

# THIRD SUPPLEMENTARY TARGET'S STATEMENT

FINANCIAL ADVISER



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This document is the third supplementary target's statement (Third Supplementary Target's Statement) to the Target's Statement dated 23 November 2012 (Target's Statement), the first supplementary target's statement dated 12 December 2012 (First Supplementary Target's Statement) and the second supplementary target's statement dated 23 January 2013 (Second Supplementary Target's Statement) issued by Discovery Metals Limited ACN 104 924 423 (DML or Company). This Third Supplementary Target's Statement is dated 1 February 2013.

This Third 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 Third Supplementary Target's Statement supplements, and is to be read together with, the Target's Statement dispatched to Shareholders, the First Supplementary Target's Statement and the Second Supplementary Target's Statement.

## GENERAL

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

A copy of this Third Supplementary Target's Statement has been lodged with ASIC on 1 February 2013. Neither ASIC nor any of its officers takes any responsibility for the contents of this Third Supplementary Target's Statement.

## EXTENSION OF OFFER PERIOD

The Bidder has extended the Offer Period until 7.00pm (Sydney time) (currently 10.00am Botswana time) on 15 February 2013 (unless further extended or withdrawn).

## SUMMARY

- The DML Board considers that the Bidder's claim in the Fifth Supplementary Bidder's Statement that the disclosures included in the Second Supplementary Target's Statement raise "material concerns" is ill-founded and DML sets out below its responses to those "concerns".
- Responding to shareholder requests, DML has provided a steady flow of information to the Bidder via monthly commissioning updates, the Target's Statement, the Second Supplementary Target's Statement and, on 29 January 2013, specific responses to a detailed questionnaire received from the Bidder the previous day.
- With respect to the Bidder's "requirement to conduct appropriate due diligence", as stated in the Fifth Supplementary Bidder's Statement, the Board notes that the Offer is not and has never been subject to due diligence and cannot be made subject to a discretionary due diligence by the Bidder under Australian takeovers law. DML will not permit the Bidder to conduct due diligence.
- DML has written to the Bidder offering to further clarify their technical questions.
- DML has requested that the Bidder waives its Change of Control condition.

## THE BIDDER'S "MATERIAL CONCERNS"

DML notes that in its Fifth Supplementary Bidder's Statement, the Bidder states that the disclosures included in the Second Supplementary Target's Statement raise "material concerns". Set out below is DML's response to those concerns.

### **Bidder's statement of concern: "The significant write down of Ore Reserves in the Zeta Open Pit"**

In the Second Supplementary Target's Statement DML reported an accounting error in the reporting of Zeta open pit Ore Reserves of approximately 5 Mt. Snowden Mining Industry Consultants Pty Ltd (Snowden) are currently working through the restatement of the Zeta open pit Ore Reserves to account for mining depletion to the end of December 2012 and to correct the error referred to above.

The current status of the Zeta Ore Reserves as estimated by DML in advance of the Snowden review is as follows:

Zeta open pit Ore Reserves as previously stated	10.5 Mt
Management estimate (Snowden to confirm) of the adjustment for the error as reported in the Second Supplementary Target's Statement	(5 Mt)
DML estimated mining depletion to end Dec 2012	(1.4 Mt)
Net Zeta open pit Ore Reserves at end Dec 2012	4.1 Mt

Both DML and SRK have confirmed that the mine schedules remain correct – ie. no error was carried through to the mine schedules. Both SRK and KPMG have confirmed that this would not have a material impact on their valuation range for DML. As a result, this write down is NOT a material matter from a valuation perspective.

DML further notes that the Plutus Ore Reserves have been increased by 2 Mt during the period of the Offer, as announced on 11 December 2012, ie:

- the Target's Statement and Independent Expert Report referenced Plutus Ore Reserves of 11.3 Mt;
- Plutus Ore Reserves increased to 13.3 Mt on 11 December 2012.

### **Bidder's statement of concern: "The higher ratio of oxide/transitional ore to sulphide ore contrary to the expectations of publicly disclosed data"**

The expected quantities of oxide/transition and sulphide in the 5.5 Mt of Zeta open pit Ore Reserves prior to mining, and the currently expected quantities are as follows:

	Oxide	Transition	Sulphide	Total
Prior to mining, kt	243	781	4592	5616
Prior to mining, % of Reserve	4%	14%	82%	100%
Current, kt*	439	969	4358	5766
Current, % of Reserve	7%	17%	76%	100%

Source: Table 2 of the Second Supplementary Target's Statement, plus the remaining 4.1Mt in the Zeta Ore Reserves

\* As Mined, plus the remaining 4.6 Mt Zeta open pit Reserves.

As shown in the table above, the difference in the amount of oxide and transitional ore types, is NOT material in the context of the overall Zeta open pit Ore Reserves.

The proposition that there may have been a material issue becomes even less relevant when the underground Ore Reserves and Inferred Mineral Resources scheduled for mining in the Zeta underground mine, which amount to a further 15.22 Mt of all-sulphide ore type, is added to the Zeta open pit Ore Reserves.

**Bidder's statement of concern: "The much lower grades compared to the Ore Reserves and ore grade dilution"**

Relevant information is given in Table 2 of the Second Supplementary Target's Statement.

As that Table shows, during the period to 31 December 2012, total tonnage mined was +10% compared to the Ore Reserve, ie 10% more tonnage of material was mined from the Ore Reserve blocks than was expected. This +10% comprises the sum of extra waste rock (dilution) and ore losses.

If the +10% was all dilution, and there was no ore loss, the As Mined grade of the transitional ore would be expected to be reduced from 1.3% to 1.17% Cu and the As Mined grade of the sulphide ore would be expected to be reduced from 1.57% to 1.41% Cu. If the 10% comprised +15% dilution and (5%) ore loss, the reported grades would be expected to be 1.09% and 1.35% Cu respectively. The latter figures are very close to the actual reported grades of 1.07% and 1.34% Cu shown in Table 2 of the Second Supplementary Target's Statement.

DML does not seek to excuse poor mining practice during the period to 31 December 2012 and is making every effort to reduce dilution and ore loss in the open pit operations using initiatives as set out in the Second Supplementary Target's Statement. It is noteworthy, however, that the period did include:

- the mining of the thinnest sections of the orebody (north and south ramps) where ore loss and dilution effects are more exaggerated in percentage terms than will be normal in the thicker central parts of the orebody remaining to be mined;
- an extensive initial training period for the workforce; and
- the progressive commissioning of a whole fleet of new equipment.

The above three items are one-off matters which should have been expected by the Bidder, who has twice visited the site, is well aware that the mine is in its commissioning period, and who deliberately chose the commissioning period to make its Offer.

DML believes that the Ore Reserves estimate is a fair estimate, with dilution and ore loss being the primary contributors to the lower grade of the material mined during the reported period.

In the context of the above, DML believes it is inappropriate to be positioning the grade and dilution issues found in the first six months of operations as "material concerns" for the long term valuation of the Boseto operations.

## PROVISION OF INFORMATION

DML notes that during the period of the Offer, it has provided a steady flow of information in relation to the Boseto operations.

- DML has provided monthly updates on the commissioning of Boseto.
- DML included a detailed Independent Expert's Report in the Target's Statement.
- On 23 January 2013, DML then provided further information in the Second Supplementary Target's Statement in order to address the issues raised by the Bidder and uncertainty around whether the Bidder would proceed with its offer.

- The Independent Specialist reviewed the Second Supplementary Target's Statement and confirmed that the commissioning and operational issues experienced by DML and discussed in the Second Supplementary Target's Statement are short term and do not have a material impact on the fundamental valuation of DML.
- As noted in its announcement of 29 January 2013, following release of the Second Supplementary Target's Statement, the Bidder requested a technical briefing from DML, which DML agreed to provide. Following telephone discussions, the Bidder provided a list of questions on 28 January 2013, for the purpose of seeking further clarification and information regarding the Boseto Project. On 29 January 2012, DML provided a response that addressed all those questions that could be answered by information that has been publicly disclosed by DML.

## THE BIDDER'S "REQUIREMENT TO CONDUCT DUE DILIGENCE"

- The Fifth Supplementary Bidder's Statement released on the morning of 30 January 2013 included a statement referencing the Bidder's "requirement to conduct appropriate due diligence". It also provided for an extension of the offer period by 7 days in order for the Bidder to discuss its "requirement to conduct appropriate due diligence" investigations with DML.
- The Bidder subsequently provided an extensive list of matters it wished to review and proposed employing a third party to conduct the review.
- The Bidder stated in its Announcement concerning status of conditions on 31 January that its material adverse change condition had been breached. The Bidder did not disclose what event it asserts constitutes a material adverse change, but DML assumes that the matters discussed and refuted above are the basis for the alleged breach.
- The Board is of the view that nothing has transpired since the commencement of the Offer that would amount to a material adverse effect for the purposes of the condition in section 10(h) of the Bidder's Statement.
- The Board notes that the Bidder being provided with access to information for the purpose of undertaking due diligence investigations is not a condition of the Offer.
- The Board is of the view that this request creates further uncertainty around the Offer, particularly in light of the outstanding condition in sections 10(k) and (l) of the Bidder's Statement (change of control in Financial Arrangement) and has declined to provide a due diligence to the Bidder.

## CHANGE OF CONTROL CONDITION

On 23 November 2012, DML disclosed in its Target's Statement 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. After a period of over 2 months, the Bidder has not waived condition 10(k) and (l) and as a result retains the ability to unilaterally let the Offer lapse.

The Board notes that on 29 January 2013, the Bidder announced that it had obtained a second approval from the Botswana Competition Authority in relation to the participation by the China-Africa Development Fund and as a result the condition set out in section 10(c)(ii) of the Bidder's Statement (approval from the Botswana Competition Authority) has been satisfied.

There is no reason for the Bidder to delay its clarification on the status of the condition in sections 10(k) and (l) of the Bidder's Statement.

DML has formally requested that the Bidder waives these conditions immediately.

## CONSENTS

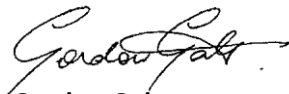
The following persons have given and have not, before the date of this Third Supplementary Target's Statement, withdrawn their consent to the inclusion of the following information in this Third Supplementary Target's Statement in the form and context in which it is included, and to all references in this Third 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 Third Supplementary Target's Statement and to the inclusion of such statements;
- Each Competent Person named in Appendix 1 to this Third 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 Specialists or made in the Independent Specialist's Report;
- KPMG Financial Advisory Services (Australia) Pty Ltd – to the inclusion of statements said to be based on statements made by the Independent Expert or made in the Independent Expert's Report.

## AUTHORISATION

This Third Supplementary Target's Statement is dated 1 February 2013 (being the date on which this Third Supplementary Target's Statement was lodged with ASIC) and has been approved by a resolution passed by the Directors on 1 February 2013.

Signed for and on behalf of Discovery Metals Limited



**Gordon Galt**  
Chairman

## 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), as at a cut-off of 0.6% Cu, are:

#### Boseto Ore Reserves

Ore Reserves	ZETA			PLUTUS			TOTAL		
	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)
Open Pit									
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 <sup>1</sup>	10.5	1.5	23.0	13.3	1.3	13.4	23.8	1.4	17.6
Underground									
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 <sup>2</sup>	7.3	1.3	24.5				7.3	1.3	24.5
<b>TOTAL ORE RESERVES</b>	<b>17.8</b>	<b>1.4</b>	<b>23.6</b>	<b>13.3</b>	<b>1.3</b>	<b>13.4</b>	<b>31.1</b>	<b>1.4</b>	<b>19.2</b>

All Ore Reserves are reported at cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement. A full update of Ore Reserves is expected to be undertaken in mid-2013 using updated metal pricing and costs, which will be determined at that time.

<sup>1</sup> 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 Reserves estimate will reduce the open pit Ore Reserves 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. <sup>2</sup> 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
<b>TOTAL RESOURCES</b>	<b>44.1</b>	<b>1.3</b>	<b>22.1</b>	<b>86.9</b>	<b>1.4</b>	<b>13.2</b>	<b>131.0</b>	<b>1.3</b>	<b>16.2</b>

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 <sup>3</sup>	16.0	1.0	16
Zeta NE <sup>4</sup>	12.9	1.3	22
Ophion <sup>5</sup>	14.0	1.0	12
NE Mango 1 <sup>6</sup>	4.8	1.2	13
NE Mango 2 <sup>7</sup>	28.5	1.3	14
<b>TOTAL</b>	<b>76.2</b>	<b>1.2</b>	<b>15</b>

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement. <sup>3</sup> Data as at 12 January 2012.

<sup>4</sup> Data as at 2 August 2012. <sup>5</sup> Data as at 11 October 2012. <sup>6</sup> Data as at 1 August 2012. <sup>7</sup> 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
<b>TOTAL</b>	<b>207.2</b>	<b>1.3</b>	<b>16.0</b>

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 full-time 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.