

# USD105 MILLION RECAPITALISATION PROPOSAL – NET DEBT REDUCTION OF USD91 MILLION

## Highlights

- > USD105 million recapitalisation proposal (pre transaction costs) agreed with Montsant Partners LLC.
- > Recapitalisation proposal comprises:
  - Share placement – placement of 100 million new shares at AUD0.05 to raise AUD5 million to be completed in two tranches; and
  - Convertible Notes – USD100 million 10% p.a. interest rate, 5 year secured notes, convertible to ordinary shares in the Company at AUD0.05 per share.
- > Reduction of gross debt from USD158 million as at 31 March 2014 to USD100 million on financial close.
- > Reduction of net debt from USD156 million as at 31 March 2014 to an anticipated USD65 million on financial close.
- > Use of funds:
  - USD65 million to discharge obligations under existing debt facilities in full; and
  - USD40 million for working capital purposes, including advancement of the Zeta underground mine, and transaction costs.
- > Lenders have agreed in principal to fully discharge all obligations of the Company under the existing Project Finance Facility and Revolving Credit Facility in exchange for:
  - payment of USD65 million; and
  - issue of 500 million fully paid ordinary shares in the Company.
- > Transactions subject to shareholder approval and entry of definitive binding documents.
- > Discovery Metals plans to make a pro-rata entitlement offer to existing shareholders at no greater than the placement price following financial close of the transactions. Details of the entitlement offer will be released in due course.

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- > The Chairman of Discovery Metals Mr Jeremy Read, when commenting on the transaction said, "The agreements we have reached with Montsant Partners LLC and our existing lenders is extremely positive for the Company as they reduce our net debt on financial close to USD65 million and will provide funding for the commencement of underground mining on the Zeta Mineral Resource. The Montsant Partners LLC investment is a vote of confidence in the long term potential of the Kalahari Copper Belt."
- > The Directors intend to recommend that shareholders approve the transactions, in the absence of a superior proposal.

#### Discovery Metals' strategic direction, unlocking underground potential

- > The potential for the establishment of three underground mines (Zeta, Zeta North-East and North-East Mango 2) significantly lengthens the life of the Boseto project while also providing a longer and consistent access to high quality mineralisation.
- > Access to this higher grade mineralisation together with improved copper recoverability will result in much higher copper and silver production.
- > The use of leading underground mining contractors with customary KPIs will provide for improved operational risk management with low owner administration costs.
- > While feasibility work on a second underground is progressed, supplementary feed will be obtained from open pits.

#### Montsant Partners LLC Transaction

Discovery Metals Limited (ASX/BSE: DML) (**Discovery Metals, DML or the Company**) is pleased to announce that it has executed a conditional, non-binding term sheet (**Term Sheet**) with Montsant Partners LLC, an LLC Special Purpose Vehicle set up by a group of resource focused investment funds, for the recapitalisation of the Company.

The recapitalisation proposal comprises (**Montsant Partners LLC Transaction**):

1. AUD5 million placement: Montsant Partners LLC has agreed to subscribe for AUD5 million worth of fully paid ordinary shares in the capital of Discovery Metals (**Placement Shares**) at AUD0.05 per share (**Placement Price**) which will result in the issue of 100,000,000 fully paid ordinary shares in the Company (**Shares**), over two tranches (see below) (**Placement**); and
2. USD100 million in convertible notes: Montsant Partners LLC has agreed to subscribe for 100,000 5 year, 10% p.a. interest rate, secured convertible notes with a face value of USD1,000 per note, convertible into Shares at AUD0.05 per Share (**Convertible Notes**).

The Placement will be completed in two tranches as follows:

- > Tranche 1: 84,005,162 Shares (equivalent to the Company's 15% capacity under Listing Rule 7.1) which shall raise approximately AUD4.2 million, which shall be made within 2 business days of the end of the due diligence period (described below); and
- > Tranche 2: 15,994,838 Shares on the issue of the Notes (i.e. once shareholder approval for the transactions is obtained), which shall raise approximately AUD0.8 million.

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The key terms of the Convertible Notes are set out in **Annexure A** to this announcement. Further details of the Convertible Notes will be set out in the explanatory booklet to the notice of Shareholder Meeting.

The Company must pay a break fee of USD1 million to Montsant Partners LLC, if:

- > the Company does not issue all of the Convertible Notes and subsequently undertakes a debt and or equity deal with another party within 6 months;
- > the Discovery Metals' board recommend any other transaction analogous or comparable to this Montsant Partners LLC Transaction;
- > shareholder approval for the Montsant Partners LLC Transaction is not obtained; and
- > the Lenders agree with another party for their current debt to be paid out in full for an amount of on or around US\$65 million.

### Arrangement with the lenders

As part of the Montsant Partners LLC Transaction, the Company has entered into a conditional, non-binding term sheet with its Lenders (**Lender Term Sheet**) under which the Lenders and the Company have agreed to a full payout of the existing Project Finance Facility and Revolving Credit Facility, subject to Lender credit committee approval, and the conditions noted below (**Lender Transaction**). On completion of the Montsant Partners LLC Transaction, the Lenders will receive in total (**Lender Payments**):

- a cash payment of USD65 million; and
- issue of 500 million Shares in the Company (**Share Payment**).

Upon payment of the Lender Payments, the obligations of DML and its subsidiaries under the existing Project Finance Facility and Revolving Credit Facility will be fully discharged.

Lenders have agreed to a milestone based standstill, to allow for the transactions to complete within an agreed timeframe. It is currently anticipated that the transactions will complete by 31 July 2014.

### Use of funds

The proceeds from the Montsant Partners LLC Transaction are planned to be applied as follows:

- USD65 million in payment to the Lenders;
- USD40 million for working capital purposes, including advancement of the Zeta underground mine, and transaction costs.

### Required approvals and conditions

Each of the Montsant Partners LLC Transaction and the Lender Transaction are conditional upon (amongst other things):

- the Company obtaining all shareholder approvals required under the *Corporations Act 2001* (Cth) and the ASX Listing Rules; and
- finalisation and execution of definitive transaction documents.

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The Montsant Partners LLC Transaction is also conditional upon satisfactory legal due diligence to be determined by Montsant Partners LLC within 28 days of the Term Sheet (**due diligence period**) and no material adverse change to the operations of the Company within that due diligence period.

The Lender Transaction is also conditional upon formal credit committee approval of each of the Lenders.

### Shareholder approval

The Company is planning on convening a meeting of its shareholders, as soon as possible, at which shareholders will be asked to approve the issue of Convertible Notes, the Share Payment and Placement (**Shareholder Meeting**). Details of the Shareholder Meeting will be advised in due course. The Company currently expects the Shareholder Meeting to be held in June 2014.

### Risks

If the transactions do not complete, the Lenders will be entitled to exercise their rights in respect of the defaults under the current finance facilities and demand immediate repayment of the current debt. If the Lenders did so, the Company would be insolvent and unable to continue as a going concern and would be subject to external administration.

The transactions will be dilutionary to existing shareholders and could potentially impact control.

Further information on the risks and control effects of the transactions will be set out in the notice of Shareholder Meeting and accompanying materials.

### Entitlement Offer

The Company intends to offer a pro-rata rights issue to shareholders at no greater than the Placement Price (**Entitlement Offer**) following completion of the Montsant Partners LLC Transaction. Details of the Entitlement Offer will be released in due course, however the Company currently anticipates that the Entitlement Offer will be made under the 'low doc' regime meaning that an offer booklet and cleansing notice (rather than a prospectus) will be issued in relation to the Entitlement Offer.

The offer booklet for the Entitlement Offer will be sent to shareholders when securities under the Entitlement Offer are offered. The Company expects to make the offer booklet available following the Shareholder Meeting. All persons should consider the offer booklet in deciding whether to acquire securities under the Entitlement Offer and anyone wanting to acquire securities under the Entitlement Offer will need to complete the application form that will be in or accompany the offer booklet.

### Impact on securities on issue and control

Discovery Metals currently has 560,034,418 Shares on issue.

Based on the Assumptions (noted below), on completion of the Transaction:

- > the number of Shares is expected to increase by approximately 600 million to equal approximately 1.16 billion;
- > should Montsant Partners LLC exchange all of its Convertible Notes to shares and assuming an exchange rate of AUD:USD 0.90 and all interest on the Convertible Notes is paid in cash, the total number of Shares outstanding will increase to approximately 3.382 billion; and

- > upon full conversion Montsant Partners LLC would hold a maximum of 68.7% of the issued capital of the Company; with the lending syndicate holding a minimum of 14.8%.

Table 1 – Issued capital of DML post the proposed recapitalisation

Counterpart	Shares Issued (millions)	Total Shares on Issue (millions)	Lending Syndicate % holding	Montsant Partners LLC % holding
Current Shares on issue	560.03	560.03	0%	0%
Montsant Partners LLC Placement	100.00	660.03	0%	15.2%
Lending syndicate	500.00	1,160.03	43.1%	8.6%
Montsant Partners LLC convertible	2,222.22	3,382.26	14.8%	68.7%

Further detail regarding the potential control effect of the Montsant Partners LLC Transaction and Share Payment will be set out in the explanatory booklet to the notice of the Shareholder Meeting.

### The next steps

#### 1. Further documentation

The parties have agreed to have prepared, negotiate and enter into, long form, legally binding documentation which will reflect the terms of the Term Sheet and Lender Term Sheets in all material respects.

#### 2. Independent expert

The Company is planning to engage an independent expert to provide a report (**Report**) on whether the Montsant Partners LLC Transaction and Lender Transaction are fair and reasonable.

#### 3. Notice of meeting

The Company is planning to seek shareholder approval for the issue of Convertible Notes, Share Payment and Placement and will send out a notice of meeting to all shareholders (**Notice**). The Notice is expected to be accompanied by the Report, and shall contain full details of the Montsant Partners LLC Transaction and Lender Transaction and Share issue to lenders and the control effects on the Company.

The Directors intend to recommend that shareholders vote in favour of the resolutions to approve the issue of Convertible Notes and Lender Payment and Share issue to lenders, in the absence of a superior proposal.

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### About Montsant Partners LLC

Montsant Partners LLC is an LLC company formed amongst a group of New York based hedge funds to invest in Discovery. The funds have assets totalling \$3bl and though generalist in nature have a keen desire to expand their exposure to the resource sector through their potential investment in Discovery.

### Advisors

Jett Capital Advisors LLC is acting as the Placement Agent for the Company in relation to the Transaction.

GRT Lawyers is acting as legal advisor to the Company.

## FORWARD LOOKING STATEMENTS

This release includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future activities and events or developments that Discovery Metals expects, are forward-looking statements. Although Discovery Metals believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in forward-looking statements.

## DISCOVERY METALS BACKGROUND

Discovery Metals is an ASX/BSE listed copper exploration and production company focused on the emerging Kalahari Copperbelt in north-west Botswana. The Company is a copper producer at its 100% owned Boseto Copper Project.

The Kalahari Copperbelt sediment-hosted mineralisation of the Boseto Copper Project is similar in style to the well-known and large deposits of the Central African Copperbelt of Zambia and the Democratic Republic of the Congo.

Discovery Metals has prospecting licences covering approximately 26,150 km<sup>2</sup> in Botswana.

**Further information on the Company including Mineral Resources and Ore Reserves is available on our website: [www.discoverymetals.com](http://www.discoverymetals.com)**

**For further information on this release and Discovery Metals Limited, please contact:**

Bob Fulker - CEO

Phone: +61 7 3218 0222 / Email: [Bob.Fulker@discoverymetals.com](mailto:Bob.Fulker@discoverymetals.com)

Paul Frederiks - CFO and Company Secretary

Phone: +61 7 3218 0222 / Email: [Paul.Frederiks@discoverymetals.com](mailto:Paul.Frederiks@discoverymetals.com)



## ANNEXURE A

## SUMMARY OF KEY TERMS OF CONVERTIBLE NOTES

<b>Issuer:</b>	Discovery Metals Limited (Company)
<b>Subscriber:</b>	Montsant Partners LLC
<b>Currency:</b>	USD
<b>Issue Size:</b>	USD 100 million
<b>Denomination:</b>	USD 1,000 per Note
<b>Conversion Price:</b>	AUD0.05 cents
<b>Due diligence:</b>	Satisfactory legal due diligence to be determined by the lender within 28 days of the Term Sheet (due diligence period) and no material adverse change to the operations of the Company within that due diligence period.
<b>Security:</b>	The Notes will be secured by all of the assets of the Company and shall be senior to all other security interests granted by the Company in such assets.
<b>Seniority</b>	The indebtedness represented by the Notes will be senior to all other indebtedness of the Company.
<b>Maturity:</b>	5 years from date of issue
<b>Issue Price:</b>	100% of the principal amount
<b>Interest rate:</b>	10.0% per annum, payable quarterly in arrears; first payment is due after the first year
<b>Convertible Feature:</b>	The Notes are convertible, in whole or in part, at the option of the holder, at any time following the closing date and up to and including maturity into fully paid and non-restricted ordinary shares.
<b>Payment of principal:</b>	100% of each note due at Maturity.
<b>Early Repayment:</b>	Early repayment of the Principal amount is permitted and subject to a 7.5% penalty if repayment is made within 12 months following closing, 5% if repayment is made within 13-24 months following closing, and 2.5% if repayment is made within 25-36 months following closing.
<b>Use of proceeds:</b>	US\$65 million to clear outstanding debt holders. US\$40 million working capital purposes.
<b>Transferability and hold period:</b>	The Notes are transferable.
<b>Offtake arrangement:</b>	Montsant Partners LLC and the Company on a best endeavours basis will be entitled to a restructured off-take agreement with Transamin Trading whereby the off-take will be split 50/50 between parties. For the next 5 year off-take arrangement Montsant Partners LLC will have 50/50 pari-passu for the next off-take agreement.
<b>Fee structure:</b>	<ul style="list-style-type: none"> <li>3.5% placement fee to the Placement Agent for the Notes (equivalent to US\$3.5 million).</li> <li>5% placement fee to the Placement Agent for the Placement (equivalent to US\$250,000).</li> </ul>