ASX ANNOUNCEMENT

Discovery Metals Limited

Indicative, non-binding proposal for all Discovery Metals’ shares

The Discovery Metals Limited Board advises that it has received an indicative, non-binding proposal from Cathay Fortune Corporation (CFC) and China-Africa Development Fund (CAD Fund) (collectively the Bidder) to acquire all the shares (not currently held by the Bidder) in Discovery Metals for A$1.70 per share (Indicative Proposal). A copy of the Indicative Proposal is attached.

The Board is currently evaluating the Indicative Proposal and will respond to the Bidder as soon as that evaluation is further progressed.

There is no certainty that the Board will agree to enter into an agreement with the Bidder regarding the Indicative Proposal on the terms proposed, or at all, or that a transaction will result from the Indicative Proposal.

The Discovery Metals Board will update the market following consideration of the Indicative Proposal and its terms. In the meantime, shareholders do not need to take any action in response to the Indicative Proposal.

UBS is acting as financial advisor and GRT Lawyers is acting as legal advisor to Discovery Metals.

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 11,872 km² along the Kalahari Copperbelt.

Further information on the Company including Mineral Resources and Ore Reserves is available on our website: www.discoverymetals.com

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

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UK PR – Tavistock PR, Contact Jos Simson/Emily Fenton  Ph +44 207 920 3150 or +44 778 855 4035
NON-BINDING

21 September 2012

Mr. Gordon T. Galt
Chairman
Discovery Metals Limited
Level 20, 333 Ann Street
Brisbane, Queensland 4000

Non-binding, Indicative Proposal in Relation to Discovery Metals Limited

Dear Mr. Galt:

Cathay Fortune Corporation ("CFC") and China-Africa Development Fund ("CAD Fund") have a strong interest to acquire all of the outstanding shares of Discovery Metals Limited ("DML") through a joint venture that would be 75% owned by CFC, and 25% owned by CAD Fund (the "Transaction").

We strongly believe that each of CFC and CAD Fund has unique attributes that would immediately add value to the Boseto Copper Project located in Botswana (the "Project") and its constituents. CFC, which is the largest shareholder of DML, is a Shanghai-based private equity firm that manages a portfolio valued in excess of US$3.0 billion and has a track record of successfully investing in publicly-listed base metal companies. CAD Fund is a US$5.0 billion fund that was established in 2007 to support the investment in Africa by Chinese enterprises in order to facilitate infrastructure construction, and enhance the social and economic development of African countries.

We are pleased to present this non-binding indicative proposal to effect the Transaction (the "Non-binding Proposal"). We are keen to work with you, the Board of Directors of DML and senior management of DML to effect the Transaction that would deliver significant value to the shareholders of DML. We strongly desire to proceed on a recommended basis with the full support of the Board of Directors of DML, and progress this matter in a timely manner, with particular focus on maximizing the certainty of consummating the Transaction and minimizing any disruption to the operations of DML.

Below are the key terms of the Non-binding Proposal:

1. **Value.** We are prepared to acquire all of the outstanding shares of DML for cash consideration equal to A$1.70 per share (the "Offer Price"). The Offer Price represents a 56% premium to the volume-weighted average price of DML for the twenty trading day period ended 21 September 2012, and a 50% premium to the volume-weighted average price of DML for the thirty trading day period ended 21 September 2012. The Offer Price assumes
488 million fully-diluted DML shares outstanding.

2. Structure. We envision the Transaction to be implemented by way of a scheme of arrangement (the “Scheme”) and subject to a scheme implementation agreement. We would also contemplate proceeding by way of a takeover.

3. Conditions. The Scheme would be subject to only a limited number of key conditions, including:
   - Standard regulatory approvals in Australia, China and Botswana;
   - Satisfactory confirmation that the option of the Government of Botswana to acquire 10% of the Project has lapsed;
   - No change of control right under a material contract or financing arrangement;
   - No material adverse change in DML;
   - No prescribed event, new acquisition, disposal or borrowing, other than in the ordinary course of business, in relation to DML;
   - No litigation or any action taken by any regulatory authority against CFC or CAD Fund;
   - Approval by the shareholders of DML and the court.

In addition, before the announcement of a Transaction, we would require:
   - Satisfactory completion of confirmatory due diligence (see point 5 below);
   - Unanimous recommendation by the Board of Directors of DML; and
   - Execution of definitive transaction documentation.

4. Financing. The Transaction would not be subject to any financing conditions. Cash consideration payable to the shareholders of DML upon consummation of a Transaction would be funded by a loan from the China Development Bank (“CDB”) and cash and available liquidity of CFC and CAD Fund. CDB, which is China’s largest bank for foreign investment, has provided a strong financing package via a commitment letter.

5. Due Diligence. We have conducted a comprehensive review of the publicly available documents of DML and are prepared to negotiate definitive transaction documentation immediately, subject to a confirmatory due diligence review that could be completed within 10 business days of receiving access to the Project site.

6. Management. We are very impressed with the CEO Mr. Brad Sampson and his technical team, and intend to offer, through the Board, a compelling retention and incentive agreement to substantially all of DML’s senior management in positions similar to their existing roles. We also expect to retain the majority of staff and employees of DML.

7. China Regulatory Approvals. We have received approval from the National Development and Reform Commission. The remaining approvals for the CAD Fund are standard and are expected soon.
8. **Internal Approvals.** This Non-binding Proposal has been approved by the Board of Directors of CFC and the investment committee of CAD Fund. We do not anticipate any delay in approval of definitive transaction documentation.

9. **Timeline.** We believe that we could execute definitive transaction documentation in a short period, subject to satisfactory completion of confirmatory due diligence.

10. **Exclusivity and Deal Protection.** As we are proposing an accelerated timeline to an announcement of a Transaction, we propose that the parties work together on an exclusive basis. Further, in order to provide deal protection following execution of definitive transaction documentation, we propose that DML enter into customary no-shop, no-talk restrictions and, given the significant benefits of the proposal to shareholders of DML, a break fee if a Transaction does not proceed due to certain customary circumstances.

11. This Non-binding Proposal is not capable of acceptance, does not constitute a binding offer for DML and is incomplete for the purposes of the Australian Securities Exchange listing rules. As you can appreciate, with a proposal of this nature, time is of the essence. To that end, we respectfully request that you respond to this letter by no later than the close of your Australian business day on September 28, 2012.

We, along with our financial advisors at Citigroup Global Markets Inc. and our legal advisors at King & Wood Mallesons are prepared to commit the resources necessary to consummate a Transaction quickly. We thank you in advance for giving this Non-binding Proposal prompt consideration.

Sincerely,

On behalf of the Board of Directors

[Signature]

Zhang Zhenhao
Director and CFO
Cathay Fortune Corp.
zhangzh@cfclist.com
Appendix A – Introduction of CFC

COMPANY OVERVIEW

Cathay Fortune Corporation (CFC) is one of the earliest Chinese private equity investment firms. Since its launch in 1997, CFC has investments in about 14 companies in different sectors in China such as network equipment, aviation, industrial automation, financial services, resources and mining.

CFC is a long-term, value-add investor. For its investment positions in private and public companies, CFC plays important roles in assisting with strategic decision making, corporate governance, new market access/expansion and bolt-on acquisitions.

CFC is 99% owned by Mr. Yong Yu and currently has about 30 investment professionals in three offices in Shanghai, Beijing and Hong Kong.

SAMPLE TRANSACTIONS

**China Molybdenum**
China Moly is the largest moly producer in China and the 4th largest in the world, the 2nd largest tungsten producer in China and an emerging precious metals producer. In 2011, its moly production account for approx. 20% of total production in China and 8% of the world; its tungsten production accounts for 9% of total production in China. China Molybdenum is listed on the main board of HKSE under the code 3993 and has just been granted the approval by CSRC to list on the Shanghai Stock Exchange. At the end of 2011, China Molybdenum’s total asset were RMB 14.9 billion and its net asset were RMB 10.7 billion. Its revenue and net income for 2011 were RMB 6.1 billion and RMB 1.1 billion respectively. CFC owns 35.4% of China Molybdenum.

**Longxi Bay Development Project**
Longxi Bay is the last piece of undeveloped tropical beach in China. The Project is located in the southwest of Sanya City, Hainan Province and covers an area of 8 square kilometers. It is one of the largest land development projects in China with an estimated total investment exceeding RMB 17 billion. It would also be one of the largest beach resort in China after completion. CFC owns 51% of the project.

**WDC Diamond Project**
WDC Diamond Project is located in Wang Fang Dian of Dalian City, which is famous for high-end, jewelry quality diamonds in the global diamond market. WDC controls diamond reserves of about 12.36 million carats and is the largest diamond reserve in Asia and the 11th largest in the world. The WDC Diamond Project is 100% owned by CFC.
China Express Airlines
China Express Airlines is one of the few private airlines approved by the PRC central government. After CFC established the airline in 2004, it introduced business partners and transformed CEA into the first Sino-foreign joint venture airline in China. CFC still remains the largest shareholder of CEA and holds 40% of the equity interest. CEA is based in Chongqing City and Guiyang City of Guizhou Province. It operates 32 domestic routes in which 25 are non-competitive routes in Southwest China.

China Fortune Securities
China Fortune Securities is the first privately-controlled broker/dealer in China. CFC formed China Fortune Securities through leveraged acquisition of securities-related assets from two state-owned securities companies. In the following years, China Fortune Securities expanded its network to cover all major cities in the coastal area and was granted all licenses by CSRC to carry out existing and new business. CFC has since sold its stake in China Fortune Securities.

XXXX Company
XXXX is a specialized energy-saving equipment manufacturer, designing and producing equipment that would greatly reduce the energy consumption of heavy industrial companies in coal, metallurgy, power, chemical and pharmaceutical industries. In 12 years, CFC built up XXXX from a niche market player to the largest in its industry in China with market share higher than Siemens, ABB, Rockwell added together. CFC was a 90% shareholder of XXXX and later sold its stake for a very good return.

Sobey Digital
Sobey Digital is an advanced technology provider of AV multimedia systems to broadcasting networks in China. After CFC took a controlling stake, it further expand its marketing network and, most importantly, engineering service capabilities in 2nd and 3rd tier cities in China. It later became the largest technology company in China focused on providing technology and engineering solutions to broadcasting networks. CFC later sold its stake at Sobey Digital to Sony.