Discovery Metals Limited

USD108 million recapitalisation proposal

Highlights

- USD108 million recapitalisation proposal pre-fees agreed with Blumont Group Limited.
- Recapitalisation proposal comprises:
  - Share placement – 15% new shares at AUD0.12 to raise approximately AUD8.75 million;
  - Convertible Bonds – USD100 million 5% 5 year convertible bond issue, convertible to ordinary shares in the Company at AUD0.15 per share.
- Discovery Metals plans to offer a share purchase plan to shareholders at placement price, capped at AUD10 million.
- USD25 million revolving credit facility to be repaid in full.
- USD129 million project finance facility to be restructured, including:
  - USD25 million principal repayment;
  - USD104 million balance payable in 8 quarterly instalments between 31 March 2016 and 31 December 2017;
- Interest capitalised until 31 December 2015.
- Waiver of all past and existing defaults under current project finance facilities.
- Convertible Bonds subject to shareholder approval.
- The Directors intend to recommend that shareholders approve the Convertible Bonds, in the absence of a superior proposal.

Transaction

Discovery Metals (the Company) is pleased to announce that it has executed a legally binding term sheet (Term Sheet) with Blumont Group Limited (SGX: A33) (Blumont), an investment holding company listed on the Singapore Stock Exchange, for the recapitalisation of the Company.

The recapitalisation proposal comprises (Transaction):

1. AUD8.75 million placement: Blumont has agreed to subscribe for 73,047,967 fully paid ordinary shares in the capital of Discovery Metals (Placement Shares) at AUD0.12 per share (Placement Price) which is expected to raise AUD8,765,756 for the Company (Placement); and
2. USD100 million in convertible bonds: Blumont has conditionally agreed to subscribe for 100,000 5 year convertible bonds with a face value of USD1,000 per bond, convertible into fully paid ordinary shares in the capital of Discovery Metals at AUD0.15 per share (Convertible Bonds). The Convertible Bonds are expected to raise USD100 million for the Company.

Discovery Metals’ Managing Director, Brad Sampson, welcomed the recapitalisation arrangement with Blumont, commenting, “The structure of the arrangement aligns the interests of Blumont and shareholders, and is expected to allow the Company to reduce debt and deploy the additional funds to equity enhancing projects.”

“The partnership with Blumont and the additional technical skills that are expected to be added to the Board by the appointment of Russell Luxford is anticipated to deliver significant benefit to the Company. The restructured project finance facility, particularly the two year moratorium on principal and interest payments is planned to enable the Company to deploy its available cash to initiatives directed at lifting shareholder value, including project enhancement initiatives and exploration activities.”

**Required approvals**

The obligations of the parties in respect of the Placement are unconditional.

The obligations of the Company to offer, and for Blumont to subscribe for the Convertible Bonds (Bond Issue), are conditional on each of the following conditions being satisfied (Conditions Precedent):

(a) the Company obtaining all approvals required in respect of the Bond Issue under the Corporations Act 2001 (Cth) and the ASX Listing Rules;

(b) each of the holders of the Company’s current senior debt (Senior Debt) agreeing to:

(i) waive in writing all past and existing defaults by the Company in respect of the Senior Debt; and

(ii) restructuring the terms of finance facilities relating to the Senior Debt on the terms described in Annexure A to this announcement (Restructure Terms);

(c) Blumont approving in writing the proposed operational, technical and exploration programs and budgets to be implemented by the Company following the Transaction (see Use of Funds below); and

(d) Blumont and the Company agreeing long form documentation to reflect the terms of the Term Sheet and the Convertible Bonds (summarised in Annexure B to this announcement).

Unless Blumont and the Company otherwise agree, the Conditions Precedent must be satisfied within three months.

The Company’s Lenders have given in principle approval to the Restructure Terms. The approval of the Lenders is subject to formal credit committee approval and entering into formal documentation to reflect the Restructure Terms.

The Company is planning on convening a meeting of its shareholders at which shareholders will be asked to approve the Bond Issue (Shareholder Meeting). Details of the Shareholder Meeting will be advised in due course. The Company currently expects the Shareholder Meeting to be held before the end of the year.
Placement
The Placement is expected to occur within 5 days.
Blumont has agreed that it will not, within 12 months of the issue date, offer all or any of the Placement Shares for sale, unless permitted to do so under the Corporations Act without a disclosure document.

Convertible Bonds
The Convertible Bonds are expected to be issued in one tranche within 3 business days of the satisfaction of each of the Conditions Precedent (Closing Date).
The key terms of the Convertible Bonds are set out in Annexure B to this announcement.
The Convertible Bonds have a 5 year maturity and are convertible to shares in the Company at AUD0.15 per Share.
Further details of the Convertible Bonds will be set out in the explanatory booklet to the notice of Shareholder Meeting.

Use of funds
The proceeds from the Transaction are planned to be applied as follows:
• USD25 million in repayment of the revolving credit facility;
• USD25 million in repayment of principal of the project finance facility;
• USD5.5 million (approximately) in payment of corporate advisory fees payable under the Transaction; and
• the balance for development, exploration and working capital purposes (to be agreed between the Company and Blumont).

Share purchase plan
The Company intends to make a share purchase plan available to shareholders at the Placement Price (SPP). Under the SPP, shareholders will be invited to subscribe for up to AUD15,000 worth of fully paid ordinary shares in the Company at the placement price of AUD0.12 per share, subject to any necessary scale back to cap the amount raised under the SPP to AUD10 million. Shareholders are planned to be able to apply for shares in excess of AUD15,000 from any shortfall.
A prospectus for the SPP will be sent to shareholders when the securities under the SPP are offered. The Company expects to make the prospectus available following the Shareholder Meeting. All persons should consider the prospectus in deciding whether to acquire shares under the SPP and anyone who wants to acquire shares under the SPP will need to complete the application form that will be in or will accompany the prospectus.

Board Appointments
The Company has agreed to appoint Mr Russell Luxford to the Board on completion of the issue of the Placement Shares and to appoint a second director nominated by Blumont simultaneously with the closing of the Convertible Bonds.
Russell Luxford is an engineer with over 30 years’ experience in the mining industry working in senior technical and managerial positions for Citadel Resources Group, Ma’aden, WMC, Rio Tinto, RGC and others.
Russell’s expertise is principally in project development (including commissioning and ramp-up) and operational effectiveness for mine and processing performance improvement.

**Exclusivity and break fee**

The Company has agreed to customary exclusivity arrangements with Blumont. The exclusivity arrangements are subject to a customary fiduciary carve out in relation to a competing proposal that may provide a superior outcome for shareholders.

The Company must pay a break fee of USD1 million, if:

- the Company does not issue the Convertible Bonds and subsequently undertakes an issuance of (or otherwise offers for issue) debt and/or equity or a combination of debt and equity (eg, a convertible note) with any third party within six months from the date of the Term Sheet; or
- the Board of the Company (before issue of the Convertible Bonds) recommends any other transaction pursuant to which a change of control (being a person controlling more than 30% of the issued capital) is expected to take place.

The break fee is only payable if the Company undertakes an alternative transaction and is not payable if a Condition Precedent is not satisfied.

**Impact on securities on issue and control**

Discovery Metals currently has 486,986,451 fully paid ordinary shares (Shares) on issue.

Based on the Assumptions, on completion of the Transaction and the SPP:

- the number of Shares is expected to increase by approximately 284% and the Company’s total number of Shares on issue is expected to equal approximately 1,392 million; and
- Blumont is expected to hold a maximum of approximately 60% of the issued capital of the Company.

The Assumptions on which the above is based are:

- the Transaction completes;
- the SPP is fully subscribed;
- Blumont is the holder of all of the Convertible Bonds upon conversion;
- all interest on the Convertible Bonds is paid in cash notwithstanding that the term sheet allows for interest to be capitalised until 31 December 2015;
- Blumont converts all of the Convertible Bonds into Shares; and
- the Company does not issue any other securities before the conversion of the Convertible Bonds to Shares.

Further detail regarding the potential control effect of the Transaction are planned to be set out in the explanatory booklet to the notice of meeting to convene the Shareholder Meeting.
The next steps

1. **Further documentation**
   The parties have agreed to have prepared, negotiate and enter into, long form documentation which will reflect the terms of the Term Sheet in all material respects.

2. **Independent expert**
   The Company is planning to engage an independent expert to provide a report (Report) on whether the Convertible Bonds are fair and reasonable.

3. **Notice of meeting**
   The Company is planning to seek shareholder approval for the Bond Issue and send out a notice of meeting to all shareholders (Notice). The Notice is expected to be accompanied by the Report, and contain full details of the Transaction and the control effects of the Transaction.

   The Directors intend to recommend that shareholders vote in favour of the resolutions to approve the Bond Issue, in the absence of a superior proposal.

**About Blumont Group Ltd (Bloomberg: BLUM SP / Reuters: BLUM.SI)**

Blumont Group Ltd operates in three reportable business segments. Its investment holding segment makes investments in transferable securities, including, but not limited to, marketable shares, warrants and debentures. The Group’s sterilisation segment provides contract sterilisation and polymerisation services to food packaging, medical devices, cosmetic raw materials and consumers products. Its property segment is engaged in the development of properties for sale and long-term holding of properties for rental and related income.

The Group has embarked on a new strategy to become a company with multiple and diversified mineral and energy resources assets and it has been actively pursuing and acquiring new investment opportunities in this sector. Within this strategy Blumont Copper Pte Ltd has been formed to identify and invest in quality copper assets. Blumont Copper is 85% owned by Blumont Group and 15% owned by Inés Scotland and other former Citadel Resources executives.

Blumont has nominated Blumont Copper and two shareholders of that company as the subscribers for the Placement Shares, and Blumont Copper as the subscriber for the Convertible Bonds.

**Advisors**

Credit Suisse (Australia) Limited and UBS AG, Australia Branch are acting as financial advisors to the Company in relation to the Transaction.

Fairfax Securities Corporation - DBA Jett Capital Advisors LLC is acting as exclusive placement agent for the Company in relation to the Transaction (Placement Agent).

GRT Lawyers is acting as legal advisor to the Company.

Morgan Stanley is acting as financial advisor to Blumont in relation to the Transaction.
**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 approximately 26,150 km² in Botswana.

Further information on the Company including Mineral Resources and Ore Reserves is available on our website: [www.discoverymetals.com](http://www.discoverymetals.com)

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

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Annexure A

Proposed restructure terms of project finance facility

(a) USD25 million principal repayment at closing of the Convertible Bonds.

(b) Waiver of all past and existing defaults.

(c) Proposed adjustments to existing terms:

(i) No financial covenant testing until the quarter ended 31 December 2015. The Ore Reserve Tail Ratio and Production covenants will not be tested until the quarter ended 31 December 2014. A breach of either the Ore Reserve Tail Ratio or the Production covenant during the period from the date of this term sheet to 31 December 2015 will not result in an event of default, provided that in the event of such breach the Company provides details to the Lenders of the causes of such breach and measures to be put in place to address them for agreement with the Lenders (not to be unreasonably withheld);

(ii) No scheduled amortisation or debt reduction until the quarter ended 31 December 2015. Cash interest will only be payable prior to the quarter ended 31 December 2015 if the Company’s current cumulative cash in the project is USD30 million over and above costs including capex for the latter of the next 12 months and the quarter ended 31 December 2015. No cash interest will be payable if the cumulative cash in the project is less than USD30 million. In the event cash interest is not payable, interest will accrue;

(iii) No cash will be distributed outside of the project until after the quarter ended 31 December 2015 (other than potential cash interest as described in paragraph (ii) above);

(iv) Amortisation of principal and accrued interest to recommence on a quarterly basis in eight equal installments between 31 March 2016 and 31 December 2017 (i.e. debt fully repaid on 31 December 2017);

(v) The Company, at its full discretion, can enter into:

1. short term hedging, i.e. up to 6 months, for up 70% of production on a rolling basis;

2. long term hedging, i.e. between 6 months and 12 months, for up to 50% of production on a rolling basis.

(d) If the Company seeks to enter into other hedging arrangements, particularly in the event of an unusual market environment, approval shall be sought from the Lenders, such approval not to be unreasonably withheld.

(e) The Lenders agree to waive the Change of Control provision under the facility agreement in the event of a Blumont Change of Control of the Company.
## Annexure B

### Summary Terms of Convertible Bonds

| Company: | Discovery Metals Limited (Company) |
| Currency: | USD |
| Issue Size: | USD 100 million |
| Denomination: | USD 1,000 per Bond |
| Guarantees: | The Bonds will be guaranteed by the subsidiaries of the Company. |
| Security: | The Bonds will be secured by a second ranking charge over the Boseto associated entities and first ranking charge over other subsidiaries of the Company including those subsidiaries currently held as security by the Lenders under the revolving credit facility. The Company has agreed to use reasonable endeavours to provide second ranking charge over the Boseto mine and associated entities and first ranking charge over other material tenements of the Company as soon as practical (but no later than four months) following signing of the formal documentation. |
| Maturity Date: | 5 years from date of issue |
| Issue Price: | 100% of the principal amount |
| Coupon: | 5.0% per annum, payable quarterly in arrears; Interest to accrue until 31 December 2015. |
| Redemption Price: | 100.00% of the principal amount |
| Redemption: | The Bonds are redeemable on the Maturity Date if not converted to Shares. The Bonds are also redeemable at the election of Bondholders if there is a change of control of the Company, the Company is delisted from the ASX, or there is a permanent suspension of trading of Shares. |
| Initial Conversion Price: | AUD 15 cents |
| Fixed Exchange Rate: | AUD 1 - USD 0.89 |
| Initial Conversion Ratio: | 7,490.64 Shares per Bond (the principal amount of the Bonds divided by the Initial Conversion Price translated into USD at the Fixed Exchange Rate) |
| Adjustments to Conversion Price: | The Conversion Price shall be adjusted in certain circumstances, including rights issues, Share dividends, stock splits, bonus issues, asset distributions or the occurrence of certain other dilutive events. Any adjustment to the Conversion Price or other reorganisation of the Convertible Bonds must be in accordance with the ASX Listing Rules and any other applicable Listing Rules. The share purchase plan will be excluded from the adjustments to the Conversion Price. |
| Conversion Rights: | Bondholders may convert their Bonds and any accrued but unpaid interest into Shares during the Conversion Period at the Conversion Price in effect at the Conversion Date. |
| Conversion Period: | The Bonds and any accrued but unpaid interest are convertible into Shares at the election of the Bondholder at any time on or after 30 days from the issue of the Bonds to 7 days prior to the Maturity Date. |
| Transferability: | The Bonds are transferable. |