



JUNE 2014

Quarterly

REPORT

22 July 2014

IN BRIEF

BOSETO COPPER OPERATIONS

- Best quarterly result achieved since the commencement of mining operations with 5,367 tonnes copper in concentrate produced, including record monthly copper production of 2,011 tonnes achieved in April 2014; a 25% increase in copper production compared with Q3 FY14.
- 9.01Mt total material mined, a 27% increase compared with Q3 FY14.
- Sulphide recovery of 90.4%.
- Quarterly C1 cash costs decreased 19% to US\$3.17/lb, compared with Q3 FY14.
- Regulatory approval received to amend the Boseto Mining Licence to incorporate the Zeta Underground Mine. Discussions over funding and the awarding of the underground mining services contract are at an advanced stage.

EXPLORATION

- Initial designs were completed for the Zeta NE and NE Mango 2 drill outs.
- Soil pH testing completed over Zeta NE and NE Mango 2 deposits.

CORPORATE

- On 30 June 2014, the Company had US\$4.4m in cash on hand, including funds held in the Debt Service Reserve Account (**DSRA**) of US\$1.0m.
- On 19 May 2014, the Company advised the market that it had executed a legally binding term sheet for interest bearing debt reduction of US\$59 million to US\$100 million and re-profile of outstanding debt. On 15 July 2014, the Company further announced that the parties had executed definitive, long form documents in the form of an Amended and Restated Agreement (the debt restructure collectively referred to as the **Debt Re-Profile**). The Debt Re-Profile became effective on 18 July 2014.
- On 29 May 2014, the Company successfully completed a placement to Transamine Trading S.A. (**Transamine**) raising A\$2.8 million. Transamine now holds an 18.6% interest in the Company, making it the largest shareholder in Discovery Metals.

1. Boseto Copper Operations

This 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 Q4 FY14.

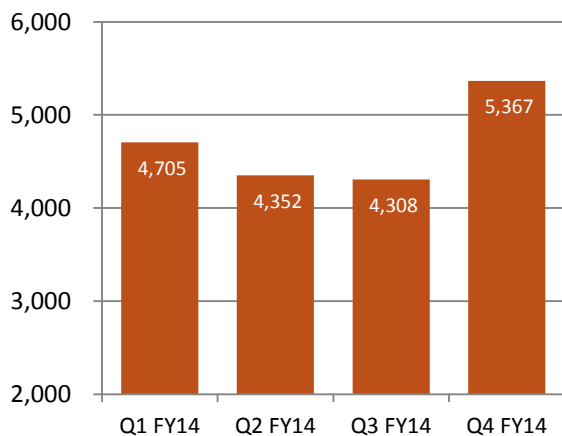
Q4 FY14 results reflect the continued focus on initiatives to increase mined volumes, improve recoveries and reduce production costs. These initiatives will remain a priority for FY15. The Company achieved a record quarterly copper production of 5,367 tonnes of copper in concentrate (see Graph 1) at an average grade of 42.9% with sulphide recoveries of 90.4%, all of which were above forecast levels. The above was produced with a C1 cash cost improvement of 19.3%, which represents the lowest quarterly C1 cash cost since the inception of the project.

Table 1. Q4 FY14 Performance

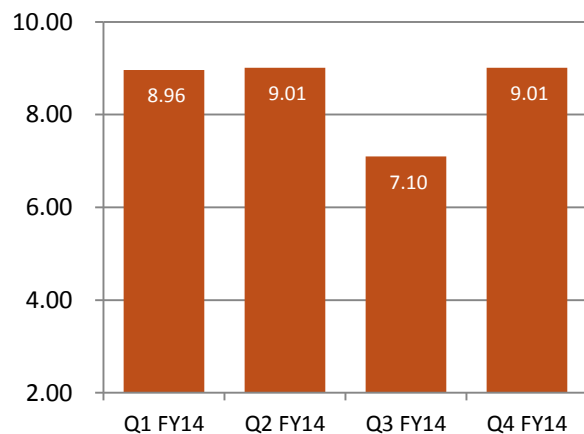
	Q4 FY14	Q3 FY14	Change (Quarter on Quarter)
Material Mined, Mt*	9.01	7.10	+26.9%
Ore Milled, kt	604.1	541.8	+11.5%
Concentrate Produced, kt	12.5	11.2	+11.6%
Copper in Concentrate, t	5,367	4,308	+24.6%
Silver in Concentrate, oz	168,640	133,188	+26.6%

* Material mined = Waste plus ore

Graph 1. Copper Produced (t)



Graph 2. Total Material Mined (Mt)



a) Mining

Plutus Stage 1 sulphide and transitional ores both delivered improved copper recoveries compared to previous transitional ore benches. Plutus Stage 1 South Extension delivered a significant amount of sulphide and transitional ore to the Run of Mine ore pad in Q4 FY14. Ore dilution and loss control measures were stringently adhered to in Q4 FY14, which resulted in fewer breaches being reported.

Plutus Stage 2 mining activities continued in Q4 FY14 with a focus on topsoil stripping and calcrete removal. The initial waste dump footprint was also completed and made ready for waste removal to commence. First ore is expected from this pit by the end of Q1 FY15.

A number of improvement initiatives aimed at maximising utilisation of the mining fleet continued during Q4 FY14 which resulted in improved production results.

b) Concentrator

The operating philosophy adopted in Q3 FY14 as part of the Process Plant Optimisation Project was maintained in Q4 FY14. This resulted in continued improvements in process stability, throughput, power consumption, reagent addition control and recoveries.

The crushing circuit faced challenges when the drive train on one tertiary crusher failed in May 2014. Despite this setback, the circuit was rebalanced to minimise adverse impacts on productivity for the remainder of the quarter while the failed tertiary crusher components were being refurbished.

Table 2. Q4 FY14 Processing Performance

	Tonnes	Cu Grade (%)	Ag Grade (g/t)	Cu Recovery (%)	Ag Recovery (%)
Sulphide High Grade Ore	468,184	1.05	12.4	90.4	78.7
Sulphide Low Grade Ore	-	-	-	-	-
Transitional Ore	135,927	0.89	8.1	77.4	63.8

c) Metal Production

Production of contained copper in concentrate was 25% higher and contained silver in concentrate was 27% higher than Q3 FY14. The increased metal production quarter on quarter was due to higher throughput and recoveries from both high grade and transitional ores. Concentrate production improved by 12% compared to Q3 FY14, despite mill throughput being constrained by the outage of a tertiary crusher as discussed above.

d) Costs

Table 3. Q4 FY14 Financial Performance

KPI	Q4 FY14	Q3 FY14	Change (Quarter on Quarter)
C1 Cash Cost USD/lb	3.17	3.93	-19.3%
Mining USD/t mined ¹	1.53	1.52	+0.7%
Processing USD/t milled ¹	3.62	4.63	-21.8%

¹Excludes related maintenance costs.

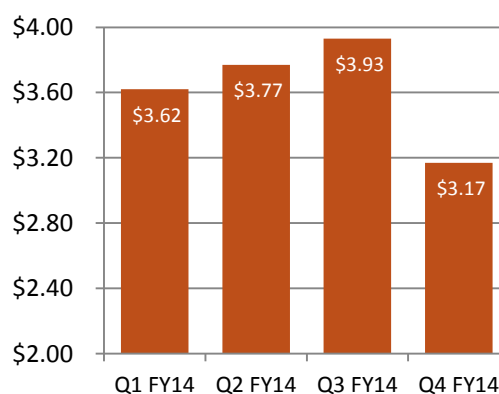
C1 cash costs per pound of copper production reduced 19.3% compared to Q3 FY14 due to the record quarterly production. Despite the 27% increase in total material mined, total site operating costs (including the impact of deferred stripping) only increased 1% compared to Q3 FY14.

Mining costs per tonne of material mined were maintained at the level of the prior quarter while greater throughput and the Process Plant Optimisation Project delivered a 22% reduction in processing costs per tonne of material milled.

e) Summary

Q4 FY14 represents the best quarter for Boseto since inception, on a production and unit cost basis, which is a significant milestone for the Company. The quarter also saw record monthly copper production in April 2014. The Company has continued to focus on improving management of equipment and the workforce and these improvements are reflected in the positive production results. Optimisation of resources continues to assist in improving productivity and operational costs.

Graph 3. C1 Cash Cost (USD)



2. Zeta Underground Mine Project

As announced on 17 April 2014, the Republic of Botswana Government approved an application for an amendment to Mining Licence No. 2010/99L to incorporate the Zeta Underground Mine into the Boseto Copper Operation. This approval was an important step in the Company's strategic direction to unlock underground potential.

Tender submissions were received in Q4 FY14 for the provision of mining services for the Zeta Underground Mine Project. The tenderers have been shortlisted and detailed discussions are being held with the shortlisted candidates, with the final award of the contract to occur by the end of Q1 FY15.

Finalised construction designs for the initial two years of development for the Zeta Underground Mine Project are on track for completion in Q2 FY15.

3. Exploration

This section of the quarterly report contains commentary on Discovery Metals' exploration activities. The report will focus on Zeta NE and NE Mango, Lobatse Manganese Project and the Dikoloti Nickel Project. All remaining Discovery Metals exploration areas had no activity for Q4 FY14.

a) Zeta NE and NE Mango

[Discovery Metals 100%]

The Zeta NE drill program has been completed and comprises 43 holes. These holes primarily target

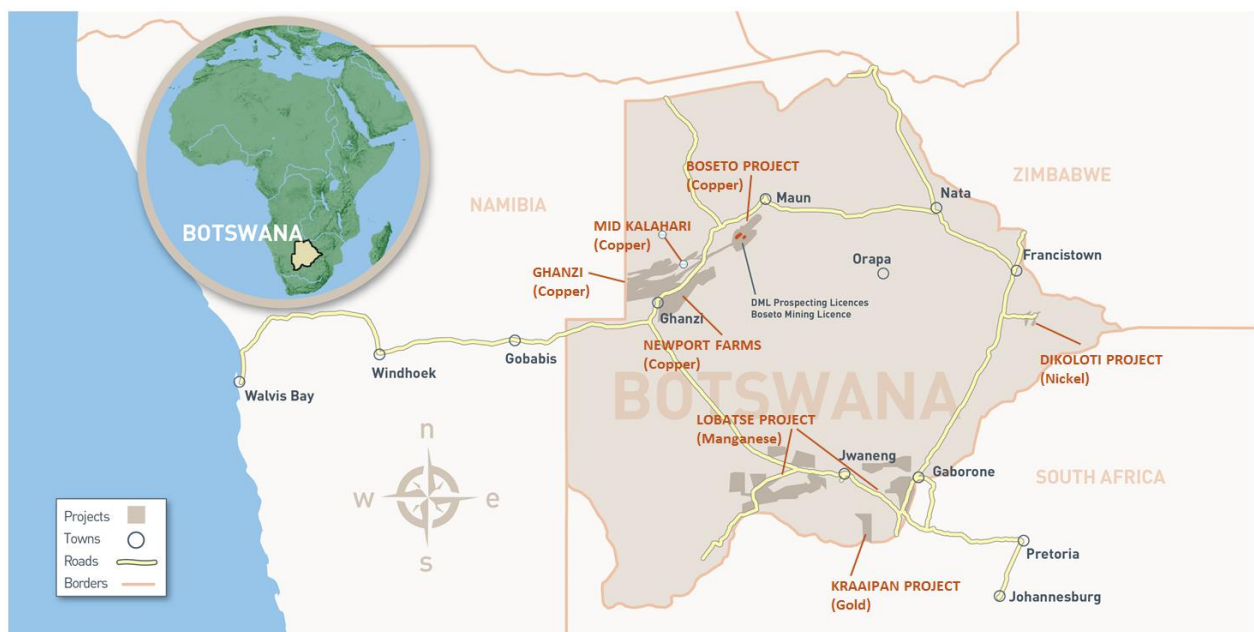
the central high grade zone of the deposit to a depth of 150m. Additionally, preliminary work has begun on the NE Mango 2 drilling program and this consists of 106 holes to test the deposit to a depth of 360m vertical over a strike length of 1,500m.

The soil pH testing at Zeta NE and NE Mango 2 was completed in April 2014 as part of an orientation program to determine whether changes in soil pH can be used to identify mineralisation below sand cover, where soil geochemistry is ineffective.

The Company expended approximately US\$0.8m on exploration in Q4 FY14, predominantly on the Zeta NE drilling program.

b) Lobatse Manganese Project (Discovery Metals – JOGMEC currently in earn-in period)

The Lobatse Manganese Project is a joint venture between DML and JOGMEC focused on exploring for manganese and other commodities in southern Botswana. Under the terms of the Lobatse Manganese Project, JOGMEC is required to contribute A\$600,000 towards exploration expenditure during the earn-in-period which was mutually extended by the parties to September 2014. On completion of the earn-in period, and JOGMEC meeting its obligations under the agreement, JOGMEC shall acquire a 67% aggregate equitable interest in the Lobatse Manganese Project, which will leave Discovery Metals with a 33% interest. As at Q4 FY14, JOGMEC has accrued a 48% interest from cash already contributed.



Nnywane Soil Sampling Program

A soil sample program has been designed to explore the Nnywane As/Mo rich breccia. A total of 3,664 soil samples were collected on the project. The lines were nominally spaced at 2km, but also targeted alteration zones that had been identified from landsat interpretation. All results have been received and interpretation and ground checking of the results is in progress.

Otse Drilling Program

A further drilling program is being developed for the Otse Manganese deposits to develop an understanding of the geology, structures and mineralisation. Ten holes for 2,538m were completed during the quarter, with 1,198 samples sent for geochemical analysis.

c) Dikoloti Nickel Project (Discovery Metals 28%)

The Dikoloti Nickel 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. As announced on 19 March 2014, BCL entered into an agreement with DML and JOGMEC and has commenced work aimed at converting the Dikoloti Nickel Project from a prospecting licence into a mining lease in accordance with the terms of the Dikoloti Nickel Project Joint Venture Agreement (**Dikoloti Agreement**). Under the Dikoloti Agreement, BCL will have the right to acquire a 51% interest in the total project if they can accomplish the conversion by 31 December 2014 or such other agreed date. On conversion, JOGMEC would hold approximately 35% and DML would hold approximately 14% of the Dikoloti Nickel Project.

BCL has embarked on a drilling program to secure more material for metallurgical test work and this test work is underway.

4. Corporate

On 30 June 2014, the Company had US\$4.4m in cash including funds held in the DSRA of US\$1m. Total Discovery Group interest bearing debt was US\$160.4m (US\$153.9m principal and US\$6.5m of outstanding interest), comprising the Project Finance Facility of US\$134m and a fully drawn Revolving Credit Facility of US\$26.4m. Following the Debt Re-Profile, effective as of 18 July 2014, the Company has US\$100m total Discovery Group

interest bearing debt, documented in the Amended and Restated Agreement. The Debt Re-Profile and future equity raising strategy are discussed further below.

a) Debt Re-Profile and Equity Raising Strategy

On 19 May 2014, the Company advised the market it had executed a Term Sheet with its lenders under which the Company's interest bearing debt would be reduced to US\$100m and repayments re-profiled, subject to the parties entering into definitive, long form documents. On 15 July 2014, the Company announced that the parties had executed definitive, long form documents and on 21 July 2014 the Company confirmed that conditions precedent had been satisfied and that the Debt Re-Profile was effective from 18 July 2014.

Under the Debt Re-Profile:

- all continuing defaults were waived on execution of the Term Sheet;
- the Revolving Credit Facility has been discharged and no longer exists;
- the Project Finance Facility has been amended and restated in accordance with the Term Sheet;
- the current gross interest bearing debt owing under the Revolving Credit Facility and the Project Finance Facility of approximately US\$160.4m (including capitalised interest) was reduced to US\$100m (**New Balance**);
- the New Balance has a loan term of 9 years (**Loan**), with interest capitalised for the first 4 years of the term;
- interest rate is now LIBOR plus 5%, with interest capitalised until September 2018;
- scheduled principal repayments will be made commencing in year 5 of the Loan; and
- the parties have agreed to a mechanism that will provide for the lenders to be returned incentive payments in addition to repayment of the Loan, up to a maximum aggregate amount of US\$20m, commencing after final repayment of the Loan.

A commitment made by DML under the Term Sheet was that DML must do all things necessary to undertake a 15% placement before the end of the year. On 29 May 2014, the Company

successfully completed a placement to Transamine raising A\$2.8m. The Company issued 84,005,163 fully paid ordinary shares at the price of A\$0.03451 cents per share. Transamine now holds an 18.6% stake in the Company, making it the largest shareholder in Discovery Metals. The Company agreed to appoint a nominee of Transamine to the Company's Board and on 9 July 2014 Mr Royston Denysschen was appointed to the Board as a Non-Executive Director.

As announced on 26 June 2014, the Company appointed Foster Stockbroking Pty Ltd to act as corporate advisor (**Proposed Recapitalisation**). The Proposed Recapitalisation forms part of Discovery Metals' previously announced fundraising strategy to transition from open pit operations to an underground miner at the Company's flagship Boseto Copper Project in Botswana, in order to unlock value in the Mineral Resources at Boseto.

b) Montsant Recapitalisation

On 1 April 2014, the Company announced a non-binding, conditional recapitalisation proposal for US\$105m involving Montsant Partners LLC. Subsequently, and as announced on 13 May 2014, the Company advised the market that the conditions to the non-binding, conditional recapitalisation proposal involving Montsant Partners LLC and the Company's lenders had not been satisfied and the proposal was at an end.

c) Executive Changes

On 26 June 2014, the Company announced the appointment of Mr Jeremy Read as Executive Chairman of the Company. This position has been created to aid in the Proposed Recapitalisation of the Company and the restructuring of the Board in the coming months. The role is a short term appointment until 31 December 2014. The Company will then appoint a new Non-Executive Chairman on a permanent basis.

As stated above, on 9 July 2014 the Company also appointed Mr Royston Denysschen as Non-Executive Director.

d) Boseto Hedging Summary

There was no copper or silver hedging in place during Q4 FY14.

e) Sustainability

The 2013 Sustainability Report and GRI Index are available on the Company website, which can be accessed at <http://www.discoverymetals.com/sustainabilityreports>.

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 30 June 2014 the issued capital of Discovery Metals Limited was 644,039,581 ordinary shares.

Directors

Jeremy Read – Executive Chairman

Ribson Gabonowe – Non-Executive Director

Russell Luxford – Non-Executive Director

Royston Denysschen – Non-Executive Director

Company Secretary

Paul Frederiks