dml
DISCOVERY METALS LIMITED

# SECOND SUPPLEMENTARY **TARGET'S** STATEMENT

FINANCIAL ADVISER

LEGAL ADVISER

This document is the second supplementary target's statement (Second Supplementary Target's Statement) to the Target's Statement dated 23 November 2012 (Target's Statement) and the first supplementary target's statement dated 12 December 2012 (First Supplementary Target's Statement) issued by Discovery Metals Limited ACN 104 924 423 (DML or Company). This Second Supplementary Target's Statement is dated 23 January 2013.

This Second Supplementary Target's Statement is in relation to the off-market takeover bid by Cathay Fortune Investment Limited (a body corporate incorporated in Hong Kong SAR, China, company number 1686647) (Bidder) for all of the ordinary shares in DML (Offer).

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.**
If you do not understand it or are in doubt as to its contents or how to act, please consult your professional adviser immediately. This Second Supplementary Target's Statement supplements, and is to be read together with, the Target's Statement dispatched to Shareholders, and the First Supplementary Target's Statement.

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# GENERAL

Unless the context requires otherwise, defined terms in the Target's Statement have the same meaning in this Second Supplementary Target's Statement. This Second Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement.

A copy of this Second Supplementary Target's Statement has been lodged with ASIC on 23 January 2013. Neither ASIC nor any of its officers takes any responsibility for the contents of this Second Supplementary Target's Statement.

# EXTENSION OF OFFER PERIOD

By announcement dated 3 January 2013, the Bidder declared that it has extended the Offer Period until 7.00pm (Sydney time) (currently 10.00am Botswana time) on 8 February 2013 (unless further extended or withdrawn).

# STATUS OF OFFER

Discovery Metals Limited (DML) notes that the Offer remains subject to a number of conditions including the condition in paragraph 10(l) of the Bidder's Statement (change of control in Financial Arrangement). DML disclosed in the Target's Statement on 23 November 2012 that its Boseto project finance facility contains a change of control provision which entitles the lenders to seek repayment in the event of a change of control. The Bidder has not waived condition 10(l) and as a result retains the ability to unilaterally let the Offer lapse. In addition, the Bidder has recently sought to obtain a second approval from the Botswana Competition Authority in relation to the participation by the China-Africa Development Fund.

The Board of DML believes the ongoing conditionality of the Offer, over 3 months after the Offer was originally announced, is creating significant uncertainty for DML's other shareholders and negatively impacting the current DML share price.

DML has sought to engage with the Bidder on the status of the remaining Conditions of the Offer in order to minimise the present uncertainty. DML will update the market on the status and outcome of that engagement, to the extent that there are any material developments, in accordance with its disclosure obligations.

# PURPOSE OF THIS DOCUMENT

This document includes further detailed information and commentary on the ramp-up of the Boseto copper operations with particular focus on:

- Ore Reserves reconciliation and classification; and
- Costs of production for the first 6 months of commissioning and for the remainder of Financial Year 2013.

# SUMMARY

## Ore Reserves Reconciliations

**A.** The Grade Control Model – As Mined (GCMAM) indicates the DML Ore Reserve Model (Ore Reserve Model) has overestimated the amount of sulphide ore and underestimated the amount of oxide and transitional ore in the Zeta open pit orebody for the material mined to 31 December 2012. (Oxide ore is stockpiled for processing at the end of the mine life.)

**B.** Notwithstanding this, the GCMAM displays reasonably good correlation with the Ore Reserve Model with total copper metal content for material mined to date being 13% under the Ore Reserve Model.

**C.** The tonnage in ore blocks in the GCMAM exceeds the Ore Reserve Model by 10% which indicates increased dilution during the mining process over those levels assumed in the Ore Reserve Model.

**D.** The grade of sulphide material mined is 15% lower than the Ore Reserve Model as a result of the mining dilution. Management is focused on improving mining to reduce dilution and minimise ore losses.

**E.** In the absence of oxide ore, as evidenced by the December month figures, the copper metal content of the Ore Reserve Model and the GCMAM is very close (+1%) but the dilution issue has continued.

**F.** In the absence of oxide ore, which is the expected situation from the start of 2013 onwards, DML expects that the Ore Reserve Model should be a good estimate of metal content. Management is very focused on improving the dilution by training, improvements of mining practices and other initiatives.

## Costs

**G.** **The C1 Cash Cost** for the half year to 31 December 2012 was $4.28/lb Cu due to a number of factors related to the stage of commissioning, including lower grades and higher power costs, as well as significant workforce training and bedding down of systems and procedures. This cash cost performance is expected to improve significantly in the second half of the Financial Year to June 2013 to $1.92/lb Cu.

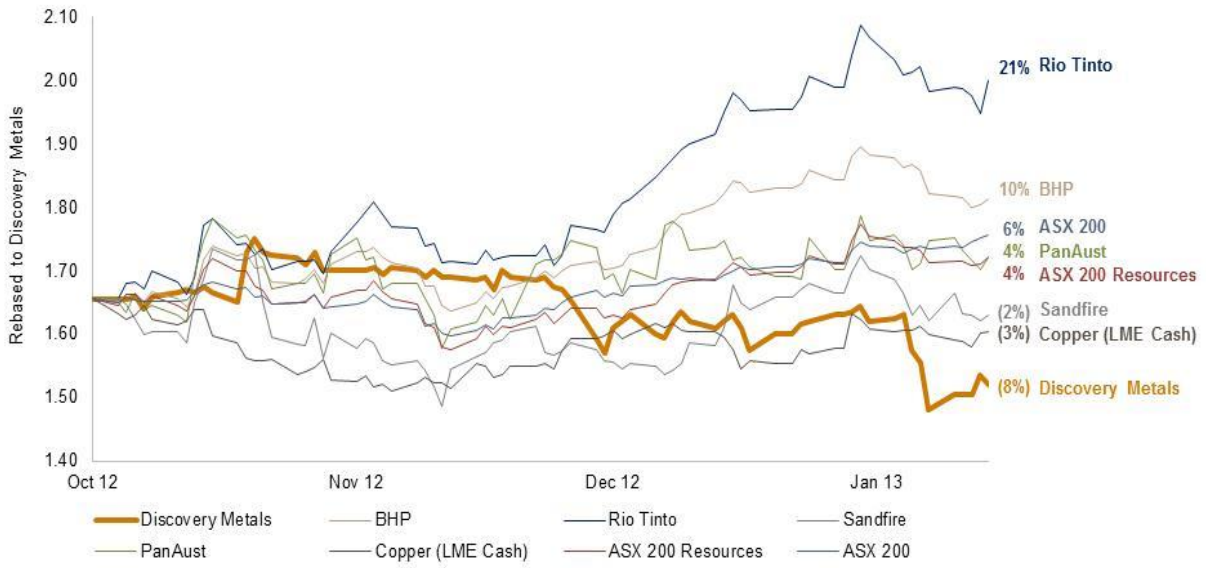
## Ore Reserves Update

**H.** **Ore Reserves at Zeta** are currently being updated to reflect mining depletion for the period to 31 December 2012. In addition, an internal review of Ore Reserves suggests that mineralisation in the order of 5 million tonnes may have been included in both the open pit and underground Ore Reserves. This is a result of DML's strategic decision to mine a shallower open pit than was identified in the BFS and subsequently used as the basis for the 2010 Ore Reserves. This adjustment does not affect the valuation of the Boseto mining operations as the Zeta open pit mine plan only included the shallowest 4 million tonnes of Ore Reserves.

An updated Ore Reserve estimate is in the process of being completed as soon as possible.

# KEY DEVELOPMENTS SINCE 5 OCTOBER 2012

- Since 5 October 2012, the first day of trade after DML announced it had been approached by the Bidder, the Company's share price has traded up to $1.75 on 24 October 2012 before dropping to $1.52 on 22 January 2012.




- The Board believes that DML's share price performance over this period primarily reflects uncertainty in the market about the Bidder's preparedness to proceed with the Offer rather than any deterioration in the macroeconomic environment or the fundamental value of DML.
- While the price of DML's shares has fallen since 5 October 2012 there has been an improvement in sentiment towards listed mining exposures with the price of BHP Billiton shares increasing by 10%, the price of Rio Tinto shares increasing by 21% and the ASX200 Resources Index increasing by 4%.
- Over this period, DML has continued to enhance the value of its assets.
  - DML has continued to de-risk the Boseto project by progressing through the commissioning stage of development. DML is moving production rates towards design parameters, and is systematically identifying and implementing mining and processing performance improvements.
  - DML has also had considerable exploration success. The Company's Mineral Resources inventory has increased from 131 million tonnes to 207 million tonnes as a result of successful exploration (refer Appendix 1 for full Ore Reserves and Mineral Resources Statement). This has included the declaration of maiden Inferred Mineral Resources at NE Mango 2 and at Ophion, and increased Ore Reserves at Plutus. Excellent drilling results have been produced at Zeta NE, confirming potential for development of an underground mine, and at Aphrodite, 170km from Boseto, increasing the potential for development of a satellite project in the Kalahari Copperbelt.
  - Plans to expand the Boseto plant throughput by 67% to 5Mtpa have been advanced through the appointment of GR Engineering Services to undertake a detailed Front End Engineering Design study. This study is almost half way through with construction anticipated to commence before the end of 2013, if approved by the DML board. This will lift annual output rates at Boseto to an estimated 50,000 tonnes of copper metal in concentrate from early 2015.

- DML has also progressed to reduce costs through either the construction of a coal fired power station or accessing grid power to replace existing diesel generation capacity. DML has advanced this project with community consultation and the Environmental Impact Statement completed and applications for operating licences submitted to the Government of Botswana.

The Board of DML also notes that consolidation continues to be a prevalent theme in the copper sector. In early January 2013, First Quantum formally commenced its C$5.1 billion offer for Inmet Mining which underscores the scarcity value of quality copper assets globally.

# RESPONSE TO FOURTH SUPPLEMENTARY BIDDER'S STATEMENT

DML notes the Fourth Supplementary Bidder's Statement released on 9 January 2013 which asked questions in relation to reconciliation of Ore Reserves and cash costs at Zeta. To address these questions and provide shareholders with further information following the completion of the first 6 months of commissioning at Boseto, DML provides the following operational updates.

## 1. Ore Reserves Reconciliation at Zeta open pit

The discussion below relates to the open pit mining of the Zeta deposit at the Boseto project from the commencement of operations to 31 December 2012. It is important that shareholders read the information below so that reconciliation information provided can be understood in the context of the valuation methods in the Independent Technical Report included in the Target's Statement.

### 1.1 Overview of Mine Planning

DML's mine plan for the Boseto project to deliver 3.5Mtpa to the Boseto concentrator, modelled by SRK in its valuation of the Boseto project (included in their Independent Technical Report which was included in the Target's Statement), involves:

- Progressive open pit mining of portions of a number of deposits including Zeta, Plutus, Zeta NE, Ophion and Selene; and
- Underground mining at the Zeta deposit with ore deliveries to stockpiles commencing from October 2014 based on underground mine development commencement in November 2013.

Details of the tonnages proposed for processing from each source in the SRK valuation are included on page 173 of the Target's Statement (SRK report page 31) and restated below.

**Table 1. Mining – Source of Boseto Ore tonnes mined**

| Deposit / mine | Tonnes Mined (HG, Transitional & Oxide) (Mt) | Comment regarding source of Ore tonnes mined |
|---|---|---|
| Zeta OP | 4.0 | 100% of Proved Ore Reserves |
| Plutus | 19.2 | 100% of Proved and Probable Ore Reserves of 11.3 Mt (19.2 Mt = 100% of Measured and Indicated Resources) |
| Zeta NE | 6.2 | 48% of Inferred Mineral Resources |
| Ophion | 5.4 | 39% of Inferred Mineral Resources |
| Selene | 3.7 | 23% of Inferred Mineral Resources |
| Zeta UG | 16.3 | 100% of Proved and Probable Ore Reserves of 7.3 Mt. Remaining 9 Mt from Inferred Mineral Resources. |
| **Total** | **54.8** | |

The Zeta open pit is the first of the open pit mines scheduled to be mined within the Boseto project. The Zeta open pit will continue to a vertical depth of approximately 130 metres below surface. Further ore capable of open pit mining exists below this depth but is scheduled for extraction in the Zeta underground mine rather than the Zeta open pit.

As stated in the Definitive Feasibility Study (DFS) for the Zeta Underground mine (that was completed after the 2010 BFS), underground mining is proposed to commence at approximately 150 metres vertical depth and will continue to 630 metres vertical depth to deliver ore over an 11 year period at an average rate of 1.2Mtpa. Further economic mineralisation is anticipated below this depth but drilling has not proceeded below this depth to date. Drilling to greater depth is currently not planned for at least 5 years and will be undertaken from within the underground workings as is normal with underground base and precious metals mines around the world.

A statement of Ore Reserves and Mineral Resources at Boseto is given in Appendix 1.

## 1.2 Ore types

The majority of ore planned for extraction under the Boseto mine plan is sulphide ore, predominantly consisting of chalcocite mineral. In the Boseto area, this type of ore is generally found at vertical depths of approximately 60 metres, though the depth is variable and depends on both the depth of both Kalahari sand and the depth of weathering and oxidation.

In the underground mine, only sulphide ore will be mined. In the open pits, mining will progress through oxide ore and then to a transitional zone, which includes both oxide and sulphide mineralisation before the sulphide ore is encountered. This is a typical situation in open pit copper mines worldwide.

The exact quantum of ore and metal in each zone (oxide, transitional and sulphide) is difficult to estimate before mining commences even with very extensive drilling programs and it is not unusual for results from mining in the oxide and transition zones to vary significantly from the estimates. The important zone is the sulphide zone where the majority of the value in the Ore Reserves lies.

Shareholders should note that oxide ore is not currently scheduled for processing in the Boseto concentrator because metal recovery would be very low. The concentrator is designed to mainly treat sulphide ore types.

### 1.3 Zeta Mining in 2012

The Zeta pit has a strike length of 2.3 kilometres at the top of pit. The mineralisation is thickest in the central area of this strike length (approximately 10-12 metres) and narrows to the NE and SW, with thickness of scheduled ore dropping to approximately 3 metres in some places.

Waste and ore removal commenced at the Zeta pit in the first half of 2012. By the end of December 2012 mining had progressed to a depth of 60 metres in the central area and approximately 45 metres in the NE and SW pit ends.

Some sulphide ore was encountered in September as the pit was deepened deliberately to establish the location of and provide experience with the full set of three ore types. During the October to December period mining was mainly back into the higher zones. In Q1 2013 ore is expected to be predominantly sulphide and from Q2 2013 ore is expected to be all sulphide.

## 2. Ore modelling

The Ore Reserve Model for the Zeta pit was based on the drilling information obtained during the exploration and feasibility stages which incorporated allowances for ore losses and dilution during mining. The Ore Reserves include copper mineralisation down to a 0.6% copper cut-off. This Ore Reserve Model is the basis for the long term mine plan for the Zeta open pit.

When ore is exposed and before it is mined, a further series of drill holes is completed at close spacing and shallow depth to establish a Grade Control Model. Like the Ore Reserve Model, the Grade Control Model for Zeta counts mineralization down to a 0.6% copper cut-off. The Grade Control Model is the basis for formulating dig plans on a day to day basis. A further modification is then needed to produce the Grade Control Model - As Mined which records the actual performance of the mine and importantly includes all dilution and ore losses. An example of where dilution can occur is where the block that can be practically dug is only half ore (e.g. at the sides of the orebody) but the block is still above the economic cut-off grade. Ore losses can occur because to dig a physical mining block containing only a small portion of ore could result in the grade of that block falling below the economic cut-off grade.

A comparison between the Grade Control Model – As Mined and the Ore Reserve Model is expected to have good accuracy in the sulphide zone, mainly due to the lack of weathering. Higher variability is likely at shallower depths, where the oxide and transition ore exists, and where weathering depth and sand thickness above the weathered horizon varies considerably over the 2.3 kilometres strike length.

## 3. Reconciliation between Ore Reserve Model and Grade Control Model – As Mined

The two tables below relate to mining at Zeta. Table 2 summarises the entire period of the mine to the end of December 2012. Table 3 presents the same data for the month of December 2012.

Note these tables refer to reconciliation of the mining activities in the Zeta open pit and do not readily relate to the Boseto concentrator production update figures which were released in early January 2013.

**Table 2. Mine Performance vs Ore Reserve Model - Project to Date to 31 Dec 2012**

| | Total | | | Oxide | | | Transitional | | | Sulphide | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ore kt | Copper tonnes | Silver Ounces | Ore kt | Copper % | Silver gpt | Ore kt | Copper % | Silver gpt | Ore kt | Copper % | Silver gpt |
| Ore Reserve Model | 1,516 | 20,918 | 679,685 | 243 | 1.26 | 7.0 | 781 | 1.30 | 11.3 | 492 | 1.57 | 21.5 |
| As Mined | 1,665 | 18,246 | 343,145 | 439 | 1.02 | 1.9 | 969 | 1.07 | 5.9 | 258 | 1.34 | 15.9 |
| Variation | 149 | (2,672) | (336,540) | 196 | (0.24) | (5.1) | 187 | (0.23) | (5.4) | (233) | (0.23) | (5.6) |
| Variation % | 10% | (13%) | (50%) | | (19%) | (73%) | | (18%) | (48%) | | (15%) | (26%) |
| **Metal Feed available for Concentrator** | | | | | | | | **Cu t** | **Ag oz** | | **Cu t** | **Ag oz** |
| Ore Reserve Model | | 17,855 | 624,801 | Comprising 57%transitional & 43% sulphide ore | | | | 10,132 | 283,908 | | 7,723 | 340,893 |
| As Mined | | 13,772 | 316,676 | Comprising 75%transitional & 25% sulphide ore | | | | 10,315 | 184,527 | | 3,456 | 132,149 |
| Variation | | (4,084) | (308,124) | | | | | | | | | |
| Variation % | | (23%) | (49%) | | | | | | | | | |

**Table 3. Mine Performance vs Ore Reserve Model - for the month of December 2012**

| | Total | | | Oxide | | | Transitional | | | Sulphide | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ore kt | Copper tonnes | Silver Ounces | Ore kt | Copper % | Silver gpt | Ore kt | Copper % | Silver gpt | Ore kt | Copper % | Silver gpt |
| Ore Reserve Model | 135 | 1,996 | 75,647 | 18 | 1.05 | 8.7 | 52 | 1.37 | 13.4 | 66 | 1.67 | 21.7 |
| As Mined | 151 | 1,836 | 92,934 | 1 | 0.98 | 11.0 | 64 | 0.96 | 15.2 | 87 | 1.40 | 21.9 |
| Variation | 16 | (160) | 17,287 | (17) | (0.07) | 2.2 | 12 | (0.41) | 1.8 | 21 | (0.27) | (0.8) |
| Variation % | 12% | (8%) | 23% | | (7%) | 26% | | (30%) | 13% | | (16%) | (3%) |
| **Metal Feed available for Concentrator** | | | | | | | | **Cu t** | **Ag oz** | | **Cu t** | **Ag oz** |
| Ore Reserve Model | | 1,806 | 70,567 | Comprising 39% transitional & 61% sulphide ore | | | | 706 | 22,336 | | 1,100 | 48,230 |
| As Mined | | 1,830 | 92,709 | Comprising 33% transitional & 67% sulphide ore | | | | 613 | 31,292 | | 1,217 | 61,417 |
| Variation | | 24 | 22,142 | | | | | | | | | |
| Variation % | | 1% | 31% | | | | | | | | | |

Relevant conclusions from the data in the tables are discussed below:

a. In Table 2, the total copper metal content from the Ore Reserve Model has reasonably good correlation with the Grade Control Model – As Mined Model. However, the Ore Reserve Model has underestimated the amount of oxide and transition ore in the mining blocks and has overestimated the amount of sulphide material. As noted above, this sort of variability is not unexpected in the upper zones of the ore body, but it has had unfavourable consequences at Boseto to date. Given that oxide is not being milled, metal feed available to the concentrator to date has been only 13,772t Cu rather than the 17,855t Cu expected via the Ore Reserve Model. In addition a greater percentage of the available feed has been transition ore rather than sulphide (75% versus 57%), so process recovery has been lower.

   There is a possibility that the above situation could have been better predicted with considerably more drilling, but mining through the upper zones would still have been required to access the sulphide ore even if the situation was known beforehand. The key learning is to reassess the Reserve estimation methods used for future open pits planned for extraction in the light of this knowledge, including identifying potential bias in the modelling techniques. This work is underway and progress will be reported when available.

b. In the mine to date figures in Table 2, both the excess tonnage 10% and the variation in mined grade compared to the Ore Reserve Model indicate that dilution and ore loss are occurring during the mining process at levels above the allowances made in the Ore Reserve Model. The overall 15% lower grade reported for copper in sulphides, for example, would be accounted for by extra dilution and extra ore loss.

   The excess tonnage situation is similar in the month of December 2012 as shown in Table 3, with a tonnage variation of 12% and consequently a reduction in as mined grade by 16%.

   Management is now heavily focused on improving mining to reduce dilution and minimize ore losses. A series of initiatives in this regard are under way in conjunction with the productivity initiatives noted in the monthly commissioning updates. These include changing equipment deployment to use smaller excavators for ore and modification of blasting practice to lessen heave and throw of ore blasts. Increased operator training and supervision are also key aspects of both the productivity and dilution minimization work.

c. Table 3 refers to figures for December 2012. In the absence of oxide ore and with the transitional ore being deeper in the pit, the copper metal content of the Ore Reserve Model and the Grade Control Model – As Mined model are very close. This evidences that the Ore Reserve Model should be a good estimator of mining quantities and metal content as mining moves into the deeper areas.

d. Silver metal content has varied widely in the upper areas of the open pit, with Table 2 showing a silver deficit over the 2012 year. The results for the sulphide ore in December 2012 saw this trend reversed. Better correlation with the Ore Reserve Model is expected as more sulphide material is fed to the concentrator.

## 4. Cash costs

As outlined above, the Boseto Project is yet to fully access the main copper-rich sulphide ore zone. While the volume of material mined and the costs of mining those materials remains consistent with design life of mine rates, the volume and grade of ore mined and processed, and consequently the concentrate produced, have yet to achieve planned long term production rates. This ramp up period also involves bringing together many different facets of the operation and the training of a mine workforce in excess of 500 people. As a result, unit cash costs are skewed upwards and are not considered indicative of life of mine unit rates which are expected to accompany steady state production levels.

The Boseto concentrator is currently operating above nameplate throughput rate. Mining processes are being optimised and accelerated to ensure that the concentrator is supplied with sufficient ore to maintain that performance.

With six months of initial operations completed, DML has had the opportunity to review its cost input assumptions in the light of movements in inputs, operational performance, and adjustments for inflation. Set out below is a breakdown of actual cash costs for the December 2012 half-year, DML's latest forecast cash costs for the June 2013 half-year and commentary on DML's expectations beyond that date.

**Boseto Cash Costs**

| Costs | BFS Mid 2010 Estimate | Dec Half 2012 Actual | June Half 2013 Forecast |
|---|---|---|---|
| Mining ($/t mined) | $1.35 | $1.83 | $2.07 |
| Plant ($/t milled) | $6.33 | $9.02 | $8.28 |
| Power ($/ t milled) | $6.30 | $9.32 | $9.77 |
| Other ($/t milled) | $2.74 | $10.24 | $5.31 |
| Selling ($/lb Cu) | $0.30 | $0.45 | $0.45 |
| Silver Credit ($/lb Cu) | $0.23 | $0.67 | $0.56 |
| C1 Cash Costs ($/lb Cu) | $1.28 | $4.28 | $1.92 |
| Copper price ($/lb Cu) | $3.00 | $4.16 | $3.78 |
| Margin over C1- ($/lb Cu) | $1.72 | ($0.12) | $1.86 |

The June 2013 half-year forecast allows for the continuing use of the additional mining equipment and stand by power generation sets currently on site.

Beyond June 2013, the Board of DML expects unit cash costs at Boseto to continue to decline as steady-state production is achieved. This expected reduction reflects normal optimisation of cost performance once physical production performance achieves design rates.

DML notes that the refinement of cash cost estimates is typical in the development of successful copper projects. PanAust's Phu Kham and Equinox's Lumwana mines are examples of two material copper mines commissioned by ASX-listed copper companies which underwent this process.

- Phu Kham began commissioning in March 2008 and reached nameplate concentrator capacity in August 2008. Despite entering commercial concentrate production in June 2008, as operations were optimised cash costs fell through 2008 and by c.10% in 2009.
- At the beginning of 2009, Equinox had forecast production for Lumwana of approximately 170kt for 2009 at cash costs of US$1.15/lb. Ultimately, Lumwana produced only 109kt in 2009 at cash costs of US$1.49/lb with production and costs disappointing due to issues surrounding equipment utilisation, wet weather and processing plant recovery. While Lumwana's equity market valuation as at June 2009 was approximately A$2.0bn it was the subject of a recommended takeover offer by Barrick at an equity valuation of approximately A$6.9bn in April 2011 after increasing production by 34% and reducing cash costs by 7% in 2010.

## 5. Potential Restatement of Ore Reserves at Boseto

Appendix 1 gives details of the Ore Reserves and Mineral Resources at Boseto disclosed to the market on 11 December 2012. These estimates are in the process of being updated by Snowden Mining Industry Consultants (Snowden) as follows:

a. Allowance for depletion of the Zeta open pit Ore Reserves to 31 December 2012. This amount is approximately 1.5 million tonnes;

b. A further reduction in the Zeta open pit Ore Reserves to account for earlier transition to underground mining, estimated by DML management to be approximately 5 million tonnes.

This second change is the result of an internal review of Ore Reserves undertaken as part of the half yearly accounting process. The adjustment to the Ore Reserves Statement stems from the time of publication of the Zeta underground Ore Reserves in 2012. At that time a decision was taken by DML to limit the depth of open pit workings at the Zeta open pit to approximately 130 metres vertical depth and to switch over to underground mining from approximately 160 metres depth. The corresponding reduction in the Zeta open pit Ore Reserves was not reflected concurrently with the publication of the Zeta underground Ore Reserves.

**Shareholders should note that the changes noted above do not affect the valuation of the Boseto mining operations because, notwithstanding that the Zeta open pit Ore Reserves Statement was not modified at the time the Zeta underground Ore Reserves were estimated, the mine plan for Zeta open pit was modified and only 4 million tonnes of Ore Reserves were scheduled for mining from the Zeta open pit, as noted in Table 1 of this document.**

DML intends to publish the updated Ore Reserves and Mineral Resources Statement as soon as Snowden complete this work in accordance with the JORC Code. There are no changes to the other Ore Reserves or Mineral Resources estimates other than mining depletion. Further work is being done at Zeta NE in particular at this time which should result in the delineation of additional open pit Ore Reserves and Mineral Resources during 2013.

## 6. Financing

DML continues to advance plans to restructure the Company's existing debt financing to improve operational and funding flexibility. Options considered include a high yield bond issue to replace existing project linked debt and provide additional working capital as previously noted in company presentation. The high yield bond funding approach has been successfully used by other mining companies to fund growth and will give DML increased working capital and provide funding for the planned plant expansion and power station construction projects. Further details are expected to be announced in due course.

# CONSENTS

The following persons have given and have not, before the date of this Second Supplementary Target's Statement, withdrawn their consent to the inclusion of the following information in this Second Supplementary Target's Statement in the form and context in which it is included, and to all references in this Second Supplementary Target's Statement to that information in the form and context in which it appears:

- Each Director – to statements made by them in this Second Supplementary Target's Statement and to the inclusion of such statements.
- Each Competent Person named in Appendix 1 to this Second Supplementary Target's Statement and to the inclusion of statements said to be based on statements made by them.
- SRK Consulting (Australasia) Pty Ltd – to the inclusion of statements said to be based on statements made by the Independent Technical Expert or made in the Independent Technical Expert's Report.

# AUTHORISATION

This Second Supplementary Target's Statement is dated 23 January 2013 (being the date on which this Second Supplementary Target's Statement was lodged with ASIC) and has been approved by a resolution passed by the Directors on 23 January 2013.

Signed for and on behalf of Discovery Metals Limited

**Gordon Galt**
Chairman



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# APPENDIX 1

## Mineral Resources & Ore Reserves

The total Mineral Resources and Ore Reserves for the Boseto Copper Project, reported in accordance with The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code, 2004 Edition), at a cut-off of 0.6% Cu, are:

## Boseto Ore Reserves

| Ore Reserves | ZETA | | | PLUTUS | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| Open Pit | Mt | Cu (%) | Ag (g/t) | Mt | Cu (%) | Ag (g/t) | Mt | Cu (%) | Ag (g/t) |
| Proved | 4.0 | 1.6 | 22.1 | 12.0 | 1.3 | 13.1 | 16.0 | 1.4 | 15.4 |
| Probable | 6.5 | 1.5 | 23.5 | 1.3 | 1.5 | 15.7 | 7.8 | 1.5 | 22.2 |
| Open Pit Ore Reserves[1] | 10.5 | 1.5 | 23.0 | 13.3 | 1.3 | 13.4 | 23.8 | 1.4 | 17.6 |
| Underground | Mt | Cu (%) | Ag (g/t) | Mt | Cu (%) | Ag (g/t) | Mt | Cu (%) | Ag (g/t) |
| Proved | 1.0 | 1.3 | 24.0 | | | | 1.0 | 1.3 | 24.0 |
| Probable | 6.3 | 1.3 | 24.6 | | | | 6.3 | 1.3 | 24.6 |
| Underground Ore Reserves[2] | 7.3 | 1.3 | 24.5 | | | | 7.3 | 1.3 | 24.5 |
| TOTAL ORE RESERVES | 17.8 | 1.4 | 23.6 | 13.3 | 1.3 | 13.4 | 31.1 | 1.4 | 19.2 |

All Ore Reserves are reported at cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.

[1] Zeta Open Pit data as at 31 August 2010. Mining from the Zeta Open Pit has not been depleted from this Ore Reserves estimate. It is expected that the revision to the Zeta Open Pit Ore Reserve estimate will reduce the open pit Ore Reserve by approximately 5 Mt, because of the proximity of underground mining. Also mining depletion at Zeta open pit of 1.2 Mt has not been reflected in the above figures. Plutus Open Pit data as at 11 December 2012. [2] Zeta Underground data as at 27 April 2012.

## Boseto Mineral Resources

| Mineral Resources | ZETA | | | PLUTUS | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| | Mt | Cu (%) | Ag (g/t) | Mt | Cu (%) | Ag (g/t) | Mt | Cu (%) | Ag (g/t) |
| Measured | 4.6 | 1.6 | 23.5 | 11.1 | 1.4 | 13.9 | 15.7 | 1.4 | 16.7 |
| Indicated | 12.4 | 1.5 | 26.1 | 8.1 | 1.4 | 13.3 | 20.5 | 1.5 | 21.0 |
| Subtotal M&I | 17.0 | 1.5 | 25.4 | 19.2 | 1.4 | 13.6 | 36.2 | 1.4 | 19.1 |
| Inferred | 27.1 | 1.2 | 20.0 | 67.7 | 1.3 | 13.0 | 94.8 | 1.3 | 15.0 |
| TOTAL RESOURCES | 44.1 | 1.3 | 22.1 | 86.9 | 1.4 | 13.2 | 131.0 | 1.3 | 16.2 |

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.
Data as at 2 May 2012.

## Additional Boseto Zone Regional Mineral Resources

| | Inferred Mineral Resources | | |
|---|---|---|---|
| Prospect | Mt | Cu (%) | Ag (g/t) |
| Selene[3] | 16.0 | 1.0 | 16 |
| Zeta NE[4] | 12.9 | 1.3 | 22 |
| Ophion[5] | 14.0 | 1.0 | 12 |
| NE Mango 1[6] | 4.8 | 1.2 | 13 |
| NE Mango 2[7] | 28.5 | 1.3 | 14 |
| TOTAL | 76.2 | 1.2 | 15 |

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.

[3] Data as at 12 January 2012. [4] Data as at 2 August 2012. [5] Data as at 11 October 2012.
[6] Data as at 1 August 2012. [7] Data as at 16 October 2012.

## Total Boseto Zone Mineral Resources

| | Mt | Cu (%) | Ag (g/t) |
|---|---|---|---|
| Boseto Mineral Resources | 131.0 | 1.3 | 16.2 |
| Additional Boseto Zone Regional Mineral Resources | 76.2 | 1.2 | 15.0 |
| TOTAL | 207.2 | 1.3 | 16.0 |

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.

## Competent Persons Statement

The information in this report that relates to exploration results is based on information compiled by Mr Fred Nhiwatiwa who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and Dr Wallace Mackay who is a Member of the Australian Institute of Geoscientists. Mr Nhiwatiwa and Dr Mackay are employed full-time by Discovery Metals Limited. Mr Nhiwatiwa and Dr Mackay have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code).

The information in this report that relates to the Zeta and Plutus Mineral Resources was reviewed by Mr Ivor Jones, who is a fellow of the AusIMM. Mr Jones is employed full-time by Snowden Mining Industry Consultants Pty Ltd (Snowden). Mr Jones has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

The information in this report that relates to the Zeta Open Pit and Plutus Ore Reserves was reviewed by Mr Frank Blanchfield, who is a fellow of the AusIMM. Mr Blanchfield is employed full-time by Snowden. Mr Blanchfield has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

The information in this report that relates to the Zeta Underground Ore Reserves has been reviewed by Mr Andrew Gasmier, who is a MAusIMM. Mr Gasmier is employed full-time by Mining Plus Pty Ltd. Mr Gasmier has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

The information in this report as it relates to the Selene, Zeta NE, Ophion, NE Mango 1 and NE Mango 2 Mineral Resources estimates have been compiled by Mr Matthew Readford, who is a MAusIMM. Mr Readford is employed fulltime by Xstract Mining Consultants Pty Ltd. Mr Readford has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

Messrs Nhiwatiwa, Mackay, Jones, Blanchfield, Gasmier and Readford consent to the inclusion in this report of the matters based on information provided by them and in the form and context in which it appears.