SEPTEMBER 2014

Quarterly REPORT

13 October 2014

IN BRIEF

BOSETO COPPER OPERATIONS

- Record quarterly production of 6,428 tonnes copper in concentrate produced; a 20% increase in copper production compared with Q4 FY14.
- 9.31 Mt total material mined; a 3% increase compared with Q4 FY14.
- High–grade sulphide recovery of 93.3%; a 3% increase compared with Q4 FY14.
- Quarterly C1 cash costs of US$1.89/lb; a 40% decrease compared with Q4 FY14.
- Continued positive safety performance.

ZETA UNDERGROUND MINE PROJECT

- Positive economics confirmed for the Zeta Underground Mine Project, with an NPV (10% p.a. discount factor) of US$97 million (US$41 million mining the 2013 Ore Reserves only) and a C1 cash cost of US$2.12/lb. This includes the contractor's profit and capital investment recoupment (US$2.14/lb mining 2013 Ore Reserves only).

CORPORATE

- On 30 September 2014, the Company had US$3.2m in cash on hand.
- During the quarter US$1.0m previously quarantined in the Debt Service Reserve Account (DSRA) was released by the Company's lenders for general working capital purposes.
- On 18 September 2014, the Company received a notice of breach from its Lenders regarding the previously submitted Business Plan which included the proposed progression to underground mine development. Although the Company is in trading suspension to 31 October 2014, it is actively progressing discussions with its lenders in relation to potential strategies for the continuing development and operation of Boseto. DML has also appointed Ironstone Capital Advisors to engage with a number of alternative parties.

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, metal production and costs for Q1 FY15.

Q1 FY15 results reflect a continued operational focus on initiatives to increase volumes, improve recoveries and reduce production costs. This sustained focus, resulted in record production in Q1 FY15, which included three consecutive months of copper production in excess of 2,000 tonnes.

Table 1. Q1 FY15 Performance

	Q1 FY15	Q4 FY14	Change (Quarter on Quarter)
Material Mined, Mt*	9.31	9.01	+3.3%
Ore Milled, kt	701.5	604.1	+16.1%
Concentrate Produced, kt	15.0	12.5	+19.8%
Copper in Concentrate, t	6,428	5,367	+19.8%
Silver in Concentrate, oz	238,563	168,640	+41.5%

* Material mined = Waste plus ore

a) Mining

Ore to ROM for Q1 FY15 was delivered from Zeta and Plutus Stage 1, with a majority of sulphide ore from the lower benches of both pits. The increased delivery of sulphide ore to the plant had a positive impact to the overall copper recovery for Q1 FY15.

Electronic blast movement monitors were introduced during Q1 FY15, as part of the control measures to reduce mining ore dilution and loss. The first trial phase was successful and the second phase will commence in Q2 FY15. We are currently completing trials to determine the most appropriate distribution of electronic blast movement monitoring devices and associated site training. The results of these trials will ultimately be integrated into the operation.

Significant progress was achieved on waste stripping in Plutus Stage 2 and the transitional ore contact was exposed. Transitional ore from Plutus Stage 2 is expected to be delivered to the ROM during Q2 FY15.

The focus remains on improving operational efficiencies to make a significant difference to production and this continues to be supported by the strong drive and motivation from employees to safely meet production and cost targets. Improved mine planning also supported consistent delivery of ore to ROM.

b) Concentrator

The process optimisation initiative being conducted in the process plant continued to stabilise efficiencies, throughput, power consumption and recoveries. The process plant performance was also supported by the consistent delivery of good sulphide ore from the lower benches of both Zeta and Plutus Stage 1. Repairs on the jaw crusher footing were carried out in September 2014 to mitigate risk associated with unexpected concrete foundation failure issues. Repairs are believed to be successful, although further assessments have been planned to be carried out early in Q2 FY15, due to some continuing crusher vibrations being observed.

Table 2. Q1 FY15 Processing Performance

	Tonnes	Cu Grade (%)	Ag Grade (g/t)	Cu Recovery (%)	Ag Recovery (%)
Sulphide High Grade Ore	503,526	1.10	14.2	93.3	85.0
Sulphide Low Grade Ore	105,459	0.68	8.3	76.4	67.0
Transitional Ore	92,539	0.94	10.6	81.2	74.5

c) Metal Production

Contained copper produced for the quarter was 20% higher than Q4 FY14, while contained silver was 41% higher. Increased metal production was due to higher throughput and recoveries from all ore types, increased volume of clean ore delivered to ROM from lower benches of both Zeta and Plutus Stage 2. Concentrate production improved by 20% compared to Q4 FY14.

d) Costs

Table 3. Q1 FY15 Financial Performance

KPI	Q1 FY15	Q4 FY14	Change (Quarter on Quarter)
C1 Cash Cost USD/lb	1.89	3.17	-40.3%%
Mining USD/t mined [1]	1.64	1.53	+7.2%
Processing USD/t milled [1]	3.38	3.62	-6.6%

[1] Excludes mining related maintenance costs and before waste stripping adjustment.

C1 cash costs per pound of copper production reduced 40.3% compared to Q4 FY14. There were two primary drivers of the reduction:

- the 20% quarter on quarter increase in copper in concentrate produced; and
- the commencement of waste stripping at the Plutus Stage 2. Waste moved at Plutus Stage 2 accounted for 42% of total material mined in the quarter. In accordance with applicable accounting standards, US$9.6m of related costs has been capitalised to the balance sheet to be matched with related revenue, as ore is mined from the Plutus Stage 2 Pit (first ore expected Q2 FY15).

Mining costs per tonne were 7.2% higher than Q4 FY14 mainly due to delays and costs associated with a fire that occurred on waste excavator EX903. The EX903 waste excavator sustained damage in the engine component following a fire on-board the machine during Q1 FY15. A rental excavator, with a subsequently, higher cost base, is being utilised to ensure production rates are maintained. Processing costs per tonne milled fell 6.6% quarter on quarter, as throughput increased, despite a major planned shutdown for mill re-line work in September 2014.

Site management initiatives to reduce expenditure are delivering positive results with total Boseto site operations costs falling 6.7% quarter on quarter (before waste stripping adjustments).

e) Summary

Q1 FY15 is the second successive record production quarter for DML and records a substantial reduction in C1 cash costs. This pleasing result demonstrates the significant achievements recorded on site and strengthens the Company's credibility as a stable producer. The Company remains committed to exploring new efficiencies and initiatives to further improve production and reduce costs.

2. Zeta Underground Mine Project

Final evaluation of the tender submissions received in Q4 FY14 for the provision of mining services for the Zeta Underground Mine Project was completed in Q1 FY15. A preferred tenderer has been selected and discussion progressed on finalising contract documentation in preparation for award of the mining services contract.

Further technical work was completed on the proposed Zeta Underground Mine Project, including geotechnical analysis, updating of the subsidence modelling and refinement of the ventilation design and management plan. Finalised construction designs for the initial two years of development for the Zeta Underground Mine Project remain on track for completion in Q2 FY15.

3. Exploration

Q1 FY15 focused on evaluating the results of the exploration program on the Manganese licences and preparation of the NE Mango 2 drill programs. The Company expended approximately USD$228,296 on exploration in Q1 FY15.

a) Zeta NE and NE Mango (Discovery Metals 100%)

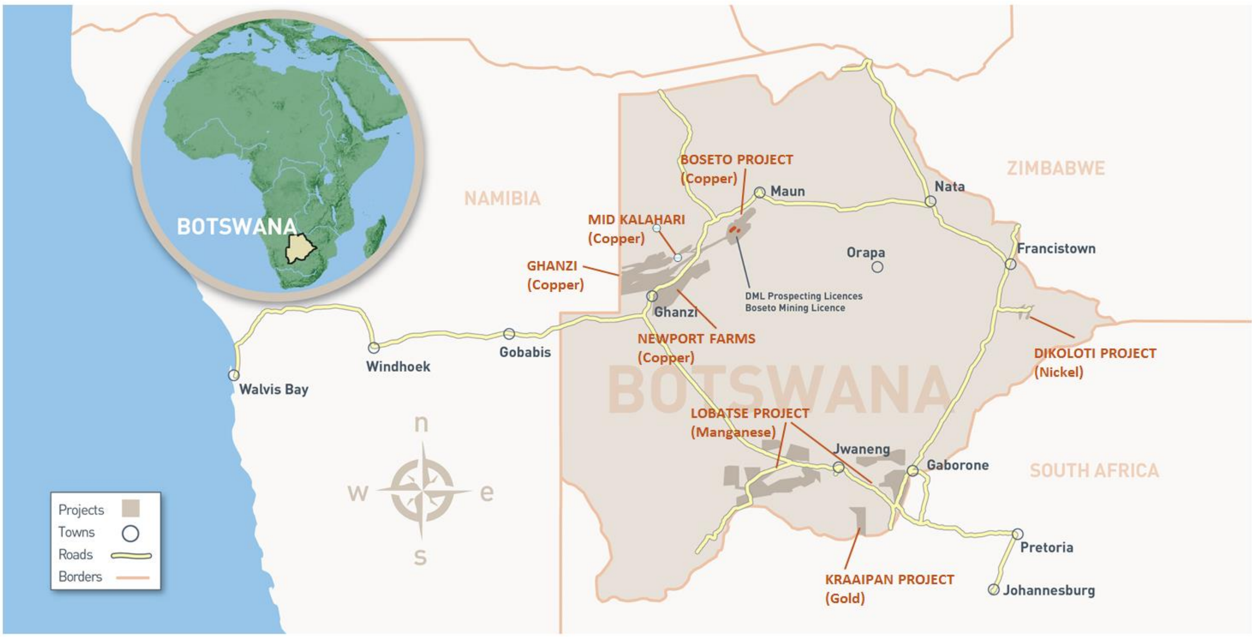
Planning for the Zeta NE and NE Mango drilling programs was completed, drilling will be staged over two years and is planned for the second half of FY15, commencing with Zeta NE.

b) Lobatse Manganese Project (Discovery Metals – Japan Oil, Gas & Metals National Corporation (JOGMEC) currently in earn-in period)

The Lobatse Manganese Project is a joint venture between DML and JOGMEC focused on exploring for manganese and other commodities in southern Botswana. The terms of the Lobatse Manganese Project require JOGMEC to contribute A$600,000 towards exploration expenditure during the earn-in period in return for a 67% aggregate equitable interest in the Lobatse Manganese Project. During Q1 FY15, JOGMEC met all its obligations under the agreement and has accrued a 67% interest from cash it contributed. The project is now in the pro-rata funding period.

A review of the recently completed Nnywane soil sampling program was completed. The anomalies identified from this program were found to be due to stratigraphic variations, rather than minerals of economic interest. No further work is planned in this area in the immediate future.

The next phase of work for the following six months will be largely desktop compilation studies on the Molapo farms complex and the Iron Oxide Copper Gold (**IOCG**) targets. The earn-in period for the JV will be deemed complete once JOGMEC have paid their outstanding costs. DML will remain as operator of the JV.



Otse Drilling Program

The Otse drilling program was concluded with no further anomalies identified and no further work is planned.

c) Dikoloti Nickel Project

(Discovery Metals 28%)

The Dikoloti Nickel Project comprises three prospecting licences covering an area of $283km^2$ surrounding the three nickel deposits of BCL in the Selebi-Phikwe region of north-east Botswana. DML has an agreement with BCL and JOGMEC and has commenced work aimed at converting the Dikoloti Nickel Project from a prospecting licence into a mining lease in accordance with the terms of the Dikoloti Nickel Project Joint Venture Agreement (**Dikoloti Agreement**).

BCL have appointed consultants MSA to update the 2005 Pre-Feasibility Study (**PFS**) which will be used to apply for the Mining Lease over Dikoloti. The PFS is now expected to be completed by end of October, at which point BCL will determine how they wish to proceed.

The Dikoloti prospecting licences have been extended for a further period of two years with effect from 1 October 2014. Approved work expenditure commitments are US$5.5m over the two year period. Under the terms of the JV agreement, BCL will fund all the expenditure required for the conversion of the Dikoloti prospecting licence into a mining licence.

There was no spend recorded for Q1 FY15.

d) South West Kalahari Zone

Prospecting Licence PL186-192/2008 has been renewed, effective 1 October 2014 for a period of two years. The approved expenditure commitments over the two year period are US$3.7m.

4. Corporate

On 30 September 2014, the Company had US$3.2m in cash on hand.

During Q1 FY15, US$1.0m quarantined in the DSRA was released by the Company's lenders for general working capital purposes.

Total Group debt was US$111.7m consisting of interest bearing debt of US$101.9m (US$100m principal and US$1.9m of outstanding interest) and non-interest bearing debt of US$9.8m (being the present value of the US$20.0m incentive payment payable to the lending syndicate pursuant to the Debt Re-Profile).

a) Debt Re-Profile and Equity Raising Strategy

On 19 May 2014, the Company announced that it had agreed with its lenders to reduce the Company's existing interest bearing debt by US$59 million to an amount of US$100 million and to re-profile repayments of outstanding debt (**Debt Re-Profile**). On 15 July 2014, the Company announced that the parties had executed definitive, long form documents in the form of an Amended and Restated Agreement, effective from 18 July 2014. The Debt Re-Profile was subject to a number of conditions precedent and subsequent. The conditions precedent were satisfied on 21 July 2014.

As required by the conditions subsequent, the Company delivered an updated financial model and development plan for the underground mining operations (**Business Plan**) during August 2014. On 18 September 2014, the Company received a notice of breach from its lenders stating that the updated Business Plan was not in a form and substance satisfactory to the lenders. While discussions are ongoing with the lenders, the Company requested a suspension from official quotation from 18 September 2014 to 31 October 2014.

On 1 September 2014, the Company announced its intention to conduct a 2 for 1 rights issue at A$0.02 per new DML share. As announced on 18 September 2014, the proposed renounceable rights issue will now not proceed in the form and timeframe announced and the development of the Zeta Underground Mine Project is on hold, while discussions with the Company's lenders continue.

This was a major disappointment for the Company, given the quantum and quality of the work involved in both the Debt Re-Profile process and the development of the revised mining plan to include the Zeta Underground operation.

The Company is actively progressing discussions with its lenders in relation to potential strategies and options for the continuing development and operation of the Company's Boseto operations. A number of face to face meetings have been held in London in recent weeks to expedite this process. This includes, but is not limited to, reviewing and considering a range of alternative finance and development options for Boseto.

In addition, DML has appointed Ironstone Capital Advisors to assist the Company in sourcing and reviewing a range of alternative and replacement financing arrangements. These activities are being advanced expeditiously. Further updates on these activities will be provided promptly to the ASX, as is appropriate.

b) Positive Economics confirmed for Zeta Underground Mine

A Definitive Feasibility Study for the Zeta Underground Mine (**Zeta Underground DFS**) at the Boseto Copper Operation was completed in 2012 by Mining Plus Pty Limited. On 11 September 2014, the Company announced that further integration studies have been undertaken to refine cost estimates, finalise the mine design ready for construction, confirm ramp-up parameters and production milestones.

The Zeta Underground Mine's economics were evaluated based on the use of experienced underground mechanised mining contractors. At US$3.18/lb Cu and US$20/oz Ag the economic evaluation showed:

- NPV (10% p.a. discount factor) of US$97 million (US$41 million mining the 2013 Ore Reserves only);
- IRR of 45% p.a. (41% p.a. mining the 2013 Ore Reserves only);
- C1 cash cost of US$2.12/lb, which includes the contractor's profit and capital investment recoupment (US$2.14/lb mining 2013 Ore Reserves only);
- Total capex to first stope ore production of only US$5.9 million (occurs in Q3/FY15);
- Total capex to first positive cash flow (occurs in Q3/FY17) of US$34.7 million; and
- Total capex to cash flow payback of US$69.7 million (occurs in Q2/FY19).

Both the Zeta Underground DFS completed by Mining Plus Pty Limited, and subsequent refinements to the mining parameters, have been reviewed by an external third party consultant, Runge Pincock Minarco, as a part of the current (2014) Ore Reserve.

The information in this announcement that relates to the Zeta Underground Mine is extracted from page 17 of the report 'Zeta Mineral Resource, Ore Reserve and Exploration Target Statements' created on 18 July 2013, which was included as an attachment to the announcement 'Mineral Resources and Ore Reserves Update' dated 22 July 2013, and is available to view on http://www.discoverymetals.com/files/media/20130722_asx_announcement_mineral_resources_and_ore_reserves_update_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 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.

c) Sedgman

On 7 August 2014, the Company announced a Deed of Variation (**Revised Deed**) had been agreed with Sedgman Limited (ASX:SDM) and its wholly owned subsidiaries Sedgman South Africa Pty Ltd and Sedgman Botswana Pty Ltd (collectively **Sedgman**).

Under the Revised Deed, DML agreed to pay Sedgman US$3.2m (**Settlement Sum**) in full and final satisfaction of all claims. The Revised Deed provided a payment schedule to which the Company is required to pay Sedgman in instalments, with interest repayments of 10% per annum falling due on the second, third and fourth instalments.

As a condition of the Revised Deed, DML agreed that, should it not complete a A$15m capital raising by 30 September 2014 (**Capital Raising**) or make any instalment payment in full (including any interest due) by the due date for respective instalment, then the full Settlement Sum including interest, will become immediately due and payable.

On 1 October 2014, the Company advised the market that it was no longer required to complete the Capital Raising. As a gesture of good faith, DML prepaid a sum of US$400,000 of the US$1.8m otherwise due on 31 October 2014.

d) Organisational Changes

Following the Company's announcement of 29 May 2014, Discovery Metals agreed to appoint a nominee of Transamine Trading S.A. to the Company's Board. On 9 July 2014, the Company announced that Mr Royston Denysschen was appointed as a Non-Executive Director of the Company.

On 11 August 2014, the Company announced that Paul Frederiks would step down as Chief Financial Officer and Company Secretary. Paul will be appointed as a Non-Executive Director to the Discovery Metals Limited Board upon finalisation of discussions with lenders regarding the Business Plan condition subsequent (refer ASX Announcement 18 September 2014). Paul continues to serve as an observer to the Board.

On 29 August 2014, Kerry Parker was appointed as Chief Financial Officer and Company Secretary.

On 18 September 2014, Bob Fulker was confirmed as Chief Executive Officer of the Company and Jeremy Read stepped down from the Executive Chairman role into the Non-Executive Chairman role.

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.

ABN 29 104 924 423 / www.discoverymetals.com / info@discoverymetals.com

Corporate Directory

Investor Information Contacts

Bob Fulker
Chief Executive Officer
Tel: +61 7 3218 0222
Email: bob.fulker@discoverymetals.com

Kerry Parker
Chief Financial Officer / Company Secretary
Tel: +61 7 3218 0222
Email: kerry.parker@discoverymetals.com

Registered Office

Level 23, 333 Ann Street
Brisbane QLD 4000
Australia
Tel: +61 7 3218 0222
Fax: +61 7 3218 0233

Botswana Country Office

Plot 21314, Sebele Station Road
Phakalane Gaborone
Botswana
Tel: +267 318 0751
Fax: +267 318 0752

Shareholder Enquiries

Share registry queries should be directed to:
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Tel: 1300 850 505 (within Australia) or
+61 3 9415 4000 (outside Australia)
Web: www.computershare.com

Stock Exchange Listings

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

Issued Capital

At 30 September 2014 the issued capital of Discovery Metals Limited was 644,039,581 ordinary shares.

Directors

Jeremy Read – Non-Executive Chairman
Ribson Gabonowe – Non-Executive Director
Russell Luxford – Non-Executive Director
Royston Denysschen – Non-Executive Director

Company Secretary

Kerry Parker