Discovery Metals Limited

Potential change of control process; Corporate updates

The Board of Discovery Metals Limited has initiated a process which may result in a change of control of the Company. Details of the background to this process and its current status are given below. Relevant corporate updates are also included.

With the information in this announcement, the Company intends to lift its voluntary suspension.

Background

Discovery Metals began commissioning its Boseto Copper Project in Botswana in June 2012. Commissioning of the process plant, infrastructure and facilities was completed in 2012.

As previously reported, ramp up of the mining operation has taken longer than expected, with the waste removal operation affected by rain and drill performance, particularly in the March 2013 quarter. Ore availability was restricted by this waste removal deficiency and by a higher proportion of oxide ore than was expected in the December 2012 quarter. As a result of these two matters, some 400kt of millable ore, equating to approximately $25m of revenue, was lost from the Company’s plan in the first 9 months of FY13. Boseto achieved its target material movement rate in April and the mining operation is at its design targets in all areas except ore availability. Ore availability is expected to reach its design target in June 2013 (see March 2013 Quarterly Report and relevant section in this announcement).

In September 2012, Discovery Metals announced its intention to refinance the Project Finance (PF) facility, which was obtained in 2011/2012 to build the Boseto Copper Project, with a $200m-250m bond. The refinancing was to be used to repay the PF facility, thereby removing the requirement to make principal repayments during the next two years. Residual funds from the refinancing and retained positive project cash flows were to be used to develop the Zeta Underground mine.

In order to maximise the prospects of a successful bond offering, the Company considered an equity raising via an underwritten placement and accelerated rights issue in the week commencing 22 April 2013. As part of this process, the company’s largest shareholder, Cathay Fortune Corporation (CFC) which owns 13.7% of Discovery Metals and which has previously made a takeover offer for the Company, was approached. CFC declined to participate and subsequently announced in a public letter to shareholders that it would not support the raising of equity, preferring that the Company should be sold via a competitive process in which it would participate. At the same time and subsequently, the Company received interest in a range of corporate transactions from other parties.
As a result, the Company has decided to go through a formal process of engaging with interested parties, including CFC, to evaluate whether a change of control transaction, on terms that the Board would recommend, can be secured.

**Change of Control Process**

The Company has commenced the calling of bids from interested parties and has signed Confidentiality Agreements with a number of parties to date. Some of these parties have commenced their due diligence investigations. The Company has engaged UBS AG, Australia Branch and Credit Suisse (Australia) Limited as its financial advisers in connection with the process.

The process is expected to take approximately 4 weeks from today’s date, with a closing date for receipt of binding proposals of no later than 10 June 2013.

Nothing precludes the initiation of a takeover bid (either with or without the recommendation of the Board) before the above date for receipt of binding proposals. Shareholders are advised that there is no guarantee that an acceptable binding proposal will be forthcoming from this process.

**Indicative Proposal from CFC**

Subsequent to its announcement that it believed the Company should be sold, CFC has sent a proposal to the Company which may result in a new takeover offer. The proposal is indicative, conditional and subject to a due diligence review. A copy of the CFC proposal is attached to this announcement and has been released after taking legal advice.

The price range proposed by CFC is $0.35-$0.40 per share. In subsequent correspondence, CFC has confirmed that, if it does make an offer, the offer will not be less than $0.35 per share. The company has signed a Confidentiality Agreement with CFC and CFC has commenced its due diligence. CFC proposes to make a decision on whether to proceed or not with a takeover offer after the due diligence period. There is no certainty that CFC will make any bid for the Company’s shares following its due diligence.

Shareholders are advised that CFC cannot formally dispatch a takeover offer in the indicated price range until 16 June 2013 due to provisions of the Corporations Act, unless it obtains a waiver from ASIC. Nothing prevents CFC from announcing its intention to make an offer in the indicated price range at any stage.

Other than providing the above details on the CFC proposal, Discovery Metals’ current intention is not to disclose developments with respect to the process unless and until the Board has approved a specific proposal or otherwise determines that disclosure is necessary or appropriate.

**Operations Update – April 2013**

Updated information on the Boseto Copper Project’s operating results for April 2013 is provided below.

**Mining**

Material Mined was 3.16Mt. Broken waste in advance at month end rose to a record level of 2.2Mt, up from 0.2Mt at the start of the month. Dilution is now running at less than 10%.

**Milling**

Ore availability remained restricted in April due to low material movement in the March quarter and 157kt was milled. At month end, broken and crushed ore stocks totalled 45kt. The mill continued to
perform at design rate for days worked, running at 377 tonnes per hour compared to the design rate of 375 tonnes per hour.

During April, 118,300 tonnes of high grade ore at a grade of 1.27% Cu and 18 g/t Ag and 39,000 tonnes of low grade material at 0.37% Cu and 8 g/t Ag were processed.

Metallurgical performance continued in line with expectations, with 86% of the copper and 75% of the silver recovered from the high grade ore, and 61% of the copper and 51% of the silver being recovered from the low grade material processed.

**Metal Production**

3,416t of concentrate was produced. This contained 1,369t copper and 56.7 koz silver.

**Cost/ Revenue Update**

The C1 cash cost of production for the March quarter was $3.89/lb after by-product credit of $0.60/lb. The average copper price received for the March quarter including hedging settlement proceeds was $4.06/lb and the unhedged spot price realised was $3.62/lb.

**Forecast**

The record level of broken stocks of waste improves the ability of the mine to excavate the required tonnage of waste in May and June and to expose ore. Forward mining schedules anticipate ore flows for the mill at the design throughput rate continuously from mid-May onwards. Milling in May will include transitional ore from Plutus, but the percentage of this ore type is expected to reduce from June onwards as sulphide ore from Plutus also becomes available.

The Company expects further reduction in the cost of production after the June quarter as the operation continues to ramp up to full production.

At full production, the long term C1 cost (to 2022) of the currently planned Open Pit mining and Zeta Underground is approximately $2.00/lb with diesel generated power and $1.87/lb with a coal fired station (these costs are net of silver credits based on $25/oz).

**Mineral Resources and Ore Reserves**

Mineral Resources and Ore Reserves are currently being re-estimated for the Zeta and Plutus Open Pits and for the Zeta Underground. The Mineral Resources are being estimated by the Quantitative Group, and this group will also re-state the Open Pit Ore Reserves. Mining Plus will re-state the Ore Reserves for the Zeta Underground. The new Mineral Resources estimates for the Zeta and Plutus deposits are anticipated to be completed by the end of June and the Ore Reserve restatement will then follow.

As previously announced, the Company is aware that some of the factors previously used to estimate Ore Reserves need to be changed to reflect actual results occurring in the mine and for commodity price and cost assumptions.
Financial Position

During April the Company continued to draw on cash reserves to fund mine operations. Cash was increased by $10m in early May via the close out of some long dated hedge positions to provide additional liquidity.

On 17 May 2013, the Company had $23.7m in cash including funds held in the Debt Service Reserve Account (DSRA) of $5.5m. Total debt was $176m, comprising the PF Facility of $151m and a fully drawn corporate working capital facility of $25m. The Company’s hedge book had a marked to market valuation of approximately $39m.

As of 1 May 2013, the Company was in default of a profitability covenant and available cash covenant under its Revolving Credit Facility. This also constitutes a default under the cross-default provisions of the PF Facility. The lenders have not taken any action in respect of these defaults, but have reserved their rights.

To allow the change of control process to proceed, the undrawn remaining $10m of the cost overrun and working capital facility has been cancelled and arrangements for the PF Facility have been varied. In addition the remaining $25m of the corporate revolver that was to be drawable on lenders’ project completion has also been withdrawn.

The principal repayment schedule for the PF Facility is now as shown in the table below.

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<th>Date</th>
<th>Total Drawn Debt Start of Quarter ($'000)</th>
<th>Total Principal Payment to Lenders ($'000)</th>
<th>From DSRA ($'000)</th>
<th>DSRA balance to be funded, excluding interest ($'000)*</th>
<th>Net Payment to Lenders ($'000)</th>
<th>Total Drawn Debt End of Quarter ($'000)</th>
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* The DSRA balance to be funded represents only the principal component due. Interest for the following quarter also requires DSRA funding. Interest is paid and reset quarterly at an interest rate of USD LIBOR + 5%.

The Company and the lenders have agreed to close out further metal hedges in the near future to generate a minimum of $25m, with the proceeds to be applied as prepayment of the June and September project loan repayments and the balance applied to the DSRA.

In addition to this schedule, the Company is required to make an additional equity contribution to the project of $30m by 15 August 2013. This equity contribution is to be applied at the discretion of the lenders to prepayment of project loan instalments or to increase the credit balance on the DSRA.
**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 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](http://www.discoverymetals.com)

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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
26 April 2013

Mr. Gordon Galt,
Chairman
Discovery Metals Limited
Level 20, 333 Anne Street
Brisbane Queensland 3000

Dear Mr. Galt

Non-binding, Indicative Proposal in relation to Discovery

We are pleased to present this non-binding indicative proposal to effect a transaction (the “Non-binding Proposal”).

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

1. **Value.** We are prepared to acquire all the shares of Discovery for cash consideration equal to A$0.35 to A$0.40 per share (the “Offer Price”). The Offer price assumes that the number of Discovery shares on issue is equal to or less than 486,986,451 together with shares issued pursuant to the exercise of existing options. An equivalent proposal would be made for the existing options set out in the target’s statement.

2. **Structure.** As noted, we envision the transaction to be implemented by way of a takeover offer by Cathay Fortune Investment Limited (“CF Investment”). It is anticipated that China-Africa Development Fund may participate on the same terms as our previous offer.

3. **Conditions prior to announcement of an offer.** The decision of CF Investment to announce and make an offer would be subject to a confirmatory due diligence review to be completed in 10 business days of receiving access to the Project site and the Brisbane office, including key personnel. Any decision to proceed with an offer would be at CF Investment’s absolute discretion and will be determined no later than the 11th business day after being on the ground (“Due Diligence Period”).

   We would enter into a confidentiality agreement on customary terms excluding a standstill provision as agreed.

   Discovery must not pursue any equity issue during the Due Diligence Period or enter into any agreements or other commitments to issue shares in Discovery or any of its subsidiaries or agreeing to restructure its existing financing arrangements including any commitment to issue bonds.

4. **Conditions of the bid.** The offer would not include conditions other than those set out in the attached schedule of conditions. Changes from the conditions in our previous offer are
marked in the schedule.

CF Investment has all relevant Chinese and Australian approvals, which remain valid. We previously received all relevant approvals in Botswana. The schedule of conditions retains a reference to Botswana approvals as we have not in the time permitted been able to obtain re-confirmation from our Botswana lawyers.

None of the other conditions are within the control of the Bidder.

5. **Financing.** Our existing financing arrangements remain in place and there is not a financing condition.

6. **Exclusivity.** CF Investment does not expect any exclusivity or break fee arrangements either in connection with the offer or during due diligence.

7. **Timeline.** In order to comply with the Corporations Act, the offer would not be dated and dispatched until after 16 June 2013. We anticipate the offer being dispatched immediately after that date.

8. **Confidentiality.** CF Investment trusts that Discovery will keep the existence of this Non-binding Proposal confidential. This Non-binding Proposal should not be disclosed by Discovery to any person other than the Board of Directors, senior management and advisers of Discovery on a “need to know” basis, unless CF Investment has expressly agreed to such disclosure. This Non-binding Proposal is not capable of acceptance, does not constitute a binding offer for Discovery and is incomplete for the purposes of the Australian Securities Exchange listing rules and as such CF Investment does not believe that any announcement in respect of the matters covered by this letter is required.

We respectfully request that you respond to this letter by no later than 5:00pm Sydney time on Sunday April 28, 2013. In the event that we do not proceed, we will not make any negative public statements.

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

Sincerely,

Yu Yong
Chairman
Cathay Fortune Corporation
on behalf of Cathay Fortune Investment Limited
1 Conditions of the Offer

The Offer and any contract resulting from acceptance of the Offer is subject to
fulfilment of the following conditions:

(a) **(minimum ownership)** that during, or at the end of, the Offer Period, the
number of Discovery Shares in which CF Investment has a relevant
interest is more than 51 at least 90% of all Discovery Shares on the
assumption that all options and other securities convertible to Discovery
Shares have been exercised;

(b) **(Australian Foreign Investment Policy)** that before the end of the Offer
Period, the Treasurer does not object under the Australian Foreign
Investment Policy to the proposed investment by CADFund in CF
Investment. The Treasurer is taken to have not objected if CADFund
receives written notification from or on behalf of the Treasurer to the
effect that there are no objections to the investment by CADFund in CF
Investment under the Foreign Investment Policy on an unconditional
basis;

(c) **(Botswana regulatory approvals)** that before the end of the Offer
Period, CF Investment obtains all Botswana regulatory any approvals,
authorisations and consents required to enable CF Investment to acquire
Discovery Shares under the Offer, including from:

(i) the Minister for Mines for the transfer of a controlling interest in
the holders of the Mining Interests; and

(ii) the Botswana Competition Authority; and

(iii) the BSE Listing Committee;

(d) **(Boseto Copper Project)** that before the end of the Offer Period, written
confirmation from the Minister for Mines is given to CF Investment that
the Government of Botswana’s option to acquire an interest in the
Boseto Copper Project has not been exercised and has lapsed or that
the Government of Botswana cannot exercise it in the future;

(e) **(Chinese regulatory approvals)** that before the end of the Offer Period,
CADFund and its associates obtain all regulatory approvals,
authorisations, registrations and consents required but not yet obtained,
to enable CADFund to participate in CF Investment’s acquisition of
Discovery Shares under the Offer from:

(i) MOFCOM; and

(ii) SAFE;

(f) **(no restraining orders)** that between the Announcement Date and the
end of the Offer Period:

(i) there is not in effect any preliminary or final decision, order or
decree issued by a Public Authority; and

(ii) no application is made to any Public Authority (other than by CF
Investment or CADFund or any of its related bodies
corporate or any of its shareholders or their related bodies
corporate), or action or investigation is announced, threatened or
commenced by a Public Authority,
in consequence of, or in connection with, the Offer (other than a determination by ASIC or the Takeovers Panel in exercise of the powers and discretions conferred by the Corporations Act), which:

(iii) restrains or prohibits (or if granted could restrain or prohibit), or otherwise materially adversely impacts on, the making of the Offer or the completion of any transaction contemplated by the Offer (whether subject to conditions or not) or the rights of CF Investment in respect of Discovery, any Discovery Group Entity or Discovery Shares to be acquired under the Offer; or

(iv) requires the divestiture by CF Investment of any Discovery Shares, or the divestiture of any assets of any Discovery Group Entity, CF Investment or otherwise;

(g)(d) (no material adverse effect) that no event occurs between the Announcement Date and the end of the Offer Period that will or is reasonably likely to have a material adverse effect on the assets and liabilities, financial position or performance, profits and losses or prospects of Discovery Group, including as a result of making the Offer or the acquisition of Discovery Shares pursuant to the Offer. These events include, but are not limited to:

(i) any event or circumstance which constitutes or gives rise to or may (upon the passage of time, the fulfilment of any condition, or the giving of notice or taking of any other action by a Public Authority or any other person) give rise to the suspension, revocation, disclaimer, invalidity, unenforceability, variation, lapse or termination of all or any material rights under any Mining Interest or any contract material to the operations of the Discovery Group;

(ii) the occurrence of the outbreak of war (including civil war), outbreak of hostilities with another country (whether war is declared or not) or terrorism, mobilisation of armed forces, insurrection, general civil unrest, strikes or labour unrest, or similar event in the Republic of Botswana in each case which would, or is likely to, have a material adverse impact on the Boseto Copper Project;

(iii) a natural disaster materially and directly affecting the operations of the Discovery Group for a period of at least seven Business Days;

(iv) the occurrence or threatened occurrence of the nationalisation or expropriation by a Public Authority in the Republic of Botswana of privately owned or held natural resource exploration or mining rights or other property or rights required for the use or enjoyment of those natural resource exploration or mining rights (other than by reason of non-compliance by the property owner or owner of rights);

(v) a material restraint on or hindrance to the development, timely completion, feasibility, operation, profitability or marketability of the Boseto Copper Project;

(vi) the incurring of any obligations, liabilities, costs or expenses (contingent or otherwise), other than capital expenditure, where the quantum (whether individually or when aggregated with all such other events) exceeds A$25 million, except in the ordinary course of business;
(vii) the grant of mining or other rights or interests of any kind over all or part of any area covered by or the subject of a Mining Interest to any person other than a Discovery Group Entity which materially conflict, or could reasonably be expected to materially conflict, with the enjoyment of the rights conferred, or purported to be conferred, by the Mining Interest;

(viii) any change in any applicable laws or regulations (including taxation, customs, excise or duty) which would result in a material impairment of the cost structure of the Discovery Group;

(ix) any one or more undisclosed events, occurrences, circumstances or matters which individually or when aggregated with all events, occurrences, circumstances or matters of a like kind or category have (or would be likely to have) the effect of diminishing the fair market value of the consolidated net assets of the Discovery Group by at least A$25 million,

and includes, but is not limited to, an event:

(x)(iii) that occurs prior to the Offer Period but is only announced by Discovery to the ASX or in relation to which CF Investment otherwise becomes aware during or after the Announcement Date; or

(xi)(iv) that will or is likely to occur following the Offer Period and which has not been announced by Discovery to the ASX prior to the Announcement Date,

but does not include:

(xiii)(v) any matter fairly disclosed to CF Investment or its representatives or to the ASX or otherwise widely known publicly on or before the Announcement Date;

(xiii)(vi) any event, occurrence, circumstance or matter affecting the copper mining industry generally;

(xiv)(vii) any change in general economic, financial, currency exchange, securities or commodities market conditions; or

(xiv)(viii) any change in accounting policy required by law;

(h)(e) (no material acquisitions, disposals or new commitments) that except for any proposed transaction announced by Discovery to the ASX before the Announcement Date, none of the following events occur during the period from the Announcement Date to the end of the Offer Period:

(i) any Discovery Group Entity acquires, offers to acquire or lease or agrees to acquire or lease one or more companies, entities, securities, businesses or assets (or any interest in one or more companies, entities, securities, businesses or assets) for an amount in aggregate greater than A$10 million, other than in the ordinary course of business, or makes an announcement in relation to such an acquisition, offer or agreement;

(ii) any Discovery Group Entity disposes of or leases, offers to dispose of or lease or agrees to dispose of or lease one or more companies, entities, securities, businesses or assets (or any interest in one or more companies, entities, securities,
businesses or assets) for an amount, or in respect of which the book value (as recorded in Discovery Group’s statement of half year financial position report as at 31st June December 2012) is, in aggregate, more than A$10 million other than in the ordinary course of business, or makes an announcement in relation to such a disposition, offer or agreement;

(iii) any Discovery Group Entity enters into, or offers to enter into or agrees to enter into, any agreement, joint venture, partnership, asset or profit sharing arrangement, management agreement, merger of businesses or of corporate entities or commitment which would require expenditure, the foregoing of revenue, or involving a commitment of securities, assets or liabilities by any Discovery Group Entity of an amount which is, in aggregate, more than A$10 million, other than in the ordinary course of business, or makes an announcement in relation to such an entry, offer or agreement;

(iv) any Discovery Group Entity enters into any corporate transaction which would or would be likely to involve a material change in the manner in which any Discovery Group Entity conducts its business, the nature (including balance sheet classification), extent or value of any Discovery Group Entity’s assets, or the nature (including balance sheet classification), extent or value of the liabilities of any Discovery Group Entity;

(v) any Discovery Group Entity incurs, commits to, or brings forward the time for incurring or committing, or grants to another person a right the exercise of which would involve any Discovery Group Entity incurring or committing to any capital expenditure or liability, or foregoing any revenue, for one or more related items or amounts of in aggregate more than A$10 million or makes an announcement in relation to that (including but not limited to any offer or issuance of any bonds), except for the incurrence of any capital expenditure in accordance with the day to day operating activities of Discovery Group as conducted before the Announcement Date;

(vi) any Discovery Group Entity waives any material third party default or accepts as a settlement or compromise of a material matter for materially less than the full compensation due to any Discovery Group Entity; or

(vii) any Discovery Group Entity enters, agrees to enter into or renews any contract of service or varies or agrees to vary any existing contract of service with any current or proposed director or manager or makes or agrees to make any substantial change to the basis or amount of remuneration, for additional amounts of in aggregate more than A$3 million per annum;

(i) (no transaction tax) between the Announcement Date and the end of the Offer Period, no tax is announced or proposed by the Government of Botswana which would require:

   (i) any Discovery Group Entity to pay a tax to any revenue authority in Botswana, if CF Investment acquires Discovery Shares under the Offer; or

   (ii) CF Investment to pay a tax to any revenue authority in Botswana on the acquisition of Discovery Shares;
(i) (Discovery announcement re change of control in Financial Arrangement) that no later than three Business Days before the Defeating Conditions Date, Discovery makes an announcement on the ASX and the BSE that no person may exercise or purport to exercise, or has stated an intention to exercise, any rights (whether subject to conditions or not) under any provision of any Financial Arrangement to which any Discovery Group Entity is a party, or by or to which any Discovery Group Entity or any of its assets may be bound or be subject, which could result in:

(i) any monies borrowed or raised by or any other monetary obligations of any Discovery Group Entity being or becoming payable or repayable or being capable of being declared payable or repayable immediately or earlier than the payment date stated in such Financial Arrangement or otherwise accelerated or any transaction being closed out or becoming capable of being closed out before the maturity date stated in such Financial Arrangement, or

(ii) the terms of any such Financial Arrangement being varied, modified, denied or terminated or operating in a manner that is adverse to the commercial interests of Discovery Group, as a result of the Offer or the acquisition of Discovery Shares by CF Investment;

(f) (Banks’ waiver of historic breaches) before the end of the Offer Period, Discovery announces to the ASX that the facilities agent under the Facility Agreement unconditionally and irrevocably waives the lenders’ rights which could result in:

(i) any monies borrowed or raised by or any other monetary obligations of any Discovery Group Entity, being or becoming payable or repayable or being capable of being declared payable or repayable immediately or earlier than the contemplated payment date under the Facility Agreement or otherwise accelerated or any transaction being closed out or becoming capable of being closed out before the maturity date stated in the Facility Agreement, or

(ii) any material terms of the Facility Agreement, or other instrument, or any related securities, collateral agreements or guarantees being varied, modified, enforced, denied or terminated or otherwise operating in a manner that is adverse to the commercial interests of the Discovery Group, as a result of a default on or prior to the Announcement Date under the agreement or other instrument, or any related securities, collateral agreements or guarantees, or as a result of an event or omission on or prior to the Announcement Date which would be a default but for the requirement of notice or lapse of time or both.

(g) (no new breaches of Facility Agreement) that no event occurs between the Announcement Date and the end of the Offer Period which could result in the lenders under the Facility Agreement being entitled to:

(i) any monies borrowed or raised by or any other monetary obligations of any Discovery Group Entity, being or becoming payable or repayable or being capable of being declared payable or repayable immediately or earlier than the contemplated payment date under the Facility Agreement or
otherwise accelerated or any transaction being closed out or becoming capable of being closed out before the maturity date stated in the Facility Agreement; or

(ii) any material terms of the Facility Agreement, or other instrument, or any related securities, collateral agreements or guarantees being varied, modified, enforced, denied or terminated or otherwise operating in a manner that is adverse to the commercial interests of the Discovery Group.

These events do not include the Offer or the acquisition of Discovery Shares by CF Investment.

(k) (change of control in Financial Arrangement) that on or during the period commencing on the Announcement Date and before the end of the Offer Period, no person exercises or purports to exercise, has stated an intention to exercise, or has any rights (whether subject to conditions or not) under any provision of any Financial Arrangement to which any Discovery Group Entity is a party, or by or to which any Discovery Group Entity or any of its assets may be bound or be subject, which could result in:

(i) any monies borrowed or raised by or any other monetary obligations of any Discovery Group Entity being or becoming payable or repayable or being capable of being declared payable or repayable immediately or earlier than the payment date stated in such Financial Arrangement or otherwise accelerated or any transaction being closed out or becoming capable of being closed out before the maturity date stated in such Financial Arrangement; or

(ii) the terms of any such Financial Arrangement being varied, modified, denied or terminated or operating in a manner that is adverse to the commercial interests of Discovery Group,

as a result of the Offer or the acquisition of Discovery Shares by CF Investment;

(l) (Discovery announcement re change of control) that no later than three Business Days before the Defeating Conditions Date, Discovery makes an announcement on the ASX and the BSE that no person may exercise or purport to exercise, or has stated an intention to exercise, any rights (whether subject to conditions or not) under any provision of any agreement or other instrument to which any Discovery Group Entity is a party, or by or to which any Discovery Group Entity or any of its assets may be bound or be subject, which could result, to an extent which is material in the context of Discovery Group taken as a whole, in:

(i) any such agreement or other instrument being terminated, varied or modified or any action being taken or arising thereunder;

(ii) the interest of any Discovery Group Entity in any firm, joint venture, trust, corporation or other entity (or any arrangements relating to such interest) being terminated, varied or modified; or

(iii) the business of any Discovery Group Entity with any other person being adversely affected,

as a result of the Offer or the acquisition of Discovery Shares by CF Investment;
(change of control) that on or during the period commencing on the Announcement Date and before the end of the Offer Period, no person exercises or purports to exercise, has stated an intention to exercise, or has any rights (whether subject to conditions or not) under any provision of any agreement or other instrument to which any Discovery Group Entity is a party, or by or to which any Discovery Group Entity or any of its assets may be bound or be subject, which could result, to an extent which is material in the context of Discovery Group taken as a whole, in:

(iv) any such agreement or other instrument being terminated, varied or modified or any action being taken or arising thereunder;

(v) the interest of any Discovery Group Entity in any firm, joint venture, trust, corporation or other entity (or any arrangements relating to such interest) being terminated, varied or modified; or

(vi) the business of any Discovery Group Entity with any other person being adversely affected,

as a result of the Offer or the acquisition of Discovery Shares by CF Investment;

(m)(h) (Other occurrences) that on or during the period commencing on the Announcement Date and ending at the end of the Offer Period, none of the following events occur:

(i) Discovery announces to pay, pays or declares any dividend or other distribution (except under any arrangement announced on the ASX before the Announcement Date or with the prior written consent of CF Investment);

(ii) Discovery converts all or any Discovery Shares into a larger or smaller number of Discovery Shares;

(iii) Discovery or any other Discovery Group Entity resolves to reduce its capital in any way or reclassifies, combines, splits, redeems or repurchases directly or indirectly any securities;

(iv) any Discovery Group Entity:

   (A) enters into a buy-back agreement;

   (B) resolves to approve the terms of a buy-back agreement under sections 257C(1) or 257D(1) of the Corporations Act; or

   (C) enters into, or approves any other equivalent arrangement under foreign law similar to those in (A) and (B) above;

(v) any Discovery Group Entity issues Discovery Shares or other securities, or grants an option over Discovery Shares or other securities, or agrees to make such an issue or grant such an option (except for Discovery Shares that are issued between the Register Date and the end of the Offer Period as a result of the exercise of Discovery Share Options on issue on the Announcement Date);

(vi) any Discovery Group Entity issues, or agrees to issue, convertible notes or convertible units;
(vii) any Discovery Group Entity disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
(viii) any Discovery Group Entity charges, or agrees to charge, the whole, or a substantial part, of its business or property;
(ix) any Discovery Group Entity resolves to be wound up;
(x) a liquidator or provisional liquidator (or equivalent under foreign law) of any Discovery Group Entity is appointed;
(xi) a court makes an order for the winding up of any Discovery Group Entity;
(xii) an administrator of any Discovery Group Entity is appointed under sections 436A, 436B or 436C of the Corporations Act (or its equivalent under any foreign law);
(xiii) any Discovery Group Entity executes a deed of company arrangement (or its equivalent under any foreign law);
(xiv) a receiver or a receiver and manager (or their equivalents under any foreign law) is appointed in relation to the whole, or a substantial part, of the property of any Discovery Group Entity;
(xv) any Discovery Group Entity makes any change to its constitution or other constituent documents or a meeting being convened to consider a resolution to change a constitution or any other constituent document of any Discovery Group Entity except for those which have been proposed by the Announcement Date for consideration at the forthcoming Discovery annual general meeting scheduled for 16 November 2012; or
(xvi) any Discovery Group Entity passes any special resolution except for those which have been proposed by the Announcement Date for consideration at the forthcoming annual general meeting scheduled for 16 November 2012;

(n) (Litigation) that during the period beginning on the Announcement Date and ending at the end of the Offer Period no person announces, commences or threatens any litigation against any Discovery Group Entity (whether in aggregate or for any single litigation) which may result in a judgement against a Discovery Group Entity of more than A$5 million (individually or in aggregate), other than that which has been fully and fairly publicly disclosed to the ASX by Discovery prior to the Announcement Date; and

(o) (Sedgman claims) that during the period beginning on the Announcement Date and three Business Days before the Defeating Conditions Date, Discovery makes an announcement to the ASX and BSE that Sedgman has not made, nor stated an intention to make, a claim for an amount greater than A$20,027,470.07 and has not amended, nor stated an intention to amend, any existing or potential claim to an amount greater than A$20,027,470.07.
Glossary

2 Definitions

The following defined terms are used throughout in the Conditions of the Offer unless the contrary intention appears or the context requires otherwise:

Announcement Date means [●] May 2013, being the date of announcement of the Offer.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited or Australian Securities Exchange, as appropriate.

Botswana Competition Authority means the Competition Authority of Botswana (acting in terms of the Competition Act [CAP 46:09] of Botswana, as amended from time to time).

Boseto Copper Project means Discovery's 100%-owned first producing copper mine located in north-west Botswana.

Business Day means a day on which banks are open for general banking business in Sydney and Gaborone (not being a Saturday, Sunday or public holiday in that place).

CF Investment means Cathay Fortune Investment Limited a company incorporated in Hong Kong SAR, China, company number 1686647.

Closing Date means 7.00pm (Sydney time) / currently 11.00am (Botswana time) on [●] 2013, unless extended or withdrawn.

Corporations Act means the Corporations Act 2001 (Cwlth).

Discovery means Discovery Metals Limited, a company incorporated in Australia or Discovery Group, as the context requires.

Discovery Group means Discovery and each of its Subsidiaries and controlled entities.

Discovery Group Entity means any member of the Discovery Group.

Discovery Shares means fully paid ordinary shares in the capital of Discovery.

Facility Agreement means the Facility Agreement between Discovery and certain banks dated on or about 5 July 2011 (as amended).

Financial Arrangement means each:

(a) financing agreement or instrument, money borrowing or raising arrangement or other financing arrangement, liability, encumbrance or other security, guarantee, indemnity or other credit support arrangement; or

(b) derivative or treasury transaction, agreement or arrangement,

(in each case regardless of form and including any similar arrangement).

Mining Interest means any of the following leases or prospecting licences:

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<th>Project</th>
<th>Prospecting Licence</th>
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© King & Wood Mallesons Cash Bidder’s Statement 26 April 2013
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**Minister for Mines** means the Minister of Minerals, Energy and Water Resources in the Government of Botswana (or his substitute or replacement or delegate from time to time).

**Offer** means the offer by the Bidder to each Discovery Shareholder to acquire all of their Discovery Shares on the terms and conditions set out in the Bidder’s Statement.

**Offer Period** means the period commencing on [●] 2013 and ending on [●] 2013, or such later date to which this Offer has been extended.

**Public Authority** means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

**Subsidiary** means a subsidiary as that term is defined in the Corporations Act, and **Discovery Subsidiary** means a subsidiary of Discovery.