

MARCH 2014

Quarterly REPORT



22 April 2014

IN BRIEF

BOSETO COPPER OPERATIONS

- 7.10Mt total material mined, 11,194t of copper concentrate produced and 4,308t of copper metal produced.
- Recovery of transition ore improved from 49.2% to 66.2%.
- Total mining and processing costs were reduced by 12%, quarter on quarter.
- Additional Zeta NE drilling was performed with the results significantly improving the understanding of the mineralisation. This will be included in the next stage of mine planning in Q1 FY15.

EXPLORATION

- Discovery Metals announced new results from drilling at Zeta NE in Q3 FY14. These results confirmed the continuity of the higher grade copper and silver zone.
- Discovery Metals entered into a joint venture programme with Japan Oil, Gas and Metals National Corporation (**JOGMEC**) and BCL Limited (**BCL**) for the Dikoloti Nickel Project (**Dikoloti Project**) in north-east Botswana (**New JV**).

CORPORATE

- On 31 March 2014, the Company had \$3.2m in cash on hand including funds held in the Debt Service Reserve Account (**DSRA**) of \$1m. Total Group interest bearing debt is \$158.2m (\$153.9m principal and \$4.3m of outstanding interest), comprising the Project Finance Facility (**PFF**) of \$132.3m and a fully drawn Revolving Credit Facility (**RCF**) of \$25.9m.
- On 1 April 2014, the Company announced that it has executed a conditional, non-binding term sheet with Montsant Partners LLC for a \$105 million recapitalisation proposal. The recapitalisation proposal comprises both share placement and convertible note components.
- Should the recapitalisation proposal complete, the funds will be used as follows: \$65 million to discharge obligations under the existing debt facilities in full; and \$40 million for working capital purposes, transaction costs and advancement of the Zeta Underground Mine, as the first part of the Company's new strategy to transition over to underground mining.

All financial amounts in this release are expressed in US dollars unless otherwise stated.

1. Boseto Copper Operations

The following section of the quarterly report contains commentary on operations at Discovery Metals' 100% owned Boseto Copper Operation in north-western Botswana. Commentary is provided for Mining, Concentrator, Metal Production and Costs for Q3 FY14.

Rescheduling and prioritisation of ore enabled contained copper to be generally in line with Q2 FY14.

The processing plant optimisation project has started to demonstrate improvements in process stability with recoveries of both copper and silver improving towards the end of the quarter.

Table 1.1 March quarterly performance

	Mar 2014 Quarter	Dec 2013 Quarter	Change (Quarter on Quarter)
Material Mined, Mt*	7.10	9.01	-21%
Ore Milled, kt	541.8	627.7	-14%
Concentrate Produced, kt	11.2	12.6	-11%
Copper in Concentrate, t	4,308	4,352	-1%
Silver in Concentrate, oz	133,188	130,246	+2%

* Material mined = Waste plus ore

a) Mining

Material movement was adversely affected in Q3 FY14 by a combination of the long wet season and a significant decrease in the productivity of the load and haul fleet over the Christmas and new year holiday period.

Plutus Stage 1 sulphide and transitional ores both delivered improved copper recovery compared to previous transitional ore benches. This is attributed to improved ore classification modelling and an increase in overall sulphide composition. Apart from the negative effects of the longer period of the wet season, material movement from Plutus Stage 1 was also affected by impacts of the DCB labour restructuring process as shift employees took longer to adjust to the new roster structure than anticipated.

At Plutus Stage 1, the southern extension pit was advanced significantly and waste stripping is on schedule to have sulphide ore exposed for mining commencing in Q4 FY14. Plutus Stage 2 commenced development during the quarter. Top soil stripping and haul road construction has advanced during the quarter; first ore is expected from this pit in Q4 FY14.

b) Concentrator

The processing plant optimisation project has delivered operational and recovery improvements. The initial focus areas have been float stability, grinding efficiency for power savings and effective reagent addition.

Initial indications have seen improvements in transitional ore recoveries from 49.2% to 66.2%. Combined recoveries from high grade ores decreased moderately in line with theoretical recovery algorithms (83.4% to 80.1%) due to an increase in Plutus high grade feed compared to Q2 FY14.

Table 1.2 March quarterly processing performance

	Tonnes	Cu Grade (%)	Ag Grade (g/t)	Cu Recovery (%)	Ag Recovery (%)
High Grade	484,587	1.01	11.3	80.1	68.6
Low Grade	-	-	-	-	-
Transitional	57,236	1.00	9.4	66.2	51.6

The recoveries of copper and silver were generally consistent with predictions. Month on month forecast versus actual variances for copper recoveries stabilised materially during Q3 FY14.

c) Metal Production

Contained copper was marginally lower than Q2 FY14 (1%), while silver metal production increased by 2% over the same period due to the higher recoveries being achieved in the transitional material.

Concentrate production for Q3 FY14 was 11,194 tonnes, an 11% decrease from Q2 FY14. Concentrate production was adversely affected by a 14% reduction in mill throughput compared to the previous quarter's result, which was due to the performance of material movement from Zeta Pit and Plutus Pits explained above.

d) Costs

Table 1.3 March quarterly financial performance

KPI	Mar 2014 quarter	Dec 2013 quarter	Change (Quarter on Quarter)
C1 Cash Cost USD/lb	3.93	3.77	+4.2%
Mining USD/t mined ¹	1.52	1.38	+10.1%

¹ Excludes mining related maintenance costs.

C1 Cash Costs per lb increased quarter on quarter by 4.2% due to lower copper metal production, Discovery Metals group restructuring and redundancy expenses, and higher selling and distribution costs. Copper treatment and refining charges rose 31% on 1 January 2014 in line with the Japanese Benchmark as stipulated in the Company's Copper Concentrate Sales Agreement. Total mining and plant processing cash costs were reduced by 12% (\$1.8m) quarter on quarter, but this cost mitigation initiative has been offset by higher maintenance costs (\$1.8m) in the quarter.

C1 Cash Costs per lb would have remained relatively unchanged quarter on quarter after adjusting for non-recurring expenses despite the lower copper metal production. The Company has a structured cost rationalisation program in place which will help it deliver on its long run steady state C1 Cash Costs target of \$2.25-2.50.

e) Summary

Sulphide ore mining continued from the Zeta Pit and Plutus Pit, with improved copper recovery for transitional ore mined from the Plutus Pit compared to Q2 FY14. The recoveries of copper and silver from the processing completed during Q3 FY14 were generally consistent with predictions. Concentrate production was 11,194 tonnes, an 11% decrease from Q2 FY14. Contained copper was down only 1% and silver metal production was up 2% on a quarter on quarter basis, reflecting the higher copper recoveries achieved on the transitional ore in the feed. C1 Cash Costs increased quarter on quarter by 4.2% as a result of lower copper metal production and higher selling and distribution costs.

2. Zeta Underground Mine Project

The Zeta Underground Definitive Feasibility Study review process was completed during Q3 FY14, with capital and operating costs having been reassessed with a modified schedule of physicals and ore production consequently generated. The results of the work were positive, and opportunities for significant infrastructure and development capital cost reductions were identified and finalised during Q3 FY14.

This project will be further progressed in the coming quarter with a mining services contract for underground development to be tendered.

3. Kalahari Copperbelt

Exploration (Discovery Metals 100%)

On 7 February 2014, Discovery Metals announced new results from drilling at Zeta NE. These results extended the strike length of a higher grade copper and silver zone to 1.4 km. South-west of the higher grade zone is a low grade zone of variable thickness. In summary:

- In-fill drilling at Zeta NE continues to return high grade mineralisation;
- Significant RC drill hole results include:
 - GDRC3344: 13.0m @ 1.8% Cu & 32 g/t Ag;

- GDRC3367: 11.0m @ 1.1% Cu & 1 g/t Ag;
- GDRC3366: 10.0m @ 1.0% Cu & 19 g/t Ag;
- GDRC3358: 16.0m @ 0.8% Cu & 3 g/t Ag;
- The zone with minimum grades of 1.5% Cu with drilled thickness of 5m extends for a strike length of 1,400m;
- South-west of the higher grade zone is a low grade zone of approximately 1,500m strike length with drilled thickness of between 3m and 16m and intercepts between 0.4% and 1.1% Cu;
- North-east of the higher grade zone, the deposit tails off over a 500m strike length of variable grade and drilled thickness of less than 7m;
- From logging and assay data, vertical depth to the base of the oxide zone in the south-western sector varies between 16m and 51m, and averages 29m. The depth to the top of the sulphide zone varies from between 34m to 84m, and averages 54m. Average thickness of the transition zone is approximately 25m. In the north-eastern sector, the depth to the base of the oxide zone varies between 15m and 36m, averaging 28m, with the depth to the top of the sulphide zone varying between 22m and 44m, averaging 38m;
- A revised Mineral Resource Statement will likely be completed by the end of Q4 FY14.

The Company expended approximately \$461,000 on exploration in the last quarter, predominantly on the Zeta NE drilling programme.

This information is extracted from the report entitled '*New results from drilling at Zeta NE*' created on 7 February 2014 and is available to view on the Company's website (http://www.discoverymetals.com/files/media/20140207_asx_announcement_new_results_from_drilling_at_zeta_ne_for_website.pdf). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the

Competent Person's findings are presented have not been materially modified from the original market announcement.

4. Dikoloti Nickel Project

(Discovery Metals 28%)

The Dikoloti Project comprises three prospecting licences covering an area of 283km² surrounding the three nickel deposits of BCL in the Selebi-Phikwe region of north-east Botswana. In 2009 Discovery Metals signed a joint venture agreement with JOGMEC and as at 31 December 2013, JOGMEC increased its participating interest in the Dikoloti Project to 72.1%, while DML retained 27.9% (**JOGMEC-DML JV**).

The new agreement between DML, JOGMEC and BCL represents the next step in progressing the Dikoloti Project towards production. Key terms of the agreement include:

- the JOGMEC-DML JV grants to BCL the exclusive right to acquire a 51.0% interest in the Dikoloti Project (**BCL Participating Interest**). The BCL Participating Interest will only be achieved if BCL is able to convert the prospecting licences (which make up the Dikoloti Project) into "mining licences" under applicable Botswana law and will be established at the time the mining licences are issued;
- if BCL is able to do this by 31 December 2014 or such other agreed date between the parties, during an additional prospecting licence period, then under the New JV, BCL will have earned the BCL Participating Interest and the participating interests of JOGMEC and DML in the Dikoloti Project will be reduced to 35.5% for JOGMEC and 13.7% for the Company.

5. Corporate

On 31 March 2014, the Company had \$3.2m in cash including funds held in the DSRA of \$1m. Total Group interest bearing debt is \$158.2m (\$153.9m principal and \$4.3m of outstanding interest), comprising the PFF of \$132.3m and a fully drawn RCF of \$25.9m.

a) Recapitalisation with Montsant Partners LLC

On 1 April 2014, the Board of Discovery Metals announced it had executed a conditional, non-binding 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 (**Montsant Partners LLC Transaction**). The proceeds from the Montsant Partners LLC Transaction are planned to be applied as follows:

- \$65 million in payment to the Lenders; and
- \$40 million for working capital purposes, including advancement of the Zeta Underground Mine, and transaction costs.

Each of the Montsant Partners LLC Transaction and the Lender Transaction (discussed below) 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.

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 and no material adverse changes to the operations of the Company within that due diligence period.

b) Boseto Hedging Summary

There was no copper or silver hedging in place during the March quarter. The Company intends to hedge future copper and silver production when the Montsant Partners LLC Transaction is completed.

c) Lenders' Update

On 28 February 2014, the Lenders granted waivers to the PFF and RCF. These waivers were again extended on 17 March 2014.

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

- a cash payment of \$65 million; and
- issue of 500 million Shares in the Company.

Upon payment of the Lenders Payments, the obligations of DML and its subsidiaries under the existing PFF and RCF will be fully discharged.

The 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.

The Company remains in regular communications with the Lenders, with particular regard to the ongoing due diligence being conducted by Montsant Partners LLC.

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.

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Stock Exchange Listings

Australian Securities Exchange - ASX Code: DML

Botswana Stock Exchange - BSE Code: DML

Issued Capital

At 31 March 2014 the issued capital of Discovery Metals Limited was 560,034,418 ordinary shares.

Directors

Jeremy Read – Chairman

Ribson Gabonowe – Non-Executive Director

Russell Luxford – Non-Executive Director

Company Secretary

Paul Frederiks