

# Doray and the evolution of a gold prospect

Kate Haycock, 4 August 2010



Doray Minerals' Allan Kelly ... exploration game not all beer and skittles.

THE initial successes of explorer Doray Minerals, which listed in February this year, have been a very welcome surprise for the company's managing director Allan Kelly. With his background in exploration at Western Mining Corporation, he knew the company's Murchison projects were prospective, but hitting grades as high as 125 grams per tonne gold less than two months after listing was certainly not part of the original plan.

It is a year to the week since Kelly acquired the old WMC projects that have transformed Doray from just another A20c gold float into a A70c stock to watch. These same projects were ones he'd once explored back in the 1990s and since acquiring the ground, it has been a transformative year for the exploration geochemist and the company.

"We listed in February at A20c and we've quadrupled the market cap of the company and we've been able to go back and raise \$A4 million. We're in a pretty good position compared to these other guys who are down around A7c or A9c and running out of money," Kelly told *HighGrade*.

Kelly first came across the tenements that make up Doray's Meekatharra North project, which includes its Andy North deposit, in his first job out of university with WMC in 1994. It wouldn't be for another 15 years or so before these projects would reveal their true worth to Kelly, and in the meantime he went to North America with WMC – with stints at Reno, Nevada and Denver, Colorado, to be more precise – and worked across North America from Mexico to Alaska.

After "flying around in helicopters in the Arctic" Kelly came back to WA in 2000 and worked in WMC's nickel exploration business, where he helped discover nickel deposits at Gunbarrel and Collurabie.

He left WMC and took a six month break to travel through the Middle East and Asia, then came back to WA in 2002 and set up his own small consulting business in exploration geochemistry. This led straight back to gold exploration, but this time with a much smaller company than WMC.

"One of my first clients was Avoca – they were just putting together their float – and I knew Rohan [Williams] from WMC," Kelly said. He ended up working full time for Avoca managing their South Australian iron-oxide-copper-gold projects, which now belong to Rex Minerals, before taking another break from the mining industry in 2005.

"I wanted to do something a bit different so that's when I started the brewery," he said.

The "microbrewery" business came about after Kelly noticed an explosion of small beer labels in North America, and he pursued it to the point of studying brewing at uni, but the venture didn't go as well as planned and he walked away from it in 2008.

"I thought, what am I going to do now? So I pegged some gold properties in South Australia. And then I was speaking with Heath [Hellewell] and he said he thought we had good enough properties to put together a new company," he said.

Kelly and Hellewell, now Doray's technical director, spent some months in early 2009 beefing up the company's suite of tenements, and Kelly headed back to his old stomping ground in the Murchison to peg some more ground. By the time Diggers & Dealers rolled around last year, there was only one tenement Kelly wanted which he didn't have pegged.

"The one that was missing was Meekatharra North – and that's why I made the effort to go to Diggers and catch up with the prospector who held the tenements," he said.

Kelly describes the serendipity of walking into the front bar at one of Kalgoorlie's pubs and seeing the prospector sitting there and then spending the next few days of Diggers pulling all the other pieces of the company together.

It was also serendipitous that Kelly managed to get his foot on the tenements at all, and it seems remarkable now with strong interest in the region. However, Kelly had a pretty good idea of the Murchison's prospectivity from his work with WMC – work which was never followed up by the company.

"The gold price was a lot lower – I think it was down around \$370 an ounce, Mabo had just come in and people were worried about what it would mean, and that's when a lot of explorers went offshore because they were worried about not being able to do anything with their projects," he said.

"And Western Mining ... increased their exploration hurdle to six million ounces. Now there's not many six million ounces deposits in the world, let alone in Western Australia.

"We'd go out and say a six million ounce deposit would have to be this long, so if we drill at this spacing, and we don't see it, it's not there. So that's why a lot of the work that was done at places like Meekatharra was done as widely spaced drill holes."

But for a small company such as Doray the potential that WMC overlooked was just the right size to pursue – especially given the rising gold price. At Andy Well, for example, Kelly said WMC had walked away from drill intercepts grading as much as 7gpt across 10m.

"That's an amazing intersection in the middle of nowhere – they got 4m at 7 grams and 10m at 7 grams and the geo had to fight to put a diamond hole in there because the management at the time said, 'no it's worthless'. The diamond hole got half a metre at 12 grams and management said 'that's finished it, that's killed the project. The project geologist and I at the time wondered, 'how has that killed the project?' But it did," Kelly said.

When WMC was acquired by BHP Billiton tenements were then sold to a junior company which then sold the ground to another junior, which floated on the projects.

"Their prospectus looks remarkably similar to ours," Kelly said.

"But they were there for three years – from 2005 – and they never drilled a single hole. They dropped all their projects than and the only one they didn't drop was Meekatharra North, which they gave back to the [original] prospector."

With the intersections WMC had drilled, Doray's original plan was to try and locate a nice little 5gpt orebody that could be toll-treated at the nearest mill.

"That was the plan, we didn't want to spend any money on infrastructure, we just wanted to find it, define it, and toll treat it somewhere," Kelly said.

These plans went out of the window pretty quickly with the very first drilling campaign at the project, where the company put a hole in beneath the WMC result which returned 10m at 7gpt gold.

"The first hole we get 10m at 1 ounce from surface. And then further down we get 5m at 60 grams. So Heath rang me up on the first day of drilling and said, 'you're not going to believe this'," Kelly said.

"Then we drilled the second hole and that was a dud. So we stepped out 50m and drilled the third hole. And Heath rings me up two or three days later, it was a long weekend and I was on holidays somewhere, and he said 'we've hit it again'."

The next drill hole Doray completed stepped out another 50m and hit the same mineralisation again, meaning the company had done only four holes and had already defined some 100m of strike.

Kelly said the downside of these results was having started so strong that "normal" results around 3gpt would seem like a huge disappointment.

"I'm trying not to tempt fate," he said.

The gold mineralisation occurs within a quartz lode contained in dolerite – there is no gold halo in the surrounding rock, it's either there ore it isn't which Kelly said made it "very simple" to target when drilling. This compares to other projects in WA such as the Great Fingall mine near Cue, which was a quartz lode deposit that contained a million ounces at 20 grams per tonne gold.

"Norseman is the classic high-grade quartz lode deposit, and even at Higginsville the Athena lode is a super-high grade quartz lode. You just have to follow that lode," Kelly said.

Doray's work suggests there may be parallel lodes and these need to be tested as well, but there are also plenty of other results from the WMC days which need following up. There is also depth potential – the company has only tested down to around 110m, where results are still strong, and suggest there could be more mineralisation below.

Drilling will continue for the rest of the year and the company will also move along strike north and south and test the additional historical drill results.

"We're going to start a big drill program until Christmas, we've hired another geologist and we're just in the final stages of appointing a very experienced development geo, who has experience in underground and open pit, and he's going to help us progress this towards production," Kelly said.

If all goes well, Doray wants to be in a position by this time next year to have generated a resource at Andy Well and begin to be making decisions on infrastructure, mill size, production rates and capital costs. The company could release a resource now but Kelly said he believed there was so much potential within the project area which needed to be tested before releasing any numbers prematurely.

However, he said the company was hoping to have resources that would support a 100,000ozpa operation.

A million ounces will be the magic number to give an 8-10 year mine life and justify a mill the same size of Avoca's Higginsville plant for a \$70-80 million investment, and that doesn't include further satellite projects the company may define as well.

But even if the company fails to define another ounce at its Murchison projects, Andy Well could still be developed according to Kelly's initial plan of finding something to toll treat quickly and easily.

"If we don't find anything else in any of our other properties we've got a very profitable openpit mine," he said.

One risk to this medium-term plan is that Doray could be a takeover target, although Kelly said this would only be a concern if the price wasn't right.

"I just don't how you value the company at the moment. We've got a great portfolio of projects in the Murchison and we've only just tested one area at Andy Well," he said. "I think when we do some more drilling and test some more targets, I think it will show there's a lot of potential, and when we start to build people on the team with development and exploration experience, people will start to see we can do something with this."

Nevertheless, Kelly would like to translate this initial success at Doray into something longer-term.

"I'd like to see Andy Well develop into something and I'd like to have a crack at a few of these other things before we get taken over, if it ever happens," he said.