



dml

DISCOVERY METALS LIMITED

ABN 29 104 924 423

# 2013 SHAREHOLDER REVIEW



**Cover:** Copper-silver concentrate ready for bagging.

**This page:** Bags of copper-silver concentrate ready for shipping.



# FOCUSED ON PRODUCTION

Performance indicators are  
trending in the right direction.

# MANAGING DIRECTOR AND CHAIRMAN'S REPORT

This has been a year where operational successes have been overshadowed by a series of significant corporate challenges.

At the end of the last financial year we were acknowledging our success in completing the construction of the Boseto Copper Concentrator within our planned timeframe and budget, and the commencement of commissioning.

From the commencement of commissioning the Company has worked through numerous challenges including:

- > multiple equipment breakdowns during the initial commissioning phase;
- > difficulties in commencing and then adhering to ramp up planning for mining operations;
- > a tragic loss of the life of a person working at Boseto;
- > differences between the Ore Reserves and the copper-silver ore actually encountered upon mining;
- > ongoing disputes over work performed by the engineering company that constructed Boseto; and
- > a series of non binding takeover proposals.

Your Company has responded to and is enroute to overcoming all of these challenges.

These events took place during a period of speculation around the copper price, which was linked to changes in the Chinese economy.

Despite these hurdles, we have seen the achievement of various, tangible improvements at your Company's key production asset, the Boseto copper project.

The operational gains underpin progress in establishing Discovery Metals as a profitable copper producer.

Each of our core outputs in terms of material movement, milling rate, and concentrate production are trending upward. In addition, cash costs are falling as we approach the plant's nameplate capacity.

The difficulties in delivering copper production in line with original financing arrangements required us to seek further funds in order to reassure our Lenders.

During this year the Company's share price has fallen dramatically, and there has been significant change in the composition of the share register. The falling share price compounded our challenges in raising equity or progressing a high yield bond to replace project debt earlier this year.

Subsequently over the past few months the Executive of DML have worked through a process that has resulted in the presentation of a refinancing proposal to shareholders. This proposal maintains the support of our Lenders and should, if approved by shareholders, assist the Company in completing the work to establish Boseto as a profitable copper producer, which is the first phase in growing a copper company that creates value for shareholders.

We understand that this past 12 months has also been an extremely difficult period for shareholders. Your Company has remained steadfast, weathered these challenges, and Boseto is an operating copper mine.

We thank you for your ongoing support of the Company.



**Brad Sampson**  
Managing Director

**John Shaw**  
Chairman



Chairman, John Shaw and Managing Director, Brad Sampson.

# FOCUSED ON MINING

Key mining metrics such as drilled metres and total material movement have been improved and the focus is now on delivering sustained month on month production levels that deliver the planned quantities of recoverable copper to the concentrator.



## MATERIAL MINED



## MINING PRODUCTION GROWING STRONGLY

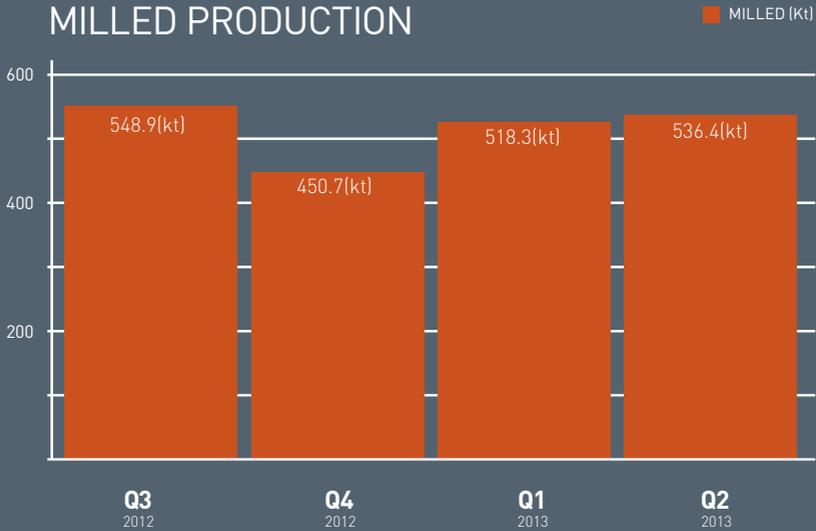
Mining activity planned to achieve 3.5 Mt per month by December 2013.

Focus remains on:

- Maximising mill throughput
- Optimising strip ratios
- Improving productivity
- Increasing tonnes mined
- Whole of enterprise incremental productivity gains

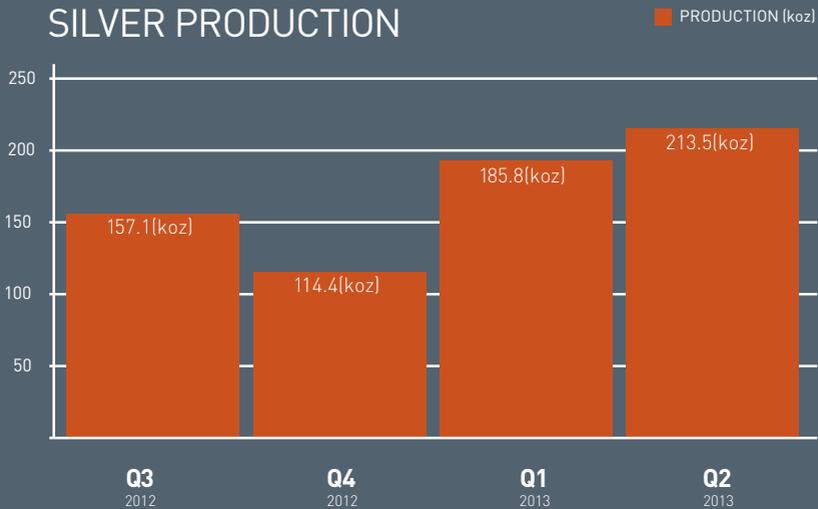
# PRODUCTION

## MILLED PRODUCTION



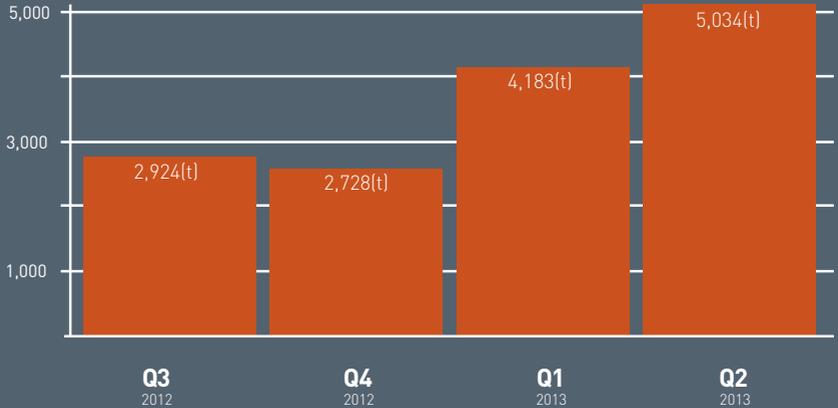
- Boseto concentrator – demonstrated ability to safely exceed designed capacity

## SILVER PRODUCTION



## COPPER PRODUCTION

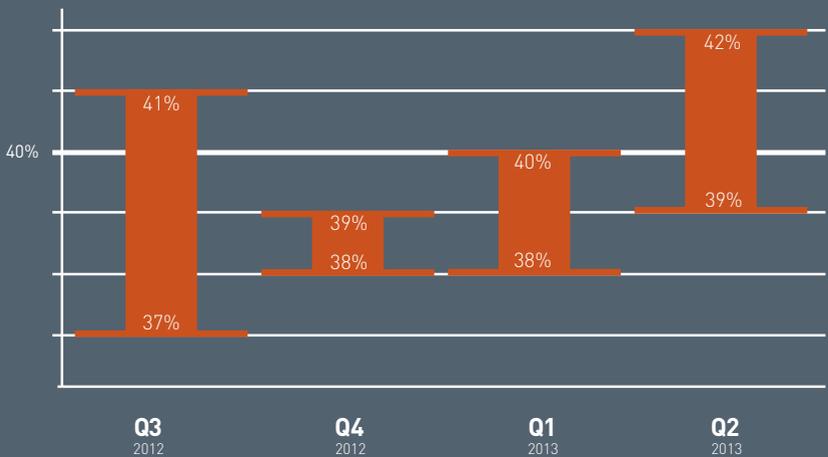
COPPER PRODUCTION (t)



- Copper and silver production is increasing on a quarter by quarter basis

## COPPER CONCENTRATE GRADE

COPPER CONCENTRATE GRADE (%)



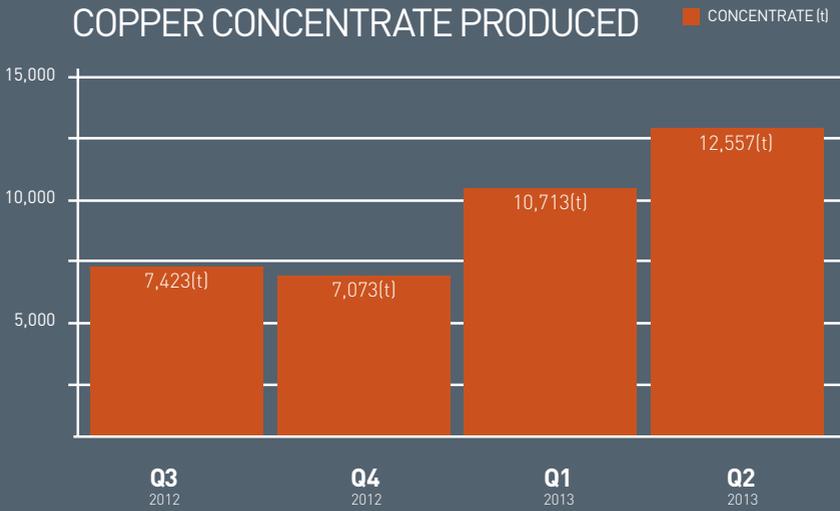
- Copper concentrate grade consistent with BFS target of 40% based on end of month average results

# FOCUSED ON DELIVERY

Discovery Metals Limited is positioned to maximise production efficiencies with key indicators improving.

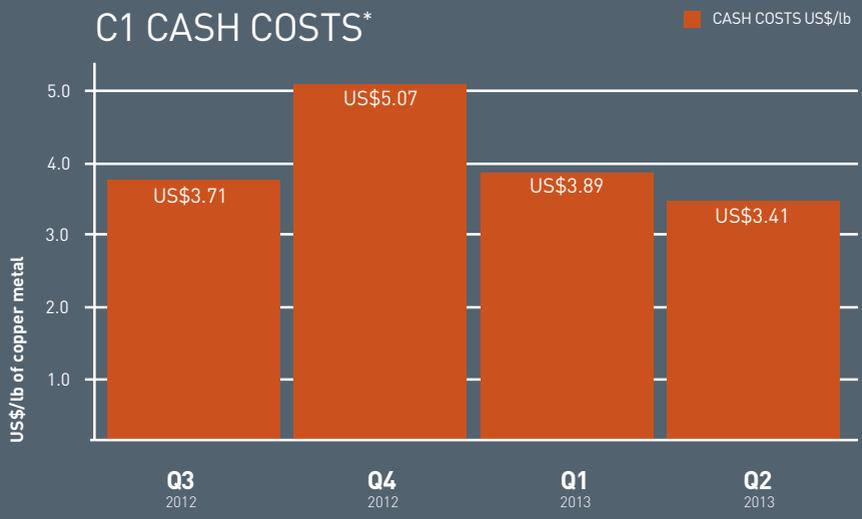


## COPPER CONCENTRATE PRODUCED



- 5 year off-take agreement for 100% of concentrate produced with Transaminvest SA
- Increasing concentrate sales driving cash costs down
- 36.3 kt of concentrate sold at 30 June 2013

## C1 CASH COSTS\*



\* C1 Cash Costs calculated inclusive of silver credits and on pounds of copper metal produced.

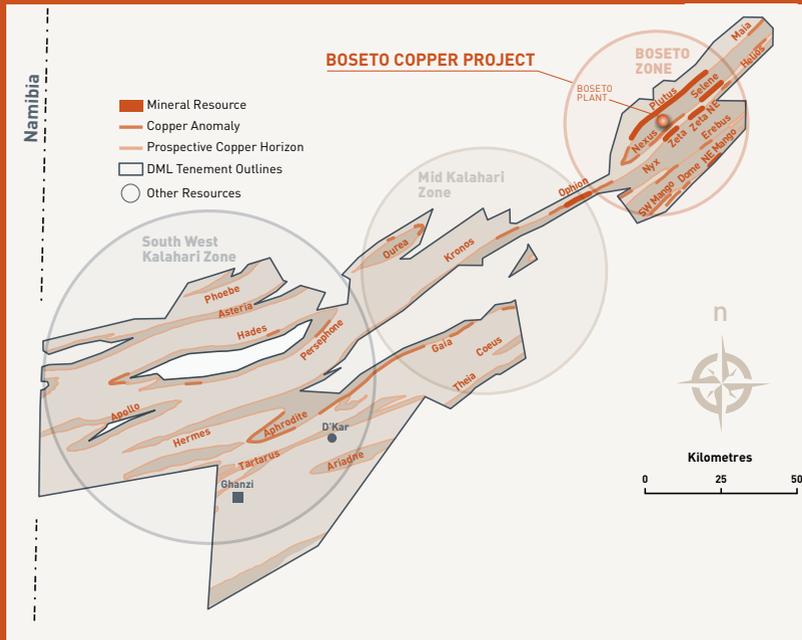
# ORE RESERVES & MINERAL RESOURCES

Maiden Mineral Resources delineated in 2012/13 at:

- NE Mango 1
- NE Mango 2
- Zeta NE
- Ophion

Total Mineral Resources: 177.1 Mt @ 1.3% Cu and 15 g/t Ag.

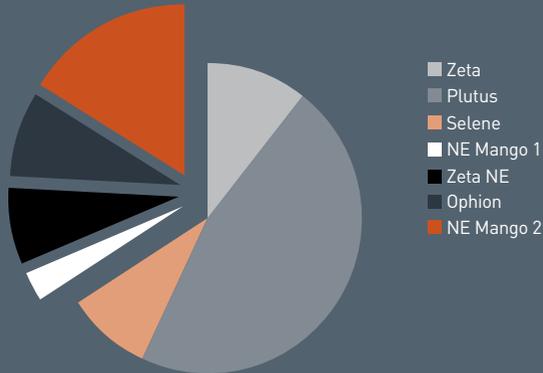
Early adoption of JORC 2012.



# CURRENT TOTAL MINERAL RESOURCES

177.1 Mt @ 1.3% Cu and 15 g/t Ag

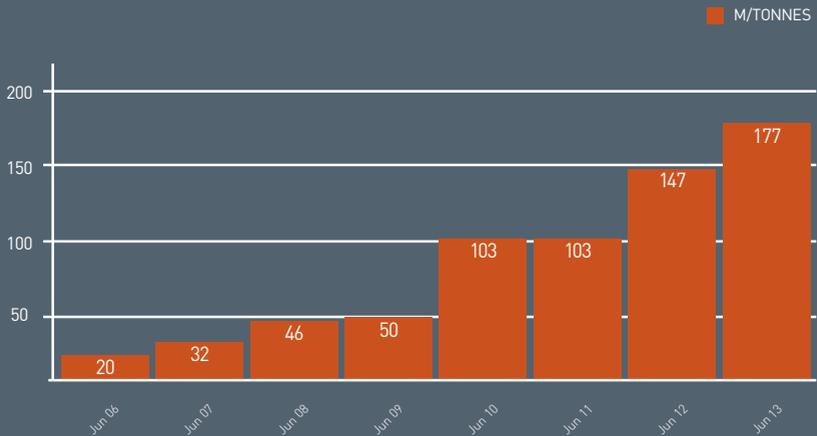
MAIDEN MINERAL RESOURCES DELINEATED 2012/2013



## CURRENT TOTAL ORE RESERVES

15.0 Mt @ 1.3% Cu and 18 g/t Ag

# GROWTH IN REPORTED MINERAL RESOURCES



Please refer to page 18 and 19 for full Ore Reserves and Mineral Resources information.

# PEOPLE AND SUSTAINABILITY

Discovery Metals continued to develop systems to comply with the Global Reporting Initiative and the Minerals Council of Australia 'Enduring Value – The Australian Minerals Industry Framework for Sustainable Development'.

The Company's Boseto Copper Project environmental obligations to the Government of Botswana are embodied in the Environmental Management Plan which formed part of the approved Environmental Impact Assessment and the Boseto Mining Licence approval. These obligations are comprehensive and are subject to annual review and reporting to the Government of Botswana.

In addition, the Company has adopted best practice risk management, safety and environmental standards in accordance with the Equator Principles and IFC Performance Standards.

Regular consultation and engagement, primarily with local community representatives, affected landholders, local politicians and government agencies continued. A structured stakeholder consultation and engagement plan and a community contacts management register have been developed to formalise this stakeholder interaction. A community liaison office continues to operate in Toteng, the nearest town to the Boseto operations, to facilitate more effective communication with stakeholders. The operating workforce are housed either in the Company constructed single accommodation at the mine site or in general family housing at Toteng.

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	2013 US\$'000	2012 US\$'000
Interest Received	89	493
Management Fee	-	106
Compliance expenses	(5,832)	(712)
Depreciation and amortisation	(509)	(664)
Exploration impairment expense	(36)	(3,794)
Legal expenses	(2,762)	(604)
Rent	(351)	(251)
Salaries and consultants	(11,250)	(7,729)
Travel expenses	(789)	(924)
Share based payments	(682)	(3,369)
Mine rehabilitation finance cost	(330)	(1,429)
Realisation of hedging instruments	5,041	-
Gain/Loss Disposal of Assets	23	-
Gain/(Loss) on foreign currency	165	269
Interest expense	(3,572)	(1,536)
Other expenses	(1,261)	(1,952)
Asset impairment expenses	(205,677)	-
<b>PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE</b>	<b>(227,733)</b>	<b>(22,096)</b>
Income tax (expense) / benefit	3,453	1,045
<b>PROFIT/(LOSS) AFTER TAX</b>	<b>(224,280)</b>	<b>(21,051)</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		
Items that may be reclassified subsequently to profit and loss:		
Net pre tax movement on commodity forward contracts	(8,367)	59,003
Income tax effect	9,764	(10,640)
Other Comprehensive Income, net of tax	1,397	48,363
Profit/(loss) attributable to members of the Consolidated Group	(224,280)	(21,051)
Total Comprehensive Income attributable to members of the Consolidated Group	(222,883)	27,312
<b>LOSS PER SHARE:</b>		
Basic & diluted ordinary loss per share attributable to ordinary equity holders (cents per share)	(46.58)	(4.78)

Refer to ASX/BSE Announcement of 13 September 2013 for full details.

# STATEMENT OF FINANCIAL POSITION

30 JUNE 2013

	2013 US\$'000	2012 US\$'000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	21,310	60,308
Trade & other receivables	11,286	12,284
Prepaid expenses and deposits	706	1,498
Inventories	14,751	10,600
Other financial assets	17,621	25,485
<b>TOTAL CURRENT ASSETS</b>	<b>65,674</b>	<b>110,175</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	179,278	288,384
Deferred development	-	-
Exploration and evaluation phases – at cost	8,384	56,179
Intangible assets	878	739
Other financial assets	-	36,519
<b>TOTAL NON-CURRENT ASSETS</b>	<b>188,540</b>	<b>381,821</b>
<b>TOTAL ASSETS</b>	<b>254,214</b>	<b>491,996</b>
<b>CURRENT LIABILITIES</b>		
Trade & other payables	27,286	25,564
Interest-bearing loans and borrowings	150,851	76,984
Other current financial liabilities	708	35
Provisions	1,873	1,395
<b>TOTAL CURRENT LIABILITIES</b>	<b>180,718</b>	<b>103,978</b>
<b>NON-CURRENT LIABILITIES</b>		
Other financial liabilities	291	111
Deferred tax liability	-	13,217
Provisions	5,443	8,427
Interest-bearing loans and borrowings	-	128,016
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>5,734</b>	<b>149,771</b>
<b>TOTAL LIABILITIES</b>	<b>186,452</b>	<b>253,749</b>
<b>NET ASSETS</b>	<b>67,762</b>	<b>238,247</b>
<b>EQUITY</b>		
Issued capital	267,285	215,405
Reserves	76,946	75,031
Accumulated losses	(276,469)	(52,189)
<b>TOTAL EQUITY</b>	<b>67,762</b>	<b>238,247</b>

Refer to ASX/BSE Announcement of 13 September 2013 for full details.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	2013 US\$'000	2012 US\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	101,982	846
GST & VAT receipts	9,475	12,847
Payments to suppliers and employees	(47,469)	(23,518)
Interest received	89	493
Dikoloti management fee	-	105
Hedge Settlements	59,594	-
Interest Paid	(1,719)	(1,536)
Refunds received	-	7
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>121,952</b>	<b>(10,756)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for exploration	(9,016)	(18,615)
Purchase of plant and equipment and Development	(140,488)	(201,324)
Payment of Intangibles	(322)	(479)
Net cash used in investing activities	<b>(149,826)</b>	<b>(220,418)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	25,000	205,000
Proceeds from issue of shares	53,812	2,329
Share Issue Costs	(2,054)	-
Payment of finance lease liabilities	(432)	(86)
Borrowing costs and Interest Paid	(12,589)	(4,844)
Payments to borrowings	(75,067)	-
Net cash provided by financing activities	<b>(11,330)</b>	<b>202,399</b>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>	<b>(39,204)</b>	<b>(28,775)</b>
Cash at the beginning of the period	60,308	88,807
Effect of exchange rates	206	276
<b>CASH AT THE END OF THE PERIOD</b>	<b>21,310</b>	<b>60,308</b>

Refer to ASX/BSE Announcement of 13 September 2013 for full details.



# FOCUSED ON THE FUTURE

Over this last 12 months your Board and management have responded, to the best of our ability, to the various and at times perplexing challenges that were placed in front of the Company's continued progress.

Since 2008, our strategy has been to develop a mine at Boseto that would profitably produce copper and silver concentrate, and to explore our Prospecting Licences in the Kalahari Copper Belt to both increase the life of Boseto and to generate opportunities for new mines to be developed.

Our primary and most important goal remains sustainably and permanently resolving the issues preventing Boseto delivering sustained profitable outcomes for shareholders. The organisation's resources are focused on delivering against this goal.

Our exploration goals are to undertake new drilling programmes aimed at infilling Inferred Mineral Resources in areas such as Zeta North East. This drilling will be conducted to enable the delineation of new Ore Reserves.

Exploration work is planned to continue within our Prospecting Licences further afield from Boseto, in the Mid and South West Kalahari zones. In these areas the Company's goal is to find copper silver mineralisation that may support new project developments.

Within our other Prospecting Licences that are prospective for nickel, manganese and gold we will continue to pursue opportunities to fund exploration activity via joint ventures, whilst not losing sight of our continued focus and commitment on Boseto and the Kalahari Copper Belt.

The copper market fundamentals suggest healthy copper prices into the future. At Boseto we have potential to increase Ore Reserves and Mineral Resources to extend the mine life, with a goal to take advantage of these prices.

We have endured a period of early operational difficulties, many of which are common to new mining projects, and have positioned the Company to leverage off the proposed refinancing to deliver profitability and growth to shareholders.



# BOSETO ORE RESERVES

Ore Reserves <sup>1</sup>	Zeta			Plutus			Total		
	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)
Open Pit <sup>2</sup>									
Proved	1.7	1.3	20.0	4.8	1.2	11.0	6.5	1.2	13.0
Probable	0.05	1.2	17.0	1.2	1.4	16.0	1.3	1.4	16.0
<b>Open Pit Ore Reserves</b>	<b>1.8</b>	<b>1.3</b>	<b>20.0</b>	<b>6.0</b>	<b>1.2</b>	<b>12.0</b>	<b>7.7</b>	<b>1.2</b>	<b>14.0</b>
Underground <sup>3</sup>									
Proved	0.9	1.2	21.0				0.9	1.2	21.0
Probable	6.4	1.3	23.0				6.4	1.3	23.0
<b>Underground Ore Reserves</b>	<b>7.3</b>	<b>1.3</b>	<b>23.0</b>				<b>7.3</b>	<b>1.3</b>	<b>23.0</b>
<b>TOTAL ORE RESERVES<sup>4</sup></b>	<b>9.0</b>	<b>1.3</b>	<b>22.0</b>	<b>6.0</b>	<b>1.2</b>	<b>12.0</b>	<b>15.0</b>	<b>1.3</b>	<b>18.0</b>

<sup>1</sup> All Ore Reserves are reported as at 31 May 2013 and exclude material mined to this date.

<sup>2</sup> Due to the relationship between the metallurgical copper recovery and the block S:Cu ratio, no traditional cut-off grade was applicable. The determination of ore was made by calculating the cash flow that would be produced by processing material and the cash flow which would be produced by mining it as waste. If the cash flow from processing was higher, the material was considered as ore; if not, it was considered waste.

<sup>3</sup> The economic cut-off grade used to determine the Zeta Underground Ore Reserves is 1.07% Copper Equivalent (CuEq), where  $CuEq\% = Cu\% + 0.0113 \times Ag (g/t)$ .

<sup>4</sup> Please refer to Competent Persons Statement.

# BOSETO MINERAL RESOURCES

Mineral Resources <sup>1</sup>	Zeta			Plutus			Total		
	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)
Measured	3.1	1.4	22.0	6.5	1.3	12.0	9.6	1.3	15.0
Indicated	7.2	1.4	25.0	12.0	1.3	13.0	19.3	1.3	17.0
<b>Subtotal M&amp;I</b>	<b>10.3</b>	<b>1.4</b>	<b>24.0</b>	<b>18.5</b>	<b>1.3</b>	<b>13.0</b>	<b>28.8</b>	<b>1.3</b>	<b>17.0</b>
Inferred	8.5	1.7	25.0	63.6	1.4	12.0	72.1	1.4	14.0
<b>TOTAL MINERAL RESOURCES<sup>2</sup></b>	<b>18.8</b>	<b>1.5</b>	<b>24.0</b>	<b>82.1</b>	<b>1.3</b>	<b>12.0</b>	<b>100.9</b>	<b>1.4</b>	<b>14.0</b>

<sup>1</sup> Mineral Resources are reported as at 31 May 2013 and exclude material mined to this date. Mineral Resources reported here include any Open Pit and Underground Ore Reserves declared. The 2013 Plutus and Zeta Open Pit Mineral Resources reported at cut-off grades of 0.5% Cu in fresh rock, 0.7% Cu in transitional material, and 1.0% Cu in oxide; and Underground Mineral Resources reported above a cut-off grade of 1.07% Cu equivalent ( $CuEq = Cu + Ag \times 0.0113$ ) and a 5m minimum mining width. Plutus and Zeta Open Pit Mineral Resources are constrained within a pit optimisation run at 1.5 times the Ore Reserves commodity price. Zeta Underground Mineral Resources are constrained within the limits of geological interpretation.

<sup>2</sup> Please refer to Competent Persons Statement.

### Additional Kalahari Copper Belt Inferred Mineral Resources<sup>1</sup>

Prospect	Mt	Cu (%)	Ag (g/t)
Selene	16.0	1.0	16.0
Zeta NE	12.9	1.3	22.0
Ophion	14.0	1.0	12.0
NE Mango 1	4.8	1.2	13.0
NE Mango 2	28.5	1.3	14.0
<b>TOTAL<sup>2</sup></b>	<b>76.2</b>	<b>1.2</b>	<b>15.0</b>

<sup>1</sup> Mineral Resources reported as at 31 May 2013, at a cut-off grade of 0.6% Cu, and are exclusive of interpreted oxide material.

<sup>2</sup> Please refer to Competent Persons Statement.

### Mineral Resources Summary

	Mt	Cu (%)	Ag (g/t)
Boseto Mineral Resources <sup>1</sup>	100.9	1.4	14.0
Additional Boseto Zone Mineral Resources <sup>2</sup>	76.2	1.2	15.0
<b>TOTAL<sup>3</sup></b>	<b>177.1</b>	<b>1.3</b>	<b>15.0</b>

<sup>1</sup> Mineral Resources are reported as at 31 May 2013 and exclude material mined to this date. Mineral Resources reported here include any Open Pit and Underground Ore Reserves declared. The 2013 Plutus and Zeta Open Pit Mineral Resources reported at cut-off grades of 0.5% Cu in fresh rock, 0.7% Cu in transitional material, and 1.0% Cu in oxide; and Underground Mineral Resources reported above a cut-off grade of 1.07% Cu equivalent ( $CuEq = Cu + Ag \cdot 0.0113$ ) and a 5m minimum mining width. Plutus and Zeta Open Pit Mineral Resources are constrained within a pit optimisation run at 1.5 times the Ore Reserves commodity price. Zeta Underground Mineral Resources are constrained within the limits of geological interpretation.

<sup>2</sup> Inferred Mineral Resources reported as at 31 May 2013, at a cut-off grade of 0.6% Cu, and are exclusive of interpreted oxide material.

<sup>3</sup> Please refer to Competent Persons Statement.



# FORWARD LOOKING STATEMENT

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.



# 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. Messrs Nhiwatiwa and Mackay are employed full-time by Discovery Metals Limited. Messrs Nhiwatiwa and 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 the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 Edition (JORC 2012).

The information in this report that relates to Additional Kalahari Copper Belt Mineral Resources (Selene, Zeta NE, Ophion, NE Mango 1 and NE Mango 2) is based on information compiled by Mr Matthew Readford, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Matthew Readford is a full time employee of Xstract Mining Consultants Pty Ltd, and has no interest in, and is entirely independent of, Discovery Metals Limited. Matthew 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 JORC 2012.

The information in this report that relates to the Zeta and Plutus Mineral Resources and Exploration Targets is based on information compiled by Mr Michael Stewart, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Michael Stewart is a full time employee of the Quantitative Group, and has no

interest in, and is entirely independent of, Discovery Metals Limited. Michael Stewart 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 JORC 2012.

The information in this report that relates to the Zeta Open Pit and Plutus Ore Reserves is based on information compiled by Mr David Purdey, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). David Purdey is a full time employee of the Quantitative Group, and has no interest in, and is entirely independent of, Discovery Metals Limited. David Purdey 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 JORC 2012.

The information in this report that relates to the Zeta Underground Ore Reserves is based on information compiled by Mr Andrew Gasmier, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Andrew Gasmier is a full time employee of Mining Plus Pty Ltd, and has no interest in, and is entirely independent of, Discovery Metals Limited. Andrew 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 JORC 2012.

Messrs Nhiwatiwa, Mackay, Readford, Stewart, Purdey and Gasmier 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.



DISCOVERY METALS LIMITED

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