

5 February 2013

Dear Discovery Metals' Shareholders

I am contacting you again on behalf of all Directors in relation to the information given in the Sixth Supplementary Bidder's Statement released on Friday, 1 February 2013. The Statement informed the market that Cathay Fortune Investment (**CFI** or **Bidder**) has decided to let its bid for Discovery Metals Limited (**DML**) lapse and that acceptances to their bid in the period since the bid opened on 8 November 2012 would cease to have any effect (the **Offer**).

The Board would like to make three points regarding the Offer at this time. Two of these are in relation to the conditions of the Offer and the third relates to the willingness of the Board to negotiate with CFI.

The reasons stated by CFI for letting the Offer lapse were that the Bidder could not assess its concerns regarding two of the Bidder's conditions which it asserts DML had "breached", ie a change of control (**CoC**) clause existed in the Boseto project finance agreement with our banking syndicate; and because there had been, in the opinion of the Bidder, a Material Adverse Effect (**MAC**) since the announcement of the Offer.

In relation to the CoC, DML did not "breach" the condition after the Offer was made because the CoC already existed prior to the launch of the Offer by CFI. As DML has stated many times, project financing arrangements with banks routinely include clauses of this nature. CFI never disputed this assertion and the Board considers it highly unlikely that CFI would not have anticipated that a CoC clause existed in the project finance agreement. During the Offer period, CFI did not once request any clarification of any aspect of the project finance agreement from DML, and we understand CFI had only the most perfunctory discussions with the project finance banks. So in practical terms CFI made no attempt to understand the project financing arrangements of DML. Further, DML asked CFI on numerous occasions, both directly and indirectly through shareholder intermediaries, to waive the CoC condition but at no stage did CFI indicate that it might waive the condition.

Notwithstanding the above, the Bidder cited that it relied on DML's "breach" to let the Offer lapse. The Board believes that CFI included and then maintained the CoC condition as a means by which CFI could withdraw the Offer at any stage. In the Directors' opinion, this sort of condition, which provided optionality to CFI on whether or not to proceed with the Offer is not in the spirit of Australian takeover law.

The second aspect cited by the Bidder was its assertion that there had been a MAC. In broad terms, CFI defined a MAC in the Bidder's Statement as including any change or changes in total which affect the value proposition of DML by more than \$25m. In relation to the value of the Offer, which was approximately \$870m, the MAC condition therefore represented less than 3% of the implied value of

the Offer. The MAC was clearly very narrowly defined by the Bidder when compared to a market standard judgement of materiality, which is usually around 10%.

CFI has in its sole discretion asserted that there has been a MAC, without any attempt to justify or explain the circumstances that it asserts constitute a MAC. DML on the other hand presented full discussion about all of CFI's stated concerns and provided confirmation by the independent valuers (SRK and KPMG) that none of the matters disclosed by DML in the Second Supplementary Target's Statement affected their assessment of value of DML. In the face of this, CFI asserted that DML had "breached" its MAC condition, and CFI has without justification or explanation purported to rely on this condition to allow the Offer to lapse.

Given the optionality that CFI effectively had due to the above conditions and the nature of the initial opportunistic, conditional, indicative, non-binding proposal approach to DML (as outlined in the Third Supplementary Target's Statement), Directors were extremely wary of engaging with the Bidder.

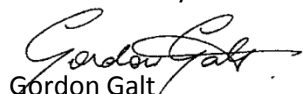
Nevertheless, DML did engage with the Bidder with a view to seeing whether there was an arrangement which Directors could recommend. A number of discussions occurred and clarifications, both verbal and written, were provided to the Bidder. Ultimately, the Bidder reverted to a demand for due diligence, which was not a condition of the Offer, without any commitment to lifting the other conditions of the Offer. In practical terms by doing this the Bidder had reverted to its original proposition whereby it would gain an option on the Company at no cost and with no requirement to act promptly or to maintain the price of its Offer. Directors were not able, in the best interests of Shareholders, to accept this proposal and so rejected the demand. The Bidder subsequently stated that it was allowing its Offer to lapse, effectively withdrawing its Offer.

In the absence of a continuing offer, Directors are firmly applied to focusing on the commissioning of the Boseto copper project and the other value creating projects that are ahead of the Company on behalf of all Shareholders. Directors and all staff are committed to creating the value proposition as presented in Company representations to the investment community, and as confirmed in the independent valuers' opinions.

We will continue to be open with all Shareholders and invite Shareholders to contact DML's officers if they have questions or concerns.

Thank you for your support going forward.

Yours faithfully



Gordon Galt

Chairman

Discovery Metals Limited