Shaw Research

Company Report

19th November, 2010

Doray Minerals Ltd (DRM) — Buy

Undervalued Quality Ounces

Since listing on the ASX in February 2010 Doray Mineral's (DRM) exploration efforts have outlined a high-grade quartz vein known as the Wilber Lode at its Andy Well project, Western Australia. We anticipate a resource approaching 250koz grading around 30g/t to be announced during the March 2011 quarter. The Wilber Lode ranks amongst the upper echelons of Australian gold deposits in terms of grade.

We ascribe a Buy recommendation and a $2.07ps 12 month share price target to DRM based on typical enterprise valuation multiples applicable to emerging producers (50% risk factor applied to DRM). Given the superior gold grades DRM could demand a significantly higher multiple as it progresses towards mine development.

- DRM's main focus is on a number of exploration projects in the Murchison region of Western Australia, a region which hosts numerous large gold deposits with a discovered endowment of more than 30Moz of gold.
- Located 45km north of Meekatharra in WA is the 80% owned Andy Well project. Drilling has outlined a high-grade quartz vein known as the Wilber Lode. This project has been the main focus of DRM's exploration efforts and the main focus of the market's attention to date. We estimate that a gold resource approaching 250koz (250kt grading up to 30g/t) will be announced during the March 2011 quarter.
- When plotted against 472 Australian gold deposits, the Wilber Lode ranks amongst the upper echelon in terms of grade. The maiden resource tonnage will be modest, however the ultimate tonnage will only be determined through on-going drilling. When compared against its current peers, DRM clearly stands out as a quality play.
- Discovery cost to date has been just over $10 per ounce based on our 250koz resource target. It could be argued that DRM's expenditure/drilling rate is too low given the low costs of discovery and the appealing Andy Well exploration targets including the Wilber Lode and parallel structures.
- Comparison with a number of other emerging producers shows DRM to be undervalued using the enterprise value per production ounce method. Assuming that DRM develops a 100kozpa operation with expenditure of $50m for capital development, we estimate at least 56% upside to DRM's share price. This can be considered to be a base case scenario given DRM's superior grades and our 50% applied risk factor.
- DRM had $5.8m in cash as at 31st October 2010. Anticipated operational expenditure for the whole of 2010 is approximately $2.5m. DRM's capital structure remains particularly tight with just 55.3m shares and 14.3m options on issue, despite a post IPO placement of 6.7m shares at $0.60 per share.

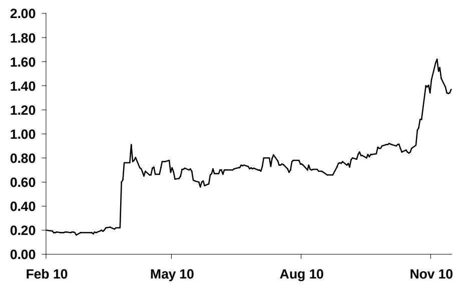
Investment Summary

Share Price $ps	$1.37
Target Price (12 month) $ps	$2.07
Materials	
www.dorayminerals.com.au	
Issued Capital M	**55.276M ordinary shares**
	0.5M 20c opts exp Feb12
	8.6M 20c opts exp Sept 14
	5.3M 20c opts exp Feb15
Market Cap $M (fully dil. & cash adj.)	$95.5M
Cash as of 31st Oct 2010	$5.8M
Analyst Name	Vincent Pisani
Consultant Geologist	Ted Leschke

Changes to Forecasts

Recommendation was:	Buy
Price Target was $ps:	$1.20

Share Price Chart



Year Hi-Lo $ps			$1.65 - $0.15
Avg Monthly Vol (M)			1.0
Performance %	**1 m**	**3 m**	**12 m**
Absolute	55.7%	107.6%	na
Rel Top 200	56.2%	101.8%	Na

Shareholders

Shareholders	%
Board and Management	22%

Company Activities

Doray Minerals (DRM) is an explorer focussed on exploring for gold deposits in Western and South Australia.

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DRM's main share price driver

Anticipated maiden resource & on-going drilling to be near term share price driver

DRM's main asset is the Andy Well project in WA where drilling has identified very high grade results from the Wilber Lode. DRM's share price has appreciated from the February 2010 IPO price of 20c to above $1.60 during November 2010 [currently $1.33]. A maiden resource for the Wilber Lode is anticipated to be announced during the March quarter 2011. The announcement of this resource and the results from on-going extensional and regional drilling are expected to be the main drivers of DRM's share price in the near term. In addition, multiple other targets in the vicinity of Wilber Lode and throughout DRM's tenements in the Murchison have the potential to generate significant news. Further out, DRM's share price will be driven by the development of the Wilber Lode, which is now highly likely.

Company Overview

DRM listed on the ASX in February 2010

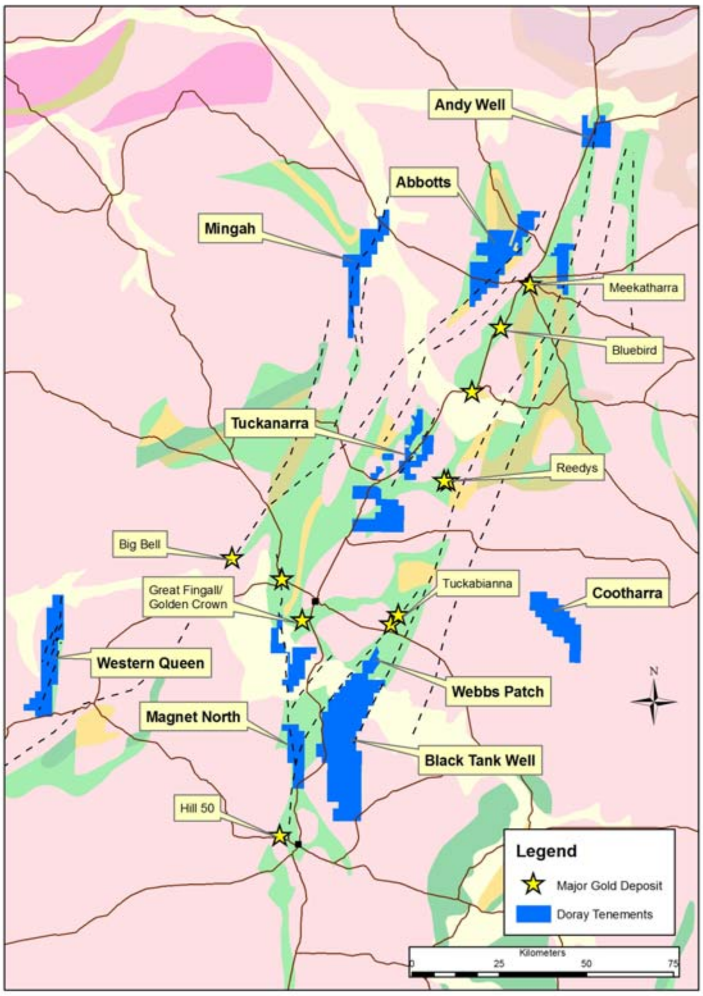
DRM was established in August 2009 to acquire and develop prospective mineral properties around the Murchison region, Western Australia. A portfolio of properties was acquired of which a number had promising results from previous drilling that were never followed up. DRM raised $4,657,000 through an Initial Public Offering of 23.285M ordinary shares at an issue price of 20 cents per share and listed on the ASX on 8th February 2010.

A Murchison focus

DRM's main focus is on a number of exploration projects in Murchison region of Western Australia, a region which hosts numerous large gold deposits with a discovered endowment of more than 30Moz of gold (See Figure 1). DRM now holds a dominant land position in the Murchison totalling 1,500km^2 following the purchase of the Black Tank Well and Tuckanarra gold projects from Aspire Mining Ltd.

DRM's holds a dominant land position in the Murchison

Figure 1 DRM's Tenement Location



The Andy Well Project – Wilber Lode (80% Owned)

Early drilling discovered the Wilber Lode

Located 45km north of Meekatharra in WA is the 80% owned Andy Well project. Post listing, a maiden-drilling program at Andy Well confirmed historic intersections as well as discovering a very high-grade quartz vein known as the Wilber Lode. This project has been the focus of DRM's exploration efforts and the main focus of market's attention.

On-going drilling has extended mineralisation down to 200m

Gold mineralisation is hosted in quartz within sheared basalt. The lode, which dips steeply to the west with a moderate to steep north easterly plunge, has a strike length of approximately 200m and averages 2 to 3 metres in width. During the year, drilling increased the depth of known mineralisation from 80m to 200m and further drilling is ongoing with the aim of confirming the continuity and dimensions of mineralisation as well as testing yet deeper extensions. A summary of drill results is listed in Table 1. The most recent drilling has intersected mineralisation, including visible gold, at 200m vertical depth with assays pending.

High-grade intercepts occur in most drill holes

Table 1 Summary of Wilber Lode Drill Intercepts

Hole	From (m)	To (m)	Interval (m)	Grade (g/t)
MNRC001	60.00	65.00	5.00	58.73
MEKC370	92.00	94.00	2.00	7.00
MEKC63	84.00	88.00	4.00	16.91
MEKC7	44.00	66.00	2.00	14.60
MEKD285	106.55	107.00	0.40	24.00
MNRC001	16.00	25.00	10.00	34.40
MNRC003	46.00	53.00	7.00	67.77
MNRC004	72.00	75.00	2.00	28.50
MNRC006	42.00	46.00	4.00	22.64
MNRC017	8.00	13.00	5.00	21.26
MNRC019	57.00	59.00	2.00	8.11
MNRC020	73.00	76.00	3.00	75.35
MNRC021	13.00	18.00	5.00	18.11

Hole	From (m)	To (m)	Interval (m)	Grade (g/t)
MNRC027	44.00	51.00	7.00	4.73
MNRC028	83.00	86.00	3.00	74.82
MNRC029	112.00	115.00	3.00	16.26
MNRC030	116.00	117.00	1.00	3.89
MNDD001	107.50	111.00	3.50	42.72
MNDD004	120.70	123.90	3.20	44.70
MNDD005	167.25	169.80	2.55	89.17
MNDD006	182.04	182.64	0.60	15.56
MNDD007	244.40	246.20	1.80	Pending
MNDD008	145.20	146.60	1.40	Pending
MNDD011	163.80	166.80	3.00	Pending
MNDD009		In progress		

Anticipated maiden resource approaching 250koz grading 30g/t

Whilst there are many factors involved in any resource calculation and further infill drilling is required, we estimate that a gold resource approaching 250koz (250kt grading 30g/t) is highly likely based on the drill results in Table 1. Mineralisation continuity appears to be reasonably strong as shown in the long section in Figure 2 and a cross section in Figure 3. It is expected that a maiden resource will be announced during the March 2011 quarter. Vertical endowment is estimated at 850oz per vertical metre. Whilst still early days, it is anticipated that a significant proportion of the resource will convert to a mining reserve due to the high gold grades. Future mine plans would incorporate both a small open pit and an underground operation.

Long section shows strong mineralisation continuity to 200m depth

Figure 2 Wilber Lode Long Section

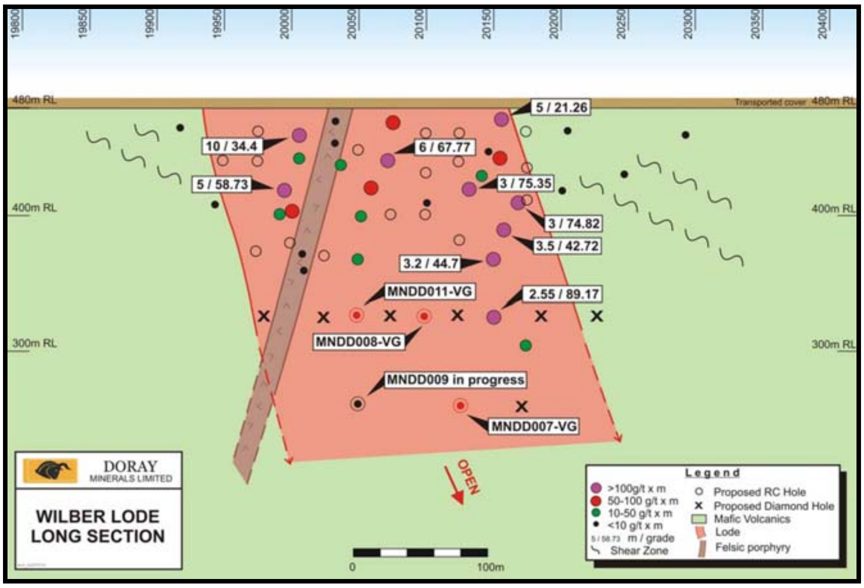
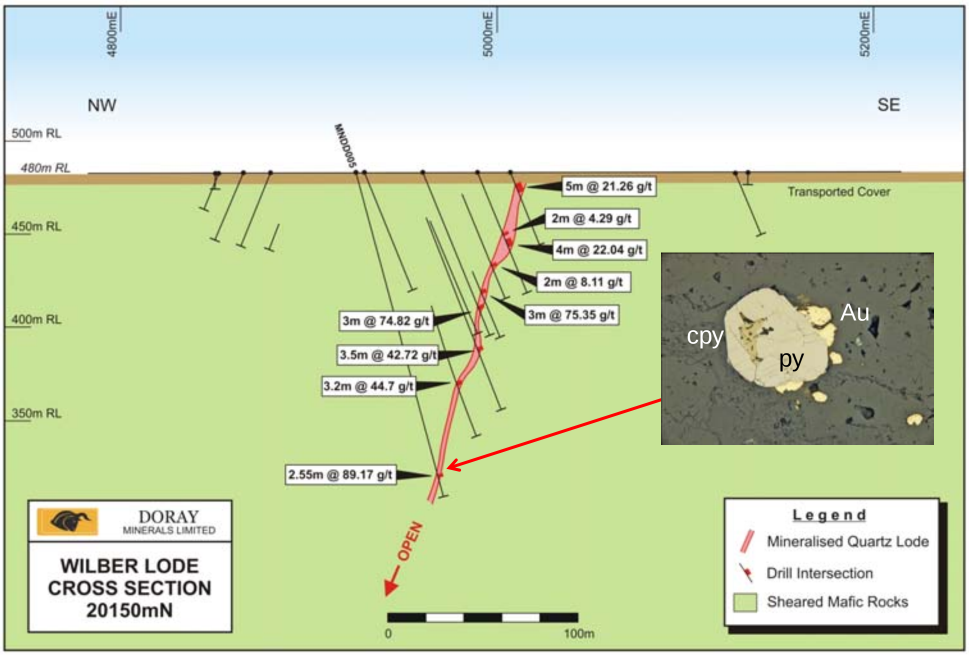


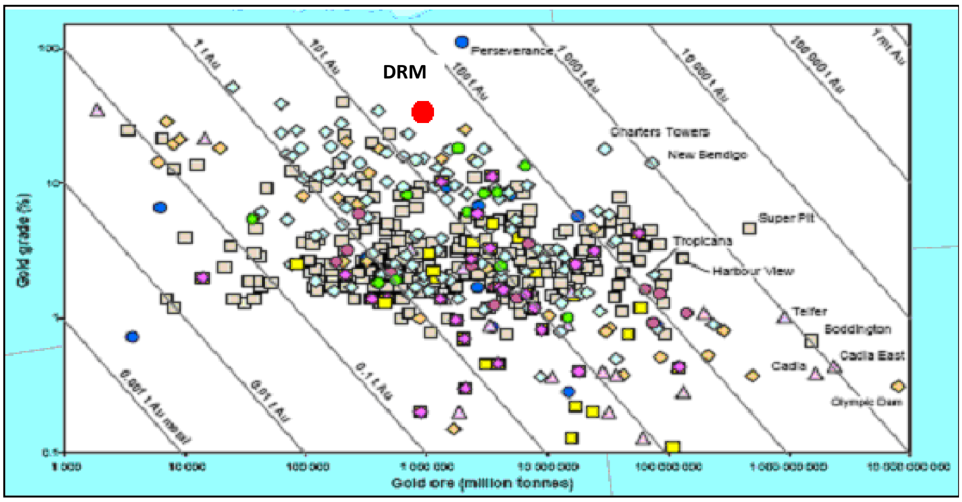
Figure 3 Wilber Lode Cross Section



Cross section shows strong mineralisation continuity to 200m depth

The Wilber Lode is a high quality gold resource in grade terms. When plotted against 472 Australian gold deposits (based on mined and remaining resources) our estimation of the likely Wilber Lode resource ranks it amongst the upper echelon in terms of grade (See Figure 4). At this stage, the likely resource tonnage will see it rank lower on the scale (note the scale is logarithmic) however this is only an initial figure and only further exploration drilling will prove the ultimate tonnage potential for the Wilber Lode and any other resource in the immediate vicinity.

Figure 4 Grade Versus Tonnage For 472 Australian Gold Deposits



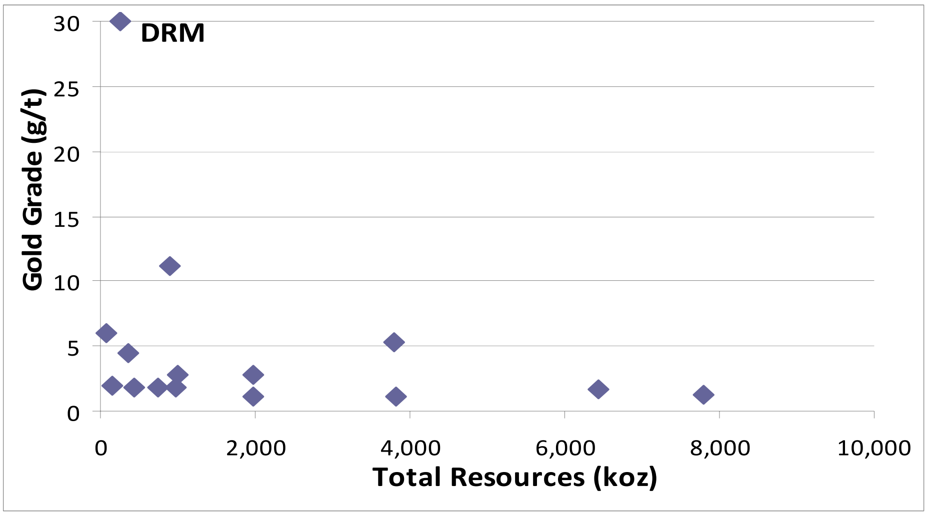
Anticipated resource will rank the Wilber Lode amongst the higher echelons of Australia's gold deposits

Source : Australian Government, Geoscience Australia / Consultant Geologist Ted Leschke

When compared against its current peers, DRM clearly stands out as a quality play. Plotting gold grade versus total resources for some 14 emerging and more developed gold producers, DRM clearly leads the pack on grade even when we build-in 20% waste dilution (See Figure 5). However, it would be expected that DRM's average gold grade will fall somewhat as its resource grows with the addition of other discoveries. This is a typical phenomenon as further discoveries are unlikely to be as high in grade and/ or cut-off grades are lowered with resource growth due to economies of scale.

Anticipated gold grade ranks DRM well above its peers

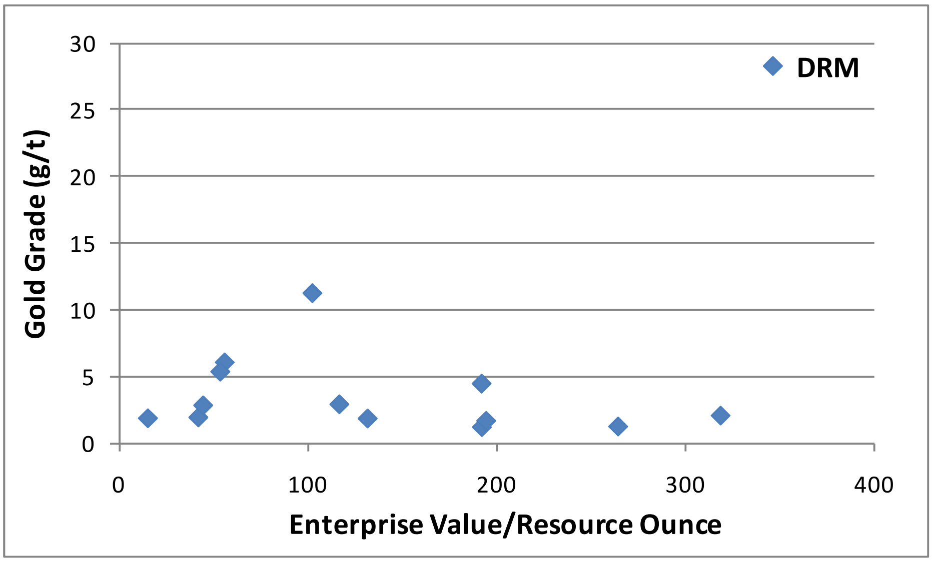
Figure 5 Grade Vs Total Resource



DRM ranks at the top of the pack based on the standard valuation measure of enterprise value per resource ounce (See Figure 6). Whilst this may suggest that DRM is overvalued, it is more a function of the market's recognition of the Wilber Lode's high grades and the anticipation of further discoveries.

Wilber Lode's high grades drives a high EV per resources ounce multiple

Figure 6 Grade Vs Enterprise Value Per Resource Ounce



EV per production ounce is a more appropriate measure

A more appropriate measure of comparative valuation is the enterprise value per production ounce method given that DRM is highly likely to become a gold producer. A comparison with a number of other emerging producers shows DRM to be significantly undervalued. We envisage DRM will develop a 300ktpa operation with expenditure of $50m for capital development, treating an average of 10g/t (high grade Wilber Lode ore diluted with other ore) resulting in the production of 100kozpa at a cost around US$400/oz. Conceptually DRM is targeting production in December 2012.

Based on the enterprise value per production ounce method we estimated 56% upside to DRM's share price (See Table 2). This can be considered to be very much a base case scenario given that DRM's superior grades and our 50% applied risk factor.

DRM is in the very early stages of developing the Andy Well project and the realisation of a higher valuation multiple will be achieved through the standard steps of a defining a maiden resource, resources growth and, eventually, project development.

56% share price upside estimated as a base case

Table 2 Enterprise Valuation Multiples

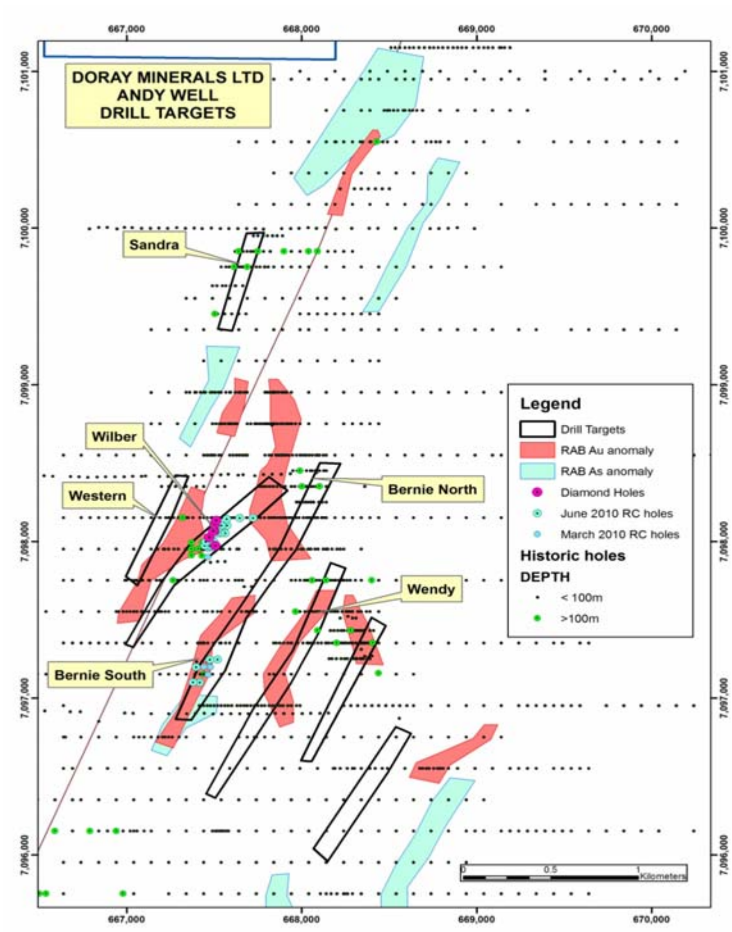
Company	Enterprise Value/Annual Production Ounce ($/oz)
Allied Gold	2,519
Catalpa Resources	2,921
Morning Star Gold	2,731
Norseman Gold	2,892
Average	**2,766**
Doray Minerals	1,022
Doray Minerals (with $50m capex)	1,369
Upside potential using average multiples (unrisked)	111%
Upside potential using average multiples (50% risked)	**56%**

Exploration Upside

The Andy Well project has several other drill targets based on gold and arsenic anomalies as defined by previous RAB drilling. These targets run parallel to the Wilber Lode and located within a few kilometres radius (See Figure 7).

Several anomalies parallel to the Wilber Lode are to be tested

Figure 7 Andy Well Drill Targets



Other Prospects

In addition to Andy Well, DRM has several other projects located in the Murchison as shown in Table 3, adding further potential to add resources.

DRM has several other projects located in the Murchison.

Table 3 DRM's Other Projects in the Murchison

Other Projects	Ownership	Brief Description
Andy Well Regional	80%	Plans for a regional drill programme to test parallel targets following the granting of road access permits
Webbs Patch	100%	Existing 6,600oz JORC-compliant resource. Plan to drill test below shallow mineralisation. Any resource outlined could be potentially treated at the nearby existing Hill 50 mill or the proposed Tuckabianna project
Black Tank Well/ Tuckanarra	100%	Recently acquired, these tenements are contiguous with Webbs Patch
Abotts	80%	Most advanced prospect Abernethy South only tested to less than 100m depth
Magnet North	80%	47km strike of greenstones in the Cuddingwarra Shear Zone including the Lake Prospect which has shallow high grade gold mineralisation over 400m

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. 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. 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. 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 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. Other targets include Magnet North, south of SLR's Moyagee project. DRM also has projects in South Australia (Nuckulla Hill, Hicks).

Cash, Expenditure & Capital Structure

DRM had \$5.8m in cash as at 31st October 2010. Anticipated operational expenditure for 2010 is expected to total approximately \$2.5m (See Table 4). Whilst the quarterly operational expenditure rate has increased since DRM listed on the ASX, the discovery cost to date has been just over US\$10 per ounce based on our estimated 250koz resource target.

Discovery costs to date have been very low

Although the full discovery cost per ounce will rise (probably to around US\$20 per ounce), with the need for infill drilling, it could be argued that DRM's expenditure rate (or drilling rate) is too low given the low discovery costs to date and the appealing exploration targets at Andy Well including the Wilber Lode and parallel structures.

Table 4 Quarterly Operation Expenditure

Quarter	Explo. & Eval. \$'000	Administration \$'000	Total \$'000
March 2010	187	149	336
June 2010	423	222	645
September 2010	433	263	696
December 2010 (planned)	650	220	870
Total	1,693	854	2,547

DRM has a tight capital structure

DRM's capital structure remains particularly tight with just 55.3m shares and 14.3m options on issue, despite a post IPO placement of 6.7m shares at $0.60 per share (See Table 5).

Table 5 Capital Raised

Date	Capital Raising	Shares (m)	Share Price ($/share)	Funds Raised ($m)
Feb-10	IPO	23.285	0.20	4.657
Apr-10	Placement	6.667	0.60	4.000

Company Directors

Brett Fraser: Non-Executive Chairman

Over 25 years in the finance and securities industry and previously owner/operator of various wine, health, finance, media and mining industry businesses. Chairman of Drake Resources, Aura Energy & Blina Diamonds

Allan Kelly: Managing Director

Over 17 years experience in mineral exploration geology, geochemistry and project management in Australia and the Americas. Formally of WMC and Avoca. Fellow, Association of Applied Geochemistry

Heath Hellewell: Technical Director

Over 17 years experience in mineral exploration geology and project management in Australia, Africa, Philippines and Scandinavia. Formally with De Beers, Resolute and Independence Group. Exploration Manager, Goldsearch Ltd.

Jay Stephenson: Non Executive Director / Company Secretary

20 years business development experience including approximately 16 years as Director, Chief Financial Officer and Company Secretary for various listed and unlisted entities in resources, manufacturing, wine, hotels and property.

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