1 February 2013

Dear Discovery Metals’ Shareholders

I am writing to you in relation to recent developments in the Takeover Offer (Offer) for all Discovery Metals Limited’s (DML) shares by CF Investment Limited (CFI or Bidder), specifically the statements by the Bidder as contained in its Fifth Supplementary Bidder’s Statement on 30 January 2013 and its Announcement of Conditions on 31 January 2013.

1. In these documents, CFI stated that there were material matters of concern and that there has been a breach of its Material Adverse Effect condition. The Board refutes the materiality of the concerns raised by CFI and relevant information supporting this position is contained in the attached Third Supplementary Target’s Statement and in the previous Second Supplementary Target’s Statement.

2. CFI also is maintaining a condition which relates to a potential requirement for a bidder to repay DML’s project debt upon a change of control. Such conditions are customary in project financing arrangements and CFI should have expected that such a provision would be in DML’s debt package at the time CFI made its offer. The waiving of this condition remains completely within CFI’s own control, some two months after this standard provision was fully disclosed in DML’s First Supplementary Target’s Statement. With all Botswana Government conditions now satisfied/waived DML believes that CFI has no basis for maintaining this condition while it continues to extend its Offer. DML has formally asked CFI to waive the condition.

3. In the Fifth Supplementary Bidder’s Statement lodged yesterday, CFI makes reference to its "requirement to conduct appropriate due diligence". Such a "requirement" is not a condition of the Offer and cannot be introduced into the Offer by CFI. This new “condition” only serves to further increase the uncertainty of the Offer to the clear detriment of DML shareholders. The Board has advised CFI that it will not provide the Bidder with access to due diligence but has offered to continue to clarify technical queries which the Bidder may have.

Shareholders are reminded that the Bidder originally approached DML in September 2012 with a conditional, indicative proposal and requested exclusive due diligence, no competitive bidding by other parties and a scheme of arrangement at a maximum price of $1.70 per share. This approach was effectively an attempt by the Bidder to acquire an exclusive option on DML for no cost and was rightly refused by Directors.

The Bidder then chose to make a hostile offer during the Boseto commissioning period, a period during which operating results are typically volatile. The Bidder has used the volatile results, which have occurred during this period to publicly question the credibility of the Company’s officers and mining tenements. The presence of the Offer at this time has clearly caused disruption to DML to the detriment of shareholders.
The Offer has been in place for some four months, has gained very little traction with shareholders and has cost DML shareholders a lot of time, effort and money which without doubt could have been better used in commissioning the mining operation at Boseto and in creating long term value for shareholders.

Throughout the Offer period your Board has been open with the market and with CFI and as late as this week has responded to a detailed technical questionnaire sent by CFI to DML. As noted in point 3 above, the Board remains open to continue technical clarifications.

In the opinion of your Directors, the Bidder should now either waive the Change of Control condition, acknowledge there has not been a Material Adverse Effect and clearly articulate its intentions in relation to the Offer unconditionally, or formally withdraw.

Yours faithfully

Gordon Galt
Chairman
Discovery Metals Limited