NOTICE OF ANNUAL GENERAL MEETING 2012
& EXPLANATORY MEMORANDUM

Date of Meeting: Friday, 16 November 2012
Time of Meeting: 11:00 am (Brisbane time)
Venue of Meeting:
Christie Corporate Conference Centre
Teach and Laffite Room
Level 1, 320 Adelaide Street
Brisbane, Queensland

This Notice of Meeting and Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.
NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Shareholders of DISCOVERY METALS LIMITED ACN 104 924 423 (the Company) will be held on Friday, 16 November 2012, commencing at 11:00 am (Brisbane time) at the Christie Corporate Conference Centre, Teach and Laffite Room, Level 1, 320 Adelaide Street, Brisbane, Queensland. Registration will commence just prior to the Meeting.

This Notice of Meeting incorporates, and should be read together with, the Explanatory Memorandum, Annexures to the Explanatory Memorandum and Proxy Form.

Ordinary Resolutions

Receipt of financial statements and reports

To receive and consider the Directors’ Report and financial statements of the Company for the year ended 30 June 2012 and the Auditor’s report in relation to the financial statements.

Resolutions

1. Adoption of Remuneration Report (non-binding resolution)

To consider and if thought fit, pass the following resolution as an ordinary resolution:

“That the Remuneration Report as disclosed in the Directors’ Report for the year ended 30 June 2012 is approved for the purposes of the Corporations Act.”

Note: Under the Corporations Act, this Resolution is advisory only and does not bind the Directors or the Company. However, if 25% or more votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at that second annual general meeting on an additional resolution on whether another meeting should be held at which all of the Company’s Directors, other than the Managing Director, must stand for re-election. Please see the Explanatory Memorandum for further information.

Voting exclusion: The Company will, in accordance with section 250R of the Corporations Act, disregard any votes cast on Resolution 1 by or on behalf of a:

- member of the Key Management Personnel (this includes but is not limited to the Directors), details of whose remuneration are included in the Remuneration Report; and
- closely related party of such a member, collectively the Excluded Persons.

However, the Company will not disregard any votes cast on this Resolution if the Excluded Person votes as a proxy and the vote is not cast on behalf of an Excluded Person and either:

- the Excluded Person is appointed as a proxy by writing that specifies the way the proxy is to vote on Resolution 1; or
- the Excluded Person is the chair of the Annual General Meeting and the appointment of the chair as proxy:

- does not specify the way the proxy is to vote on Resolution 1; and
- expressly authorises the chair to exercise the proxy even if Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

2. Re-election of Director, Mr Gordon Galt

To consider and if thought fit, pass the following resolution as an ordinary resolution:

“That in accordance with the Constitution of the Company and the Listing Rules, Mr Gordon Galt who retires by rotation and being eligible, be re-elected as a Director of Discovery Metals Limited.”

3. Re-election of Director, Mr John Shaw

To consider and if thought fit, pass the following resolution as an ordinary resolution:

“That in accordance with the Constitution of the Company and the Listing Rules, Mr John Shaw who retires by rotation and being eligible, be re-elected as a Director of Discovery Metals Limited.”

4. Election of Director, Mr Niall Lenahan

To consider and if thought fit, pass the following resolution as an ordinary resolution:

“That in accordance with the Constitution of the Company and the Listing Rules, Mr Niall Lenahan who was appointed to the Board since the last annual general meeting, being eligible, be elected as a Director of Discovery Metals Limited.”
5. Potential issue of Performance Rights to Managing Director, Mr Stuart Bradley Sampson

To consider and if thought fit, pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the issue to Mr Stuart Bradley Sampson of a maximum of 500,000 Performance Rights under the Performance Rights Plan on the terms set out in the Explanatory Memorandum.”

Note: If approval is obtained under Listing Rule 10.14, approval is not required under Listing Rule 7.1. The approval sought under this Resolution 5, mirrors that sought under Resolution 5 at the Company’s 2011 annual general meeting. Whilst Shareholder approval was obtained for the proposed issue of 500,000 Performance Rights to Mr Sampson at that meeting, to date Mr Sampson has not been issued with any Performance Rights. In accordance with the requirements of Listing Rule 10.15.7, the Shareholder approval obtained last year expires 12 months after the meeting (being 22 November 2012). Consequently, fresh Shareholder approval for the proposed issue of the Performance Rights to Mr Sampson is being sought.

Voting exclusion: The Company will disregard any votes cast on this Resolution 5 by:

• Mr Stuart Bradley Sampson; and
• any associate of Mr Stuart Bradley Sampson (or those persons).

However, the Company will not disregard any votes cast on this Resolution if:

• it is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
• it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. Approval of increase in non-executive Directors’ fee pool

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 10.17 and the Company’s constitution, the maximum aggregate remuneration payable out of the funds of the Company to non-executive directors of the Company for their services as directors be increased by A$200,000 from A$600,000 to A$800,000 per annum to be allocated as determined by the Board.”

Voting exclusion: The Company will disregard any votes cast on this Resolution 6 by:

• the Directors;
• any associate of the Directors (or those persons); and
• a member of the Key Management Personnel and their closely related parties acting as a proxy.

However, the Company will not disregard any votes cast on this Resolution if:

• it is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
• it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

7. Ratification of Institutional Placement Shares

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 7.4 and for all other purposes, the Company approves and ratifies the issue of 41,666,667 fully paid ordinary shares in the Company issued at the price of A$1.20 per share to the sophisticated and institutional investors described in and on the terms and conditions set out in the accompanying Explanatory Memorandum.”
Voting exclusion: The Company will disregard any votes cast on this Resolution 7 by:

- each of the sophisticated and institutional investors who participated in the issue; and

- any associate of those persons.

However, the Company will not disregard any votes cast on this Resolution if:

- it is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Special Resolution

8. Adoption of amendments to the Constitution

To consider and, if thought fit, pass the following resolution as a special resolution:

“That the Constitution of the Company be amended as set out in the Explanatory Memorandum accompanying this Notice of Meeting with effect from the close of this Annual General Meeting.”

Please refer to the Explanatory Memorandum attached to this Notice of Meeting for more information regarding the above Resolutions.

ATTENDANCE AND VOTING AT THE MEETING

Voting entitlement

In accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Board has determined that the Shareholders who are on the Company’s share register at 7:00 pm (Sydney time) / 6:00 pm (Brisbane time) on Wednesday, 14 November 2012 will be taken, for the purposes of the Annual General Meeting, to be entitled to attend and vote at the Meeting.

If you are not the registered holder of a relevant share at that time, you will not be entitled to vote at the Meeting.

Voting at the Meeting

Ordinary resolutions require the support of more than 50% of the votes cast. Special resolutions require the support of at least 75% of the votes cast.

Every question arising at this Annual General Meeting will be decided in the first instance by a show of hands. A poll may be demanded in accordance with the Constitution.

On a show of hands, every Shareholder who is present in person or by proxy, representative or attorney, will have one vote.

Upon a poll, every person who is present in person or by proxy, representative or attorney, will have one vote for each Share held by that person.

Proxies

A Shareholder who is entitled to attend and vote at the Meeting may appoint a person, who need not be a shareholder of the Company, as the Shareholder’s proxy to attend and vote on behalf of the Shareholder.

A Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

A proxy form accompanies this Notice of Meeting. Should you wish to appoint a proxy, please complete the proxy form and return it at least 48 hours before the Meeting, being no later than 11:00 am (Brisbane time) on 14 November 2012.
• fax to the Share Registry of Discovery Metals Limited, Computershare Investor Services Pty Limited on 1800 783 447 (within Australia) or + 61 3 9473 2555 (outside Australia); or

• online by visiting www.investorvote.com.au and logging in using the control number found on the front of your accompanying proxy form. Intermediary Online subscribers (Institutions/Custodians) may lodge their proxy instruction online by visiting www.intermediaryonline.com.

If the appointment is signed by an attorney, the power of attorney or a certified copy of it must be sent with the proxy form.

Proxies and conduct of Meeting

Pursuant to section 250BB, an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

[a] the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);

[b] if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;

[c] if the proxy is the chairman of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (i.e. as directed); and

[d] if the proxy is not the chairman, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Under section 250BC, if:

[a] an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of a company’s members;

[b] the appointed proxy is not the chairman of the meeting;

[c] at the meeting, a poll is duly demanded on the resolution; and

[d] either of the following applies:

i. the proxy is not recorded as attending the meeting; or

ii. the proxy does not vote on the resolution,

the chairman of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on each Resolution by marking either For, Against or Abstain on the voting form for that item of business.

By order of the Board

Gregory Seeto
Company Secretary
3 October 2012
Explanatory memorandum

Important notice

This Explanatory Memorandum contains an explanation of, and information about, the Resolutions to be considered at the Annual General Meeting. Shareholders should read this Explanatory Memorandum in full. This Explanatory Memorandum and the Annexures to it, form part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

If you are in doubt about what to do in relation to the Resolutions set out in the Notice of Meeting, you should consult your financial or other professional adviser.

Words or expressions used in the Notice of Meeting and in this Explanatory Memorandum and the Annexures are defined in the Glossary. Unless otherwise stated, all references to sums of money, ‘$’ and ‘dollars’ are references to Australian currency.

This Explanatory Memorandum is dated 3 October 2012.

Background to the Resolutions

Ordinary Resolutions

Receipt of financial statements and reports

This item does not require voting by Shareholders. It is intended to provide an opportunity for Shareholders to raise questions on the financial statements and reports. The auditor of the Company will be present at the Meeting and available to answer any questions.

Resolution 1 – Adoption of Remuneration Report (non-binding resolution)

Background


The Remuneration Report sets out the Company’s remuneration arrangements for Directors, including the Managing Director and Key Management Personnel. Shareholders will be given the opportunity at the Meeting to ask questions and make comments on the Remuneration Report and a reasonable opportunity will be provided for discussion of the Remuneration Report.

The Corporations Act requires that a resolution be put to the Shareholders to adopt the Remuneration Report. This Resolution is advisory only and does not bind the Directors or the Company. The Directors will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the Meeting when reviewing the Company’s remuneration policies.

Two strikes

If 25% or more of votes that are cast on this non-binding Resolution are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of these annual general meetings on a resolution (a Spill Resolution) that another meeting be held within 90 days (Spill Meeting), at which:

(a) all of the Company’s Directors (other than the Managing Director) cease to hold office immediately before the end of the Spill Meeting; and

(b) resolutions to appoint persons to offices that will be vacated immediately before the end of the Spill Meeting will be put to the vote at the Spill Meeting.

The approval threshold for the Spill Resolution is 50% or more of votes that are cast on the resolution.

Board Recommendation

The Board unanimously recommends that Shareholders vote FOR Resolution 1.

Resolution 2 – Re-election of Director, Mr Gordon Galt

Background

Under Listing Rule 14.4 and the Company’s Constitution, a director must not hold office without re-election past the third annual general meeting following the director’s appointment, or 3 years, whichever is longer.

A director who retires in accordance with these requirements is eligible for re-election.

Accordingly, Mr Gordon Galt is due to retire at the end of the meeting and offers himself for re-election to the Board. Details of Mr Galt’s qualifications, experience, other directorships and special responsibilities are set in the Directors’ Report on page 3 of the Financial Report.

Mr Galt is a mining engineer with post-graduate qualifications in business and finance. His career began in the coal industry where he specialised in projects, operations and then general management. He then became Managing Director of Cumnock Coal in 1996 before moving to the gold/base metals industry as Managing Director of Newcrest Mining Ltd, where he oversaw the development of Cadia Hill, Gosowong,
Ridgeway and early work on the Telfer redevelopment. Gordon spent a period as Managing Director responsible for global mining/metals for ABN AMRO bank before entering the funds management industry, where he is currently a Principal of Taurus Funds Management based in Sydney.

Mr Galt is also the chairman of the Board and Company.

**Board Recommendation**

The Board (with Mr Galt abstaining) recommends that Shareholders vote **FOR** Resolution 2.

**Resolution 3 – Re-election of Director, Mr John Shaw**

**Background**

Under Listing Rule 14.4 and the Company’s Constitution, a director must not hold office without re-election past the third annual general meeting following the director’s appointment, or 3 years, whichever is longer.

A director who retires in accordance with these requirements is eligible for re-election.

Accordingly, Mr John Shaw is due to retire at the end of the meeting and offers himself for re-election to the Board. Details of Mr Shaw’s qualifications, experience, other directorships and special responsibilities are set in the Directors’ Report on page 5 of the Financial Report.

Mr Shaw has over 40 years’ experience in exploration, development and operations of open cut and underground mines in Asia, Australia, Africa and Canada. Mr Shaw was previously Vice President of the Australian Operations of Placer Dome Asia Pacific Limited and Managing Director of Kidston Gold Mines.

Mr Shaw is a member of both the Audit & Financial Risk Committee and the Non-Financial Risk Committee.

**Board Recommendation**

The Board (with Mr Shaw abstaining) recommends that Shareholders vote **FOR** Resolution 3.

**Resolution 4 – Election of Director, Mr Niall Lenahan**

**Background**

Mr Niall Lenahan was appointed to the Board of the Company on 2 April 2012 (after last year’s annual general meeting).

Under Listing Rule 14.4, a director appointed to fill a casual vacancy or as an addition to the board must not hold office (without re-election) past the next annual general meeting of the entity. Accordingly, Mr Lenahan is required to offer himself for election to the Board at this Annual General Meeting.

Details of Mr Lenahan’s qualifications, experience, other directorships and special responsibilities are set out in the Director’s Report on page 4 of the Financial Report.

Mr Lenahan is a chartered accountant with extensive experience in the resources sector. He has served as a director and chief financial officer of ASX and medium sized organisations involved in the mineral resource, construction/engineering and shipping/transport industries in Australia and overseas. He has recently served as a director and CFO of Riversdale Mining Limited, a company involved in mineral production and development in southern Africa, prior to its takeover by Rio Tinto PLC. Mr Lenahan has worked in companies involved in energy and mining in Australia, Asia and Africa and has experience in various commodities, including gold, base metals, industrial minerals and coal.

Mr Lenahan is also chairman of the Audit & Financial Risk Committee and a member of the Remuneration Committee.

**Board Recommendation**

The Board (with Mr Lenahan abstaining) recommends that Shareholders vote **FOR** Resolution 4.

**Resolution 5 – Potential issue of Performance Rights to Managing Director, Mr Stuart Bradley Sampson**

**Background**

Resolution 5 seeks Shareholder approval under Listing Rule 10.14 to approve the grant of a maximum of 500,000 Performance Rights to Mr Stuart Bradley Sampson, the Managing Director of the Company, pursuant to the Performance Rights Plan and otherwise on the terms and conditions set out in this Notice of Meeting and Explanatory Memorandum.

The approval sought under this Resolution 5, mirrors that sought under Resolution 5 at the Company’s 2011 annual general meeting. Whilst Shareholder approval was obtained for the proposed issue of 500,000 Performance Rights to Mr Sampson at last year’s annual general meeting, to date Mr Sampson has not been issued with any Performance Rights. In accordance with the requirements of Listing Rule 10.15.7 the Shareholder approval obtained last year expires 12 months after the meeting (being 22 November 2012). Consequently, fresh Shareholder approval for the proposed issue of the Performance Rights to Mr Sampson is being sought.

The total number of Shares to which Mr Sampson will ultimately become entitled will be determined by the method as set out in Annexure A.
Shareholder approval to the proposed issue of a maximum of 500,000 Performance Rights to Mr Sampson is required under ASX Listing Rule 10.14 because Mr Sampson is a Director of the Company.

The Board believes that the grant of Performance Rights to Mr Sampson will provide Mr Sampson with incentive to achieve the long term performance objectives of the Company by aligning the delivery of specific milestones and Shareholder return objectives with Mr Sampson’s potential to receive incentive based share ownership in the Company. The Performance Rights to be granted to Mr Sampson are subject to the terms and conditions of the Plan and are ‘at risk’ until the vesting conditions are met.

If the Shareholders do not approve Resolution 5, the Company cannot grant Performance Rights to Mr Sampson.

Further:

(a) even if Shareholders approve Resolution 5, the Board may, in its discretion, decide not to issue the Performance Rights to Mr Sampson; and

(b) if the Board proposes to make a new award of Performance Rights to Mr Sampson in any subsequent year, the Company will seek shareholder approval for that further award.

Notice of meeting requirements under Listing Rule 10.15

Listing Rule 10.14 provides that a company must not permit a director of the company or an associate of the director to acquire securities under an employee incentive scheme without the company obtaining the approval of its shareholders. If Shareholder approval is given under Listing Rule 10.14, approval is not required under Listing Rule 7.1.

In accordance with Listing Rule 10.15:

(1) Mr Sampson is the Managing Director of the Company;

(2) The maximum number of securities that may be acquired by Mr Sampson (being the only person for whom approval under Listing Rule 10.14 is required at this time) is 500,000;

(3) No consideration is payable by Mr Sampson at the time of issue of the Rights or at the time of vesting of those Rights into Shares. The closing price of the Shares the trading day before the date of this document was A$1.36. The value of the Shares issued to Mr Sampson once the Rights have vested will be the current market value of the Shares at the time those Rights vest and the Shares are issued. The market value of the Shares on the date that they are actually issued, or on the date that the vesting conditions are satisfied, may be higher or lower than the closing price noted above;

(4) As noted above, to date Mr Sampson has not received any Performance Rights under the Performance Rights Plan despite Shareholder approval for the issue of up to 500,000 Performance Rights being obtained at the 2011 annual general meeting;

(5) Only ‘Eligible Participants’ [as that term is defined in the Performance Rights Plan] are entitled to participate in the Performance Rights Plan. Mr Sampson has been determined to be an Eligible Participant for the purposes of the Performance Rights Plan;

(6) A voting exclusion statement has been included in the Notice of Meeting;

(7) No loans will be used in relation to the acquisition of the Rights by Mr Sampson; and

(8) The Company will issue the performance rights to Mr Sampson as soon as practicable after Shareholder approval has been obtained and in any event no later than 12 months after the Meeting.

Notice of meeting requirements under Corporations Act

As noted above, Shareholder approval is required under Listing Rule 10.14 for the issue of Performance Rights to Mr Sampson as he is a Director and therefore a related party of the Company.

The Board has considered the application of Chapter 2E of the Corporations Act (related party provisions) and has resolved that the reasonable remuneration exception provided by section 211 of the Corporations Act is relevant in the circumstances and accordingly, the Company will not also seek approval for the issue of Rights to Mr Sampson under the Performance Rights Plan, pursuant to section 208 of the Corporations Act.

Board Recommendation

The Board (with Mr Sampson abstaining) recommends that Shareholders vote FOR Resolution 5.

Resolution 6 – Approval of increase in non-executive Directors’ fee pool

Listing Rule 10.17 provides that the maximum aggregate amount of the remuneration payable as Directors’ fees be determined by shareholders at a general meeting.

Shareholders last voted to increase the fee pool to A$600,000 in November 2011. The Board has subsequently strengthened its calibre by the appointment of Mr Niall Lenahan to the Board as of 2 April 2012.

Further, given the Boseto Copper Project has now become operational and with the commencement of commissioning in June 2012, the Board considers it appropriate to follow market based non-executive Director fees from 1 July 2012.
Consequently, the Board seeks approval for the maximum remuneration pool available for non-executive Directors to be increased by A$200,000 from A$600,000 to A$800,000 per annum.

This increase will allow the Directors to be adequately compensated now that the Company has successfully transitioned to a mining producer.

**Board Recommendation**

The Board abstains from making a recommendation in respect of Resolution 6.

**Resolution 7 – Ratification of Institutional Placement Shares**

**Background**

On 9 August 2012, the Company announced that it had conducted a placement of 41,666,667 fully paid ordinary shares in the Company (Placement Shares) at A$1.20 per Placement Share to sophisticated and institutional investors, raising a total of approximately A$50,000,000 (before costs) (Placement). Further, the Company also recently conducted a share purchase plan which resulted in the issue of 977,043 Shares worth approximately A$1,172,500 (before costs) (SPP) (collectively, the Equity Raising).

It is intended that proceeds from the Equity Raising will be used to pursue growth and cost saving initiatives following the successful completion of construction and pre-commissioning of the Boseto Copper Project. This includes:

(a) developing the Zeta underground mine towards its early start schedule;

(b) progressing the coal fired power station project at Boseto to secure cost savings estimated to be in excess of US$1,000,000 per month;

(c) accelerating work on the expansion of Boseto;

(d) continuing with exploration to upgrade resources in support of the above activities; and

(e) providing enhanced balance sheet flexibility during the Boseto commissioning and ramp-up phase.

**Notice of Meeting requirements under listing rule 7.4**

Listing Rule 7.1 prohibits the Company (subject to certain exceptions such as pro-rata issues), from issuing or agreeing to issue equity securities representing more than 15% of its total issued securities, during a rolling 12 month period without Shareholder approval (15% Threshold).

Listing Rule 7.4 allows an issue of equity securities, for which Shareholder approval was not first obtained, to not be counted towards the 15% Threshold when Shareholder approval for that issue is subsequently obtained.

That is, Listing Rule 7.4 permits an issue of Shares to be approved retrospectively. It provides that an issue of securities is treated as having been made with Shareholder approval if ASX Listing Rule 7.1 was not breached at the time the securities were issued and Shareholders subsequently approve (ratify) the issue.

The Company did not breach ASX Listing Rule 7.1 at the time the Placement Shares were issued.

By Shareholders approving this Resolution, the Board is given the flexibility to issue more equity securities up to the 15% Threshold over the next 12 month period. Once the issue of the Placement Shares is approved, these securities will not be counted for the purposes of the 15% Threshold.

If Shareholders do not ratify the issue of the Placement Shares, the issue under the Placement will not be affected, however, the Company will be limited in the number of Shares it can issue in the upcoming 12 months without Shareholder approval.

In accordance with Listing Rule 7.5, the following information is provided to Shareholders:

(a) The total number of Placement Shares that were issued in the Placement were 41,666,667;

(b) The issue price of each Placement Share was A$1.20;

(c) The Placement Shares rank equally with all existing Shares;

(d) The allottees of the Placement were sophisticated and institutional investor clients of UBS, Australia, being “sophisticated” or “professional” investors within the definitions of sections 708(8) or 708(11) of the Corporations Act;

(e) It is intended that the proceeds raised under the Equity Raising will be used to pursue growth and cost saving initiatives following the successful completion of the Boseto Copper Project as noted above; and

(f) A voting exclusion statement is included in the Notice of Meeting.

**Board Recommendation**

The Board believes that the ratification of the Placement is beneficial to the Company as it allows the Company to retain the flexibility to issue the maximum number of equity securities permitted to be issued under Listing Rule 7.1 without first obtaining Shareholder approval.

The Board unanimously recommends that Shareholders vote FOR Resolution 7.
Special Resolution

Resolution 8 – Adoption of amendments to the Constitution

Background

It is proposed that various provisions of the Company’s Constitution be amended and updated to reflect changes (including recent changes) in applicable laws and the Company’s situation since the Constitution was adopted. These changes, for example, include removal of redundant AIM references now that the Company has delisted from AIM, and generally updating the Constitution to more directly align its provisions with the current requirements and terminology of the Listing Rules and Corporations Act.

The Company’s current Constitution was adopted at a general meeting held in March 2007. At that time, the Company was contemplating admission to AIM and certain amendments were required to the Constitution in order for the Company to trade its Shares on AIM and be compliant with AIM Rules.

All the proposed amendments to the Constitution are to be voted on in this one Resolution, such that either all of the amendments will be approved or none of the amendments will be approved.

Section 136(2) of the Corporations Act provides that a company may modify or repeal its constitution, or a provision of its constitution, by special resolution. Therefore, this Resolution is a special resolution, meaning that at least 75% of the votes cast must approve the Resolution for it to be passed.

The proposed amendments to the Constitution are set out in Annexure B to this Explanatory Memorandum.

If Shareholder approval is obtained for this Resolution, a copy of the Constitution inclusive of the amendments approved under this Resolution will be:

(a) lodged with the ASX for release to the market within a reasonable time after the Meeting; and

(b) available on the Company’s website (www.discoverymetals.com).

Board Recommendation

The Board unanimously recommends that Shareholders vote FOR Resolution 8.

Glossary

In this Explanatory Memorandum and the Notice of Meeting:

AIM means the Alternative Investment Market of the London Stock Exchange;

Annual General Meeting or Meeting means the annual general meeting of the Company to be convened by this Notice of Meeting (unless the context otherwise requires);

ASX means the Australian Securities Exchange or ASX Limited ACN 008 624 691;

Board means the board of Directors of the Company;

Chairman means the chairman of the Board;

Company means Discovery Metals Limited ACN 104 924 423;

Constitution means the constitution of the Company;

Corporations Act means the Corporations Act 2001 (Cth);

Directors means the Directors of the Company as at the date of this Notice of Meeting being Gordon Galt, Stuart Bradley Sampson, Morrice Cordiner, Ribson Gabonowe, Niall Lenahan, Jeremy Read and John Shaw;

Explanatory Memorandum means this explanatory memorandum that accompanies and forms part of the Notice of Meeting;

Financial Report means the 30 June 2012 financial report of the Company, a copy of which was lodged with ASX on 24 August 2012 under the announcement ‘Financials reflect Boseto Completion’;

Key Management Personnel means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise);

Listing Rules means the official Listing Rules of ASX;

Notice of Meeting means the notice of annual general meeting dated 3 October 2012 which this Explanatory Memorandum accompanies and in which the Resolutions are set out;

Performance Rights Plan means the equity linked incentive plan under which Rights are issued to ‘Eligible Participants’ approved at the Company’s 2011 annual general meeting;

Remuneration Report means the remuneration report of the Company for the year ended 30 June 2012 contained in the Financial Report;

Resolution means the resolutions referred to in the Notice of Meeting;

Rights or Performance Rights means a right to be awarded a specified number of Shares upon satisfaction of vesting conditions determined by the Board in accordance with the Performance Rights Plan;

Share means a fully paid ordinary share in the Company; and

Shareholder means a holder of Shares.
Annexure A

The Performance Rights Plan is an equity linked incentive plan that was approved at last year’s annual general meeting. The Plan was established to more closely align rewards for performance of key executive management employees with the achievement of the Company’s growth and strategic objectives for the 2012 financial year and beyond.

Resolution 5 is seeking Shareholder approval for the proposed issue of a maximum 500,000 Performance Rights to the Company’s Managing Director, Mr Stuart Bradley Sampson.

The total number of Shares to which Mr Sampson (‘Eligible Participant’), will ultimately become entitled (should Resolution 5 be approved and the Performance Rights be granted to Mr Sampson), will be determined by the method as set out below.

1. **Structure of Performance Rights Award:**

   The award of Performance Rights will be comprised as follows:

   - 1/3 of the Eligible Participant’s Performance Rights will be a Service Component (described below); and
   - 2/3 of the Eligible Participant’s Performance Rights will be a Performance Component (described below).

   (a) **The Service Component**

   The Service Component of the Eligible Participant’s Performance Rights is subject only to the Eligible Participant’s continued good service with the Company (or a subsidiary) to the Board’s satisfaction (Service Condition).

   (b) **The Performance Component**

   The number of Performance Rights that may be awarded from the Performance Component is subject to:

   - organisational performance - relative total shareholder return (TSR) test; and
   - individual performance - assessed against the Eligible Participant’s individual performance (STI Rating).

   (i) **Organisational performance**

   The relative TSR performance test is applied as follows:

   - The TSR test will be measured against the performance of a peer group comprising of between 6 and 10 resource companies in the year of award (Organisational Performance Component); and
   - The quantum of the Eligible Participant’s Performance Component that will be awarded under the Organisational Performance Component as a result of the TSR test is set out in the following table:

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<th>DML’s relative TSR performance</th>
<th>Organisational Performance Component</th>
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</thead>
<tbody>
<tr>
<td>Below 25th percentile TSR</td>
<td>Zero</td>
</tr>
<tr>
<td>25th percentile – 75th percentile TSR</td>
<td>Straight line increase in vesting between 25% and 100%</td>
</tr>
<tr>
<td>Above 75th percentile TSR</td>
<td>100%</td>
</tr>
</tbody>
</table>
(ii) **Individual performance**

- The final number of Performance Rights that will be awarded will depend upon the Eligible Participant’s performance against their individual KPI’s (STI Rating) as set out below (Awarded Performance Component):

<table>
<thead>
<tr>
<th>STI Rating</th>
<th>Awarded Performance Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25%</td>
<td>Zero</td>
</tr>
<tr>
<td>25% - 75%</td>
<td>An amount calculated as:</td>
</tr>
<tr>
<td></td>
<td>APC = OPC * ((STI Rating – 25%) / (75%-25%))</td>
</tr>
<tr>
<td></td>
<td>where:</td>
</tr>
<tr>
<td></td>
<td>APC is the Awarded Performance Component</td>
</tr>
<tr>
<td></td>
<td>OPC is the Organisational Performance Component</td>
</tr>
<tr>
<td></td>
<td>STI Rating is the Eligible Participant’s individual STI Rating</td>
</tr>
<tr>
<td>Above 75%</td>
<td>100% of Organisational Performance Component</td>
</tr>
</tbody>
</table>

2. Vesting of Performance Rights awarded

(a) The Performance Rights awarded as described above will vest annually in 3 equal tranches.

(b) The Eligible Participant must continue to meet the Service Condition at the time a tranche of their awarded Performance Rights is due to vest to be entitled to receive that tranche.

3. Worked example:

The following is assumed in this worked example:

> The Company’s relative TSR is in the 70th percentile of its peer group;

> The Eligible Participant’s STI rating is 65%;

> The Eligible Participant’s maximum Performance Rights entitlement as determined by the Board is 100,000.

Accordingly:

> The maximum number of Performance Rights that may be awarded comprises:
  * 33,333 for the Service Component; and
  * 66,667 for the Performance Component.

<table>
<thead>
<tr>
<th></th>
<th>Year 1 Vesting</th>
<th>Year 2 Vesting</th>
<th>Year 3 Vesting</th>
<th>Total Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awarded Service Component</td>
<td>11,111</td>
<td>11,111</td>
<td>11,111</td>
<td>33,333</td>
</tr>
<tr>
<td>Awarded Performance Component</td>
<td>16,000</td>
<td>16,000</td>
<td>16,000</td>
<td>48,000</td>
</tr>
<tr>
<td>Total</td>
<td>27,111</td>
<td>27,111</td>
<td>27,111</td>
<td>81,333</td>
</tr>
</tbody>
</table>

> Based on a TSR of 70%, the Organisational Performance Component will be:

\[
\frac{(70-25)}{(75-25)} \times 100 = 90\%
\]

> Based on a STI Rating of 65%, the Eligible Participant’s Performance Component will be:

\[
\frac{(65-25)}{(75-25)} \times 100 = 80\%.
\]

> This would in turn make the percentage of the Performance Component awarded:

\[
= \text{Organisational Performance Component} \times \text{Eligible Participant’s Performance Component}
\]

\[
= 90\% \times 80\% = 72\%
\]

> and accordingly, the Awarded Performance Component would be:

\[
72\% \times 66,667 = 48,000 \text{ Performance Rights}
\]

Accordingly, the Awarded Service Component and Awarded Performance Component of the Performance Rights would vest as follows:
Annexure B

It is proposed that various provisions of the Company’s Constitution be amended and updated to reflect changes (including recent changes) in applicable laws and the Company’s situation since the Constitution was adopted.

The Company’s current Constitution was adopted at a general meeting held in March 2007. At that time, the Company was contemplating admission to AIM and certain amendments were required to the Constitution in order for the Company to trade its Shares on AIM and be compliant with AIM Rules.

If Resolution 8 is passed, the Constitution will be amended as follows:

<table>
<thead>
<tr>
<th>Clause reference in current Constitution</th>
<th>Amendment proposed to be made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various clauses</td>
<td>All phrases noting ‘the Corporations Act 2001’ and ‘the Corporation Act and the Listing Rules’ and ‘the Corporations Act 2001, the SCH Business Rules and the Listing Rules’ are to be deleted and replaced with ‘Applicable Laws’.</td>
</tr>
<tr>
<td>Various clauses</td>
<td>All references to ‘SCH Business Rules’ are to be deleted and replaced with ‘ASX Settlement Operating Rules’.</td>
</tr>
<tr>
<td>2.1(c)</td>
<td>The words ‘under the Listing Rules’ are to be deleted and replaced with ‘and made in accordance with Applicable Laws.’</td>
</tr>
<tr>
<td>2.2(a)</td>
<td>The words ‘sections 246B to 246E of the Corporations Act’ are to be deleted and replaced with ‘Applicable Laws.’</td>
</tr>
<tr>
<td>2.2(b)</td>
<td>The words under clause 2.2(b) ‘except that:’ and subsections (i) and (ii) of clause 2.2(b) are to be deleted in their entirety.</td>
</tr>
<tr>
<td>2.5(f)</td>
<td>The words ‘; and’ are to be inserted at the end of sub-paragraph (iv) and sub-paragraph (vi) is to be deleted in its entirety.</td>
</tr>
<tr>
<td>5.1(c)</td>
<td>The words ‘(and to avoid any doubt this includes the trading of its Shares on AIM through CREST)’ are to be deleted. The words ‘the Corporations Act 2001, the Listing Rules or the Operating Rules of a Prescribed CS Facility, or the corresponding laws or securities exchange rules in any other country’ are to be deleted and replaced with ‘Applicable Laws’.</td>
</tr>
<tr>
<td>8.4(b)</td>
<td>At the end of the first sentence the words ‘or termination of the takeover bid’ are to be inserted.</td>
</tr>
<tr>
<td>10.3(a)</td>
<td>In the first sentence, the words ‘relating to special resolutions and agreements for shorter notice’ are to be deleted.</td>
</tr>
<tr>
<td>10.7</td>
<td>The words ‘section 249E(5) of’ are to be deleted.</td>
</tr>
<tr>
<td>10.8</td>
<td>Immediately after the words ‘The Directors may postpone or cancel any general meeting whenever they think fit’ the words ‘in accordance with Applicable Laws’ are to be inserted.</td>
</tr>
<tr>
<td>Heading of 10.9</td>
<td>The heading is to be deleted and replaced with the new heading ‘Contents of Notice of Meeting’.</td>
</tr>
<tr>
<td>10.9(a)</td>
<td>This clause is to be deleted in its entirety.</td>
</tr>
</tbody>
</table>
| 11.9                                     | This clause is to be deleted in its entirety and replaced with the following: \(\text{‘If an equal number of votes is cast for and against a resolution at a meeting of Members,}\
\(\text{[a] if the chairman of the meeting is not (or if the chairman were a Member would not be) entitled to vote, the matter is decided in the negative; or}\
\(\text{[b] otherwise, the chairman has a casting vote whether or not the chairman is a Member, and in addition to the vote or votes to which the chairman may be entitled as a Member or as a proxy, attorney or representative of a Member.’}\)
<table>
<thead>
<tr>
<th>Clause reference in current Constitution</th>
<th>Amendment proposed to be made</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1(c)</td>
<td>The words ‘rounded up’ are to be inserted immediately after the words ‘Subject to clause 14.21, at the annual general meeting in every year one-third of the Directors or the Directors for the time being, or, if their number is not 3 nor a multiple of 3, then the number nearest one-third’.</td>
</tr>
<tr>
<td>12.2(a)</td>
<td>This clause is to be deleted in its entirety and replaced with the following: '(a) The Company in general meeting cannot validly elect a person as a Director unless: i. the person retires under rule 12.1 or 12.4 and seeks re-election; ii. the Board recommends the appointment, which recommendation the board must notify to the Company at its registered office at least 28 days before the meeting at which election is to be considered; or iii. not less than 35 Business Days and not more than 45 Business Days (or any other period fixed by the board and notified to ASX) before the date of the meeting at which election is to occur, the Company receives at its registered office both: A. a nomination of the person by a member (who may be the person); and B. a consent to act as a Director signed by the person. (b) The Company must notify Members of every candidate for election as a Director with the notice of meeting.’</td>
</tr>
<tr>
<td>12.6(b)</td>
<td>The words ‘in accordance with Applicable Laws’ are to be inserted at the end of the clause.</td>
</tr>
<tr>
<td>13.5(a)</td>
<td>The words ‘Subject to Applicable Laws,’ are to be inserted at the beginning of this clause.</td>
</tr>
<tr>
<td>13.5(c)</td>
<td>The words ‘section 200G of the Corporations Act 2001’ are to be deleted and replaced with ‘Applicable Laws’.</td>
</tr>
<tr>
<td>13.6</td>
<td>The words ‘Subject to clause 23,’ are to be inserted at the beginning of this clause.</td>
</tr>
<tr>
<td>14.14(a)</td>
<td>The words ‘In addition to any other requirements under Applicable Laws,’ are to be inserted at the beginning of this clause.</td>
</tr>
<tr>
<td>17.2(c)</td>
<td>The words ‘(and (if applicable) the regulations of the London Stock Exchange so permitting)’ are to be deleted.</td>
</tr>
<tr>
<td>18.10(b)</td>
<td>The reference to clause 18.10(a) is to be deleted and replaced with ‘clause 18.10’.</td>
</tr>
<tr>
<td>22.2(a)</td>
<td>This clause is to be deleted in its entirety.</td>
</tr>
<tr>
<td>26</td>
<td>This clause is to be deleted in its entirety.</td>
</tr>
</tbody>
</table>
| 27                                      | The word ‘If’ at the beginning of this clause is to be deleted and replaced with ‘Whilst’.
### Schedule 1 – Definitions

The following definitions are to be deleted in their entirety:

- (a) ‘AIM’;
- (b) ‘AIM Rules’;
- (c) ‘AIM Traded Shares’;
- (d) ‘Companies Act’;
- (e) ‘CREST’;
- (f) ‘London Stock Exchange’; and
- (g) ‘SCH Business Rules’.

The following definitions are to be inserted:

- (a) ‘Applicable Laws means the Corporations Act 2001 (Cth) and Corporations Regulations 2001 (Cth), Listing Rules, the rules of a Relevant Financial Market and any other laws, including those of a foreign jurisdiction, applicable to the Company from time to time (as the context requires).’
- (b) ‘ASX Clear means ASX Clear Pty Limited ACN 001 314 503.’
- (c) ‘ASX Settlement means ASX Settlement Pty Ltd ACN 008 504 532.’
- (d) ‘ASX Settlement Operating Rules means the settlement and operating rules of ASX Settlement.’

The following definitions are to be deleted and replaced with the following:

- (a) ‘ASX means ASX Limited ACN 008 624 691, or if the context requires, the financial market operated by it’.
- (b) ‘Business Day has the meaning given by the Listing Rules’.
- (c) ‘CHESS means the Clearing House Electronic Sub-register System operated by ASX Clear and ASX Settlement’.
- (d) ‘CHESS Holding has the same meaning as in the ASX Settlement Operating Rules’.
- (e) ‘Listing Rules means the Listing Rules of ASX and any other rules of ASX, which are applicable while the Company is admitted to the official list of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX’.
- (f) ‘Listed Securities means any Shares, Share options, stock debentures, debenture stock or other securities for the time being issued by the Company and officially quoted by ASX or Relevant Financial Market’.
- (g) ‘Marketable Parcel has the same meaning as in the Listing Rules’.

### Schedule 1 – Interpretation, item (d)

Immediately after the words ‘a reference to a statute or code or the Corporations Act 2001 [or to a provision of same] means the statute, code or the Corporations Act 2001 [or provisions of same] as modified or amended and in operation for the time being, or any statute, code or provision enacted [whether by the State or Commonwealth of Australia] in its place and includes any regulation or rule’ the words ‘or any subordinate legislation issued under that legislation or those rules’ are to be inserted.

If Shareholder approval is obtained for this Resolution, a copy of the Constitution inclusive of the amendments approved under this Resolution (as noted above) will be:

- (a) lodged with the ASX for release to the market within a reasonable time after the Meeting; and
- (b) also available on the Company’s website (www.discoverymetals.com).