets include Magnet North, south of SLR's Moyagee project. DRM also has projects in South Australia (Nuckulla Hill, Hicks). For full details of all projects, please refer to company releases and the recent prospectus (2009). The company has a number of other prospects, as shown below:

Project	Interest	Area sq. km
<b>Western Australia</b>		
Meekatharra North	80%	87
Abbotts	80%	213
Mingah	80%	147
Magnet North	80%	165
Western Queen	80%	160
Lake Magenta	80%	162
<b>South Australia</b>		
Nuckulla Hill	100%	640
Hicks	100%	150
Kingoonya	49%	147
Harris Bluff	49%	167
<b>TOTAL AREA</b>		<b>2,038 sq km</b>

## Planned Drilling

**7500m drilling program planned this year**

DRM is currently drilling, and plans to continue for the remainder of 2010, following up the strong drilling results at Andy Well and exciting potential at Webbs Patch. We believe around 1500m of diamond drilling will be carried out at the Wilber zone to test down-dip extension to the high-grade lode, with an additional 3000m of RC drilling and 3000m of aircore drilling to further identify and follow-up previous gold intersections at nearby Bernie South, North and Wendy Zone. Additional targets for drilling include Abbotts (N-W of Meekatharra) and Magnet North.

The company is comparing the Andy Well deposit to the nearby Great Fingall deposit (1.2moz produced @ 20g/t Au) which extended to a depth of 1.1km below surface. A comparison is below:

	Great Fingall Deposit	Golden Crown Deposit	Wilber Lode/Andy Well
	Day Dawn Mining Centre		Doray Minerals Meekatharra North Project
Discovered	1890's	1890's	2010
Location	6km S of Cue	6.5km S of Cue	45km North of Meekatharra
Production	1.89Mt	0.65Mt	None To Date
Ounces Produced	1.19Moz	0.29Moz	None To Date
Grade	19.5 g/t Au mined	13.8 g/t Au mined	ave. 30g/t Au insitu
Total Resource (mined + unmined)	1.46Moz @ 15.7 g/t Au	0.35Moz @ 11.9 g/t	JORC Resource Pending
Mineralisation	Quartz Vein	Quartz Vein	Quartz Vein
Host Rock	Differentiated Dolerite	Differentiated Dolerite	Differentiated Dolerite
Ore-related Sulphide Chemistry	Fe, As, Cu, (Pb, Zn)	Fe, As (Cu, Pb, Zn)	Fe, Cu, As
Wallrock Alteration	Silica, Sulphide, Carbonate, (Chlorite, Biotite)	Silica, Sulphide, Carbonate, (Chlorite, Biotite)	Silica, Sulphide, Carbonate, (Chlorite)
Structural Setting	Dilational position in regional Day Dawn Shearzone	Dilational position in regional Day Dawn Shearzone	Dilational position in regional shearzone
Gold Distribution	Highest grades in thicker parts of lode	?	Highest grades in steeper thicker parts of lode
Lode Width	<1m to 12m (av. 4.5m)	<1m to 4.5m (av. 1m)	<1m to 3.5m (av. 1.5m to date)
Strike Length	200m	300m	200m
Depth Extent	surface to 1100m (open)	100m to 450m (open)	5m to 110m (open)
Insitu Metal Value (2010 price)	A\$1.90 Billion	A\$0.46 Billion	?

## Development Potential

**Potential resource of 100-150koz at >15g/t could double with depth extensions**

The economic potential of the Andy Well discovery is clear. In our view a JORC resource of >150koz at >15g/t Au (applying a 30g/t top-cut) down to 120m appears likely. The planned diamond drilling to chase the lode to >300m in depth could more than double the size of the potential resource. A common measure of underground mining potential is ounces per vertical metre. On this basis we believe 1500-2000oz/m is a realistic target, with a minimum 1000oz/m often used as a minimum cutoff for underground development.

In addition, there is evidence of other parallel gold lodes in the vicinity, such as 8m @ 13.9g/t Au from 46m at Bernie South (Figure 3, p1). Following the 2H 2010 drilling campaign, it may be possible to establish a larger, open cut resource of >250koz, which would increase the potential economics of a stand-alone gold processing operation. In our view, a resource closer to 500koz would be needed to justify a large-scale mill (>100kozpa), however this would depend on grade, and a central treatment processing facility with ore trucking could be an option with the high grade. A mill constructed closer to Meekatharra and the Abbotts prospect could be an option provided the prospect for resource definition at these other areas increases with further work.

**Potential gross margin of >A\$30mpa to DRM on a toll-treatment arrangement**

There are at least two nearby gold processing facilities which may have capacity to treat the DRM ores. Bluebird mine (previously owned by Mercator Minerals PLC, being purchased by THX hopeful Meekatharra Gold) is 65km away and Jinka Minerals have a mill at Burnakura also 65km away. Barrick's Plutonic mill is also proximal. Based on our reasonable expectations of an open cut operation mining ½ ounce dirt, the project could conceivably produce 50kozpa at a cash cost of <A\$400/oz, allowing for toll treatment fees and transport. At a gold price around 30% below spot at A\$1030/oz (our long term forecast), this could generate an annual gross margin of >A\$30m to DRM (pre tax, royalties, capital and overheads) or >A\$30mpa net at spot prices.

**Mine planning to be accelerated**

Any discussion of mine planning is highly conceptual and subjective at this stage, and we anticipate DRM will be rapidly advancing both the environmental approvals process and mine planning/scoping later in 2010, with a view to accelerating the development timetable for potential production by early 2012 (toll treatment). One issue with Andy Well (Wilber lode) is the location right on the Great Northern Highway. This would probably need relocation to enable open-cut mining, hence there is a risk in timing here, however we do not see this issue as an impediment to mining.

## Valuation

**Current valuation of A\$0.73ps, with upside to A\$1.50ps**

Whilst highly conceptual at this stage in the absence of JORC resources, we consider it worthwhile to attempt to quantify the potential in DRM's tenements. Our current, risk-adjusted valuation on DRM is A\$0.73ps, with our upside valuation of A\$1.50ps (low-gold price, 100kozpa production scenario), derived by the following methodology. We note the expansion/development timetable is realistic, though requires planning to be expedited:

- Assumes ultimate reserve base of 0.875 Moz in the Andy Well District (80% DRM). We note actual ownership of any mining operation is likely to be higher, hence this is a base-case ownership only;
- Initial production in May, 2012 of 50kozpa for 18 months open cut, cash cost of A\$400/oz, based on 15-20g/t diluted head grade, 37:1 strip ratio and A\$50/t toll treatment/transport;
- Production increase to 100kozpa by mid-2013, 50% from Andy Well underground, and 50% from high-grade open cut (>5g/t, <5:1 strip ratio). Cash cost of A\$450/oz;
- Construction of stand-alone processing facility and infrastructure (A\$90m including underground development) from early 2012, following growth in resource base. Initial capex of A\$20m, including highway relocation;
- Average gold price of A\$1030/oz flat for Life of Mine (LOM) or 25% below spot prices;
- NPV is discounted by 50% for development risk. Assumes 100% debt funding;
- Corporate allowance includes cost of ongoing exploration, overheads and other indirect expenses as a potential operating entity, also adjusted by 50% for risk;
- Our spot valuation is approximately 100% higher than our current, risk-adjusted valuation.

Our risk-adjusted price target of A\$1.20ps, allows for a degree of further discovery success and progress towards mine development over the next twelve months. Upside to this target includes the gold price being sustained above our forecast (we use a base-case assumption in our valuation) and new discoveries. As various milestones are achieved and the projects de-risked, there is scope to upgrade this price target.

	A\$m	A\$ps*	Spot	De-risked
Andy Well (80%)	54.1	0.77	1.65	1.53
Exploration	10.0	0.14	0.14	0.14
Cash	6.5	0.09	0.09	0.09
Corporate Costs	-18.8	-0.27	-0.27	-0.27
<b>Total Valuation</b>	<b>51.8</b>	<b>0.73</b>	<b>1.62</b>	<b>1.50</b>

\*Diluted capital of 70.7m shares

Whilst SLR's Daisy Milano (Mt Monger) mine is south of Kalgoorlie, it is also a high grade, very profitable operation hence is worth comparing to DRM's Andy Well project. SLR is planning ultimate production of 200kozpa from the Mt Monger area, and has a high grade reserve base.

**Comparison with SLR's Daisy Milano**

	Daisy Milano, Silver Lake (SLR)	Andy Well, Doray Mins. (DRM)
Issued Capital (diluted)	203.2	70.7
Share Price (A\$ps)	2.11	0.69
Market Cap. (A\$m)	429	49
Enterprise Value (A\$m)	394	42
Resource (JORC)	0.6moz	Pending
Host Rock Type	Felsic Intrusive	Mafic Intrusive
Production (Kozpa)	>60kozpa	NA
Cash Cost (A\$/oz)	A\$553 (June Qtr)	<A\$500/oz Est.
Reserve Grade	38.7g/t	>15g/t (est)
EV/ Oz Production*	6.56	0.85

\*Note SLR has production outside of Daisy Milano, target of 100koz in FY11

## About DRM

**Strong exploration background of Management team**

DRM has 31.9m shares free-float at present, and 23.17m restricted shares which are released from escrow by February, 2012 (3.75m in Nov'10, 6.6m in Jan'11). The company also has approximately 12.7m options exercisable at A\$0.20ps, with exercise from 2011-2014. Diluted market capitalisation is about A\$47m and management hold about 22%.

DRM is managed by Allan Kelly, ex-WMC and Avoca Resources. Allan is a geologist with expertise in geochemistry, and has been involved with discovery of several gold and base metal projects in Australia, Alaska and Canada.

Technical director is Heath Hellewell, a geologist who has worked internationally and locally for groups including Independence (IGO) and Resolute (RSG). Heath was part of the team responsible for discovery of the Tropicana gold deposit. Mark Cossom (ex-Harmony) was recently appointed Geology Manager for the Andy Well project. Mark is expected to accelerate mine planning and approval work later in 2010/early 2011.

Non-executive Chairman is Brett Fraser. Mr Fraser has a background in financial services and has been involved with a number of start-up exploration companies, presently chairman of Drake Resources (DRK) and Aura Energy (AEE).

Jay Stephenson is a non-executive director, an accountant with MBA qualifications and extensive experience in business management, corporate finance and company development. Mr Stephenson is on the board of a number of public companies.

**Forecast Timeline of events**

	2010		2011			
	Q3	Q4	Q1	Q2	Q3	Q4
<b>Andy Well/Meeka North</b>	Drilling →					
		Permitting/scoping →			Construction →	
<b>Webbs Patch</b>	Drilling →				Permitting →	
<b>Abbotts</b>	Drilling →				Permitting →	
<b>Magnet North</b>			Drilling →			
<b>Mingah</b>			Geophysics/Drilling →			
<b>Nuckulla Hill (SA)</b>		Geophysics/Drilling →				
<b>Hicks/Western Queen</b>				Drilling →		

## Recommendation

**Establishment of a 1moz resource base could see the stock re-rated**

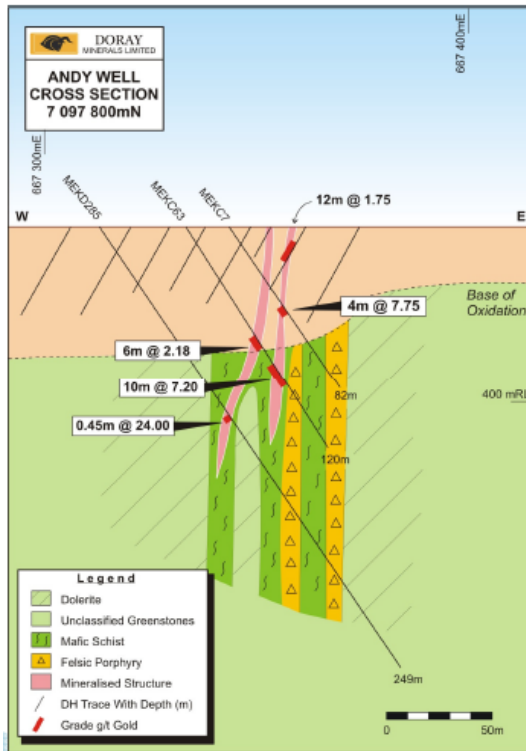
DRM has enjoyed strong share price appreciation since listing, in recognition of the economic potential of the discovery at Andy Well. Whilst we believe the share price is already factoring in reasonable size JORC resource at Andy Well (>250koz), we can envisage further price appreciation should the scope of the project be expanded at depth (>400m at current grade/widths) and other prospects within the portfolio begin to show potential for JORC resources. Establishment of a resource base approaching 1moz could see the stock re-rated as the project is de-risked, in accordance with our conceptual valuation summary.

We initiate coverage with a Buy recommendation. We note our assumptions are high risk due to the absence of meaningful JORC resources. DRM remains appropriate for investors seeking gold price and exploration exposure. In addition to the attractiveness of the exploration ground, we believe the stock offers appeal from a corporate perspective, from other producers in the district who may be looking to expand their resource base and tenement position, and take advantage of potential synergies.

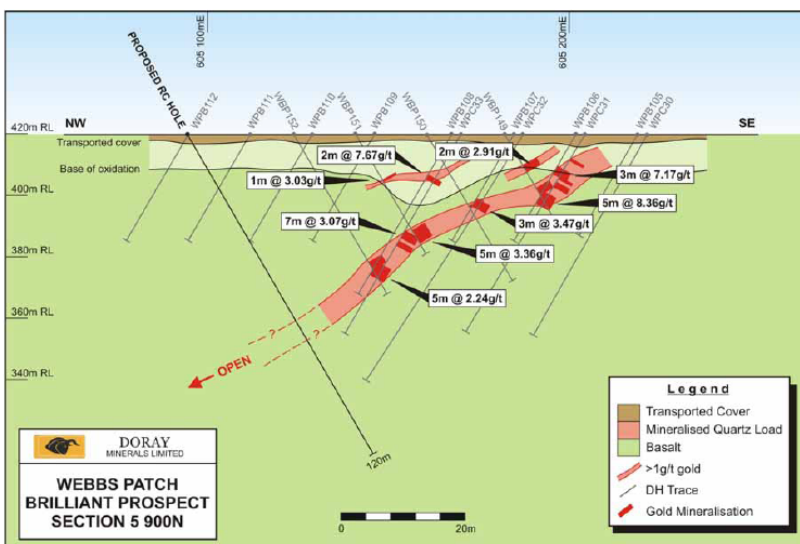
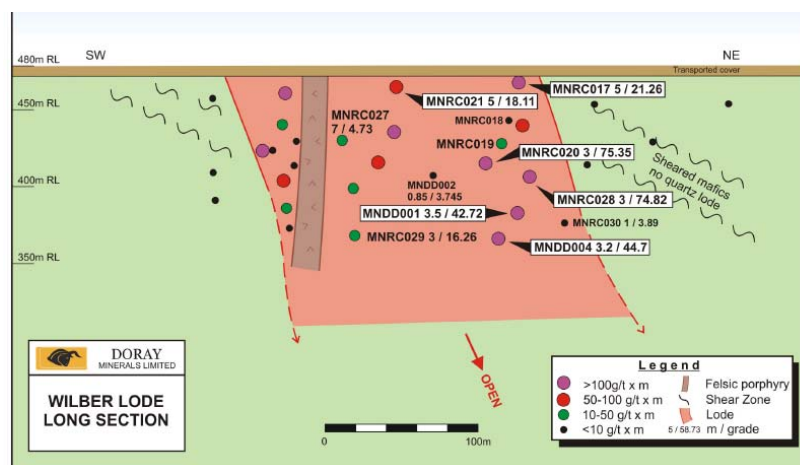
**RISK STATEMENT** *The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw advisor before making any investment decision.*

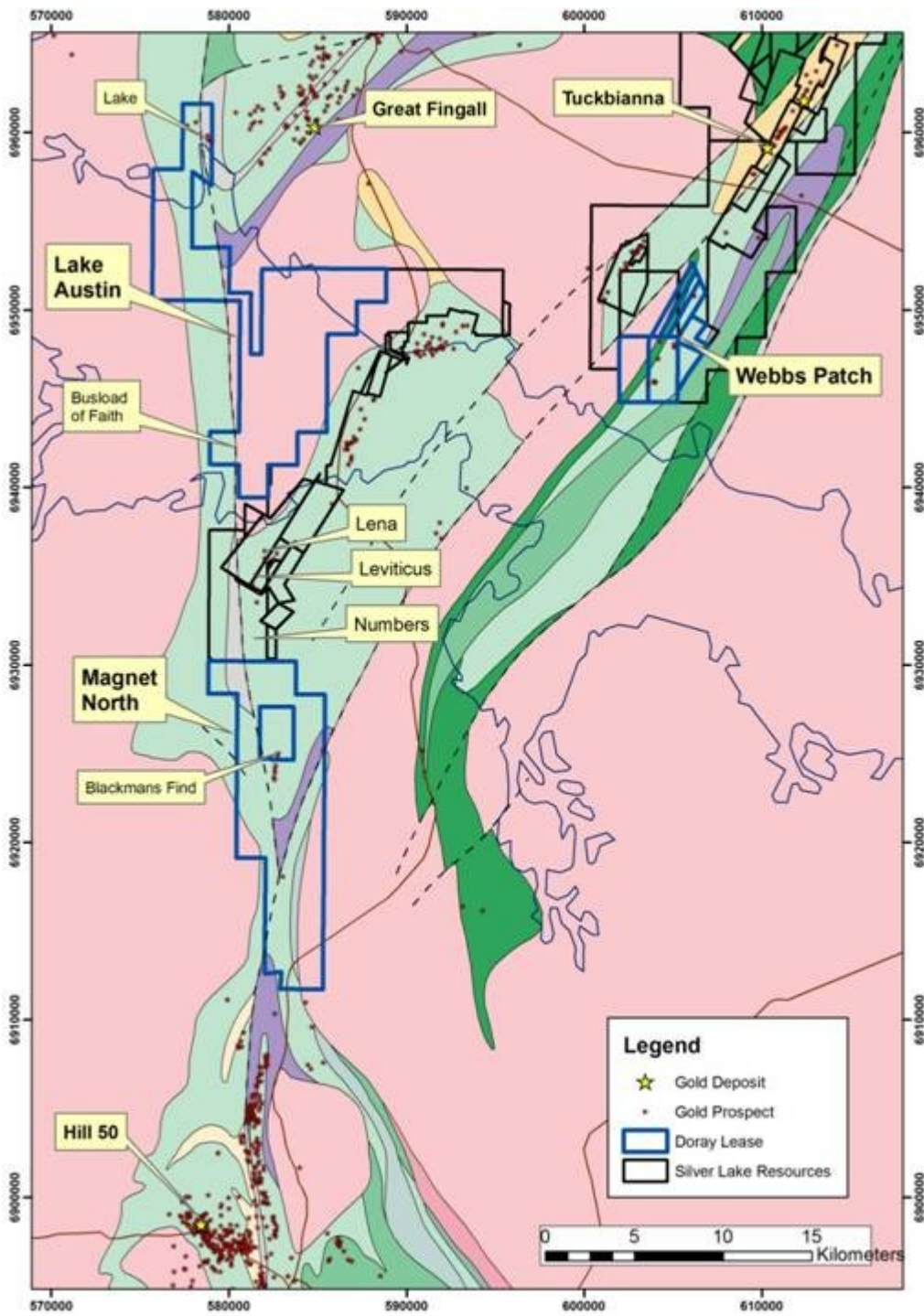
Appendix 1

Additional cross-sections



Visible gold in core, MNDD001, 110m depth





Tenement Map of Magnet North

## Company Directors

Mr Allan Kelly (MD)  
Mr Jay Richard Stephenson  
Mr Brett Fraser (CH)  
Mr Heath Hellewell

## Company Activities

Doray Minerals Limited (DRM) is a dedicated mineral explorer formed in August 2009 for the purpose of acquiring and developing prospective mineral properties. The Company is focused on exploring for gold deposits in Western and South Australia and has assembled a portfolio of exploration properties.

Information for Company Activities is sourced from Huntley Investment Information Pty Ltd.

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