

IN BRIEF

BOSETO COPPER OPERATIONS

- 9.01Mt mined, 2% increase in ore milled and 5% increase concentrate produced quarter on quarter.
- 4,352t Cu and 130,246 oz Ag in concentrate produced during the quarter.
- Environmental approvals were obtained for the Zeta NE mining area and the Boseto Camp expansion.

EXPLORATION

• Discovery Metals announced new results from drilling at Zeta NE. These results confirmed the continuity of a higher grade copper and silver zone. Drilling continues and designs have commenced for the enlargement of the Boseto area mining lease to allow future mining of the Zeta NE Zone.

CORPORATE

- On 31 December 2013, the Company had \$11.6m in cash including funds held in the Debt Service Reserve Account (**DSRA**) of \$8.0m. Total Group interest bearing debt is \$153.9m, comprising the Project Finance Facility of \$128.9m and a fully drawn Revolving Credit Facility of \$25.0m.
- Discovery Metals announced the lapsing of the term sheet that was executed between the Company and Singapore Stock Exchange (**SGX**) listed investor, Blumont Group Limited (SGX: A33) (**Blumont**), in relation to a strategic recapitalisation proposal.
- Discovery Metals has recommenced discussions with various parties that have approached the Company
 in relation to a proposed transaction. Those parties have been provided with access to the Company's
 data room so that they may commence, and in some cases recommence, due diligence. There can be no
 assurance that a transaction will occur.
- Discovery Metals ASX classification has changed from 'mining exploration' to 'mining production' on ASX.



1. Boseto Copper Operations

This section of the quarterly report contains commentary on operations at Discovery Metals' 100% owned Boseto Copper Operation in north-western Botswana. Commentary is provided for Mining, Concentrator and Metal Production for the December quarter 2013.

Table 1.1 December quarterly operational performance

	Dec 2013 Quarter	Sep 2013 Quarter	Change (Quarter on Quarter)
Material Mined, Mt*	9.01	8.96	+0.5%
Ore Milled, kt	627.7	615.4	+2.0%
Concentrate Produced, kt	12.6	11.9	+5.1%
Copper in Concentrate, t	4,352	4,705	-7.5%
Silver in Concentrate, oz	130,246	196,816	-33.8%

^{*} Material mined = Waste plus ore

a) Mining

Sulphide ore mining commenced from the Plutus pit, with improved copper recovery compared to previously mined transitional ore.

A waste stripping campaign occurred in the Zeta pit to expose ore for Q3 FY14.

b) Concentrator

Operational improvements in the processing plant implemented with a view to improving copper recovery.

The following ore types were processed:

Table 1.2 December quarterly processing performance

	Tonnes	Cu Grade	Ag Grade (g/t)	Cu Recovery	Ag Recovery
High Grade	424,007	0.98%	11.78	83.4%	65.8%
Low Grade	23,780	0.44%	4.08	44.7%	41.5%
Transitional	179,863	0.95%	9.21	49.2%	44.4%

The recoveries of copper and silver from the milling completed during the quarter were generally consistent with predictions.

c) Metal Production

Concentrate production for the December quarter was 12,552 tonnes, a 5.1% increase over the previous quarter.

Contained copper was down 7.5% and silver metal production was down 33.8% on a quarter on quarter basis, as a result of the higher proportion of transition ore in the feed.

d) Costs

Table 1.3 December quarterly financial performance

КРІ	Dec 2013 quarter	Sep 2013 quarter	Change (Quarter on Quarter)
C1 Cash Cost USD/lb ¹	3.77	3.62	+4.1%
C1 Cash Cost USD/t Material Mined ¹	4.02	4.19	-4.1%
Mining USD/t mined ^{1,2}	1.38	1.56	-11.5%

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- Excludes the impact of deferring stripping costs in accordance with AASB Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' (IFRIC20). IFRIC 20 will be applied in the preparation of the half year (Dec 31) Financial Report.
- 2. Excludes mining related maintenance costs.

C1 Cash Costs per pound of copper produced increased quarter on quarter by 4.1% as a result of lower copper metal production despite falling mining, plant and overhead site costs. Per tonne of material mined (included at the second line of Table 1.3), the C1 Cash Cost decreased by 4.1% quarter on quarter.

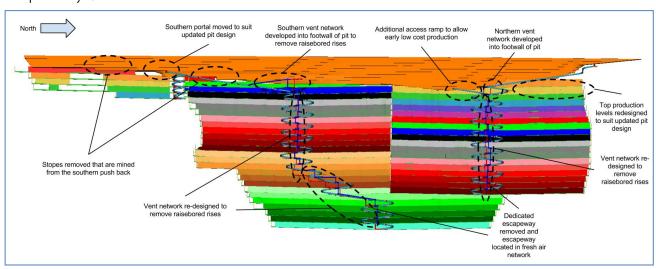
e) Summary

Sulphide ore mining commenced from the Plutus pit, with improved copper recovery compared to previously mined transitional ore. The recoveries of copper and silver from the milling completed during the quarter were generally consistent with predictions. Concentrate production for the December quarter was 12,552 tonnes, a 5.1% increase from the previous quarter. Contained copper was down 7.5% and silver metal production was down 33.8% on a quarter on quarter basis, reflecting the higher proportion of transition ore in the feed. C1 Cash Costs per pound of copper produced increased quarter on quarter by 4.1%; per tonne of material mined, C1 Cash Cost decreased by 4.1% quarter on quarter.

2. Zeta Underground Mine Project

During the last quarter, the Company took steps to review the Zeta Underground Definitive Feasibility Study (**DFS**). The purpose of this review is to reduce the required start-up capital cost, reduce the timeframe to first ore delivery, and to minimise the total cash required for the project to become cash flow positive on a monthly basis.

Initial work is positive with the redesign of the required development allowing early ore access and revenue generation. Work continues to optimise the development and infrastructure layout. This is expected to be completed by Q3 FY14.



Design changes to the Zeta Underground DFS

Quarterly

3. Kalahari Copperbelt Exploration

On 23 December 2013, Discovery Metals announced new results from drilling at Zeta NE. These results confirmed the continuity of a higher grade copper and silver zone. In summary:

- In-fill drilling at Zeta NE continues to return high grade mineralisation.
- Significant RC drill hole results include:
 - GDRC3326: 11.0 m @ 4.0% Cu & 125 g/t Ag;
 - GDRC3330: 9.0 m @ 2.3% Cu & 58 g/t Ag;
 - GDRC3335: 9.0 m @ 2.2% Cu & 54 g/t Ag;
 - GDRC 3329: 10.0 m @ 1.7% Cu & 140 g/t Ag; and
 - GDRC3333: 13.0 m @ 1.1% Cu & 56 g/t Ag.
- These results confirm continuity of the thicker, higher grade mineralisation intersected in drilling during Q4 of 2012.
- The zone with minimum grades of 1.5% Cu with drilled thickness of 5m extends for a strike length of 1,000 m.
- Additional drilling results are due in January 2014.
- A revised Mineral Resource Statement will likely be completed by the end of Q4 FY14.

Zeta NE is located within the Company's 100% owned prospecting licences in the Kalahari Copper belt in north-west Botswana and is located approximately 10 kilometres east of the Boseto concentrator.

The Company expended approximately \$0.7 million on exploration in the last quarter.

The information is extracted from the report entitled 'New results from drilling at Zeta NE confirm continuity of higher grade copper and silver zone' created on 23 December 2013 and is available to view on the Company's website (http://www.discoverymetals.com/files/media/20131223 asx announcement new results from drilling at zeta ne for website.pdf). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of

Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

4. Corporate

On 31 December 2013, the Company had \$11.6m in cash including funds held in the DSRA of \$8.0m. Total Group interest bearing debt is \$153.9m, comprising the PF Facility of \$128.9m and a fully drawn Revolving Credit Facility of \$25.0m.

a) Change of Control Process

On 19 December 2013, the board of Discovery Metals announced the lapsing of the term sheet that was executed between the Company and SGX listed investor, Blumont, in relation to a strategic recapitalisation proposal.

Since that time, and with the support of the Company's lenders, Discovery Metals has recommenced discussions with various parties that have approached the Company in relation to a proposed transaction. Those parties have been provided with access to the Company's data room so that they may commence, and in some cases recommence, due diligence. This process is ongoing and the Company will update the market of any material developments. There can be no assurance that a transaction will occur following these due diligence investigations.

The Company further notes that Blumont announced to the SGX on 24 December 2013 that it had entered into a \$30m facility agreement with a financier and that its shares in Discovery Metals, among other assets, had been provided as security. Blumont has subsequently submitted a draft revised term sheet comprising a \$10m short term loan and \$70m convertible bond (subject to Blumont securing financing) as an alternate transaction incorporating significantly amended terms to the previously proposed \$100m convertible bond facility. The Company is currently in discussions with Blumont and its lenders regarding this term sheet. There can be



no assurance that a transaction between Discovery Metals and Blumont will occur.

b) Boseto Hedging Summary

During the December quarter 4,352 tonnes of copper hedging expired resulting in a net cash inflow of \$7.4m. There was no silver hedging in place during the December quarter.

Looking forward the Company now has no Copper or Silver hedging in place. The Company intends to hedge future copper and silver production when an appropriate refinancing is completed.

c) Lenders' Update

On 27 May 2013, Discovery Metals announced a revised principal repayment schedule for its Boseto Project Finance (**PF**) facility as agreed with its lenders. In accordance with that schedule, a principal repayment of \$17.5m was due and payable on 31 December 2013.

On 31 December 2013, Discovery Metals advised the market that its lenders had granted a waiver such that the scheduled repayment date for this principal repayment and all interest owing up until 31 December 2013 under both the PF facility and the Single Currency Revolving Facility Agreement totaling \$2.2m has been deferred until 15 January 2014.

On 15 January 2014, Discovery Metals further advised the market that lenders had granted a further waiver such that the scheduled repayment date for the principal repayment had been deferred until 28 February 2014 and all interest owing up until 31 December 2013 on the PF facility and the Single Currency Revolving Facility Agreement had been deferred until 15 February 2014.

Lenders have also allowed a release of up to \$2m from the DSRA meaning the DSRA minimum balance can be reduced from \$8m to \$6m until 31 March 2014 after which the normal DSRA funding formula again applies which is for interest and principal owing for the next quarter to be funded in the DSRA.

These waivers demonstrate the ongoing support the Company is receiving from its lenders.

The Company remains in regular communications with the lenders, with particular regard to the ongoing due diligence being conducted by various

parties whom have expressed interest in entering into a transaction with Discovery Metals and discussions with Blumont in relation to the draft revised term sheet (discussed above under 4a).

d) Restructuring at the Boseto Operation

On Tuesday, 14 January 2014, the Company announced that it was undertaking a restructuring programme at its 100%-owned Boseto Operation. The restructuring programme has since commenced. The restructuring programme is designed to improve cost competitiveness and further enhance production efficiencies.

The restructuring followed extensive detailed discussions with key stakeholders, including employees, the relevant Botswana Government Departments and the Botswana Mine Workers Union. The site restructuring programme complements the recent restructuring that took place across all other divisions of the Discovery Group, including the Brisbane and Gaborone offices, which were also instigated to improve the Company's cost competitiveness and the C1 cash cost of copper production.

The retrenchment exercise at Boseto affected 85 of the 516 employees based at the site (15% of the total workforce). The Company does not expect that the restructuring will interrupt operations at Boseto.

While the implementation of the above restructuring has been a difficult decision, the ongoing improvements in efficiencies and cost competitiveness will help to enable the Boseto Operation to maintain long-term sustainability in the copper market.

e) Change of classification on ASX

ASX has resolved to re-classify the Company from a Mining Exploration Company to Mining Production Company.

Shareholders should be advised of the change in periodic disclosures required as a mining production company, as opposed to a mining exploration company. Discovery Metals' first periodic report due under chapter 4 of the listing rules will be the Appendix 4D Half Yearly Report for the half year ended 31 December 2013, due by 28 February 2014 (per ASX Listing Rules 4.2A and 4.2B). Discovery Metals will also be required to lodge the Appendix 4E preliminary final report

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with ASX at no later than 2 months after the end of the accounting period (listing rule 4.3A and 4.3B).

As a mining production company, Discovery Metals' Quarterly Reports (including this Quarterly Report) will not contain an Appendix 5B (Quarterly cash flow statement), as they have done previously.

The financial amounts in this release are expressed in US dollars unless otherwise stated.

Forward Looking Statements

This release includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future activities and events or developments that Discovery Metals expects, are forward-looking statements. Although Discovery Metals believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in forward-looking statements.





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Stock Exchange Listings

Australian Securities Exchange - ASX Code: DML Botswana Stock Exchange - BSE Code: DML

Issued Capital

At 31 December 2013 the issued capital of Discovery Metals Limited was 560,034,418 ordinary shares.

Directors

Jeremy Read – Chairman

Ribson Gabonowe – Non-Executive Director Russell Luxford – Non-Executive Director

Company Secretary

Paul Frederiks