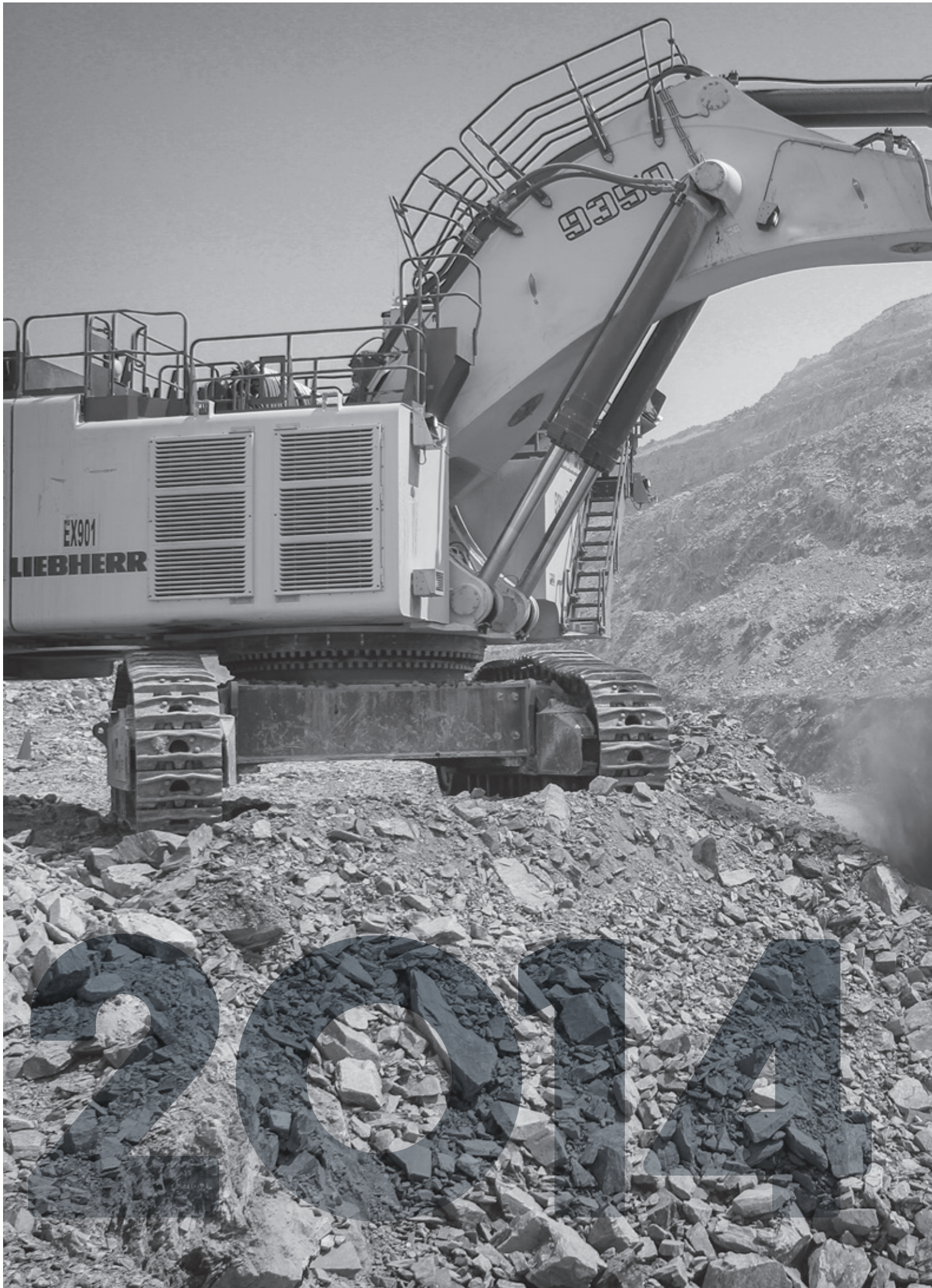


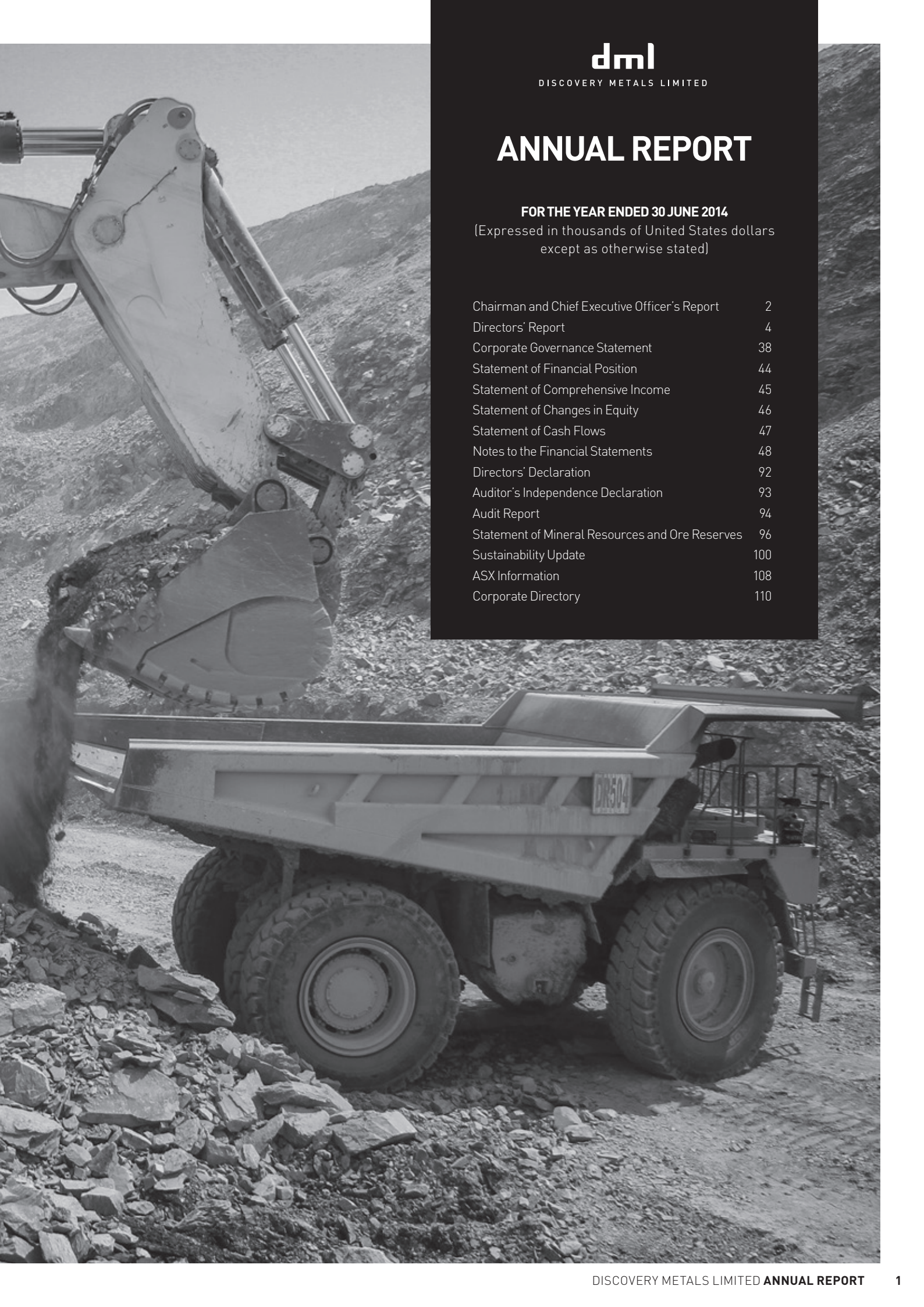
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DISCOVERY METALS LIMITED

ANNUAL REPORT







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DISCOVERY METALS LIMITED

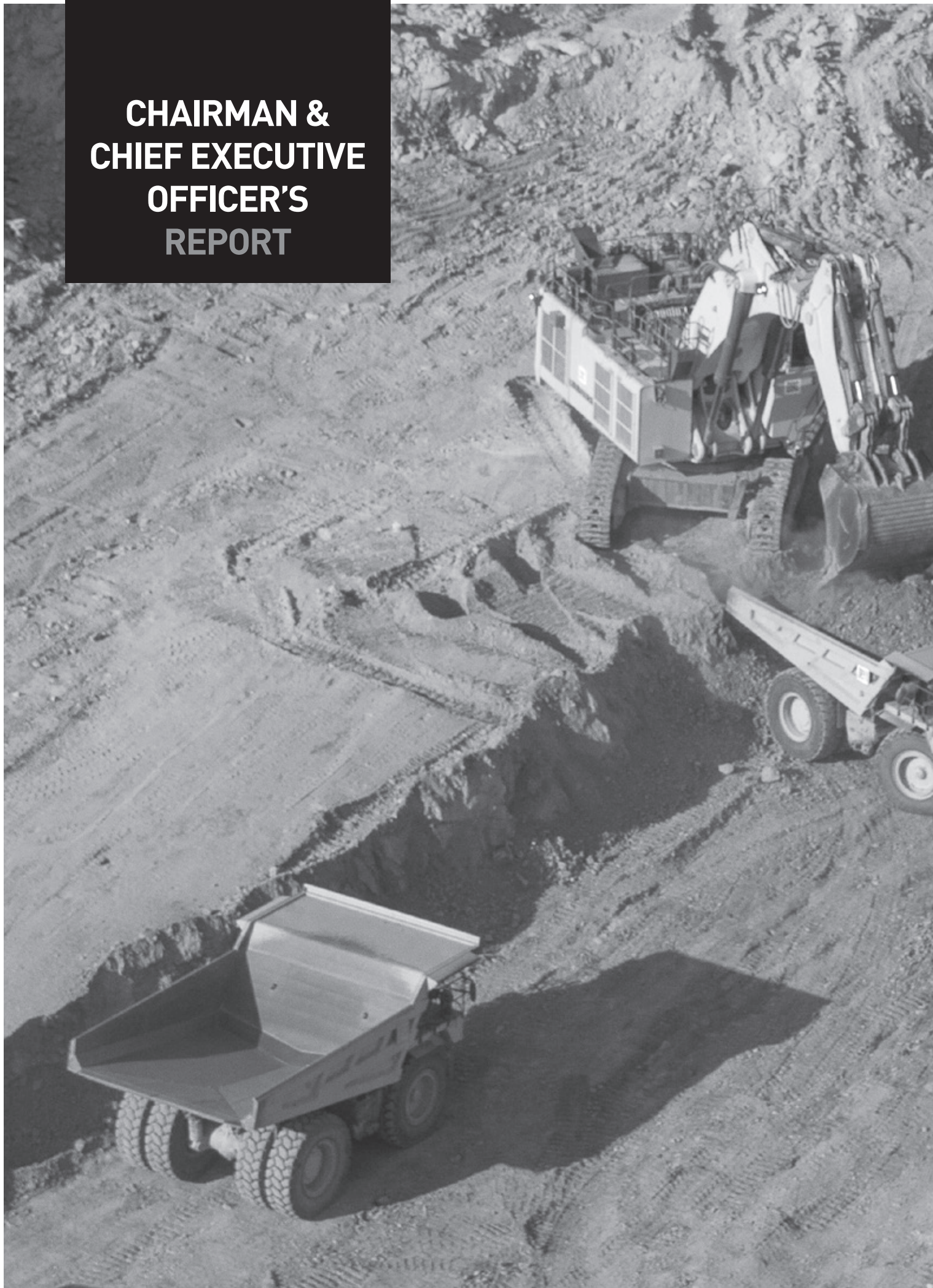
ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

(Expressed in thousands of United States dollars
except as otherwise stated)

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**CHAIRMAN &
CHIEF EXECUTIVE
OFFICER'S
REPORT**





Discovery Metals Limited is pleased to deliver the 2014 Annual Report to shareholders.

On behalf of the Board of Directors, Management and all staff at Discovery Metals Limited, we are all sincerely grateful to shareholders for their continued support and commitment to the Company. During the year we have achieved a number of significant milestones, but also a number of difficult scenarios. We would like to take this opportunity to reflect on some of these events and acknowledge all who have contributed to the Company during the year.

After a challenging 2013, we have seen an improvement in the three key operating disciplines at the Boseto operation: safety of our employees and the environment; improved copper production; and major reductions to total costs and C1 unit rate cost. The Company has achieved a number of months of record production, commencing with the 2,011 tonnes of copper produced in April 2014. Subsequently this has been bettered in both July 2014 with 2,061 tonnes, and August 2014 with 2,283 tonnes of copper. The first quarter of 2015 has been our best production quarter since project commencement with 6,428 tonnes of copper at C1 cash cost of US\$1.89/lb.

We are now seeing consistency and operational stability in the Boseto operation, something we have worked hard over the last 12 months to achieve. It has been pleasing to see the hard work and strategies being implemented at the Boseto Operation reflected in these results.

We are happy to report that a number of safety initiatives have been implemented at Boseto, which have reduced the number of serious injuries. Zero fatalities were recorded during the year. With our safety programs, we are ever vigilant and continue to strive for the goal of achieving zero harm.

The Debt Re-Profile negotiated with our Lending Group was a major turning point for the Company. Discovery Metals and its Lenders agreed to reduce the Company's existing interest bearing debt by US\$59 million to US\$100 million, with all defaults being discharged on the execution of the long form documents.

A disappointment for the Company was the breach notice issued by our Lenders on 18 September 2014, stating that the Business Plan for the proposed underground mining development at Boseto was not in a form and substance satisfactory to the Lenders. Despite this set back, we remain committed to the future success of the Company and believe that the optimum way to unlock the value in the significant mineral resources held by the company is to transition the Boseto Operation to underground in the near term. The Company is progressing numerous alternative financing solutions to enable this progression to underground mining.

We are particularly grateful to our staff in Botswana, the Botswana Government and the community for the continued support that has been shown to the Company. We remain committed to growing the Boseto Operation and responsibly mining the resources for the benefit of all Botswana and our shareholders.

We would like to thank all our staff members, who have worked so tirelessly to achieve the significant production and operational efficiencies at site and in the business, for their enthusiasm, skill and work ethic. You are the foundation of this Company and your passion to see us succeed is shared by all. We would also like to thank our Directors and acknowledge their guidance and support throughout the year.

Yours sincerely,

Jeremy Read
Chairman

Robert Fulker
Chief Executive Officer

DIRECTORS' REPORT



Jeremy Read
Chairman



Ribson Gabonowe
Non-Executive Director



Russell Luxford
Non-Executive Director



Royston Denysschen
Non-Executive Director



Robert (Bob) Fulker
Chief Executive Officer
(from 18 September 2014)



Kerry Parker
Chief Financial Officer
and Company Secretary
(from 30 August 2014)



Paul Frederiks
Chief Financial Officer
and Company Secretary
(to 29 August 2014)

Your directors present their report on the consolidated entity (referred to hereafter as the Consolidated Group) consisting of Discovery Metals Limited (referred to hereafter as the Company) and the entities it controlled at the end of or during the year ended 30 June 2014.

1. Board of Directors

The names of the directors of Discovery Metals in office at any time during or since the end of the full year are:

Jeremy Read – Executive Chairman (appointed 26 June 2014)

– **Interim Non-Executive Chairman (30 October 2013 to 25 June 2014)**

– **Non-Executive Director (appointed 1 February 2008)**

Qualifications:	BSc (Hons), MAusIMM
Experience and expertise:	<p>Jeremy has 26 years' domestic and international minerals exploration experience and was previously the Manager of BHP's Australian Exploration Team. He has extensive exploration experience for copper, nickel and gold mineral deposits having played a critical role in the discovery of Cairn Hill copper-iron deposit in South Australia and the Kabanga North nickel deposit in Tanzania. Jeremy was the founding managing director of Discovery Metals Limited from its incorporation in May 2003, until his appointment as a non-executive director on 1 February 2008. Mr Read secured the Boseto Copper Project for Discovery Metals and was responsible for all Discovery Metals' fund raising activities and for listing the Company on the Australian Securities Exchange, Botswana Stock Exchange and the Alternative Investment Market in London.</p> <p>Jeremy was also the founding managing director of Meridian Minerals Limited, obtained the Lennard Shelf Zinc-Lead Project for Meridian and led the company until its takeover by the Chinese mining company NWME.</p>
Other current directorships:	<p>Non-Executive Director of Harmattan Gold Limited (since January 2012)</p> <p>Director of Oresearch Limited (since January 2012)</p>
Former directorships in last three years:	<p>Managing Director of Avalon Minerals Limited (February 2012 to November 2013)</p> <p>Managing Director of Meridian Minerals Limited (September 2008 to December 2011)</p>
Committees:	<p>Member of the Audit and Risk Management Committee (since 21 May 2013)</p> <p>Member of the Technical Committee (since 25 February 2014)</p> <p>Member of the Remuneration and Nomination Committee (since 25 February 2014)</p> <p>Chairman of the Remuneration and Nomination Committee (21 May 2013 to 25 February 2014)</p>

Ribson Gabonowe – Non-Executive Director

Qualifications:	BSc (Mining Engineering), MSc (Mineral Economics), MBA
Experience and expertise:	<p>Ribson is a Mining Engineer with over 30 years' experience in the mining industry. For twelve years to December 2006, Ribson was the Director of Mines of Botswana, responsible for administering the legal and fiscal framework governing mineral exploitation. In this role, Ribson was involved in negotiations of mineral agreements for copper, nickel, diamonds, coal and soda ash.</p> <p>Ribson is a director of all Discovery Metals subsidiaries registered in Botswana.</p>
Other current directorships:	Managing Director of Boteti Mining (Pty) Ltd (since December 2010)

DIRECTORS' REPORT

[Continued]

Former directorships in last three years: Nil

Committees: Chairman of the Remuneration and Nomination Committee (since 25 February 2014)
Member of the Audit and Risk Management Committee (since 21 May 2013)
Director of each of the Company's Botswana subsidiaries

Russell Luxford – Non-Executive Director (appointed 25 September 2013)

Qualifications: BEng (Hons)

Experience and expertise: Russell is an engineer with over 30 years' experience in the mining industry working in senior technical and managerial positions for Citadel Resources Group, Ma'aden, WMC, Rio Tinto, RGC and others. Mr Luxford's expertise is principally in project development (including commissioning and ramp-up) and operational effectiveness for mine and processing performance improvement.

Other current directorships: Non-Executive Director of Celamin NL (ASX: CNL) (since 26 October 2012)

Former directorships in last three years: Nil

Committees: Chairman of the Audit and Risk Management Committee (since 25 February 2014)
Chairman of the Technical Committee (since 16 October 2013)
Member of the Remuneration and Nomination Committee (since 25 February 2014)

Royston Denysschen – Non-Executive Director (appointed 9 July 2014)

Experience and expertise: Royston Denysschen has 18 years' experience in commerce and logistics in Southern Africa. He has been key to the start-up, development, management and direction of successful logistics and peripheral businesses throughout Southern Africa.

Other current directorships: Nil

Former directorships in last three years: Nil

Committees: Nil

Paul Frederiks – Joint Company Secretary / Chief Financial Officer (appointed 26 October 2012)

Qualifications: BBus (Accounting), FCPA, FAICD, FGIA, FCIS

Experience and expertise: Paul has extensive experience in public company financial and commercial management with more than 30 years' experience in the Australian resources sector. He has an extensive knowledge base in listed public company reporting and compliance, financial modelling and forecasting, treasury management, project financing and corporate governance. Paul has previously held Chief Financial Officer positions at Geodynamics Limited and Ross Mining NL and has been Company Secretary for Billabong International Limited.

Kerry Parker – Joint Company Secretary (appointed 13 August 2014)

Qualifications:	BBus(Accounting), ACA, MAICD, Finsia
Experience and expertise:	<p>Kerry is a chartered accountant with more than 25 years' experience in business advisory, and financial and commercial roles in Australia and internationally.</p> <p>Kerry most recently held the position of Company Secretary and Chief Financial Officer with ASX listed Inova Resources Limited. Prior to that Kerry has previously held the roles of Managing Director of ASX Listed Panax Geothermal Limited (now Raya Group Limited), and Company Secretary and Chief Financial Officer of Arrow Energy Limited, an ASX listed gas exploration, development and production company with a market capitalisation at that time of approximately \$2.5 billion. Kerry has also held senior finance positions with CH4 Gas Limited, Santos Limited and Downer Group.</p>

John Shaw – Non-Executive Chairman (resigned 29 October 2013)

Qualifications:	BSc (Geological Engineering), FAusIMM, MCIM, FAICD, SME
Experience and expertise:	<p>John has over 40 years' experience in exploration, development and operations of open cut and underground mines in Asia, Australia, Africa and Canada. John was previously Vice President of the Australian Operations of Placer Dome Asia Pacific Limited and Managing Director of Kidston Gold Mines.</p>

Stuart Bradley (Brad) Sampson – Managing Director (resigned 4 November 2013)

Qualifications:	BEng (Mining) (Hons) Qld, MBA Deakin, AMP Oxf, MAusIMM, GAICD
Experience and expertise:	<p>Brad has more than 25 years' experience as a mining engineer. He has worked in both open cut and underground mine operations and developments in Australia, Southern Africa and the Pacific. He previously held an executive role at Thiess Ltd and has been in general management roles with Gold Fields Limited at its St Ives gold mine in Western Australia, at the Kloof operation in South Africa, and was General Manager (Papua New Guinea) for Emperor Mines Limited.</p>

Niall Lenahan – Non-Executive Director (resigned 4 November 2013)

Qualifications:	BComm (Hons), FCA (Irl), CA (Aus), MBA (UWA)
Experience and expertise:	<p>Niall is a chartered accountant with extensive experience in the resources sector. He has served as a director and chief financial officer of ASX and medium sized organisations involved in the mineral resource, construction/engineering and shipping/transport industries in Australia and overseas. His most recent executive role was as a director and CFO of Riversdale Mining Limited, a company involved in mineral production and development in southern Africa. Niall has worked in companies involved in energy and mining in Australia, Asia and Africa and has experience in various commodities, including gold, base metals, industrial minerals and coal.</p>

Gregory Seeto – Company Secretary / Corporate Counsel (resigned 11 October 2013)

Qualifications:	LLB (Hons), BJ, GradDipLP, GradDipACG, ACIS
Experience and expertise:	<p>Greg is a corporate lawyer with post-graduate qualifications in governance. Greg is an associate member of Chartered Secretaries Australia and is a legal practitioner of the Supreme Court of Queensland and the High Court of Australia. Greg has experience as a senior lawyer at a top-tier law firm and as a listings adviser at the Australian Securities Exchange.</p>

DIRECTORS' REPORT

[Continued]

2. Directors' Meetings

The number of board and committee meetings attended by each of the Directors who held office during the financial year is as follows:

Director	Board		Committee Meetings (1 July 2013 to 30 June 2014)					
			ARM		R&N		TECH	
	#	Att	#	Att	#	Att	#	Att
Jeremy Read	44	40	4	4	2	2	2	2
Ribson Gabonowe	44	39	4	4	1	1	-	-
Russell Luxford	30	30	2	2	2	2	7	7
Royston Denysschen (appointed 9 July 2014)	-	-	-	-	-	-	-	-
Niall Lenahan (resigned 4 November 2013)	17	16	2	2	1	1	-	-
Stuart Bradley Sampson (resigned 4 November 2013)	17	17	-	-	-	-	3	3
John Shaw (resigned 29 October 2013)	17	16	2	2	-	-	-	-

ARM: Audit and Risk Management Committee

R&N: Remuneration and Nomination Committee

TECH: Technical Committee

#: The number of meetings held during the time the director held office or was a member of the relevant committee during the year.

Att: The number of meetings attended.

Committee membership

For the period 1 July 2013 to 25 February 2014, the Board had an Audit and Risk Management Committee and a Remuneration and Nomination Committee. On 16 October 2013, the Board also adopted a Technical Committee. Members acting on each of these committees are:

	From 1 July 2013		From 16 October 2013
	Audit and Risk Management Committee	Remuneration and Nomination Committee	Technical Committee
Chairman	Niall Lenahan	Jeremy Read	Russell Luxford
Members	Ribson Gabonowe Jeremy Read John Shaw	Niall Lenahan Russell Luxford	Stuart Bradley Sampson Robert Fulker Robert Cooper

The Technical Committee was formed to provide the Board an opportunity to gain more detailed knowledge of technical matters on site.

On 29 October 2013, Mr John Shaw resigned as Chairperson and Non-Executive Director of the Company. On 4 November 2013, Mr Stuart Bradley Sampson ceased his role as Managing Director and Chief Executive Officer. Mr Niall Lenahan also resigned as Director of the Company on that date.

On 25 February 2014, each of the Audit and Risk Management Committee and Remuneration and Nomination Committee were reconstituted as follows:

	Audit and Risk Management Committee	Remuneration and Nomination Committee	Technical Committee
Chairman	Russell Luxford	Ribson Gabonowe	Russell Luxford
Members	Jeremy Read Ribson Gabonowe	Russell Luxford Jeremy Read	Jeremy Read

3. Principal activities and review of operations

The principal activity of the Company during the year was production at its Boseto Copper Operation in Botswana and continued exploration activities in Botswana.

Project review, strategies and future prospects

Boseto Copper Operation

For the financial year ended 30 June 2014, the Boseto operation produced 48,207 tonnes of concentrate containing 18,732 tonnes of copper and 628,890 ounces of silver. This improves on the production results achieved in the financial year ended 30 June 2013 in which 37,766 tonnes of concentrate were produced containing 14,870 tonnes of copper and 670,752 ounces of silver.

In the June 2014 quarter, the Company achieved record quarterly copper production of 5,367 tonnes of copper in concentrate in the June 2014 quarter, at an average grade of 42.9% and with sulphide recoveries of 90.4%. These results reflect the continued focus on initiatives to increase mined volumes, and to improve recoveries.

The hanging wall waste stripping campaign at the Zeta pit produced results by delivering ore exposure in the March quarter. Plutus Stage 1 sulphide and transitional ores both achieved improved copper recoveries compared to previous Plutus Stage 1 transitional ore benches. Plutus Stage 1 South Extension delivered a significant amount of sulphide and transitional ore to the Run of Mine ore pad in the June quarter. Plutus Stage 2 commenced development during the March quarter and mining activities continued in the June quarter, with a focus on topsoil stripping and calcrete removal.

Concentrate production continued to improve, with production in the June quarter of contained copper in concentrate 25% higher and contained silver 27% higher than the March quarter. The increased metal production quarter on quarter was due to higher throughput and improved recoveries from both high grade and transitional ores. Concentrate production improved by 12% compared to the March quarter, despite mill throughput being constrained by the outage of a tertiary crusher.

The June quarter represents the best quarter for Boseto since inception, on a production and unit cost basis, which is a significant milestone for the Company. The quarter also saw record monthly copper production in April 2014. The Company has continued to focus on improving management of equipment and the workforce and these improvements are reflected in the positive production results. Optimisation of resources continues to assist in improving productivity and operational costs.

Restructuring at the Boseto Copper Operation

On 14 January 2014, the Company announced that it was undertaking a restructuring programme at its 100% owned Boseto Copper Operation. The restructuring programme was designed to improve cost competitiveness and further enhance production efficiencies. The restructuring exercise at Boseto affected 85 of the 516 employees based at the site (15% of the total workforce).

DIRECTORS' REPORT

[Continued]

Zeta Underground Mine Project

The Zeta Underground Definitive Feasibility Study review process was completed during the March quarter, with capital and operating costs having been reassessed with a modified schedule of physicals and ore production consequently generated.

On 17 April 2014, the Republic of Botswana Government approved an application for an amendment to Mining Licence No. 2010/99L to incorporate the Zeta Underground Mine into the Boseto Copper Operation. This approval was an important step in the Company's strategic direction to unlock underground potential.

Tender submissions were received in the June quarter for the provision of mining services for the Zeta Underground Mine Project. The tender submissions have been evaluated and detailed discussions are being held with the preferred candidate, with the final award of the contract to occur by the end of the September quarter (Q1 FY15). Finalised construction designs for the initial two years of development for the Zeta Underground Mine Project are on track for completion in the December quarter (Q2 FY15).

Commencement of the Zeta Underground Mine Project is dependent upon successfully raising finance sufficient to bring it to an operational stage and fund related working capital requirements. The Company has committed under the debt re-profile agreed with lenders, to raise equity on or before 31 December 2014 for this purpose.

The Company has developed a Cave Management Plan (**CMP**) and Ground Control Management Plan (**GCMP**) to identify and manage the critical risks associated with the commencement of underground mining at the Boseto Copper Operation. The major critical risks identified are:

- flooding and mud inrush in the sub-level cave
- cave subsidence;
- geotechnical risks associated with the caving assumption; and
- shortage of skills and expertise within Botswana.

The CMP and GCMP identify strategies to minimise these risks, including:

- development of a drainage diversion channel to direct surface flood water away from the underground mine;
- detailed subsidence modelling and locating mine infrastructure outside of the potential subsidence zone; and
- engaging an experienced underground mining contractor and implementing a training plan to upskill the local workforce.

Kalahari Copperbelt Exploration

The Company continued focusing its Kalahari Copperbelt exploration in 3 broadly defined zones:

- **Boseto Zone** (targeting Boseto production expansion/mine life extension);
- **Mid Kalahari Zone** (targeting new standalone mining operations); and
- **South West Kalahari Zone** (targeting new standalone mining operations).

In July 2013, the Company restated all its Mineral Resources and Ore Reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 Edition (JORC 2012), to take into account mining depletion to May 2013 and a previously reported misallocation.

Details of the Company's Mineral Resources and Ore Reserves are available on the Company's website along with the Competent Persons Statement.

On 23 December 2013, Discovery Metals announced new results from drilling at Zeta NE. On 7 February 2014, the Company announced further drilling results at Zeta NE and these results extended the strike length of a higher grade copper and silver zone to 1.4 km. These results are available on the Company's website. As at 30 June 2014, the Zeta NE drill programme was completed and comprised 43 holes. These holes primarily targeted the central

high grade zone of the deposit to a depth of 150m. Additionally, preliminary work has begun on the NE Mango 2 drilling programme and this consists of 106 holes to test the deposit to a depth of 360m vertical over a strike length of 1,500m.

The soil pH testing at Zeta NE and NE Mango 2 was completed in April 2014 as part of an orientation programme to determine whether changes in soil pH can be used to identify mineralisation below sand cover, where soil geochemistry is ineffective.

Kraaipan Gold Project

Only preliminary exploration activity has been conducted to date, including:

- location of historic drill holes data incorporated into the company's digital database;
- completion of regional soil geochemical sampling programme. A total of 11,400 soil samples have been collected and will have geochemical analysis completed; and
- geological mapping over the outcropping southern portion of the project was completed.

Dikoloti Nickel Project

The Dikoloti Nickel Project comprises three prospecting licences covering an area of 283km² surrounding the three nickel deposits of BCL Limited (**BCL**) in the Selebi-Phikwe region of north-east Botswana. As announced on 19 March 2014, BCL entered into an agreement with the Company and Japan Oil, Gas and Metals National Corporation (**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**). Under the Dikoloti Agreement, BCL will have the right to acquire a 51% interest in the total project if they can accomplish the conversion by 31 December 2014 or such other agreed date. On conversion, JOGMEC would hold approximately 35% and DML would hold approximately 14% of the Dikoloti Nickel Project.

BCL has embarked on a drilling programme to secure more material for metallurgical test work and this test work is underway.

Lobatse Manganese Project, South Botswana

Seventeen prospecting licences, covering approximately 15,345 square kilometres in southern Botswana are held by the Company. This area is underlain by rocks of the Transvaal Supergroup which extends south-east into the Griqualand West Basin of South Africa, where it hosts the Kalahari Manganese Field deposits.

The Lobatse Manganese Project is a joint venture between DML and JOGMEC focused on exploring for manganese and other commodities in southern Botswana. Under the terms of the Lobatse Manganese Project, JOGMEC is required to contribute A\$600,000 towards exploration expenditure during the earn-in period which was mutually extended by the parties to September 2014. On completion of the earn-in period, and JOGMEC meeting its obligations under the agreement, JOGMEC shall acquire a 67% aggregate equitable interest in the Lobatse Manganese Project, which will leave Discovery Metals with a 33% interest. As at 30 June 2014, JOGMEC has accrued a 48% interest from cash already contributed.

A soil sample programme has been designed to explore the Nnywane As/Mo rich breccia. A total of 3,664 soil samples were collected on the programme. The lines were nominally spaced at 2km, but also targeted alteration zones that had been identified from Landsat interpretation. All results have been received and interpretation and ground checking of the results is in progress.

A further drilling programme is being developed for the Otse Manganese deposits to develop an understanding of the geology, structures and mineralisation. Ten holes for 2,538m were completed, with 1,198 samples sent for geochemical analysis. All results have been received and analysis is in progress.

DIRECTORS' REPORT

[Continued]

Sustainability

The Company continued to develop systems to comply with the Global Reporting Initiative (**GRI**) and the Minerals Council of Australia 'Enduring Value – The Australian Minerals Industry Framework for Sustainable Development'.

The Company's Boseto Copper Operation environmental obligations to the Government of Botswana are embodied in the Environmental Management Plan (**EMP**) 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 environmental standards in accordance with the Equator Principles and IFC Performance Standards.

A Community Liaison Office established in Toteng continues to facilitate regular consultation and engagement, primarily with local community representatives, affected landholders, local politicians and government agencies. Reference group meetings were held regarding the enlargement of the Mining Lease for Zeta NE and the extensions of the Toteng Housing Estate and Boseto Operational Camp.

The 2013 Sustainability Report and GRI Index are available on the Company website, which can be accessed at <http://www.discoverymetals.com/sustainabilityreports>.

Corporate

Recapitalisation Proposals

1. *Blumont Recapitalisation*

The Company executed a binding term sheet with Blumont Group Limited for a US\$108 million refinancing proposal. This term sheet lapsed on 19 December 2013.

2. *Montsant Partners LLC Recapitalisation*

On 1 April 2014, the Board executed a conditional, non-binding term sheet with Montsant Partners LLC for a US\$105 million recapitalisation proposal. On 13 May 2014, the Company advised the market that the conditions to the recapitalisation proposal had not been satisfied and as a result, the conditional, non-binding term sheet was at an end.

Debt Re-Profile

On 19 May 2014, the Company advised the market it had executed a legally binding term sheet (**Term Sheet**) with its Lenders under which the Company's interest bearing debt would be reduced to US\$100m and repayments re-profiled, subject to the parties entering into definitive, long form documents (**Debt Re-Profile**). On 15 July 2014, the Company announced that the parties had executed definitive, long form documents and on 21 July 2014 the Company confirmed that conditions precedent had been satisfied and that the Debt Re-Profile was effective from 18 July 2014. The transaction has been recorded within the financial statements effective as of 30 June 2014 in accordance with applicable accounting standards.

Under the Debt Re-Profile:

- all continuing defaults were waived on execution of the Term Sheet;
- the Revolving Credit Facility was discharged and no longer exists;
- the Project Finance Facility was amended and restated in accordance with the Term Sheet;
- the current gross interest bearing debt owing under the Revolving Credit Facility and the Project Finance Facility of approximately US\$160.4m (including capitalised interest) was reduced to US\$100m (**New Balance**);
- the New Balance has a loan term of 9 years (**Loan**), with interest capitalised for the first 4 years of the term;
- interest rate is now LIBOR plus 5%, with interest capitalised until September 2018;

- scheduled principal repayments will be made commencing in year 5 of the Loan; and
- the parties have agreed to a mechanism that will provide for the lenders to be returned incentive payments in addition to repayment of the Loan, up to a maximum aggregate amount of US\$20m, commencing after final repayment of the Loan.

Conditions subsequent under the Debt Re-Profile, which if not satisfied would constitute an event of default under the facility agreement are:

- the Company's wholly owned subsidiary, Discovery Copper (Botswana) (Proprietary) Limited, the borrower under the facility agreement, is required to deliver an updated financial model and development plan (**Business Plan**) for the Boseto Operation demonstrating loan repayment and covenant compliance, in a form and substance acceptable to the lenders and a lender appointed independent technical expert, by 31 August 2014. No later than 20 business days after delivery of the Business Plan the lenders shall deliver to the Company an updated repayment schedule in accordance with the Business Plan; this may result in loan repayments starting in a period less than 5 years;
- the Company has committed to raise equity, on or before 31 December 2014, sufficient to finance development of the first Zeta underground mine to an operational stage and to support the Company's related working capital requirements.

Under the terms of the facility the Company is required to maintain an average cash balance during the ten days immediately preceding the last business day of each calendar month of no less than \$2.0 million on and prior to 31 August 2014 and \$3.0 million on and after 30 September 2014.

Placements

On 19 September 2013, the Company successfully completed a placement to Blumont Group Limited (**Blumont**) raising A\$8.7m. The Company issued 73,047,967 fully paid ordinary shares at the price of A\$0.12 per share. The Company agreed to appoint a nominee of Blumont, Mr Russell Luxford, as a Non-Executive Director to the Board of the Company.

On 29 May 2014, the Company successfully completed a placement to Transamine raising A\$2.8m. The Company issued 84,005,163 fully paid ordinary shares at the price of A\$0.03451 cents per share. Transamine now holds an 18.6% stake in the Company, making it the largest shareholder in Discovery Metals. The Company agreed to appoint a nominee of Transamine to the Company's Board and on 9 July 2014 Mr Royston Denysschen was appointed to the Board as a Non-Executive Director.

Change of classification on ASX

The ASX resolved to re-classify the Company from a Mining Exploration Company to a Mining Production Company in the December quarter.

Board changes

On 25 September 2013, Mr Russell Luxford was appointed as a Non-Executive Director of the Company.

On 29 October 2013, Mr John Shaw resigned as Chairman and Non-Executive Director of the Company. Mr Jeremy Read assumed the role of Interim Chairman of Discovery Metals in addition to his role as Non-Executive Director.

On 4 November 2013, the Company advised that Mr Stuart Bradley Sampson had ceased his role as Managing Director and Chief Executive Officer of the Company with effect from 31 December 2013. Mr Robert (Bob) Fulker assumed the role of Chief Executive Officer in an interim capacity on 4 November 2014. Mr Niall Lenahan also resigned as Director of the Company on this date.

On 26 June 2014, Mr Jeremy Read was appointed as Executive Chairman of the Company until 31 December 2014, after which the Company will appoint a new Non-Executive Chairman.

DIRECTORS' REPORT

[Continued]

After the financial year end and up to the date of this release, the following Board changes were made. On 9 July 2014, Mr Royston Denysschen was appointed as Non-Executive Director of the Company. On 11 August 2014, it was announced that Mr Paul Frederiks would step down as Chief Financial Officer and Company Secretary and assume his new role as a Non-Executive Director, with effect from the lodgement of the Company's annual accounts near the end of August 2014. Mr Kerry Parker was appointed as Joint Company Secretary with effect from 13 August 2014, and will be appointed as Chief Financial Officer with effect from the lodgement of the Company's annual accounts.

Major shareholder changes

Throughout the 2014 financial year, the Company saw Cathay Fortune Investments Limited and Genesis Asset Managers LLP leave the register. The Company saw Transamine Trading S.A. and Blumont Copper Pte Ltd join the Company's register as substantial shareholders.

Financial

The Consolidated Group recorded a profit of US\$15.0m for the year ended 30 June 2014 (30 June 2013: US\$224.3m loss).

The net asset position of the Consolidated Group at 30 June 2014 was US\$59.8m (30 June 2013: US\$67.7m).

The Consolidated Group recorded no impairment (30 June 2013: US\$205.7m) on Development, PPE and Exploration during the year despite undertaking an impairment review. The Company considered the relationship between its market capitalisation and its book value, among other factors when reviewing for indicators of impairment. As at 30 June 2014, the market capitalisation of the Consolidated Group was below the book value of its equity, indicating a potential impairment of the assets of the Boseto Copper Operation. The recoverable amount of the Boseto Copper Operation was determined based on a fair value less cost to sell calculation using cash flow projections from financial budgets and forecasts approved by senior management covering a twelve year period. Following such review the Company determined that no impairment was required.

The Consolidated Group profit comprised a gross loss from mining operations of US\$40.0m, administration expenses of US\$11.7m, interest expense of US\$12.0m offset by a net gain on derivatives of US \$34.9m and loans forgiven by lenders of US\$50.4m.

Business Risks

The prospects of the Consolidated Group in developing and operating its copper operations in Botswana may be affected by a number of factors. These factors are similar to most exploration and mining/operating companies moving through the exploration phase to the operational phase while continuing to explore for additional mineral resources.

- **Single Site** – Our operations are located only at the Boseto Copper Operation. This exposes the Consolidated Group to a lack of diversity in operational activities which may impact future returns derived by the Consolidated Group. We are also exposed to risk in our operations as all product is currently sold to Transamine (one customer), however, we would expect that should Transamine not be able to deliver on its obligations other third party customers could be sourced with minimal business interruption.
- **Exploration and Development** – There is a risk that the actual mineralisation may be different to the expected results from exploration and Ore Reserve and Mineral Resource development. Adverse movements may impact the financial viability of the project going forward.
- **Regulatory and Sovereign** – The Consolidated Group operates in Botswana, Mauritius and Australia. The Consolidated Group deals with local regulatory authorities in relation to the operation and development of its properties. There may be adverse changes in the regulatory environment in future periods which may impact mining tenure, mine regulation, export regulation, taxation and other regulated activities; all of these

cumulatively or individually may impact the financial viability of the project going forward.

- **Funding** – The Consolidated Group will require additional and/or renegotiated funding to continue the operation and development of operations in Botswana. There is no certainty that the group will have access to available financial resources sufficient to fund its obligations and operations going forward.
- **Operations/Development** – The Consolidated Group is involved in the ongoing development of the Boseto Copper Operation including pending underground operations. There is a risk that technically the Boseto Copper Operation may not be sustained going forward due to failure to deliver economic levels of copper production, operating cost levels that do not justify the continued operation of the project, and/or that given the remote location, critical supplies such as labour, power and water may not be available or may be interrupted.
- **Market** – There are numerous factors involved with early stage development and management of the Company's Boseto operation, including variance in commodity price, foreign exchange and labour costs which can result in the project being uneconomical.

4. Going Concern

The Company has prepared the 30 June 2014 financial report on a going concern basis. The Company believes that the financial forecasts of the Boseto Copper Operation together with the pending equity raise and completed Debt Re-Profile will ensure the Company operates as a going concern for the next 12 months.

If the Consolidated Group is not able to generate positive cashflow from operations, it may not be able to continue as a going concern and realise assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the financial report.

No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

5. Significant changes in state of affairs

The Company's future financial results are dependent on the successful ramp up of the Zeta Underground development in conjunction with continued operational improvements to the open pits. Further information is provided in Note 4 to the Financial Statements.

In the opinion of the Directors there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review, other than those described in this financial report under "Principal Activities and Review of Operations".

6. Dividends

The Directors have not recommended the declaration of a dividend. No dividends were paid or declared by the Company during the current or previous financial year.

7. Number of employees

There were 473 (2013: 635) full-time employees employed by the Consolidated Group in Australia and Botswana at 30 June 2014. Other roles are currently undertaken under contract arrangements, or by part-time employees.

8. Significant events after the balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group in future financial years other than those noted in Note 29 to the Financial Statements.

DIRECTORS' REPORT

[Continued]

9. Future developments

Other than as referred to in this report, further information as to likely developments in the operations of the Consolidated Group and the expected results of those operations would, in the opinion of the Directors, be speculative.

10. Environmental regulation

The Company's exploration activities are subject to significant environmental regulations under Botswana legislation.

The Company is committed to achieving a high standard of environmental performance. The Board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

The Company aims to minimise the impact on the environment which results from our operations. The Company believes that all employees, contractors, consultants and persons associated with the Company have to be involved in achieving environmental objectives and targets.

Each mining operation is subject to particular environmental regulations specific to the activities undertaken at that site as part of the licence or approval for that operation. There are also a broad range of industry and specific environmental laws which apply to all mining operations and other operations of the Consolidated Group. The environmental laws and regulations generally address the potential impact of the Consolidated Group's activities on water and air quality, noise, surface disturbance, and the impact upon flora and fauna.

An important part of the Company's environmental performance is to identify and track all incidents resulting from its operations so that appropriate action can be taken to prevent reoccurrence. As part of the Company's commitment to open and transparent reporting, all incidents are reported to the relevant Government authorities and within publicly released reports.

The Directors are not aware of any environmental matters which would have a materially adverse impact on the overall business of the Consolidated Group.

11. Prospecting Licence schedule

The Consolidated Group has an interest in the following Prospecting Licences, all held in Botswana:

Project	Prospecting Licence	Area (Km ²)	Initial Grant date	Current Expiry
Dikoloti Nickel	P020/2004	73.0	1-Jul-04	2-Oct-14
Dikoloti Nickel	P021/2004	41.0	1-Jul-04	2-Oct-14
Dikoloti Nickel	P022/2004	169.0	1-Jul-04	2-Oct-14
Boseto Copper	P98/2005	509.0	1-Oct-05	31-Dec-14
Boseto Copper	P99/2005	798.5	1-Oct-05	31-Dec-14
including	2010/99L	Mining lease	20-Dec-10	19-Dec-25
Boseto Copper	P100/2005	514.2	1-Oct-05	31-Dec-14
Boseto Copper	P101/2005	11.0	1-Oct-05	31-Dec-14
Ngamiland Copper	P102/2005	3,331.0	1-Oct-05	30-Jun-15
Ngamiland Copper	P103/2005	133.1	1-Oct-05	30-Jun-15
Ngamiland Copper	P104/2005	285.3	1-Oct-05	30-Jun-15
Ghanzi Copper	186/2008	804.0	1-Jul-08	30-Sep-16
Ghanzi Copper	187/2008	894.0	1-Jul-08	30-Sep-16
Ghanzi Copper	188/2008	634.0	1-Jul-08	30-Sep-16
Ghanzi Copper	189/2008	271.0	1-Jul-08	30-Sep-16
Ghanzi Copper	190/2008	760.0	1-Jul-08	30-Sep-16
Ghanzi Copper	191/2008	927.0	1-Jul-08	30-Sep-16
Ghanzi Copper	192/2008	638.0	1-Jul-08	30-Sep-16
D'kar Copper	60/2012	890.5	1-Apr-12	31-Mar-15
D'kar Copper	61/2012	888.1	1-Apr-12	31-Mar-15
D'kar Copper	62/2012	740.1	1-Apr-12	31-Mar-15
D'kar Copper	63/2012	484.1	1-Apr-12	31-Mar-15
Manganese	PL001/2011	483.7	1-Jan-11	*
Manganese	PL002/2011	720.8	1-Jan-11	*
Manganese	PL003/2011	974.8	1-Jan-11	*
Manganese	PL004/2011	950.4	1-Jan-11	*
Manganese	PL005/2011	914.8	1-Jan-11	*
Manganese	PL006/2011	962.4	1-Jan-11	*
Manganese	PL007/2011	933.5	1-Jan-11	*
Kraaipan Gold	PL008/2011	866.2	1-Jan-11	*
Manganese	PL009/2011	982.7	1-Jan-11	*
Manganese	PL010/2011	958.0	1-Jan-11	*
Manganese	PL011/2011	856.3	1-Jan-11	*
Manganese	PL012/2011	983.1	1-Jan-11	*
Manganese	PL013/2011	883.6	1-Jan-11	*
Manganese	PL317/2012	1,000.0	1-Oct-12	31-Dec-15
Manganese	PL318/2012	991.3	1-Oct-12	31-Dec-15
Manganese	PL319/2012	963.6	1-Oct-12	31-Dec-15
Manganese	PL147/2011	920.0	1-Oct-11	30-Sep-14

A temporary extension to the Dikoloti Nickel prospecting licences has been granted to 2 October 2014 while an application for a full two year extension is being processed.

*Note: Renewal applications for these prospecting licences have been submitted.

DIRECTORS' REPORT

[Continued]

12. Audited Remuneration report

The audited remuneration report is set out under the following main headings:

- A. Overview of the Consolidated Group's remuneration strategy
- B. Summary of benefits by group and phase
- C. Non-Executive Director remuneration
- D. Executive KMP remuneration policy and overview of incentive plans
- E. Details of remuneration
- F. Service agreements
- G. Share-based compensation
- H. Interests of Key Management Personnel
- I. Additional Information

This audited remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of the Consolidated Group in accordance with Section 300A of the *Corporations Act 2001* (Cth) and its regulations. This information has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth). The remuneration report details the remuneration arrangements for the Consolidated Group's key management personnel (**KMP**) during the financial year ended 30 June 2014.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Consolidated Group, directly or indirectly, including any Director (whether executive or otherwise) of the Consolidated Group and other designated senior executives. KMP comprise the Chief Executive Officer and his direct management reports (collectively the **executive KMP**) and the Non-Executive Directors of the Company.

Two KMP appointments were made after the reporting date and before the date the Directors' and Financial Report was issued. Royston Denysschen was appointed Non-Executive Director (**NED**) on 9 July 2014 and Kerry Parker was appointed Joint Company Secretary on 13 August 2014 and Chief Financial Officer on 29 August 2014.

KMP	Position	Period as KMP
Jeremy Read	Director – Executive Chairman	Commenced June 2014
	Director – Non-Executive Chairman	October 2013 to June 2014
	Director – Non-Executive	July 2013 to June 2014
Ribson Gabonowe	Director – Non-Executive	All financial year
Russell Luxford	Director – Non-Executive	Commenced September 2013
Royston Denysschen	Director – Non-Executive	Commenced July 2014
Paul Frederiks	Chief Financial Officer & Company Secretary	All financial year
Kerry Parker	Chief Financial Officer & Company Secretary	Commenced August 2014
Robert Fulker	Chief Executive Officer (interim)	Commenced November 2013
	Chief Operating Officer	All financial year
Robert Cooper	General Manager, Operations	Commenced March 2014
	General Manager, Boseto Operations	July 2013 to March 2014
Lawrence Manjengwa	General Manager, Boseto Operations	Commenced March 2014
Stuart Bradley Sampson	Managing Director	Ceased November 2013
John Shaw	Chairman – Non-Executive	Ceased October 2013
Niall Lenahan	Director – Non-Executive	Ceased November 2013

A. OVERVIEW OF THE CONSOLIDATED GROUP'S REMUNERATION STRATEGY**Background**

The remuneration governing principles were set by the Board of the Company and are administered by the Remuneration and Nomination Committee, taking the required advice, input and recommendations from external surveys, management and external independent consultants.

Following a restructure in late 2013, the Board Sub-Committees, including the Remuneration Committee and the former Nominations Committee, were reconstituted to ensure compliance with the Company's Constitution. On 25 February 2014, the Board resolved to reconstitute the Remuneration and Nomination Committee to the following:

- Mr Ribson Gabonowe as the Chairperson;
- Mr Russell Luxford as a Committee Member; and
- Mr Jeremy Read as a Committee Member.

The Consolidated Group competes with other companies in the mining industry for senior executives and experienced NEDs. The remuneration structures and levels are set to secure personnel capable of continuing the management of the Consolidated Group going forward.

Remuneration Guiding Principle

The Consolidated Group's remuneration guiding principle is to align remuneration with the creation of value for shareholders by attracting and retaining employees who will contribute to the Consolidated Group's success and motivating them to achieve outstanding performance against the Consolidated Group's business objectives. This guiding principle applies to employees at all levels including Directors, NEDs and executive KMP.

The Consolidated Group is committed to the alignment of remuneration with shareholder returns, with a portion of all employees' remuneration at risk and an increasing portion of 'at risk' remuneration for more senior positions. The Consolidated Group's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Consolidated Group.

Key objectives of the Consolidated Group's remuneration framework are to ensure that remuneration practices:

- are aligned to the Consolidated Group's business strategy;
- offer competitive remuneration benchmarked against the external market and peer group companies;
- provide strong linkage between individual and Company performance and rewards; and
- achieve the broader outcome of creation of value for shareholders by aligning the interests of executives, including employees, with shareholders.

Remuneration for all executive KMP and other employees comprises:

- Total Fixed Remuneration (**TFR**) (comprising base salary and statutory superannuation contributions);
- a level appropriate Short Term Incentive (**STI**); and
- a level appropriate Retention and Long Term Incentive (**LTI**).

NEDs' remuneration comprises director fees.

The structure of remuneration packages for NEDs and executive KMP has had 3 distinct stages reflecting the transition of the Consolidated Group since incorporation in 2003 through to becoming a copper and silver producer.

DIRECTORS' REPORT

[Continued]

- 1. The exploration only phase – 2003 to 2009.** In return for NEDs accepting low Directors' fees and executive KMP accepting low base salaries, share options were granted at commencement of employment at or above the then prevailing market share price. These options were to align management and Directors' incentives with shareholder interests and reward management and Directors for delivering outcomes that resulted in share price growth.
- 2. The Boseto project development phase – 2010 to 2012.** Retaining KMP during project development was recognised as important to the Consolidated Group's success. As in the exploration only phase, limited availability of Consolidated Group funding determined it was appropriate to issue shares to a Trust Company to be released to NEDs and executive KMP only when specific Consolidated Group milestones had been met. Four tranches, closely aligned to delivery of shareholder value and operational milestones were set and approved by shareholders on 22 November 2011. Three of the four Consolidated Group hurdles have been met and vested.
- 3. The Boseto Mine Operation and producer phase – July 2012 onwards.** In 2012 the Directors resolved to set Directors' fees at market levels in line with peer producers with no other short or long term incentives available to NEDs. The Consolidated Group installed an annual short term incentive plan and an annually awarded retention and long term incentive plan for executive KMP and other managers, vesting in 3 annual tranches. The introduction of the incentive plans for KMP was consistent with similar plans offered by peer group mining companies operating in the resources sector in Australia and overseas. On 7 November 2013, the Directors resolved to suspend the incentive plans due to the Company's poor financial performance and decrease in the share price which necessitated a review of the relevant comparator group and overall plan design. This suspension is only in respect of awards under the operations and producer phase incentive plans.

Role of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board is responsible for reviewing and making recommendations to the Board for:

- the remuneration structure of the Consolidated Group;
- the remuneration arrangements for the Managing Director and/or Chief Executive Officer and other executive KMP;
- the terms and conditions of long term incentives and short term incentives for the Managing Director and/or Chief Executive Officer and other executive KMP (including setting short term incentive targets);
- the composition of the peer group for rating the Company's relative total shareholder return, which determines two-thirds of the long term incentive award;
- the periodic (currently annual) salary scale movement for all employees; and
- the appropriate remuneration to be paid to NEDs.

The charter for the Remuneration and Nomination Committee is available on the Company's website.

The Remuneration and Nomination Committee takes recommendations from the Managing Director and/or Chief Executive Officer for individual executive KMP's performance and their individual key performance targets for the next year, considers relevant salary survey data and obtains advice, where appropriate, from expert remuneration consultants.

Use of Remuneration Consultants

During the 2014 financial year, no remuneration recommendations, as defined by the *Corporations Act 2001* (Cth), were provided by remuneration consultants.

Remuneration report approval at 2013 year Annual General Meeting (AGM)

The 2013 remuneration report received positive shareholder support at the 2013 year AGM with a vote of 93% in favour.

B. SUMMARY OF BENEFITS BY GROUP AND PHASE

Non-Executive Directors

Phase	Component	Details
Exploration Only	Fixed	Low directors' fees
	STI	None
	LTI	Share options granted at market price or above on commencement of directorship
Project Development	Fixed	Low directors' fees
	STI	None
	LTI	4 Share tranches based on milestones aligned to significant shareholder value added
Producer	Fixed	Market directors' fees
	STI	None
	LTI	None

Managing Director/Chief Executive Officer & Other Executives including executive KMP

Phase	Component	Details
Exploration Only	Fixed	Low Base Salary
	STI	None
	LTI	Share options granted at market price or above on commencement of directorship
Project Development	Fixed	Low Base Salary
	STI	None
	LTI	4 Share tranches based on milestones aligned to significant shareholder value added
Producer	Fixed	Market based
	STI (Suspended on 7 November 2013 pending review)	5 performance areas of safety, production, costs, strategic/personal and sustainability
	LTI (Suspended on 7 November 2013 pending review)	Share Performance Rights on relative total shareholder return against a peer group plus continued good service, vests over 3 equal annual amounts

DIRECTORS' REPORT

[Continued]

All Other Employees

Phase	Component	Details
Exploration Only	Fixed	Market based Salary
	STI	None
	LTI	Up to 12.5% of salary paid as shares subject to 2 year continued service vesting period
Project Development	Fixed	Market based Salary
	STI	None
	LTI	Up to 12.5% of salary paid as shares subject to 2 year continued service vesting period
Producer	Fixed	Market based
	STI (Suspended on 7 November 2013 pending review)	Up to 12.5% of salary paid in cash based on 3 team performance areas of safety, production and costs. Section leaders can earn double this amount.
	LTI (Suspended on 7 November 2013 pending review)	Up to 12.5% of salary paid as shares subject to 2 year continued service vesting period. Section leaders can earn double this amount.

C. NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

The Board seeks to set aggregate remuneration at a level that provides the Consolidated Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

As the focus of the Board is on the long-term direction and wellbeing of the Consolidated Group, there is no direct link between NEDs' remuneration and the Consolidated Group's short term results other than past participation in the Consolidated Group project development phase milestone-based Employee and Director Share Plan.

Remuneration for the year ended 30 June 2014 has been limited to the payment of Directors' fees. NEDs do not receive retirement benefits. Previously, NEDs have participated in equity-based incentive programmes as approved by the shareholders. Details of previously approved equity-based incentives issued during the exploration and construction phases are found later in the report.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants and/or the use of relevant sector remuneration surveys when undertaking the annual review process. The maximum aggregate remuneration of NEDs is determined by the shareholders in a general meeting.

Directors' fees

The current maximum aggregate remuneration of NEDs is A\$800,000 per annum, excluding the fair value of any options and share rights granted.

The annual fees levels in 2014 (with comparative data for 2013) were as follows:

	2014	2013
Position	A\$	A\$
Chairman	150,000	200,000
Other NEDs	75,000	90,000
Committee fees		
Committee chairman	-	13,000
Committee member	-	7,000

The remuneration paid to each NED for the year ended 30 June 2014 is detailed later in this remuneration report.

Directors are also entitled to be reimbursed for all Consolidated Group business related expenses, including travel on Consolidated Group business, as may be incurred in the discharge of their duties.

On 22 October 2013, the Remuneration and Nomination Committee resolved to reduce the Non-Executive Director fees to A\$75,000 (from A\$90,000) and the Chairperson's fees to A\$150,000 (from A\$200,000). In addition, the Committee resolved to no longer pay committee fees.

D. EXECUTIVE KMP REMUNERATION POLICY AND OVERVIEW OF INCENTIVE PLANS

Objective

The Consolidated Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities with the Consolidated Group and aligned with market practice.

The remuneration arrangements for executive KMP are structured to encourage the successful progression of the Consolidated Group's strategy to add shareholder value, whilst retaining employees of the highest calibre.

Structure

Remuneration consists of the following key elements:

- Total Fixed Remuneration (TFR);
- Short Term Incentive (STI); and
- Retention and Long Term Incentive (LTI).

The amount and relative proportion of TFR, STI and LTI is established for each executive KMP following consideration by the Remuneration and Nomination Committee of market levels of remuneration for comparable senior executive roles. The Remuneration and Nomination Committee then makes recommendations to the Board.

The maximum grants achievable (expressed as a percentage of TFR), if all performance targets are met, are:

Role	Total Fixed Remuneration (TFR)	Maximum Achievable STI grant	Maximum Achievable LTI grant	Maximum Achievable Total Remuneration
Managing Director/ Chief Executive Officer	100%	Normally 75% Range: 60% - 90%	Normally 75% Range: 60% - 90%	250%
CFO & COO	100%	Normally 50% Range: 40% - 60%	Normally 50% Range: 40% - 60%	200%
General Managers	100%	Normally 40% Range: 30% - 50%	Normally 40% Range: 30% - 50%	180%
Managers	100%	Normally 30% Range: 20% - 40%	Normally 30% Range: 20% - 40%	160%

DIRECTORS' REPORT

[Continued]

On 7 November 2013, the Directors resolved to suspend the incentive plans due to the Company's poor financial performance and decrease in the share price which necessitated a review of the relevant comparator group and overall plan design.

Whilst the normal percentage value of STI and LTI are shown above, the individual entitlement may vary from year to year within the range specified. The total achievable maximum remuneration is constant from year to year for each level of employee.

For the 2014 annual remuneration review, the Remuneration and Nomination Committee did not receive benchmarking advice from external remuneration consultants but instead relied on remuneration industry survey reports.

Following its consideration of the above information and analysis, the Remuneration and Nomination Committee then made recommendations to the Board for the executive KMP remuneration. No remuneration increases were made for KMP for the year ending 30 June 2014 due to the financial performance of the Company and no STI or LTI payments were made.

Following setting of remuneration levels for executive KMP, the Managing Director and/or Chief Executive Officer sets salaries for other management personnel in line with the Board approved adjustments for the executive KMP.

Total Fixed Remuneration

Objective

The purpose of Total Fixed Remuneration (TFR) is to provide a base level of remuneration which is market competitive and appropriate.

Structure

TFR includes base pay and superannuation contributions. Executive contracts of employment do not include any guaranteed base pay increases and are reviewed annually by the Remuneration and Nomination Committee.

The TFR is determined using a number of factors, including skills displayed, particular experience of the individual concerned and overall performance of the Company. The contracts for service between the Consolidated Group companies and executive KMP are on a continuing employment basis (not fixed term) and the terms of which are not expected to change in the immediate future. Upon retirement, executive KMP are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised within 60 days of the date of any termination will lapse.

In the event of a takeover bid for the Company's shares reaching a threshold control level of 33% ownership with an unconditional bid for at least 50% of the Company's shares, executive KMP, in the event of termination, are paid a percentage of between three and twelve months of their TFR with all remaining unvested options and share plan allotments vesting immediately.

Short Term Incentives (STI)

Objective

The objective of awarding an STI is to link the rewards of all employees with the achievement of strategic goals, whilst constituting a reasonable cost to the Consolidated Group.

Structure

The STI performance measures for the Managing Director and/or Chief Executive Officer and executive KMP have 5 performance measurement components: safety, operational, financial, strategic/personal and sustainability. A similar structure is applied to all management personnel. Weighting for each component can range from a minimum of 10% up to 50%, with a total of 100% for the five performance components.

Performance Component	Component Weighting (%)
Safety	10%- 50%
Operational	10%- 50%
Financial	10%- 50%
Strategic/Personal	10%- 50%
Sustainability	10%- 50%
Total Score	100%

On 7 November 2013, the Directors resolved to suspend the incentive plans due to the Company's poor financial performance and decrease in the share price which necessitated a review of the relevant comparator group and overall plan design.

Within each performance component of the STI, specific targets will be set that are relevant to the individual management employee including the executive KMP. Each STI component will be given a weighting in terms of importance for that role to be applied when considering the STI to be earned. The STI measures for the executive KMP are drafted annually by the Managing Director and/or Chief Executive Officer and presented to the Remuneration and Nomination Committee for consideration and adjustment and recommended for approval by the Board. The STI measures for the Managing Director and/or Chief Executive Officer will be set by the Remuneration and Nomination Committee annually and approved by the Board. STI measures for non KMP management will be set by the Managing Director and/or Chief Executive Officer. All STI measures are aligned to the budget period, which is the financial year for the Consolidated Group.

Individual managers who achieve a raw total STI score of less than or equal to 25% will receive no STI award. Individual raw scores of 25 – 100% will receive an award equal to their raw STI score. Pro-rata entitlements are applicable for the commencement year based on completed months and performance, and may be awarded for 'good leavers'.

STI for management personnel including executive KMP will be paid in cash during the September quarter each year with no deferral or vesting. Recipients are responsible for paying tax applicable to the STI payment.

Long Term Incentives (LTI)

Objective

Performance linked equity plans are widely considered to be a very effective means of providing incentives to attract and retain staff while aligning potential incentive outcomes with the interests of shareholders. The objective of the LTI is to link the long term performance objectives of the Company with the retention of the Consolidated Group's employees at all levels.

The Remuneration and Nomination Committee and Board believes that rewarding the performance of the executive KMP with an equity linked incentive programme underpins the employment strategy of attracting and retaining high calibre staff capable of executing the Consolidated Group's strategic plans, and will:

- (a) assist the retention of executive KMP and operational staff;
- (b) enhance the Consolidated Group's ability to attract quality staff in the future;
- (c) link the rewards of all management employees with the achievement of strategic goals and the long term performance objectives of the Consolidated Group; and
- (d) provide incentives to management employees to deliver superior performance that creates shareholder value.

DIRECTORS' REPORT

(Continued)

Types of LTI

The structure of the LTI has changed to reflect the transition of the Consolidated Group from exploration only through to becoming a copper and silver producer.

Phase	LTI	Details
Exploration Only (operative from 2003 to 2009)	Executive Option Plan	Share Options granted at market price or above on commencement of directorship or KMP role.
Project Development (operative from 2010 to 2012)	Employee and Director Share Plan	4 Share Tranches based on corporate milestones aligned to significant shareholder value added.
Producer (operative from 1 July 2012)	Performance Rights Plan	Share Performance Rights on relative total shareholder return against a peer group and continued good service, that vests in 3 equal annual instalments.

The Consolidated Group's employee share plan (the Employee and Director Share Plan) will continue to be used in appropriate circumstances at the Board's discretion, for non-management staff.

Exploration Only Phase – 2003 to 2009 – Executive Option Plan

During the exploration only phase, options were issued to NEDs, executive KMPs and other managers as part of their remuneration. The options were not issued on performance criteria, but were issued to increase goal congruence between KMP and shareholders.

There were no outstanding options at 30 June 2014.

Project Development Phase – 2010 to 2012 – Employee and Director Share Plan

NEDs, executive KMP and other managers employed before 31 December 2011 were entitled to participate in the Consolidated Group's Employee and Director Share Plan (which replaced the previous Exploration Phase share option plan). The Employee and Director Share Plan (**Share Plan**) was approved by shareholders in February 2010 and linked NEDs, executive KMP and other managers' incentives to the shareholder objectives in tranches.

For NEDs, executive KMP and other managers, the shares are subject to the following vesting conditions, and can only be released from the Share Plan after these conditions have been satisfied:

Vesting Conditions	Status at Report Date
tranche one = The processing plant for the Boseto Copper Project has been built and commissioned and the plant has achieved an output of 10,000 tonnes of copper;	Condition satisfied in 2013 financial year and Directors resolved to allow the tranche to vest in 2014 financial year
tranche two = The share price (as traded on ASX) has exceeded A\$1.00 per share for more than 10 trading days (which need not be consecutive);	Vested in 2011 financial year
tranche three = The share price (as traded on ASX) has exceeded A\$1.50 per share for more than 10 trading days (which need not be consecutive);	Vested in 2012 financial year
tranche four = The share price (as traded on ASX) has exceeded A\$2.00 per share for more than 10 trading days (which need not be consecutive);	Unvested

Producer Phase – 1 July 2012 onwards – Performance Rights Plan

The Performance Rights Plan is an equity linked incentive plan established to closely align executives' rewards with performance and the achievement of the Consolidated Group's growth and strategic objectives for the 2014 financial year and beyond.

The Performance Rights Plan provides for the issue of Performance Rights which, upon a determination by the Board that the performance conditions have been met and subject to the terms of the Plan, results in the executive KMP and other management employees being awarded with fully paid ordinary shares.

The following is a summary of the key terms and conditions of the Performance Rights Plan.

1. **Participation:** The Performance Rights Plan will be available to Eligible Participants – currently executive KMP and other management employees.
2. **Exercise Price:** The Performance Rights granted under the Performance Rights Plan will be granted at no cost to the Eligible Participants.
3. **Shares:** Each Performance Right will entitle the Eligible Participant to receive one fully paid ordinary share in the Company, if the vesting conditions relating to that Performance Right are satisfied.
4. **Lapse:** Unless the Board determines otherwise in its absolute discretion, an unvested Performance Right will lapse upon certain circumstances including ceasing to be an employee in the event of fraud or dishonest behaviour.
5. **Assignability:** Performance Rights are normally not transferable, except with the prior written consent of the Board.
6. **Amendments:** Subject to the Listing Rules, the Board may from time to time amend or add to all or any of the provisions of the Plan, or the terms or conditions of any Performance Right granted under the Plan, including vesting conditions.
7. **Vesting:** Vesting conditions will be determined by the Board at the time an invitation, inviting Eligible Participants to participate in the Performance Rights Plan, is made.
8. **Structure of Performance Rights Award:** The award of Performance Rights will be comprised as follows:
 - (a) 1/3 of the Eligible Participant's Performance Rights will be a Service Component; and
 - (b) 2/3 of the Eligible Participant's Performance Rights will be a Performance Component.

The Service Component

- The Service Component of the Eligible Participant's Performance Rights is subject only to the Eligible Participant's continued good service with the Group to the Board's satisfaction.

The Performance Component

- The number of Performance Rights that may be awarded from the Performance Component is subject to:
 - (i) **Organisational performance** - measured by a relative total shareholder return (TSR) test assessed against a comparator group of between 6 and 10 resource companies in the year of award is set out in the following table:

DML's relative TSR performance	Organisational Performance Component
Below 25 th percentile TSR	Zero
Above 75 th percentile TSR	100%
25 th percentile – 75 th percentile TSR	Straight line increase in vesting between 25% and 100%

DIRECTORS' REPORT

[Continued]

and

- (ii) **Individual performance** - assessed against the Eligible Participant's individual performance (STI Rating). The Organisational Performance will be multiplied by the individual STI rating to determine the individual executive's Share Rights award for the performance year.

Vesting of Performance Rights awarded:

- (a) The Performance Rights awarded as described above will vest annually in 3 equal instalments.
- (b) The Eligible Participant must continue to meet the Service Condition at the time an instalment of their awarded Performance Rights is due to vest to be entitled to receive that instalment.

LTI is paid in share rights, tested once at the end of the annual performance period. The number of share rights granted, after the adjustments of the scores for STI performance and Relative TSR Rating, is calculated by dividing the gross cash equivalent of the LTI award (for both Service and Relative TSR) by the daily volume weighted average share price in the June month immediately before the start of the performance year.

LTI Share Rights vest, subject to continued service:

- (i) one third of the award in the September immediately after the end of the performance period;
- (ii) one third of the award in the next September, 15 months after the end of the performance period; and
- (iii) one third of the award in the next again September, 27 months after the end of the performance period.

Rights can be converted to shares at vesting and retained, or they can be converted and sold on vesting. Pro-rata entitlements are applicable for commencement year and may be awarded for good leavers.

Recipients are responsible for paying tax applicable to LTI share rights vesting.

On 7 November 2013, the Directors resolved to suspend the incentive plans due to the Company's poor financial performance and decrease in the share price which necessitated a review of the relevant comparator group and overall plan design.

E. DETAILS OF REMUNERATION

Amounts of remuneration

Whilst payments to the NEDs and executive KMP are denominated in either Australian dollars or Botswana pula the Consolidated Group's functional currency is United States dollars. The table below details the reportable remuneration in United States dollars using the rate as at the date of payment or the rate as at the date the expense has been recognised. The AUD/US\$ average rate for 2014 was US\$1.0896. The AUD/US\$ rate as at 30 June 2014 was US\$1.0608. The BWP/US\$ average rate for 2014 was US\$0.1163. The BWP/US\$ rate as at 30 June 2014 was US\$0.1152.

The value for Long Term Incentives (LTI) presented in the table below is calculated in accordance with AASB 2 Share Based Payments and represents securities issued under the LTI equity plans that have been expensed during the current year. Tables also provide full details of the fair value at the grant date for LTI securities issued to executive KMP in this year or previous year or to be issued in future reporting periods and the number of securities issued.

The NEDs and executive KMP did not receive any cash incentives as part of the LTI.

There have been no options issued to the Directors and executive KMP since 2010.

No termination payments were paid during the year ended 30 June 2014 with the exception of Stuart Bradley Sampson who received a lump sum following resignation. No retirement payments were made during the year ended 30 June 2014.

Long service leave is not accrued until 7 years' service has been reached.

The first Short Term Incentive plan (STI) for the Consolidated Group applied for the year ended 30 June 2013 and thereafter.

The NEDs and executive KMP have not received cash bonuses or other short term benefits during the year ended 30 June 2014. NEDs, under the current arrangements, will not be eligible to receive any STI or LTI awards.

DIRECTORS' REPORT

(Continued)

US\$			Short term benefits			Post-employment	Long-term benefits	Termination/Resignation payments		
Name	Year	Directors' Fees / Base Salary	Non-monetary benefits	Short term incentives	Superannuation	Shares			Total	Performance related (%)
Non-executive Directors										
Ribson Gabonowe	2014	92,083	-	-	-	32,492	-	-	124,575	26%
	2013	111,543	-	-	-	39,401	-	-	150,944	26%
Jeremy Read ¹	2014	156,021	-	-	14,432	32,492	-	-	202,945	16%
	2013	112,981	-	-	-	39,401	-	-	152,382	26%
Russell Luxford ²	2014	47,022	-	-	-	-	-	-	47,022	-
	2013	-	-	-	-	-	-	-	-	-
John Shaw ³	2014	61,196	-	-	-	46,201	-	-	107,397	43%
	2013	98,118	-	-	16,914	39,401	-	-	154,433	26%
Niall Lenahan ⁴	2014	33,652	-	-	-	-	-	-	33,652	-
	2013	141,226	-	-	-	-	-	-	141,226	-
Gordon Galt ⁵	2014	-	-	-	-	-	-	-	-	-
	2013	188,302	-	-	-	182,213	-	-	370,515	49%
Morrice Cordiner ⁵	2014	-	-	-	-	-	-	-	-	-
	2013	103,566	-	-	-	91,106	-	-	194,672	47%
Subtotal	2014	389,974	-	-	14,432	111,185	-	-	515,591	22%
	2013	755,736	-	-	16,914	391,522	-	-	1,164,172	34%
Managing Director										
Stuart Bradley Sampson ⁶	2014	332,140	879	-	16,310	92,402	770,577		1,212,308	8%
	2013	735,384	2,799	-	25,677	78,802	-		842,662	9%
Executive KMP										
Paul Frederiks	2014	344,163	2,638	-	22,944	-	-		369,745	-
	2013	220,552	1,166	-	18,007	-	-		239,725	-

DIRECTORS' REPORT

(Continued)

US\$	Name	Year	Short term benefits			Post-employment	Long-term benefits	Termination/Resignation payments	Performance related (%)	
			Directors' Fees / Base Salary	Non-monetary benefits	Short term incentives				Total	
	Robert (Bob) Fulker	2014	405,347	2,638	-	22,944	-	-	430,929	-
		2013	263,030	1,166	-	15,472	-	-	279,668	-
	Robert Cooper ⁷	2014	73,421	660	-	5,736	-	-	79,817	-
		2013	-	-	-	-	-	-	-	-
	Lawrence Manjengwa ⁸	2014	79,010	660	-	-	-	-	79,670	-
		2013	-	-	-	-	-	-	-	-
	Paul Fulton ⁹	2014	-	-	-	-	-	-	-	-
		2013	358,799	1,866	110,584	16,431	91,106	246,663	825,449	11%
	Ross Gibbins ¹⁰	2014	-	-	-	-	-	-	-	-
		2013	323,537	2,799	-	25,677	19,701	-	371,714	5%
	Jan Andersen ¹⁰	2014	-	-	-	-	-	-	-	-
		2013	359,485	2,799	-	25,677	-	-	387,961	-
Total		2014	1,624,055	7,475	-	82,366	203,587	770,577	2,688,060	8%
		2013	3,016,523	12,595	110,584	143,855	581,131	246,663	4,111,351	14%

¹ Appointed Executive Chairman on 26 June 2014. Served as Non-Executive Chairman from 30 October 2013 and prior to that date was a NED.

² Appointed 25 September 2013.

³ Resigned 29 October 2013.

⁴ Resigned 4 November 2013.

⁵ Resigned 21 May 2013.

⁶ Resigned 4 November 2013 – payment made pursuant to a deed of release.

⁷ Appointed General Manager Operations on 1 April 2014.

⁸ Appointed General Manager Boseto Operations on 1 April 2014.

⁹ Retired 28 February 2013.

¹⁰ Not considered KMP from 1 January 2013 as KMP are defined as direct reports to the Managing Director/Chief Executive Officer. With the appointment of a COO, these employees reported to the COO. Remuneration disclosed is for the full 12 months.

DIRECTORS' REPORT

[Continued]

F. SERVICE AGREEMENTS

Remuneration arrangements for the Chief Executive Officer and executive KMP are formalised in employment agreements. Details of these contracts are provided below.

Executive Chairman

In June 2014, Jeremy Read was appointed as Executive Chairman for a fixed term to 31 December 2014 to provide greater assistance to the company in realising its short term goals. Under the terms of the appointment Jeremy is entitled to a salary equivalent to A\$300,000 per annum. There are no payments for STI, LTI, notice period, termination period, termination or annual leave. These appointment conditions replace all previously existing conditions under prior roles.

Chief Executive Officer

The Chief Executive Officer (interim), Robert (Bob) Fulker, was originally employed as Chief Operating Officer under an employment contract dated 2 November 2012. On 4 November 2013, Robert was appointed Chief Executive Officer (interim) in addition to his role as Chief Operating Officer.

Under the terms of the present contract the Chief Executive Officer (interim):

- receives a TFR of A\$475,000 per annum
- up to a maximum STI opportunity of 50% of TFR; and
- up to a maximum LTI opportunity of 50% of TFR.

As at the date of this report the STI and LTI portions are suspended in accordance with a resolution of the Directors.

The Chief Executive Officer's (interim) termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment on LTI on termination
Resignation	6 months	6 months TFR	Award for portion of year worked	None
Termination for cause	None	None	None	None
Termination in case of death, disablement, redundancy or notice without cause	12 months	12 months TFR	Award for portion of year worked	Board discretion

There is no minimum Company shareholding requirement.

Chief Financial Officer (CFO)

The CFO is employed under an ongoing contract which can be terminated with notice by either party. The CFO receives a TFR plus an STI and LTI each up to a maximum of 50% of TFR. As at the date of this report the STI and LTI portions are suspended in accordance with a resolution of the Directors.

The CFO termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment on LTI on termination
Resignation	6 months	6 months TFR	Award for portion of year worked	None
Termination for cause	None	None	None	None
Termination in case of death, disablement, redundancy or notice without cause	12 months	12 months TFR	Award for portion of year worked	Board discretion

As announced on 11 August 2014, and detailed in Note 29 to the Financial Statements, Paul Frederiks will be succeeded in the position of Chief Financial Officer by Kerry Parker at the end of August 2014. The Chief Financial Officer terms above are consistent for both contracts.

Other executive KMP

All other executive KMPs have ongoing contracts of employment.

Standard executive KMP termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment on LTI on termination
Resignation	3 months	3 months TFR	Award for portion of year worked	None
Termination for cause	None	None	None	None
Termination in case of death, disablement, redundancy or notice without cause	3 months	3 months TFR	Award for portion of year worked	Board discretion

G. SHARE-BASED COMPENSATION

Exploration Only Phase – 2003 to 2009 - Executive Option Plan

The terms and conditions of each grant of options during previous reporting periods for executive KMP are as follows:

- Options exercised: nil
- Options not yet exercised: nil

No options have been granted since 2010. During the year ended 30 June 2014, 1,250,000 unquoted options at an exercise price of A\$0.35 expired.

Prior to 30 June 2010, options were issued to NEDs, executive KMP and other managers as part of their remuneration. The options were not issued on performance criteria, but were issued to the NEDs, executive KMP and other managers to increase goal congruence with shareholders.

The exercise price was determined by the Board with reference to the market weighted price at the date of offer. Options granted under the Executive Option Plan carry no dividend or voting rights. Options held under the Executive Option Plan do not have a right to participate in any share issue of the Company.

When exercisable, each option is convertible into one fully paid ordinary share of the Company.

Options vested

No options over ordinary shares in the Company provided as remuneration to executive KMP of the Consolidated Group in prior years vested during the year.

Project Development Phase – 2010 to 2012 - Employee and Director Share Plan (Share Plan)

No shares were granted to executive KMP under the Share Plan during the current and prior year.

DIRECTORS' REPORT

(Continued)

Details of the Share Plan grants to KMP in prior years are as follows:

Grant date	Estimated vesting date	Actual vesting date	Fair value per share at grant date A\$	Share price at grant date A\$	Number of shares granted	Volume weighted average price per share A\$	% Vested	
							2013	2012
31 Mar 2010	13 Jul 2012	13 Jul 2012	\$0.76	\$0.75	500,000 ¹	\$0.76	100%	-
31 Mar 2010	1 Dec 2014	-	\$0.66	\$0.75	500,000	\$0.76	0%	-
					1,000,000			

¹ these options vested in a FY13 though were not granted to KMP until the current year

Shares Issued to Plan Trust Company to be held until Vesting

Shares for NEDs, executive KMP and other managers are issued to the Plan Trust Company and will be released to the executives when vesting occurs, subject to performance and other criteria. There is no earliest date for vesting and the shares are issued and not subject to expiry.

Producer Phase – 1 July 2012 Onwards – Performance Rights Plan (PRP)

No performance rights have been granted to executive KMP to the date of this report.

H. INTERESTS OF KEY MANAGEMENT PERSONNEL

Number of Options held by KMP and their associates

Financial year ended 30 June 2014

At 30 June 2014 there were no options held by any KMP and their associates.

Financial year ended 30 June 2013

Name	1 July 2012	Exercised current year	Balance 30 June 2013	Total Vested 30 June 2013	Total Exercisable 30 June 2013	Total Un-Exercisable 30 June 2013
Stuart Bradley Sampson ¹	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Total	1,000,000	-	1,000,000	1,000,000	1,000,000	-

¹ Options lapsed on 4 November 2013.

Number of Shares held by KMP and their associates

Financial year ended 30 June 2014

Name	Balance 1 July 2013	Share rights vested	Net Change Other ¹	Balance 30 June 2014
Ribson Gabonowe	953,694	250,000 ¹	-	1,203,694
Jeremy Read	1,120,000	250,000 ¹	(790,732)	579,268
Total	2,073,694	500,000	(790,732)	1,782,962

¹ These options vested in FY13 (Tranche 1) though were not granted to KMP until the current year.

Financial year ended 30 June 2013

Name	Balance 1 July 2012	Share rights vested	Net Change Other ¹	Balance 30 June 2013
Ribson Gabonowe	953,694	-		953,694
Niall Lenahan	50,000	-	150,000	200,000
Jeremy Read	1,250,000	-	(130,000)	1,120,000
John Shaw	500,000	-	-	500,000
Stuart Bradley Sampson	-	-	20,000	20,000
Total	2,753,694	-	40,000	2,793,694

¹ Net Change Other refers to shares purchased or sold during the year or removed as a result of the officer resigning.

Number of unvested share rights held by KMP and their associates

Financial year ended 30 June 2014

Name	Balance 1 July 2013	Share rights vested	Share rights awarded during the year	Share rights forfeited during the year	Balance 30 June 2014
Ribson Gabonowe	500,000	(250,000) ¹	-	-	250,000
Jeremy Read	500,000	(250,000) ¹	-	-	250,000
John Shaw	500,000	-	-	(500,000)	-
Stuart Bradley Sampson	1,000,000	-	-	(1,000,000)	-
Total	2,500,000	(500,000)	-	(1,500,000)	500,000

¹ These options vested in a FY13 though were not granted to KMP until the current year.

Financial year ended 30 June 2013

Name	Balance 1 July 2012	Share rights vested	Share rights awarded during the year	Share rights forfeited during the year	Balance 30 June 2013
Ribson Gabonowe	500,000	-	-	-	500,000
Jeremy Read	500,000	-	-	-	500,000
John Shaw	500,000	-	-	-	500,000
Stuart Bradley Sampson	1,000,000	-	-	-	1,000,000
Total	2,500,000	-	-	-	2,500,000

DIRECTORS' REPORT

[Continued]

I. ADDITIONAL INFORMATION

This section of the remuneration report details matters required to be reported by the *Corporations Act 2001* (Cth) which have not been dealt with elsewhere in this report.

Risk management products

The Company's securities trading policy applies to shares and also to debt securities and financial products issued or created over its share rights or options by third parties and associated products which NEDs or executive KMP may not procure to limit the risk of a holding in the Company.

Corporate governance statement

The Board of Directors of the Company recognise the importance of adhering to the Company's corporate governance framework, and their responsibility to the shareholders by whom they are elected and to whom they are accountable. The Company's corporate governance statement is contained within this Directors' and Financial Report and is available on the Company's website.

13. Indemnification and insurance of Directors and Officers

Indemnification

The Company indemnifies each of its Directors, Officers and Company Secretary. The Company indemnifies each Director or Officer to the maximum extent permitted by the *Corporations Act 2001* (Cth) from liability to third parties, except where the liability arises out of conduct involving lack of good faith, and in defending legal and administrative proceedings and applications for such proceedings.

The Company must use its best endeavours to insure a Director or Officer against any liability, which does not arise out of a conduct constituting a wilful breach of duty or a contravention of the *Corporations Act 2001* (Cth). The Company must also use its best endeavours to insure a Director or Officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

The Directors of the Company are not aware of any proceedings or claim brought against the Company as at the date of this report.

Insurance premiums

The Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses' insurance contracts for current and former Directors, Executive Officers and Secretaries. The Directors have not included details of the premium paid in respect of the Directors' and Officers' liability and legal expenses' insurance contracts; as such disclosure is prohibited under the terms of the contract.

14. Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest US\$1,000 (where rounding is applicable and where noted (US\$'000)) under the option available to the Company under ASIC CO 98/100.

15. Share Options

At 30 June 2014 there were no (2013: 1,250,000) unissued ordinary shares of Discovery Metals for which options were outstanding as detailed at Note 28 to the Financial Statements.

16. Proceedings on Behalf of Company

No person has applied to the Court for leave to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

17. Non-audit Services

Details on the fees and charges for provision of audit and non-audit services by that firm are included in Note 33 to the Financial Statements. The Audit and Risk Management Committee has developed a policy to ensure that the independence of the Company's auditor is not impaired in providing non-audit services to the Company so that both the Company and the external auditor can comply with relevant auditor independence rules which apply in the various jurisdictions in which the Consolidated Group operates.

No Officer of the Consolidated Group who held office during the financial year, and no current Officer, was formerly a partner or director of Ernst & Young.

The Board of Directors, in accordance with advice from the Audit and Risk Management Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The Directors are satisfied that the services disclosed in note 33 of the Financial Report did not compromise the external auditor's independence for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Company to ensure they do not impact the integrity and objectivity of the auditor; and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 93 of this combined report.

Signed in accordance with a resolution of the Board of Directors.



Jeremy Read
Executive Chairman

Brisbane. Dated 28 August 2014

CORPORATE GOVERNANCE STATEMENT

GOVERNANCE REPORT

The Board of Directors of Discovery Metals Limited (**Company** or **Discovery Metals**) is responsible for establishing the corporate governance framework for the Company, having regard to the ASX Corporate Governance Council Corporate Governance Principles and Recommendations with 2010 Amendments (2nd edition) (**ASX Recommendations**). The Board is committed to best practice corporate governance principles appropriate for the size, type and activity of Discovery Metals.

Details of the main policies of corporate governance adopted by the Company and referred to in this statement are available on the Company's website: www.discoverymetals.com

In accordance with Listing Rule 4.10.3, this Corporate Governance Statement discloses the extent to which the Company has followed the ASX Recommendations. Where a Recommendation has not been followed, the Company will disclose the reasons why the Recommendation has not been followed. Unless otherwise stated, the Company has adhered to the ASX Recommendations for the year to 30 June 2014.

Principle 1 – Lay solid foundations for management and oversight

The Board is responsible for the overall corporate governance of the Company.

Functions of the Board and delegations to Management

Discovery Metals has adopted a Board Charter, which sets out the functions reserved to the Board. The Board Charter is available on the Company's website.

The Company also adopted a Delegation of Authority Framework, which clearly sets out the authorisations delegated to each level of senior executives, management and staff. The Delegation of Authority Framework is approved by the Board and reviewed on a regular basis. The Delegation of Authority Framework was updated and approved on 19 June 2014.

Terms of Director's appointment

Each Director has entered into a formal letter of appointment with the Company, which sets out core terms of the Director's responsibilities and obligations to the Company.

Performance Evaluation

The performance of the Managing Director and/or Chief Executive Officer is reviewed by the Board.

The performance of Key Management Personnel is reviewed by the Managing Director and/or Chief Executive Officer during the year, with a formal process conducted once a year by the Remuneration and Nomination Committee. Such performance is reviewed by comparing performance against pre-determined measures, examining the effectiveness of the individual and identifying areas for potential improvement.

Further details of how the Company assesses the performance of the Managing Director and/or Chief Executive Officer and Key Management Personnel are set out in the Remuneration Report in the Company's Annual Report.

Principle 2 – Structure the Board to add value

At 30 June 2014, the Discovery Metals' Board comprised of the following Directors:

- Jeremy Read (Executive Chairman);
- Ribson Gabonowe (Independent Non-Executive Director);
- Russell Luxford (Non-Executive Director).

Subsequently, the following appointment was made to the Discovery Metals' Board:

- Royston Denysschen (Non-Executive Director).

CORPORATE GOVERNANCE STATEMENT

(Continued)

Discovery Metals considers that its Board holds a diverse mix of skills appropriate for its size, type and activity at this point in the Company's development. These are set out on the Company's website and also in the Directors' Report. The Company intends to undertake an externally facilitated structured review in FY15.

Board Independence

Ribson Gabonowe is currently the only Independent Non-Executive member of the Discovery Metals Board.

Jeremy Read was also an Independent Non-Executive Director, however, on 26 June 2014 he was appointed as the Executive Chairman for the period until 31 December 2014. After which, the Company will appoint a new Independent Non-Executive Chairman on a permanent basis.

Russell Luxford was appointed as a Non-Executive Director pursuant to the share placement made to Blumont Group Limited and Mr Royston Denysschen was appointed a Non-Executive Director pursuant to the share placement made to Transamine Trading S.A.

The roles of Chairman and Chief Executive Officer were not exercised by the same person.

The current Board composition does not comply with the ASX Recommendations but the Company considers that the current composition of the Board is appropriate given the Company's circumstances and the share placements made to Blumont Group Limited and Transamine Trading S.A. As the proposed convertible note transaction with Blumont Group Limited did not proceed, the Company considers that Russell Luxford is an Independent Non-Executive Director for the year commencing 1 July 2014.

Remuneration and Nomination Committee

The Company has a Remuneration and Nomination Committee. Refer to Principle 8 for a summary of the Remuneration and Nomination Committee.

Conflict of interest

Directors are required to keep the Company informed, on an ongoing basis, of any interest that could potentially conflict with their duty to the Company. Further, Directors are required to disclose any new interests that could potentially conflict with their duty to the Company prior to each Board meeting. Where the Board believes a significant conflict exists, the Director concerned does not receive the relevant Board papers, and is not present at the meeting whilst that item is considered.

Board Induction

The Company has a Board Induction Pack to assist new Directors in familiarising themselves with the Company. This is updated on an as needed basis.

Independent Professional Advice

Each Director has a right to access all relevant Company information and the Company's executives. Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairperson is required, which will not be unreasonably withheld.

Further, the Company has entered into Deeds of Indemnity, Insurance and Access with each Director and Officer of the Company.

Board, Committee and Director Review

The Board is committed to periodically reviewing the Board, its Committees and the Directors' performance and effectiveness. The Board has made some changes to the structure of committees in the year ended 30 June 2014, but is further committed to an externally facilitated structured review in 2015.

CORPORATE GOVERNANCE STATEMENT

[Continued]

Principle 3 – Promote ethical and responsible decision making

Code of Conduct

Discovery Metals has adopted a Code of Conduct to guide executives, management and employees in carrying out their duties and responsibilities. The Code of Conduct sets out the principles and standards which the Board, management and employees of the Company are expected to adopt when dealing with each other, shareholders and the community as a whole.

The Code of Conduct is available on the Company's website.

Diversity and Equal Opportunity

Discovery Metals has adopted a Diversity and Equal Opportunity Policy, a copy of which is available on the Company's website.

The Company acknowledges the expectation to address gender diversity within the Company.

In light of the type, size, attributes of the industry, the activities of the Company and the Company's current operating context, the Board does not currently consider it appropriate to set a quota based target for the proportion of women to sit on the Board or to hold senior executive positions.

The Company will revisit this statement in 12 months' time and/or when any applicable vacancy becomes available.

In the event that a future vacancy arises, the Company will proactively:

- 1) establish and select from a diverse range of candidates, including female candidates; and
- 2) make a decision based on the merit of the candidates.

Regarding gender diversity in the Company for the current reporting period to 30 June 2014, the Company had:

- No female directors out of a total of 4 directors;
- No females holding senior executive positions out of a total of 4 senior executive positions (Chief Executive Officer (interim)/Chief Operating Officer, Chief Financial Officer, General Manager Operations and General Manager Boseto Operations);
- 51 female employees out of a total of 473 employees in the Company.

Securities Trading Policy

Discovery Metals has adopted a Securities Trading Policy which specifies when Directors, employees, their related parties and other people associated with the Company and its subsidiaries may deal in Discovery Metals' securities.

Dealing in the Company's securities is not permitted at any time during a closed trading period, or whilst in possession of inside information.

The Securities Trading Policy is available on the Company's website.

Principle 4 – Safeguard integrity in financial reporting

Audit and Risk Management Committee

Following the Board Restructure, the Board reconstituted the Audit and Risk Management Committee (**ARM Committee**).

The ARM Committee has a formal charter, which is available on the Company's website. The ARM Committee currently comprises:

- Russell Luxford (Chairman);
- Ribson Gabonowe; and
- Jeremy Read.

The ARM Committee is comprised of the Executive Chairman and an Independent Non-Executive Director, and is chaired by a Non-Executive Director. All members of the ARM Committee have knowledge of finance and accounting practices as well as risk management practices (see details of each ARM Committee Member's respective skills and experience in the Directors' Report).

The current composition of the ARM Committee does not comply with the ASX Recommendation in that a majority of members are not independent but the Company considers the current composition is appropriate given the Company's circumstances.

The ARM Committee meets as required, but at a minimum at least twice a year. The Chief Executive Officer (interim)/Chief Operating Officer and Chief Financial Officer are invited to attend the ARM Committee meetings.

Auditors

The Board and ARM Committee also, to a certain extent, rely on the auditors (Ernst & Young) to ensure compliance with relevant accounting standards, and give full co-operation to its auditors without absolving itself of its responsibility. Where appropriate, the Board and the ARM Committee engage independent experts or professional advisors to assist with the identification and/or management of any key risk areas identified.

Principle 5 – Make timely and balanced disclosure

Continuous Disclosure

Discovery Metals has adopted a Continuous Disclosure Policy, which is available on the Company's website.

Discovery Metals is committed to providing up-to-date information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules, the *Corporations Act 2001* (Cth) and the Botswana Stock Exchange Listing Rules.

The Chief Executive Officer has primary responsibility for ensuring the market is properly informed.

JORC

In accordance with Listing Rule 5.6 and the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (**JORC Code**), Discovery Metals has procedures in place to ensure it obtains the relevant competent person's signoff in relation to the disclosure of exploration results, Mineral Resources and Ore Reserves. In July 2013, the Company restated its Ore Reserves and Mineral Resources in accordance with the 2012 Edition of the JORC Code.

Principle 6 – Respect the rights of shareholders

Shareholder Communications

Discovery Metals has adopted a Shareholder Communications Policy, a copy of which is available on the Company's website.

Discovery Metals aims to ensure that its shareholders, on behalf of whom the Board acts, are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

CORPORATE GOVERNANCE STATEMENT

[Continued]

- the Annual Report;
- other periodic reports (Half Year and Quarterly Reports), which are lodged through the ASX/BSE and are available for shareholder scrutiny;
- other announcements made in accordance with the ASX Listing Rules;
- special purpose information announcements issued to shareholders, as appropriate;
- the Annual General Meeting and other meetings, as appropriate;
- the Company's website.

Discovery Metals Email Alert Service

Discovery Metals' shareholders and potential investors are encouraged to sign up to the Discovery Metals Email Alert Service.

General Meetings

Discovery Metals' shareholders are encouraged to attend the Company's Annual General Meeting (AGM). Shareholders can view the Chief Executive Officer's AGM presentation on the Company's website. Shareholders are given the opportunity to ask questions at the AGM. The external auditor attends the AGM and is available to answer questions in relation to the conduct of the audit.

Principle 7 – Recognise and manage risk

Audit and Risk Management Committee

Refer to Principle 4 above for a summary of the Audit and Risk Management Committee.

Risk Management Policy

Discovery Metals has also adopted a Risk Management Policy, a copy of which is available on the Company's website.

The Company has designed and implemented a risk management and internal control system to manage the Company's material business risks. It is intended that the Board and ARM Committee receive regular reports from management in respect of the effectiveness of the Company's material business risks.

Section 295A Corporations Act 2001 (Cth)

The Board receives assurances from the Discovery Metals' Chief Executive Officer and Chief Financial Officer that any declaration as to the financial records and statements made pursuant to section 295A of the *Corporations Act 2001* (Cth) has been founded on a system of risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8 – Remunerate fairly and responsibly

Remuneration and Nomination Committee

The Board has a Remuneration and Nomination Committee (**R&N Committee**). The R&N Committee currently comprises:

- Ribson Gabonowe (Chairman);
- Russell Luxford; and
- Jeremy Read.

The R&N Committee is comprised of a Non-Executive Director and Executive Chairman and is chaired by an Independent Non-Executive Director. The R&N Committee meets as required, but at a minimum at least twice a year.

CORPORATE GOVERNANCE STATEMENT

(Continued)

The current composition of the R&N Committee does not comply with the ASX Recommendation in that a majority of members are not independent but the Company considers the current composition is appropriate given the Company's circumstances.

Remuneration Review

The remuneration levels of Directors and senior executives are reviewed by the R&N Committee and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest). Where the Board or R&N Committee considers that particular expertise or information is required, appropriate external advice may be taken and reviewed prior to a final decision by the Board.

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

Non-Executive Director Fees

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders. Fees for Non-Executive Directors are not linked to the performance of the Consolidated Group. However, to align Directors' interest with shareholder interest, the Directors are encouraged to hold shares in the Company.

STATEMENT OF FINANCIAL POSITION

For the Year Ended 30 June 2014

	Note	2014 US\$'000	2013 US\$'000
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents	9	4,582	21,310
Trade & other receivables	10	7,151	11,286
Prepaid expenses and deposits	11	1,384	706
Inventories	12	12,084	14,751
Other financial assets	13	-	17,621
TOTAL CURRENT ASSETS		25,201	65,674
NON-CURRENT ASSETS			
Property, plant and equipment	14	164,986	179,278
Deferred development	15	1,101	-
Exploration and evaluation phases – at cost	16	10,095	8,384
Intangible assets	17	809	878
TOTAL NON-CURRENT ASSETS		176,991	188,540
TOTAL ASSETS		202,192	254,214
CURRENT LIABILITIES			
Trade & other payables	19	26,093	27,286
Interest-bearing loans and borrowings	13	-	150,851
Other current financial liabilities	13,26	291	708
Provisions	20	1,454	1,873
TOTAL CURRENT LIABILITIES		27,838	180,718
NON-CURRENT LIABILITIES			
Other financial liabilities	13,26	-	291
Deferred tax liability	6	-	-
Provisions	20	5,026	5,443
Interest-bearing loans and borrowings	13	109,561	-
TOTAL NON-CURRENT LIABILITIES		114,587	5,734
TOTAL LIABILITIES		142,425	186,452
NET ASSETS		59,767	67,762
EQUITY			
Issued capital	21	277,854	267,285
Reserves	22	43,380	76,946
Accumulated losses	23	(261,467)	(276,469)
TOTAL EQUITY		59,767	67,762

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2014

	Note	2014 US\$'000	2013 US\$'000
Revenue from continuing operations	5	155,066	-
Mine operating costs		(160,648)	-
Gross loss from mining operations		(5,582)	-
Other revenues	5	328	89
Administration expenses	5	(11,746)	(23,061)
Share based payments		(311)	(682)
Gain / (loss) on foreign exchange		(2,042)	165
Net realised gain on derivatives		-	5,041
Loans forgiven		50,383	-
Interest expense		(12,022)	(3,572)
Impairment expense		-	(205,713)
Profit/(loss) before income tax expense		19,008	(227,733)
Income tax expense	6	4,006	(3,453)
Profit/(loss) after income tax expense		15,002	(224,280)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:		-	-
Net pre-tax movement on commodity forward contracts		(43,585)	(8,367)
Income tax effect		9,589	9,764
Other comprehensive income, net of tax		(33,996)	1,397
 Profit/(loss) attributable to members of the Consolidated Group		 15,002	 (224,280)
 Total comprehensive income attributable to members of the Consolidated Group		 (18,994)	 (222,883)
 Profit/(loss) per share:			
Basic & diluted ordinary profit/(loss) per share attributable to ordinary equity holders (cents per share)	8	2.73	(46.58)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2014

	Issued Share Capital US\$'000	Accumulated (Losses) US\$'000	Hedging Reserve US\$'000	Share Based Payment Reserve US\$'000	Foreign Currency Translation Reserve US\$'000	Total US\$'000
Balance at 30 June 2012	215,405	(52,189)	48,363	13,471	13,197	238,247
Currency translation differences	-	-	-	-	-	-
Hedging reserves	-	-	1,397	-	-	1,397
(Loss) for the year	-	(224,280)	-	-	-	(224,280)
Shares issued during the year	53,933	-	-	-	-	53,933
Transaction costs for shares issued	(2,054)	-	-	-	-	(2,054)
Cost of share based payments	-	-	-	519	-	519
Balance at 30 June 2013	267,284	(276,469)	49,760	13,990	13,197	67,762
Currency translation differences	-	-	-	-	-	-
Hedging reserves	-	-	(33,996)	-	-	(33,996)
Profit for the year	-	15,002	-	-	-	15,002
Shares issued during the year	10,924	-	-	-	-	10,924
Transaction costs for shares issued	(355)	-	-	-	-	(355)
Cost of share based payments	-	-	-	430	-	430
Balance as 30 June 2014	277,853	(261,467)	15,764	14,420	13,197	59,767

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2014

	Note	2014 US\$'000	2013 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		135,041	101,982
Payments to suppliers and employees		(157,739)	(37,994)
Interest received		43	89
Hedge settlements		15,001	59,594
Interest paid		-	(1,719)
Net cash used in operating activities	30	(7,654)	121,952
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration		(2,727)	(9,016)
Purchase of plant and equipment and mine development cost		(14,761)	(140,488)
Proceeds from asset disposals		430	-
Payment for intangibles	17	-	(322)
Proceeds from joint venture party		456	-
Net cash used in investing activities		(16,602)	(149,826)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	25,000
Proceeds from issue of shares		10,924	53,812
Share issue costs		(346)	(2,054)
Payment of finance lease liabilities		(864)	(432)
Interest paid on borrowings		(2,926)	(12,589)
Payments to borrowings		-	(75,067)
Net cash provided by financing activities		6,788	(11,330)
Net increase (decrease) in cash held		(17,468)	(39,204)
Cash at the beginning of the period		21,310	60,308
Effect of exchange rates		740	206
Cash at the end of the period	9	4,582	21,310

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 1: CORPORATE INFORMATION

The financial report of Discovery Metals Limited for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 28 August 2014.

Discovery Metals Limited is a for profit company limited by shares, domiciled and incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and the Botswana Stock Exchange (BSE). The registered office of Discovery Metals Limited is Level 23, 333 Ann Street, Brisbane, Queensland, 4000, Australia. The principal activities involve the acquisition, exploration, development, mining and initial processing of base and precious metals.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below. These accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). The financial report has been prepared on a historical cost basis, except where otherwise disclosed. The financial report also complies with International Financial Reporting Standards (IFRS) including interpretations as issued by the International Accounting Standards Board (IASB).

The financial report is presented in United States dollars and all values are rounded to the nearest thousand dollars (US\$'000) unless otherwise stated.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of all entities which the Company controls. Control is established by reference to whether the Company has the ability to hold decision-making power over the relevant activities of the investee, has rights to variable returns from the investee and can use its decision-making power to affect the variable returns.

The effects of all transactions between entities in the Consolidated Group are eliminated in full. Where control of an entity is obtained during a financial year, its results are included in the consolidated statements of income from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists. A list of controlled entities is contained in Note 31 to the Financial Statements.

(b) Foreign Currency Transactions and Balances

Functional and presentation currency

The Consolidated Group's reporting currency and the functional currency of its operations is the United States dollar as this is the principal currency of the economic environments in which the Consolidated Group operates.

The functional currency is the principal currency that influences sales prices denominated and settled; labour, material and other costs and the one which most faithfully represents the economic effects of the underlying transactions, events and conditions.

Transaction and balances

Transactions denominated in foreign currencies (currencies other than the functional currency) are translated into the functional currency, by applying to the foreign currency amount the spot exchange rate between the foreign currency and the functional currency at the date of the underlying transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Non-monetary items are measured in terms of historical cost in a foreign currency by applying the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above net of outstanding bank overdrafts.

(d) Trade and Other Receivables

Trade receivables, which generally have 3-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Consolidated Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with maturities greater than 12 months after the reporting period are classified as non-current assets. Other receivables are initially measured at fair value then subsequently at amortised cost, less an allowance for impairment.

(e) Inventories

Net realisable value tests are performed at each reporting period and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting date, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained copper pounds and silver ounces based on assay data, and the estimated recovery percentage based on the expected processing method.

Stockpile tonnages are verified by periodic surveys.

(f) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure related to areas of interest is capitalised and carried forward to the extent that:

- (i) Rights to tenure of the area of interest are current; and
- (ii) (a) Costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by sale; or
- (b) Where activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, active and significant operations in, or in relation to, the areas are continuing.

Such expenditure consists of an accumulation of acquisition costs and direct net exploration and evaluation costs incurred by or on behalf of the Consolidated Group, together with an appropriate portion of directly related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest, which is expensed in the year it is incurred.

Property acquisition costs relating to exploration properties and expenditures incurred on properties identified as having development potential are deferred as mine development costs on a project basis until the viability of the project is determined.

If, after management review, it is determined that the carrying amount of an exploration property is impaired, that property is written down to its estimated fair value. An exploration property is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off in the year in which the decision to abandon the area is made.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Deferred Development Expenditure

Deferred Development - Mining Properties

Mine properties comprise the accumulation of all exploration, evaluation, acquisition and development expenditure, incurred by or on behalf of the Consolidated Group, in relation to areas of interest in which mining of a mineral resource is commencing.

Deferred development expenditures are capitalised to the extent costs are incurred to obtain access to proved and probable reserves and to provide facilities for extracting, treating, gathering, transporting, storing the minerals and bring the property to commercial production. Exploration and Evaluation assets are reclassified to deferred development when evaluation procedures have been completed. These assets are tested immediately prior to reclassification.

When further development expenditure is incurred in respect of a mine property after the start of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are likely to be realised, otherwise such expenditure is classified as part of the cost of production.

Amortisation of Mine Property costs is provided on the unit-of-production method with separate calculations being made for each project area. The basis of amortisation is recoverable copper in Mineral Resources and Ore Reserves included in the projects life-of-mine plan. Changes in the Mineral Resources and Ore Reserves affecting unit-of-production calculations are dealt with prospectively over the revised remaining life of mine.

The net carrying value of each mine property is reviewed whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The carrying amount is compared to discounted cash flows. Where the carrying amount exceeds these cash flows, the carrying values are written down to fair value.

Deferred Development - Stripping

Stripping costs (overburden removal costs) incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset.

AASB Interpretation 20 Stripping Costs now provides specific guidance on how to account for production stripping costs. It requires such costs to be capitalised where certain recognition criteria are met. The entity recognises a stripping activity asset if stripping costs relate to removing overburden that is more than 12 months in advance of the ore reserves the overburden relates to. Significant judgement is required to distinguish between development stripping and production stripping and to distinguish between the production stripping that relates to the extraction of inventory and what relates to the creation of a stripping activity asset.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

(h) Property, Plant and Equipment

The cost of each item of buildings, fixed plant, mobile machinery and equipment is written off over its expected useful life. Either the units-of-production or straight-line method may be used. The unit-of-production basis results in an amortisation charge proportional to the depletion of the recoverable Mineral Resources and Ore Reserves. Each item's economic life has due regard to both its own physical life limitations and to present assessment of recoverable Mineral Resources and Ore Reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all mine buildings, fixed plant and mobile machinery and equipment, with annual reassessments for major items.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, Plant and Equipment (continued)

The expected useful lives are as follows:

- mine buildings – the shorter of applicable mine life on units-of-production basis and 15 years;
- fixed plant – the shorter of applicable mine life on units-of-production basis and 15 years;
- mobile machinery and equipment – the shorter of applicable useful life and seven years, depending on the nature of the asset.

Major spare parts purchased specifically for particular plant and equipment are included in the cost of the plant and equipment and are depreciated over the expected useful life of the item of plant and equipment.

The Consolidated Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The carrying amount is compared to discounted cash flows. Where the carrying amount exceeds these cash flows, the carrying values are written down to fair value.

Construction in progress is accumulated and carried forward at cost until the construction is complete. On completion the asset is transferred to the appropriate category of property, plant and equipment and is amortised over its expected useful life. Costs associated with the commissioning of an asset are capitalised until the commissioning has been completed.

(i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of plant and equipment under which the Consolidated Group assumes substantially all the risks and benefits incidental to ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised, with a lease asset and a lease liability equal to the fair value of the leased asset or, if lower, at the present value of the minimum lease payments determined at the inception of the lease.

Lease payments are apportioned between the finance charges and reduction of the lease liability. The finance charge component within the lease payments is expensed. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Consolidated Group will obtain ownership by the end of the lease term. Payments made under operating leases are expensed on a straight-line basis over the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(j) Intangible Assets

Costs incurred in developing information technology systems and acquiring software are capitalised as intangible assets. Costs capitalised include external costs of materials and services and the cost of employee benefits. Amortisation is calculated on a straight-line basis over the useful life, ranging from three to seven years.

(k) Impairment of Assets

Property, plant and equipment and other non-current assets (other than inventories) are reviewed at each balance date for indication that the carrying amount may not be recoverable. Where there is an indication that the carrying amount may not be recoverable an impairment test is completed.

Impairments of assets are recognised in the Statement of Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable value. In determining recoverable value, reasonable and supportable future cash flow projections of the economic conditions that are expected to exist over the remaining life of each asset are developed. The recoverable amount is measured as the higher of fair value less costs to sell (**FVLCS**) and value in use. FVLCS is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is calculated by discounting future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Capitalisation of Interest and Financing Costs

Interest and other financing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset is determined as the actual borrowing costs incurred on that borrowing during the period.

Capitalisation of borrowing costs ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are substantially complete. Interest earned on the temporary investment of borrowed funds is deducted from interest paid on the borrowed funds in arriving at the amounts so capitalised. These costs are amortised on the same basis as the qualifying asset.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

(m) Mine Rehabilitation and Environmental Expenditure

A provision is raised for anticipated expenditure to be made on mine rehabilitation to be undertaken after mine closure. These costs include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas. Community requirements and long-term land use objectives are also taken into account. The provision is raised when the asset is installed and the ground/environment is disturbed at the production location.

The amount of any provision recognised is the full amount that has been estimated based on current costs plus inflation required to settle present obligations, discounted using a pre-tax risk free nominal discount rate that matches the cash flows. Although estimates of future costs are reassessed annually, given the likely prolonged period to mine closure, it is possible that estimates of ultimate rehabilitation and environmental liabilities could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates.

When the liability is initially recorded, a corresponding asset which represents future economic benefit arises and is capitalised into the cost of the related asset. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates and timing or amounts of the costs to be incurred. Rehabilitation provisions are adjusted for changes in estimates. Adjustments to the estimated amount and timing of future rehabilitation cash flows are a normal occurrence in light of the significant judgments and estimates involved. Changes in the liability relating to mine rehabilitation obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the Statement of Comprehensive Income. Changes to capitalised cost result in an adjustment to future depreciation charges. For closed sites, changes to estimated costs are recognised immediately in other expenses in the Statement of Comprehensive Income.

(n) Trade and Other Payables

Payables include liabilities and accrued expenses owing by the Consolidated Group which are unpaid as at the end of the reporting period. The amounts are initially recorded at the fair value of the consideration to be paid in the future for goods and services received and then subsequently at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provisions and Employee Benefits

Provisions are recognised when the Consolidated Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Consolidated Group expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Provisions and Employee benefits (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss as they are incurred.

(p) External debt

External debt instruments are initially recognised at fair value, net of debt issuance costs incurred. Debt instruments are subsequently valued at amortised cost. Debt issue costs are included in the balance of the underlying debt and amortised using the effective interest rate method.

(q) Financing costs

Financing costs include interest payable on borrowings, calculated using the effective interest rate method, finance charges in respect of leases, exchange differences arising from foreign currency borrowing to the extent that they are regarded as an adjustment to interest costs and differences relating to the unwinding of the discount of assets and liabilities measured at amortised costs.

Financing costs are recognised as an expense in the period in which they are incurred, unless they relate to a qualifying asset. Financing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Financial income is recognised as it accrues taking into account the effective yield on the financial asset.

(r) Income Tax

Income tax expense represents the sum of the current tax charges and deferred tax movements less any movements taken directly to other comprehensive income.

The current tax expense for the year is the tax payable on the current year's taxable income. Taxable profit differs from profit as reported in the consolidated Statements of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Consolidated Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income Tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities and current tax assets and liabilities are offset when there is a legally enforceable right to set off and when they relate to income taxes levied by the same taxation authority and the Consolidated Group intends to settle its current tax assets and liabilities on a net basis.

(s) Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Consolidated Group and can be reliably measured.

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer and no further processing is required by the Consolidated Group, the quality and quantity of the goods has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is probable. The point at which risk and title passes for the majority of the Consolidated Group's commodity sales is upon receipt of the holding certificate when the commodity is delivered for shipment.

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Revenue is measured at the fair value of the consideration received or receivable.

Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST) or Value Added Tax (VAT).

(t) Goods and Services Tax (GST) or Value Added Tax (VAT)

Revenues, expenses and assets of operations are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of the acquisition of the asset or part of the expense. Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the taxing authority is included with receivables or payables on the Statement of Financial Position. Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow. Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the taxation authority.

(u) Equity settled compensation

The Consolidated Group operates equity-settled option plans for key management personnel (KMP) comprising Directors and some executive staff. The fair value of the equity to which KMP become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Grants of shares are valued using a Monte-Carlo simulation methodology.

(v) Issued Capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than in connection with a business combination, are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Issued Capital (continued)

Where the Company or its subsidiaries purchase the Company's contributed equity (share buy-backs), the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or transferred. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(w) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors. Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team and the Board of Directors. The Company continuously reviews the progress of its various exploration projects in Botswana and allocates the projects to operating segments as to their relevant stage of development that is whether the project is in exploration, development or production stage. It is on this basis that the executive management team and the Board of Directors makes decisions about the allocation of resources and assesses the Company's performance. The Dikoloti Nickel and Lobatse Manganese projects, both in joint exploration agreement (JEA) with Japan Oil, Gas and Metals National Corporation (JOGMEC) are considered as operating segments along with the Boseto Copper Operation located within the Kalahari Copperbelt. Corporate office activities are not allocated to operating segments and form part of the balance of unallocated revenue, expenses, assets and liabilities.

(x) Profit/Loss per Share

Basic profit/loss per share is calculated as net loss attributable to members of the Company divided by the weighted average number of ordinary shares. Diluted profit/loss per share is calculated by adjusting the net profit/loss attributable to members of the Company and the number of shares outstanding for the effects of all dilutive potential ordinary shares, which include share options.

(y) Derivative activities

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently measured to their fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately unless the derivative is designated as an effective hedge instrument, in which event, the timing of the recognition in the Statement of Comprehensive Income depends on the nature of the hedge relationship.

(z) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(aa) Rounding of amounts

The Financial Statements have been rounded to the nearest US\$1,000 unless otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 3: CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

(a) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as described below. Certain comparative information has been re-classified to conform to the current year's presentation.

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013. Adoption of these Standards and Interpretations did not have any significant effect on the financial position or performance of the Consolidated Group for the year ended 30 June 2014.

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
- AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]

AASB Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20 (effective 1 July 2013) was adopted for the year ended 30 June 2014. Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity.

The Group has identified components of the ore bodies at its open pit mines where the above criteria are met and capitalised \$10.3m in the financial year to 30 June 2014. The stripping activity asset is being amortised using the units of production method over the life of the identified component of the ore body. Amortisation charged in the period under review amounted to \$3.7m.

(b) New Accounting Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Consolidated Group in the period of initial application. They have been issued but are not yet effective and with the exception of AASB 9/IFRS 9 are available for early adoption at 30 June 2014, but have not been applied in preparing this financial report.

Reference	Title	Application of standard and impact on the Company's financial report	Application Date from Group
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	Effective 1 January 2014, expected to have minimal impact.	1 July 2014
Interpretation 21	Levies	Effective 1 January 2014, expected to have minimal impact.	1 July 2014

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

Reference	Title	Application of standard and impact on the Company's financial report	Application Date from Group
AASB 9/IFRS 9	Financial Instruments	Effective 1 January 2018, the Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2018
AASB 2012-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	Effective 1 January 2014, expected to have minimal impact.	1 July 2014
AASB 2014-1	Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRSs 2010-2012 Cycle	Effective 1 July 2014, expected to have minimal impact.	1 July 2014
AASB 2014-1	Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRSs 2011-2013 Cycle	Effective 1 July 2014, expected to have minimal impact.	1 July 2014
AASB 1031	Materiality	Effective 1 January 2014, expected to have minimal impact.	1 July 2014
IFRS 15	Revenue from Contracts with Customers	Effective 1 January 2017, the Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2017
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	Effective 1 January 2016, expected to have minimal impact.	1 July 2016

Apart from the above, other accounting standards, amendments and interpretations that will be applicable in future periods have been considered, however their impact is considered insignificant to the Company.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting matters for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the Financial Statements.

(i) Significant accounting judgments

Going Concern

The Company has prepared the 30 June 2014 financial report on a going concern basis. The Company believes that the financial forecasts of the Project together with the equity raise and completed debt re-profile will ensure that the Company will operate as a going concern for the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(i) Significant accounting judgments (continued)

If the Consolidated Group is not able to generate positive cash flow from operations, it may not be able to continue as a going concern and realise assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the financial report.

No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

Impairment of assets

The Consolidated Group assesses each cash-generating unit half-yearly, to determine whether there is any indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is deemed as being the higher of the fair value less costs to sell and value in use calculated in accordance with accounting policy Note 2(j). These assessments require the use of estimates and assumptions such as discount rates, exchange rates, commodity prices, future operating development and sustaining capital requirements and operating performance (including the magnitude and timing of related cash flows).

The Company has undertaken an impairment review and determined that no impairment is required against the recorded value of the Company's non-current assets (2013: \$205.7m).

Taxation

The Company's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, future operating costs, capital expenditure, and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

(ii) Significant accounting estimates and assumptions

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimated useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Given the required use of estimates in the measurement of contained mineral content, mine lives are subject to inherent measurement uncertainty. Actual mineral content may significantly differ from estimates which could result in a change to future amortisation and depreciation charges. Management will increase the charge where useful lives are less than the previously estimated useful lives and reduce the charge where they are greater than those estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(ii) Significant accounting estimates and assumptions (continued)

Reductions in a life of mine may indicate an impairment, in which case management would assess the recoverability of those assets. Similarly, estimates of useful lives for property, plant and equipment with lives shorter than the applicable mine life is open to measurement uncertainty. These result from uncertainties regarding future technical obsolescence, wear and tear and useful employment in the business of such assets.

Rehabilitation and dismantling obligations

Provision is made for the anticipated costs of future rehabilitation of exploration areas in accordance with the accounting policy in Note 2(l). These provisions include future cost estimates associated with reclamation, dismantling of equipment, waste site closures, monitoring, demolition and decontamination. These future cost estimates are discounted to their present value. The calculation of these provision estimates requires assumptions such as application of environmental legislation, available technologies, engineering cost estimates, discount rates and estimates of timing. A change in any of the assumptions used may have a material impact on the carrying value of rehabilitation and dismantling provisions.

Estimated Mineral Resources and Ore Reserves

The use of management estimates and assumptions relating to Mineral Resources and Ore Reserves are the base inputs for future cash flow estimates used in impairment calculations, units-of-production amortisation calculations and deferred stripping calculations; estimates of recoverable copper in stockpile; environmental, reclamation and closure obligations.

Exploration and Evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether future economic benefits are likely either from future exploitation or sale. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available.

Production start date

The Consolidated Group assesses the stage of each mine under construction to determine that an operation moves into the production stage when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each construction project, such as the complexity of a plant and its location. The Consolidated Group considers various relevant criteria to assess when the production phases is considered to commence and all related amounts are reclassified from 'Capital work in progress' to 'Deferred development' and 'Property, plant and equipment'. Some of the criteria used will include, but are not limited to, the following:

- the level of capital expenditure incurred compared to the original construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce metal in saleable form (within specifications); and
- ability to sustain ongoing production of product.

When a mine development/construction project moves into the production stage, the capitalisation of certain mine development/construction costs ceases and costs are either regarded as forming part of the cost of inventory or expensed. The exception to this is costs that qualify for ongoing capitalisation relating to mining asset additions or improvements, underground mine development or resource definition and development. Once the production stage commences depreciation and amortisation also commences to be expensed. The Consolidated Group entered the production stage from 1 July 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 5: PROFIT/LOSS FOR THE YEAR

	2014 US\$'000	2013 US\$'000
Copper sales	107,833	-
Silver sales	12,367	-
Commodity hedge gains realised	34,866	-
Revenue from continuing operations	155,066	-
Other revenue	328	89
Total income	155,394	89
Amortisation of mine properties	(129)	-
Depreciation of mining plant and equipment	(17,787)	-
Mining depreciation and amortisation	(17,916)	-
Asset impairment expenses	-	(205,677)
Salaries and consultants	(7,513)	(11,250)
Professional fees	(2,073)	(8,594)
Rent	(398)	(351)
Travel expenses	(459)	(789)
Other expenses	(1,303)	(2,077)
Administrative expenses	(11,746)	(23,061)

NOTE 6: INCOME TAX EXPENSE

(a) Income tax expense comprises

Income Statement	2014 US\$'000	2013 US\$'000
Current Income tax		
Current income tax expense	20	-
Under/(over) provision in respect of prior years	110	-
	130	-
Deferred tax		
Relating to origination and reversal of temporary differences	3,876	(3,453)
Under/(over) provision in respect of prior years	-	-
	3,876	(3,453)
Income tax expense/(benefit) per the Income Statement	4,006	(3,453)
Income tax expense/(benefit) included in the Other Comprehensive Income	9,589	(9,764)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 6: INCOME TAX EXPENSE (continued)

(b) Reconciliation of prima facie income tax expense to income tax expense per the Income Statement

	2014 US\$'000	2013 US\$'000
Accounting Profit/(Loss) before tax	19,008	(227,732)
Income tax expense (benefit) at 30% (2013: 30%)	5,702	(68,320)
Increase (decrease) in income tax due to:		
Difference in tax rates	(2,096)	20,424
Non-deductible expenses	400	760
Movement in tax assets and liabilities	-	43,683
Income tax expense (benefit) comprising:		
Current income taxes	130	-
Future income taxes	3,876	(3,453)

The unused tax losses for which no deferred tax assets has been recognised and the potential tax benefits from future are:

	2014 US\$'000	2013 US\$'000
Unused tax losses	(186,817)	(184,306)

(c) Movement in deferred taxes

Deferred income tax at 30 June relates to the following:	2014 US\$'000	2013 US\$'000
Deferred tax liabilities		
Property, plant and equipment	36,516	40,411
Revaluation of commodity forward contract	-	3,877
Exploration expenditure	2,221	1,844
Gross deferred tax liabilities	38,737	46,132
Set-off deferred tax assets	(38,737)	(46,132)
Net deferred tax liabilities	-	-
Deferred tax assets		
Provisions & Employee benefits	-	-
Carry forward revenue losses	38,737	46,132
Gross deferred tax assets	38,737	46,132
Set-off of deferred tax liabilities	(38,737)	(46,132)
Net deferred tax assets	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 6: INCOME TAX EXPENSE (continued)

In assessing the probability of the realisation of the tax benefit of the Consolidated Group's tax losses the following matters are considered:

- (1) The relevant tax authority accepts the calculated positions;
- (2) The Group derives sufficient taxable income in future periods;
- (3) The Group meets the conditions for continued carry forward of these losses; and
- (4) There are no changes in the applicable tax laws that impact the availability of these losses.

NOTE 7: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

The Directors' Report shows details of the remuneration, shares and options granted, exercised or forfeited and balances held by KMP for the current and prior year. The information includes holding by associates of the named KMP. Details of appointment dates and positions held are contained below.

(a) Names and positions held of the Company's KMP in office at any time during the year are:

KMP	Position	Dated Appointed	Date Resigned
Jeremy Read ²	Chairman – Executive	26 June 2014	
Ribson Gabonowe	Director – Non-Executive	30 April 2008	
Russell Luxford	Director – Non-Executive	25 September 2013	
Paul Frederiks	Chief Financial Officer	22 October 2012	
Robert Fulker ³	Chief Executive Officer (interim)	4 November 2013	
Lawrence Manjengwa	General Manager, Boseto Operations	1 April 2014	
Robert Cooper ⁴	General Manager, Operations	1 April 2014	
John Shaw ¹	Chairman – Non-Executive	21 May 2013	29 October 2013
Niall Lenahan	Director – Non-Executive	2 April 2012	4 November 2013
Stuart Bradley Sampson	Managing Director	1 February 2008	4 November 2013

¹ John Shaw was a Non-Executive Director from 1 July 2012 to 20 May 2013 and was then appointed Chairman.

² Jeremy Read was a Non-Executive Director from 1 February 2008 to 30 October 2013 and was then appointed Acting Chairman on 30 October 2013 in addition to his role as Non-Executive Director. On 26 June 2014 he was appointed Executive Chairman until 31 December 2014, after which the Company plans to appoint a new Non-Executive Chairman on a permanent basis.

³ Robert Fulker was Chief Operating Officer from 26 November 2012 to 3 November 2013 and was then appointed Chief Executive Officer (interim)/Chief Operating Officer.

⁴ Robert Cooper was General Manager, Boseto Operations from 1 September 2013 and was then appointed General Manager, Operations on 1 April 2014.

(b) Compensation for Key Management Personnel

	2014 US\$	2013 US\$
Short term employee benefits	1,631,530	3,029,118
Post-employment benefits	82,366	143,855
Termination benefits	770,577	357,247
Share-based payment	203,587	581,131
Total compensation	2,688,060	4,111,351

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 8: LOSS PER SHARE

	2014 US\$'000	2013 US\$'000
(a) Reconciliation of earnings to profit or loss		
Net Profit/(Loss)	15,002	(224,280)
Profit/(Loss) used in the calculation of basic EPS/LPS	15,002	(224,280)
Profit/(Loss) used in the calculation of diluted EPS/LPS	15,002	(224,280)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS/LPS excluding Share Plan issues	550,256,445	481,480,496
Weighted average number of options outstanding	-	772,192
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS/LPS	550,256,445	482,252,688

NOTE 9: CASH & CASH EQUIVALENTS

	2014 US\$'000	2013 US\$'000
Cash on hand and at bank	3,365	13,408
Deposits at call	217	206
Restricted Cash ¹	1,000	7,696
	4,582	21,310

¹ Restricted Cash is required by the Lending Agreement for the payment of future debt service commitments.

Credit Risk Exposure

All cash investments are held in transactional bank accounts or on term deposit held with international banks, each of which carries a Moody's short term credit rating of P-1 or above with maturity tenures of twelve months or less. The credit risk exposure of the Consolidated Group in relation to cash and deposits is the carrying amount and any accrued unpaid interest.

NOTE 10: TRADE & OTHER RECEIVABLES

CURRENT	2014 US\$'000	2013 US\$'000
Trade receivables	4,455	6,216
Other receivables	416	50
GST/VAT receivable	2,280	5,020
	7,151	11,286

Receivables are non-interest bearing and unsecured. All of the receivables are current and not impaired.

Fair Value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivable. Collateral is not held as security, nor is it the Company's policy to transfer receivables to special purpose entities. Refer to Note 24 to the Financial Statements for more information on the risk management policy of the Consolidated Group trade receivables.

Interest rate risk

Details regarding interest rate risk exposure are disclosed in Note 24 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 11: PREPAID EXPENSES AND DEPOSITS

	2014 US\$'000	2013 US\$'000
Prepayments to creditors and sub-contractors	5	1
Prepaid expenses – Other	173	175
Deposits to suppliers	1,206	530
	1,384	706

NOTE 12: INVENTORY

	2014 US\$'000	2013 US\$'000
Held at Net Realisable Value:		
ROM Stockpile	1,516	-
Copper concentrate	1,637	2,488
Held at Historic Cost:		
Materials and Supplies	8,931	12,263
	12,084	14,751

Copper concentrate and ROM Stockpile inventory is carried at net realisable value with the change in value of these items recorded within mine operating costs.

NOTE 13: OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Note 13.1 Other financial assets

	2014 US\$'000	2013 US\$'000
Financial instruments at fair value through other comprehensive income		
Commodity forward contracts – Copper	-	17,621
Commodity forward contracts – Silver	-	-
Total financial instrument at fair value	-	17,621
Total other Financial assets	-	17,621
Total current	-	17,621
Total non-current	-	-
Total other Financial assets	-	17,621

During the year ended 30 June 2014 commodity forward contracts relating to 8,291 tonnes of copper expired resulting in a net cash inflow of \$15.0m.

The Consolidated Group has no copper or silver hedging in place at 30 June 2014. The Company intends to hedge copper and silver production in future periods.

Monthly forward contracts were cash settled against the average of the daily LME Official Cash Settlement Price recorded during the relevant contract month with the cash settlement taken through to the following month's Statement of Comprehensive Income.

The Consolidated Group records and discloses the fair value of commodity forward contracts using a direct valuation methodology where all inputs that have a significant effect on the recorded fair value are observable (level 2).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 13: OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Note 13.2 Other financial liabilities

	2014 US\$'000	2013 US\$'000
Financial liabilities at fair value through other comprehensive income		
Commodity forward contracts – Copper	-	-
Commodity forward contracts – Silver	-	-
Total financial liabilities at fair value through OCI	-	-
Financial liabilities at amortised cost		
Obligations under finance leases and hire purchase contracts	291	1,000
Interest bearing loans and borrowings	109,561	150,851
Total financial liabilities at amortised cost	109,852	151,851
Total other financial liabilities	109,852	151,851
Total current		
Interest bearing loans, borrowings & other liabilities	-	150,851
Non-interest bearing loans and borrowings	291	709
Total non-current		
Interest bearing loans and borrowings	109,561	-
Non-interest bearing loans and borrowings	-	291
Total other financial liabilities	109,852	151,851

Fair value

The carrying amount of the Consolidated Group's interest bearing liabilities approximates their fair value.

Interest rate and liquidity risk

Information regarding interest rate and liquidity risk exposure is set out in Note 24 to the Financial Statements.

Commodity price risk

Information regarding commodity price risk exposure is set out in Note 24 to the Financial Statements.

Interest bearing loans and borrowings

On 19 May 2014, the Company announced it had executed a legally binding term sheet with its lenders under which the Company's interest bearing debt would be reduced to \$100m and repayments re-profiled, subject to the parties entering into definitive, long form documents (**Debt Re-Profile**). On 15 July 2014, the Company announced that the parties had executed definitive, long form documents and on 21 July 2014 the Company confirmed that conditions precedent had been satisfied and that the Debt Re-Profile was effective from 18 July 2014. Due to the legally binding nature of the 19 May term sheet the transaction has been recorded within the financial statements effective as of 30 June 2014 in accordance with applicable accounting standards as an adjusting subsequent event.

Under the Debt Re-Profile:

- all continuing defaults were waived on execution of the Term Sheet;
- the current gross interest bearing debt owing under the Revolving Credit Facility and the Project Finance Facility of approximately \$160.4m (including capitalised interest) was reduced to \$100m (**New Balance**);
- the New Balance has a loan term of 9 years (**Loan**), with interest capitalised for the first 4 years of the term;
- interest rate is now LIBOR plus 5%, with interest capitalised until September 2018;
- scheduled principal repayments will be made commencing in year 5 of the Loan; and

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

- the parties have agreed to a mechanism that will provide for the lenders to be returned incentive payments in addition to repayment of the Loan, up to a maximum aggregate amount of \$20m, commencing after final repayment of the Loan.

The facility is secured against the Boseto Copper Operation assets and other group assets including:

1. First ranking charges over the assets and undertakings of Discovery Copper Botswana Proprietary Limited;
2. First ranking security over Discovery Copper Mauritius Limited shareholding in Discovery Copper Botswana Proprietary Limited;
3. First ranking security over Discovery Metals Limited shares in Discovery Copper Mauritius Limited;
4. First ranking security over shares held in other group companies;
5. First ranking charge over the Proceeds Account, the Debt Service Reserve Account (**DSRA**) and all other Project bank accounts;
6. Security over all material agreements, concessions and permits required to operate the Boseto Copper Operation, including the proceeds of all insurance policies;
7. Direct agreements with counterparties to Material Contracts for the purposes of ensuring cure and step-in rights for the benefit of the Lenders;
8. Guarantees by Discovery Copper Mauritius Limited and Discovery Metals Limited of the obligations of the Borrower under the Facilities.; and
9. Cession and subordination of intercompany loans granted to DCB by DML and DCM.

Conditions subsequent under the Debt Re-Profile, which if not satisfied would constitute an event of default under the facility agreement are:

- the Company's wholly owned subsidiary, Discovery Copper (Botswana) (Proprietary) Limited, the borrower under the facility agreement, is required to deliver an updated financial model and development plan (Business Plan) for the Boseto Operation demonstrating loan repayment and covenant compliance, in a form and substance acceptable to the lenders and a lender appointed independent technical expert, by 31 August 2014. No later than 20 business days after delivery of the Business Plan the lenders shall deliver to the Company an updated repayment schedule in accordance with the Business Plan; this may result in loan repayments starting in a period less than 5 years;
- the Company has committed to raise equity, on or before 31 December 2014, sufficient to finance development of the first Zeta underground mine to an operational stage and to support the Company's related working capital requirements.

Under the terms of the facility the Company is required to maintain an average cash balance during the ten days immediately preceding the last business day of each calendar month of no less than \$2.0 million on and prior to 31 August 2014 and \$3.0 million on and after 30 September 2014.

As at 30 June 2014 the facility was fully drawn at \$100m. The facility together with the \$20m incentive payment has been recorded at 30 June at its fair value based on the expected repayment profile in accordance with applicable accounting standards. The fair value at initial recognition of the facility and the \$20m incentive payment was \$109.6m.

Refer to Note 29 to the Financial Statements for subsequent events and further changes to the debt facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 14: PLANT AND EQUIPMENT

Movement in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year:

	Motor Vehicles US\$'000	Office & Furniture US\$'000	Buildings US\$'000	Computer & Plant & Equipment US\$'000	Capital Work in progress US\$'000	Rehab Asset US\$'000	Mine Development Costs US\$'000	Total US\$'000
Balance as at 30 June 2012	2,577	271	-	63,787	214,965	6,784	-	288,384
Transfers*	-	-	55,323	118,331	(173,654)	-	-	-
Reclassification	-	-	-	-	(41,780)	-	-	(41,780)
Additions	28	295	2,192	20,940	4,913	(3,316)	-	25,052
Disposals	(25)	-	-	(1,198)	-	-	-	(1,223)
Depreciation Expense	(636)	(208)	-	(11,294)	-	-	-	(12,138)
Less Impairment	(436)	(75)	(19,056)	(57,366)	(1,229)	(855)	-	(79,017)
Balance as at 30 June 2013	1,508	283	38,459	133,200	3,215	2,613	-	179,278
Transfers	40	91	2,590	307	(3,757)	-	-	(729)
Reclassification	-	-	-	(3,903) ¹	(399)	(718)	-	(5,020)
Additions	-	9	1,875	99	1,531	-	10,341	13,855
Disposals	(283)	(4)	-	(476)	-	-	-	(763)
Depreciation Expense	(576)	(119)	(2,643)	(14,448)	-	(129)	(3,720)	(21,635)
Balance as at 30 June 2014	689	260	40,281	114,779	590	1,766	6,621	164,986
Depreciation charged to Exploration Asset/ Deferred development	74	5	-	91	-	-	-	170
Net Depreciation Charge for year	(502)	(114)	(2,643)	(14,357)	-	(129)	(3,720)	(21,465)

¹ Represents reversal for the Sedgman settlement agreement. Refer Note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 14: PLANT AND EQUIPMENT (continued)

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	2014 US\$'000	2013 US\$'000
Motor Vehicles	(576)	(636)
Office & Furniture	(119)	(208)
Buildings	(2,643)	-
Computer & Plant & Equipment	(14,448)	(11,294)
Rehab Asset	(129)	-
Mine Development Asset	(3,720)	-
Total	(21,635)	(12,138)

Borrowing costs, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	2014 US\$'000	2013 US\$'000
Capitalised to Property, Plant & Equipment	-	6,739
Expensed to Statement of Comprehensive Income	3,070	3,572
Total	3,070	10,311

NOTE 15: DEFERRED DEVELOPMENT

Deferred development costs are costs capitalised for mining properties in development:

		2014 US\$'000	2013 US\$'000
Opening balance		-	-
Transfers from exploration		1,101	92,970
Additions	4(ii)	-	156,020
		1,101	248,990
Revenues (pre-production revenues)	4(ii)	-	(122,544)
Less expenditure impaired		-	(126,446)
Carrying Balance 30 June		1,101	-

During the financial year ended 30 June 2013 areas of interest related to the Boseto Copper Operation were reclassified from construction works in progress and exploration.

The Directors determined that with effect from 1 July 2013, operating revenue and expenses from Boseto would be taken to the profit and loss statement rather than be capitalised on the basis that all key ramp up metrics had been achieved except for delivery of ore. As such, depreciation and amortisation of fixed project assets also commenced from 1 July 2013 and project borrowing costs were no longer to be capitalised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 16: EXPLORATION

Exploration rights and development costs carried forward in respect of areas of interest in the exploration phase:

	2014 US\$'000	2013 US\$'000
Opening balance	8,384	56,179
Less transfer to deferred development	(1,101)	(51,189)
Expenditure incurred (net of JOGMEC's reimbursement)	2,812	3,430
	10,095	8,420
Less expenditure impaired	-	(36)
Carrying Balance 30 June	10,095	8,384

Mining prospecting licence costs are carried forward in accordance with the accounting policy set out in Note 2 to the Financial Statements. The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of these areas of interest.

An amount of \$51.19 million was transferred to deferred development effective 30 June 2013. As disclosed in Note 15 this transfer was necessary to allow the commencement of depreciation and operation of these assets from 1 July 2013.

NOTE 17: INTANGIBLE ASSETS

Computer Software	2014 US\$'000	2013 US\$'000
Opening Balance	878	739
Additions	729	860
Disposals	-	(112)
Amortisation Expense	(798)	(403)
Less expenditure impaired	-	(206)
Balance at 30 June	809	878

The Intangible Assets of the Consolidated Group comprise computer software purchased to control the planning and operation of the Boseto Copper Operation.

NOTE 18: IMPAIRMENT

No impairment charge has been recognised in the year ended 30 June 2014. The Consolidated Group performed its annual impairment test as at 30 April 2014. The Consolidated Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 April 2014, the market capitalisation of the Group closely approximated the book value of its equity indicating no impairment of the assets of the Group. The annual impairment test was further reviewed as at 30 June 2014 and the Directors are satisfied that conditions remained such that no impairment of Group assets is necessary.

The recoverable amount of the Boseto Operation Cash Generating Unit (CGU) has been determined on a fair value less cost to sell basis using cash flow projections from financial budgets and forecasts approved by senior management covering a twelve year period and other independent valuation advice. The key assumptions used in the calculations of fair value are:

- recoverable reserves and resources;
- capital expenditure;
- commodity prices;
- treatment charges receivable by smelting and refining operations; and
- discount rates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 18: IMPAIRMENT (continued)

This fair value reflects a transition in mining method to underground sources based on the updated Ore Reserves and Mineral Resources as announced to the market in July 2013. The real pre-tax weighted average cost of capital (discount rate) applied to cash flow projections is 9.5%. Long-term commodity prices and treatment charges are based on external market consensus forecasts. Specific prices are determined from information available in the market after considering the nature of the commodity produced and long term market expectations. Any unfavourable change in these assumptions may lead to impairment.

The carrying value of the CGU assessed for impairment was \$166.8m at 30 June 2014.

NOTE 19: TRADE AND OTHER PAYABLES

Current Liabilities	2014 US\$'000	2013 US\$'000
Trade creditors & payables	14,867	18,733
Accruals	11,226	8,553
	26,093	27,286

Accrued Expenses includes Withholding Tax withheld from payments to suppliers and payable the month following deduction.

NOTE 20: PROVISIONS

Current		2014 US\$'000	2013 US\$'000
Employee benefits (i)		1,415	1,873
Mine rehabilitation (ii)		-	-
Income tax		39	-
Total current portion		1,454	1,873

Non-Current		2014 US\$'000	2013 US\$'000
Employee Benefits (i)		-	-
Mine rehabilitation (ii)		5,026	5,433
Total non-current portion		5,026	5,433

(i) Employee benefits

This represents annual leave.

Movements in Leave Provisions	2014 US\$'000	2013 US\$'000
Opening Balance	1,873	1,395
Increase/(decrease) in provision	269	2,196
Paid during the year	(727)	(1,718)
Closing balance	1,415	1,873
Split between		
Current	1,415	1,873
Non-Current	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 20: PROVISIONS (continued)

(ii) Mine rehabilitation

The Consolidated Group recognises that it has an obligation to restore its mine sites to their original condition at the end of the life of mine. Mine rehabilitation costs are provided for at the present value of future expected expenditure when the liability is incurred. Although the ultimate cost to be incurred is uncertain, the Consolidated Group has estimated its costs based on feasibility and engineering studies using current restoration standards and techniques.

The mine rehabilitation provision has been calculated based on an expected mine life to 2026, using a discount rate of 5.84%. (2013: 6.46%)

When this liability is recognised, a corresponding asset is also recognised as part of the development costs of the mine and is amortised across the same useful life.

Movements in mine rehabilitation provision	2014 US\$'000	2013 US\$'000
At 1 July	5,443	8,427
Increase/(decrease) in provision	(719)	(3,314)
Paid during the year	-	-
Unwinding of discount	302	330
At 30 June	5,026	5,443
Split between		
Current	-	-
Non-Current	5,026	5,443

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 21: ISSUED CAPITAL

	2014 US\$'000	2013 US\$'000	2014 Shares	2013 Shares
Fully paid ordinary shares at 30 June	277,854	267,081	644,039,581	486,986,451
(a) Ordinary Shares				
At beginning of reporting year	267,285	215,405	486,986,451	442,128,231
Shares issued during the year:				
- Issued at A\$0.03451	2,682	-	84,005,163	-
- Issued at A\$0.12	8,242	-	73,047,967	-
- Issued at A\$0.38 each	-	36	-	100,000
- Issued at A\$1.20 each	-	53,898	-	42,643,710
- Issued at Nil	-	-	-	2,114,510
Transaction costs relating to share issues	(355)	(2,054)		
At reporting date	277,854	267,285	644,039,581	486,986,451
Employee and Director Share Plan Trust ¹			(4,406,627)	(7,934,899)
Shares on issue to parties external to Consolidated Group			639,632,954	479,051,552

¹This is a special purpose vehicle set up to administer the Consolidated Group's Employee and Director Share Plan. Details of the plan are disclosed in Note 28 to the Financial Statements.

(a) Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid upon shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. All shares rank equally with regard to the Company's residual assets. Ordinary shares have no par value.

(b) Options

At 30 June 2014 there were no (2013: 1,250,000) unissued ordinary shares of the Company for which options were outstanding.

During the year ended 30 June 2014 no ordinary shares of the Company were issued on the exercise of options granted under the Option Plan. Options for 1,250,000 ordinary shares of the Company expired during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 22: RESERVES

	2014 US\$'000	2013 US\$'000
Share based payment reserve	14,419	13,990
Hedging Reserves	15,764	49,760
Foreign Currency Translation Reserve	13,197	13,197
	43,380	76,947

Hedge Reserve

Movements in hedging reserves	2014 US\$'000	2013 US\$'000
At 1 July	49,760	48,362
Increase/(decrease) in hedging instruments	(33,996)	15,785
Transfer to PPE/deferred development	-	(18,250)
Transfer to P&L in effective portion	-	(5,901)
Tax effect on hedge reserve	-	9,764
At 30 June	15,764	49,760

In accordance with AASB139 realised gains on early close-out of hedge instruments have been quarantined in the hedging reserve until the original hedged transaction occurs.

Share based payment reserve

The option reserve records items recognised as expenses on valuation of employee share options and shares allotted to the Employee and Director Share Plan Trust account.

Movements in Share based payment reserves	2014 US\$'000	2013 US\$'000
At 1 July	13,990	13,471
Increase/(decrease) in reserve expensed to Profit and Loss	394	682
Increase/(decrease) in reserve amortised to PPE/deferred development	35	110
Decrease in reserve from forfeiture of shares	-	(273)
At 30 June	14,419	13,990

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of the foreign controlled subsidiaries' assets to US\$ at the balance date along with the translation of AUD functional net assets into US\$ for presentation purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 23: ACCUMULATED LOSSES

	2014 US\$'000	2013 US\$'000
Accumulated losses at the beginning of the year	276,469	52,189
Net (profit)/loss attributable to members of Discovery Metals	(15,002)	224,280
Accumulated losses at the end of the year	261,467	276,469

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

This note presents information about the Company's exposure to credit, liquidity, foreign exchange movements and market risk and the objectives, policies and processes the Company uses to measure and manage these risks.

The Consolidated Group's principal financial instruments comprise receivables, payables, finance leases, cash and short term deposits.

(a) Risk exposures and responses

The Company manages its exposure to key financial risks in accordance with the Consolidated Group's financial risk management policy. The objective of the policy is to support the delivery of the Consolidated Group's financial targets while protecting future financial security.

Primary responsibility for the identification and control of financial risks rests with the Audit and Risk Management Committee under the authority of the Board. Exposure limits are reviewed by management on a continuous basis.

The main risks arising from the Consolidated Group's financial instruments are interest rate risk, commodity risk and liquidity risk. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and commodity risk via assessments of market forecasts and monitoring liquidity risk through the development of rolling cash flow forecasts.

The following table discloses the carrying amounts of each class of financial asset and financial liabilities as at 30 June 2014.

Category	2014 US\$'000	2013 US\$'000
Financial assets		
Cash and cash equivalents	4,582	21,310
Trade and other receivables	7,151	11,286
Commodity Forward Contracts – Copper	-	17,621
Total Financial Assets	11,733	50,217
Financial liabilities		
Trade and other payables	26,093	27,286
Borrowings*	109,561	150,851
Lease obligations	291	999
Total Financial Liabilities	135,945	179,136

* The carrying value of debt (\$109.6m) is not the redemption value (\$120.0m). Debt instruments are valued at fair value and subsequently amortised cost, refer to Note 2(p) to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

Credit risk refers to the risk that counterparty to the Company will default on its contractual obligations resulting in a financial loss to the Company. Given the nature of the Consolidated Group's operations, the relevant terms and conditions entered into with its customers and the net exposure held with its lender banks, the Company does not have any significant exposure to credit risk.

The Company manages its exposure to credit risk via credit risk management policies which allocate credit limits based on the overall financial strength of the counterparty. Publicly available credit information from recognised providers is utilised for this purpose where available.

The Consolidated Group's credit risk consists of cash deposits held with the Company's lending banks and receivables. Trade receivables relate mainly to the Copper Concentrate Sales Agreement with Transamine signed in March 2010. Under the off-take agreement, 100% of the concentrate produced from the Boseto Copper Operation is sold to Transamine. Additional trade receivables relate to on-charges of fuel to suppliers. At 30 June 2014 final invoices outstanding with Transamine totalled \$4.9m representing 99% of trade receivables. The concentration risk is mitigated somewhat by the fact that Transamine is a 19% shareholder in the Company.

The carrying amounts of financial assets (excluding available-for-sale financial assets) recognised in the Statement of Financial Position, and disclosed in more detail in the notes to the Financial Statements best represent the Company's maximum exposure to credit risk at the reporting date. In respect of those financial assets and the credit risk embodied within them, the Company holds no collateral security and there are no other significant credit enhancements in respect of these assets. The credit quality of all financial assets that are neither past due nor impaired is appropriate and is consistently monitored in order to identify any potential adverse changes. There are no significant financial assets that have had terms renegotiated that would otherwise, without that renegotiation, have been past due or impaired.

The ageing of trade and other receivables at the reporting date was as follows:

Trade and other receivables 2014	Not past due US\$'000	Past due but not impaired		Total US\$'000
		Less than 30 days	Between 30 & 90 days	
Trade receivables	4,455	-	-	4,455
Other receivables	416	-	-	416
GST/VAT receivable	2,280	-	-	2,280
Total	7,151	-	-	7,151

Trade and other receivables 2013	Not past due US\$'000	Past due but not impaired		Total US\$'000
		Less than 30 days	Between 30 & 90 days	
Trade receivables	6,216	-	-	6,216
Other receivables	50	-	-	50
GST/VAT receivable	5,020	-	-	5,020
Total	11,268	-	-	11,268

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

Possible causes of a liquidity constraint include: unplanned reduction in revenue; sustained reduction in profitability; unplanned acquisitions and capital expenditure; business disruptions; significant unfavourable market movements and financial market shocks.

The objectives of the liquidity risk management strategy are to:

- ensure that at all times the Company has access to sufficient cash resources to meet its financial obligations as they fall due and to provide funds for capital expenditure and investment opportunities as they arise; and
- ensure that the Company has sufficient excess liquidity to meet its non-discretionary financial obligations in the event of unexpected business disruptions.

The following are the contractual and expected maturities of the Company's liquid financial assets and the Company's expected maturities of financial liabilities. For consideration of the Consolidated Group's liquidity position refer to Note 4 to the Financial Statements.

2014	Within 1 year US\$'000	1 to 2 years US\$'000	2 to 5 years US\$'000	Greater than 5 years US\$'000	Total contractual cash flows US\$'000	Total carrying value US\$'000
Cash and cash equivalents	4,582	-	-	-	4,582	4,582
Trade and other receivables	7,151	-	-	-	7,151	7,151
Trade and other payables	(26,093)	-	-	-	(26,093)	(26,093)
Lease obligations	(291)	-	-	-	(291)	(291)
Interest bearing loans and borrowings	-	-	(37,958)	(120,715)	(158,673)	(109,561)
Total	(14,651)	-	(37,958)	(120,715)	(173,324)	(124,212)

2013	Within 1 year US\$'000	1 to 2 years US\$'000	2 to 5 years US\$'000	Greater than 5 years US\$'000	Total contractual cash flows US\$'000	Total carrying value US\$'000
Cash and cash equivalents	21,310	-	-	-	21,310	21,310
Trade and other receivables	11,286	-	-	-	11,286	11,286
Trade and other payables	(27,286)	-	-	-	(27,286)	(27,286)
Lease obligations	(999)	-	-	-	(999)	(999)
Commodity forward contracts	17,621	-	-	-	17,621	17,621
Interest bearing loans and borrowings	(153,860)	-	-	-	(153,860)	(153,860)
Total	(131,928)	-	-	-	(131,928)	(131,928)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Market Risk

(i) Foreign exchange risk

The Consolidated Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Botswana Pula (**BWP**) the Australian Dollar (**AUD**) and the South African Rand (**ZAR**) (which moves closely with the Botswana Pula as the Rand comprises 75% weighting of the Botswana Pula basket of currencies for foreign exchange adjustments).

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the Consolidated Group's functional currency. Measuring the exposure to foreign exchange risk is achieved by regularly monitoring and performing sensitivity analysis on the Consolidated Group's financial position.

Foreign exchange exposures may arise from transactions or balances held in currencies other than the functional currency of the operation or entity within the Consolidated Group. The Consolidated Group's potential currency exposures may arise from:

1. translational exposure in respect of non-functional currency monetary items; or
2. transactional exposure in respect of non-functional currency expenditure and revenues.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation or entity within the Consolidated Group are periodically restated to functional currency of the entity, and the associated gain or loss is taken to the Statement of Comprehensive Income.

The Consolidated Group may use derivative financial instruments to hedge exposure to foreign exchange risk arising from foreign currency expenditures. As at 30 June 2014 there were no FX derivatives outstanding. The Hedging Reserve balance is non cash and denominated in US\$ and is therefore not exposed to foreign currency movements.

The following table shows the value of financial assets and liabilities denominated in foreign currencies as at 30 June 2014 and the sensitivities of these values to changes in the value of the US\$.

Currency Adjustment	Net Short Exposure 2014 US\$'000	Effect on Post tax profit 2014 US\$'000	Effect on OCI 2014 US\$'000	Net Short Exposure 2013 US\$'000	Effect on Post tax profit 2013 US\$'000	Effect on OCI 2013 US\$'000
AUD to US\$ +10%	159	(16)	-	1,957	(196)	-
AUD to US\$ -10%	159	16	-	1,957	196	-
BWP to US\$ +10%	14,039	(1,404)	-	8,520	(852)	-
BWP to US\$ -10%	14,039	1,404	-	8,520	852	-
ZAR to US\$ +10%	786	(79)	-	-	-	-
ZAR to US\$ -10%	786	79	-	-	-	-

A 10% increase (decrease) in the value of the AUD versus the US\$ would have led to a \$16,000 translation loss (gain) as at 30 June 2014. A 10% increase (decrease) in the value of the BWP versus the US\$ would have led to a \$1,404,000 translation loss (gain) as at 30 June 2014. A 10% increase (decrease) in the value of the ZAR versus the US\$ would have led to a \$79,000 translation loss (gain) as at 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Market Risk (continued)

(ii) Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Consolidated Group's commodity inputs and outputs. The Consolidated Group is primarily exposed to commodity price risk arising from revenue derived from future copper sales. The Consolidated Group's commodity price risk associated with financial instruments relates primarily to changes in fair value caused by settlement adjustments to receivables.

As at 30 June 2014, the Company had no copper or silver hedging in place.

(iii) Interest rate risk

Interest rate risk is the risk of increased borrowing costs, reducing the earnings of DML as a consequence of adverse movements in interest rates. The majority of DML's interest rate risk arises from its funding costs but other sources of interest rate risk could include interest bearing investments, finance and operating leases and creditors and debtor discounting. The objective of the interest rate risk management strategy is to:

- manage the net and total interest rate cost of DML by mitigating the impact of adverse interest rate movements on profitability through the use of approved instruments;
- manage the weighted average cost of debt in a manner that is consistent with the debt funding strategy and the Board's approved risk appetite;
- support financial covenant compliance.

At 30 June 2014 the interest rate profile of the Consolidated Group's interest-bearing financial instruments was:

	Fixed interest rate maturity balances					
	Average	Variable	Less than	1 to 5	More than	Total
	interest rate	interest rate	1 year	years	5 years	
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Financial Assets						
Bank balances	0.72	3,365	-	-	-	3,365
Short term deposits	3.75	217	-	-	-	217
Restricted Cash	0.72	1,000	-	-	-	1,000
Financial Liabilities						
Borrowings	5.13 ¹	100,000	-	-	-	100,000
Finance leases	11.61	-	291	-	-	291

¹ Represents the rate applicable to the amended and restated debt facility at the effective date, 18 July 2014.

At 30 June 2013 the interest rate profile of the Consolidated Group's interest-bearing financial instruments was:

	Fixed interest rate maturity balances					
	Average	Variable	Less than	1 to 5	More than	Total
	interest rate	interest rate	1 year	years	5 years	
	%	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Financial Assets						
Bank balances	0.27	13,408	-	-	-	13,408
Short term deposits	3.75	206	-	-	-	206
Restricted Cash	0.27	7,696	-	-	-	7,696
Financial Liabilities						
Borrowings	5.32	150,851	-	-	-	150,851
Finance leases	11.61	-	708	291	-	999

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Market Risk (continued)

At 30 June 2014, if interest rates move as illustrated in the table below, with all other variables held constant, the Consolidated Group's post tax loss and total comprehensive income would be affected as follows:

Parallel Shift in 3-month LIBOR curve	Post tax loss higher (lower)		Effect on OCI	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
+1% (100 basis points)	(964)	(1,016)	-	-
-0.25% (25 basis points)	241	254	-	-

A 100bps increase in US\$ Libor would lead to an annualised \$964,000 increase in interest expense based on the current debt repayment schedule for FY2015. A 25bps fall in US\$ Libor would lead to a 241,000 decrease in interest expense. The blended yield received on deposits is assumed to remain constant at 72bps.

(iv) Fair value risk

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Consolidated Group enters into derivative financial instruments with various financial institutions with investment grade credit ratings. Derivative valuations are provided independently by REVAL, the Company's Treasury and Risk Management system. At 30 June 2014 the Consolidated Group had no open derivative positions.

(v) Capital risk management

The Consolidated Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

To effectively manage the Consolidated Group's capital requirements, the Consolidated Group's management has capital and operating, cash planning, budgeting and forecasting processes in place. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Consolidated Group's assets.

	2014	2013
Capital Management Gearing Ratio	US\$'000	US\$'000
Interest bearing loans and borrowings	109,561	150,851
Less: cash and short term deposits	(4,582)	(21,310)
Net Debt	104,979	129,541
Total Equity	59,767	67,762
Gearing ratio	176%	191%

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 25: CONTINGENT LIABILITIES

At 30 June 2012, the Company reported a number of claims from and against the major construction contractor, Sedgman, on the Boseto Copper Project relating to time extension and penalties and some sub-standard work which has been remediated by the Company. The claims from Sedgman totalled \$20 million and the claims by the Company against Sedgman totalled \$12.8 million.

On 18 February 2014, the Company announced a full and final settlement of all claims and agreed to pay Sedgman \$3.2 million (**Settlement Sum**), subject to receiving funds in connection with a recapitalisation of the Company's debt at that time. Both parties agreed not to take any further action prior to 30 April 2014. On 1 May 2014, Sedgman agreed to defer the agreed settlement payment due date until no later than 31 July 2014.

Subsequent to the reporting date, as detailed in Note 29 to the Financial Statements, the parties further agreed for the Settlement Sum to be paid in four instalments between 31 October 2014 and 30 June 2015. The Company will pay interest on the amounts outstanding at the previously agreed interest rate of 10% per annum with interest falling due on the second, third and fourth instalments. The agreement is conditional upon the Company to completing a A\$15 million capital raising by 30 September 2014 in accordance with the Company's proposed capital raising announced on 26 June 2014. Permanent resolution of the dispute will be achieved upon payment of the Settlement Sum.

NOTE 26: COMMITMENTS

(a) Leasing commitments

Operating Lease Commitments

The Consolidated Group leases corporate office and administrative facilities in Brisbane, Australia and Gaborone, Botswana. The leases have varying terms, with options to renew the lease on respective expiry dates. There are no restrictions placed upon the lessee by entering into these leases.

Non-cancellable operating lease commitments contracted for at balance date but not yet incurred are as follows:

	2014 US\$'000	2013 US\$'000
Payable		
- not later than one year	393	447
- later than one year but not later than 5 years	940	1,333
Aggregate lease expenditure contracted for at reporting date but not provided for	1,333	1,780

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 26: COMMITMENTS (continued)

(a) Leasing commitments (continued)

Finance Lease Commitments

The Consolidated Group holds a finance lease for a Komatsu Excavator denominated in BWP. The Company's obligation under the finance lease is secured by the lessor's charge over the leased asset.

Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:

	2014 US\$'000	2013 US\$'000
Payable		
- not later than one year	291	789
- later than one year but not later than 5 years	-	300
Total minimum lease payments	291	1,089
Less amounts representing finance charges	(9)	(90)
Present value of minimum lease payments	282	999
Included in the financial statements as:		
Current interest bearing liabilities	291	708
Non-current interest bearing liabilities	-	291
Total included in interest-bearing liabilities	291	999

(b) Capital expenditure commitments

	2014 US\$'000	2013 US\$'000
Capital expenditure commitments contracted for:		
Payable – not later than one year	83	233
Payable – not later than two year	-	-
Payable – not later than three years	-	-

(c) Exploration Expenditure Commitments

The Consolidated Group has certain obligations to perform minimum exploration work and expend a minimum amount of money on mineral exploration prospecting licences. The Consolidated Group has committed to expend a minimum of \$14.7 million (2013: \$15.9 million) over the next two years to keep its current Botswana prospecting licences in good standing. Annual ongoing commitments of this value are likely, subject to renewal applications being processed.

	2014 US\$'000	2013 US\$'000
Capital expenditure commitments contracted for:		
Commitment – not later than one year	9,536	8,204
Commitment – not later than two year	2,264	8,181
Commitment – not later than three years	2,047	127

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 27: SEGMENT REPORTING

The Consolidated Group operates in one business segment being the mining industry and in two geographical locations, namely Australia and Botswana. The Consolidated Group has two strategic business units, which operate separately under different management structures due to the geographical separation and the Consolidated Group's primary focus on the Boseto Copper Operation. The business units are:

1. The 100% owned Boseto Copper Operation in north-west Botswana; and
2. The exploration companies operating the Manganese, Kraaipan Gold, D'kar Copper, Ghanzi Copper, Ngamiland Copper and Dikoloti Nickel Project.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the Company is managed and provides a meaningful insight into the business activities of the Consolidated Group.

The Consolidated Group has identified its reportable operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources. Its reporting is on an operational basis which coincides with geographical segments. The operating performance of each of these segments is reported to the Board of Directors on at least a monthly basis. Corporate office activities are not allocated to operating segments and form part of the balance of unallocated revenue, expenses, assets and liabilities.

Accounting policies and inter-segment transactions

Segment information is prepared in conformity with the accounting policies of the Company as disclosed in Note 2 to the Financial Statements and Accounting Standard AASB 8 *Operating Segments*. The following items are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Interest revenue;
- Finance costs;
- Hedging gains or losses;
- Income taxes;
- Corporate expenses.

Segments are presented after elimination of inter-company transactions. So as to ensure there are no asymmetrical allocations to reportable segments, the following assets and liabilities have been excluded from operating segments:

- Cash and cash equivalents;
- Current and deferred tax balances;
- Interest bearing loans and borrowings;
- Derivative financial instruments;
- Assets and liabilities of the corporate office.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties.

The following tables present details of revenue and operating profit by business segment. The information disclosed in the tables below is derived directly from the internal financial reporting system used by corporate management to monitor and evaluate the performance of the Company's operating segments separately.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 27: SEGMENT REPORTING (continued)

2014	Boseto Copper	Exploration	Corporate	Consolidated Group
For the year ended 30 June 2014	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from external customers, Inter-segment revenue & Interest	120,223	6	14	120,243
Hedging close outs	34,866	-	-	34,866
Expenses	(145,196)	1,884	7,211	(136,101)
Exploration expenditure impaired	-	-	-	-
(Loss)/income before elimination	9,893	1,890	7,225	19,008
Less: Elimination	2,080	1,664	(3,744)	-
Add income tax benefit/(expense)	(3,877)	-	(129)	(4,006)
(Loss)/income after income tax	8,096	3,554	3,352	15,002
Reportable segment assets	190,369	8,829	2,994	202,192

2013	Boseto Copper	Exploration	Corporate	Consolidated Group
For the year ended 30 June 2013	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from external customers, Inter-segment revenue & Interest	17	3,032	9,078	12,127
Hedging close outs	5,041	-	-	5,041
Expenses	(209,750)	(2,621)	(20,456)	(232,827)
Exploration expenditure impaired	-	(36)	-	(36)
(Loss)/income before elimination	(204,692)	375	(11,378)	(215,695)
Less: Elimination		(3,003)	(9,035)	(12,038)
Add income tax benefit/(expense)	3,535	(82)	-	3,453
(Loss)/income after income tax	(201,157)	(2,710)	(20,413)	(224,280)
Reportable segment assets	240,318	9,939	3,957	254,214

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 27: SEGMENT REPORTING (continued)

(a) Assets and Liabilities by geographical region

Region – Assets	30 June 2014 US\$'000	30 June 2013 US\$'000
Australia	1,470	3,957
Botswana	200,722	250,257
Total Assets	202,192	254,214

Region – Liabilities	30 June 2014 US\$'000	30 June 2013 US\$'000
Australia	802	30,626
Botswana	141,623	155,826
Total Liabilities	142,425	186,452

(b) Under the off-take agreement 100% of the concentrate produced from the Boseto Mine is sold to Transamine.

NOTE 28: SHARE BASED PAYMENTS

Share Options

	2014		2013	
	Number	Weighted Price (A\$)	Number	Weighted Price (A\$)
Outstanding at the beginning of the year	1,250,000	0.356	1,350,000	0.356
Exercised	-	-	100,000	0.375
Expired	1,250,000	0.356	-	-
Outstanding at year-end	-	-	1,250,000	0.356
Exercisable at year-end	-	-	1,250,000	0.356

The Consolidated Group's option plan for KMP are share options in the Parent Entity. No options have been granted since the year ended 30 June 2010. All options previously granted to KMP are ordinary shares in Discovery Metals Limited, which conferred a right of one ordinary share for every option held. Refer to the remuneration report section of the Directors' Report for further information.

Share based payments, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year, were:

	2014 US\$'000	2013 US\$'000
Capitalised to deferred development	-	46
Capitalised to exploration and evaluation phases – at cost	35	64
Expensed to Statement of Comprehensive Income	394	682
Total	429	792

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 28: SHARE BASED PAYMENTS (continued)

Employee & Director Share Plan

During the three consecutive years ending 30 June 2012, the Company granted shares to Directors and executive management (**Eligible Employees**) via a Plan Trust Company to be released to the executives and Directors when performance hurdles are met. The Share Plan has also operated for other non-management employees wherein up to 10% of the employee's salary has been granted as shares in the Parent Entity and is subject to satisfactory performance of the individual, the Consolidated Group's safety performance and continued good service by the employee for the two years following the award year. Refer to the remuneration report section of the Directors' Report for further information.

Unvested Share Rights	Directors and Executive management					2014
	Tranche 1*	Tranche 2*	Tranche 3*	Tranche 4*	Tranche 5*	Number of Share Rights
Unvested opening Balance	3,875,000	-	-	2,875,000	500,000	7,250,000
Granted during the year	-	-	-	-	-	-
Vested during the year	(3,875,000)	-	-	-	-	(3,875,000)
Forfeited during year	-	-	-	(2,000,000)	(500,000)	(2,500,000)
Unvested closing Balance as at 30 June	-	-	-	875,000	-	875,000
Vested but not drawn from Trust as at 30 June						465,000
Held by Trust						4,406,627
(Surplus)/deficiency in trust						(3,066,627)
Average value per right**	0.89	0.74	0.80	0.77	1.02	
Expected maturity	n/a	n/a	n/a	30 Sep 12 – 31 Dec 14	n/a	

*Tranche 1 - The processing plant for the Boseto Copper Project has been built and commissioned and the plant has achieved an output of 10,000 tonnes of copper. The condition was satisfied during the financial year ended 30 June 2013 and the Directors resolved to allow the tranche to vest during the current year.

*Tranche 2 - The share price (as traded on ASX) has exceeded A\$1.00 per share for more than 10 trading days (which need not be consecutive).

*Tranche 3 - The share price (as traded on ASX) has exceeded A\$1.50 per share for more than 10 trading days (which need not be consecutive).

*Tranche 4 - The share price (as traded on ASX) has exceeded A\$2.00 per share for more than 10 trading days (which need not be consecutive).

*Tranche 5 – includes measures for Shareholder Return and a “good service” component.

The release of the shares from the Plan Trust Company is subject to continued employment and the individual meeting performance expectations for their role. The shares will vest in the event of an unconditional takeover of the Company or a shareholder approved scheme of arrangement for acquisition of more than 50% of the Company's issued capital.

** These rights have been previously independently valued using a Black-Scholes option pricing model for tranche 1 and Monte-Carlo simulation methods for tranches 2, 3, 4 and 5.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 28: SHARE BASED PAYMENTS (continued)

Unvested Share rights	Directors and Executive management					2013
	Tranche 1*	Tranche 2*	Tranche 3*	Tranche 4*	Tranche 5*	Number of Share Rights
Unvested opening Balance	4,000,000	-	-	3,750,000	500,000	8,250,000
Granted during the year	-	-	-	-	-	-
Vested during the year	-	-	-	-	-	-
Forfeited during year***	(125,000)	-	-	(875,000)	-	(1,000,000)
Unvested closing Balance as at 30 June	3,875,000	-	-	2,875,000	500,000	7,250,000
Held by Trust						7,934,899
(Surplus)/deficiency in trust						(684,899)
Average value per right**	0.89	0.74	0.80	0.77	0.99	
Expected maturity	30 Jun 12 - 13 Jul 12	n/a	n/a	30 Sep 12 – 31 Dec 14	15 Oct 12 – 31 Dec 14	

*Tranche 1 - The processing plant for the Boseto Copper Project has been built and commissioned and the plant has achieved an output of 10,000 tonnes of copper. Condition satisfied but Directors have resolved to not allow the tranche to vest until such time as the Company's share trading blackout period is lifted.

During the year, the Tranche 1 milestone was met, however no shares have vested or were released to Eligible Employees.

*Tranche 2 - The share price (as traded on ASX) has exceeded A\$1.00 per share for more than 10 trading days (which need not be consecutive).

*Tranche 3 - The share price (as traded on ASX) has exceeded A\$1.50 per share for more than 10 trading days (which need not be consecutive).

*Tranche 4 - The share price (as traded on ASX) has exceeded A\$2.00 per share for more than 10 trading days (which need not be consecutive).

*Tranche 5 – includes measures for Shareholder Return and a “good service” component.

The release of the shares from the Plan Trust Company is subject to continued employment and the individual meeting performance expectations for their role. The shares will vest in the event of an unconditional takeover of the Company or a shareholder approved scheme of arrangement for acquisition of more than 50% of the Company's issued capital.

** These rights have been previously independently valued using a Black-Scholes option pricing model for tranche 1 and Monte-Carlo simulation methods for tranches 2, 3, 4 and 5.

*** 28,272 of these shares were issued to non-managerial employees of DML within the terms of their individual employee agreements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 29: EVENTS SUBSEQUENT TO REPORTING DATE

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group in future financial years other than the following Company announcements:

Date	Details
4 July 2014	Response to ASX Price Query
9 July 2014	Appointment of New Director – Royston Denysschen
14 July 2014	Trading Halt – pending the release of an announcement by the Company.
15 July 2014	Debt Re-Profile Completed – The Company and its lenders have executed definitive long form documents for the Debt Re-Profile consistent with the terms of the legally binding Term Sheet announced on 19 May 2014.
21 July 2014	Conditions Precedent to Debt Re-Profile Satisfied – The Company announces that it has satisfied the conditions precedent to the Debt Re-Profile, which is now effective.
22 July 2014	Quarterly Report – 1 April to 30 June 2014
5 August 2014	Trading Halt – pending the release of an announcement by the Company.
7 August 2014	Sedgman Settlement Update – Further to the Company's announcement on 1 May 2014, the Company advises that it has executed a revised Deed of Settlement and Release (Revised Deed) with Sedgman providing for the Settlement Sum (US\$3.2m) to be paid in four instalments between 31 October 2014 and 30 June 2015. The Company will pay interest on the amounts outstanding at the previously agreed interest rate of 10% per annum with interest falling due on the second, third and fourth instalments. The Revised Deed requires the Company to complete a A\$15 million capital raising by 30 September 2014 in accordance with the Company's proposed capital raising announced on 26 June 2014.
7 August 2014	Boseto July 2014 Production Update
11 August 2014	Board and Management Update – Paul Frederiks will be appointed to the Board as a Non-Executive Director with effect from the date of lodgement of the Company's annual accounts near the end of August 2014 and will be succeeded in the position of Chief Financial Officer and Company Secretary by Kerry Parker.
13 August 2014	Appointment of Alternative Company Secretary – Kerry Parker

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 30: CASH FLOW

Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax

	2014 US\$'000	2013 US\$'000
Profit/(Loss) after income tax	15,002	(224,280)
Non-cash flows in result		
Impairment expenses – exploration, PPE and deferred development	-	205,713
Asset write-down on claim settled *	3,896	-
Interest	12,022	-
Loans forgiven	(50,383)	-
Hedge income	(19,865)	-
Depreciation	21,295	509
Share based payment	393	682
Deferred income tax expense	3,877	(3,453)
Unrealised foreign exchange loss	2,783	96
Profit/(loss) on sale of assets	334	(23)
Changes in assets and liabilities:		
(Increase)/decrease in deferred development costs	(1,101)	139,369
Decrease in receivables	4,135	998
(Decrease)/increase in payables	(1,193)	1,488
Decrease in inventory	2,666	4,151
(Increase) in prepaid expenses and deposits	(679)	(792)
(Decrease) in provisions	(836)	(2,506)
Cash flows from operations	(7,654)	121,952

* This amount arises on the settlement of the Sedgman dispute detailed in Note 25 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 31: CONTROLLED ENTITIES

Controlled Entities Consolidated Subsidiary	Country of Incorporation	Percentage Owned (%)	
		2014	2013
Discovery Copper Mauritius Ltd	Mauritius	100%	100%
Discovery Metals Mauritius Ltd	Mauritius	100%	100%
Discovery Mines Mauritius Ltd	Mauritius	100%	100%
Discovery North East Mauritius Ltd	Mauritius	100%	100%
Discovery Copper Botswana Proprietary Ltd	Botswana	100%	100%
Discovery Metals Botswana Proprietary Ltd	Botswana	100%	100%
Discovery Mines Proprietary Ltd	Botswana	100%	100%
Discovery North East Proprietary Ltd	Botswana	100%	100%

NOTE 32: COMPANY DETAILS

The **Registered Office**
of the Company is:

Level 23
333 Ann Street
BRISBANE QLD 4000

The **Australian** office is:

Level 23
333 Ann Street
BRISBANE QLD 4000

The **Botswana** office is:

Plot 21314 Sebele Station Road
Phakalane
GABORONE, Botswana

NOTE 33: AUDITORS' REMUNERATION

	2014 US\$	2013 US\$
(a) Audit Services		
Amounts received, or due and receivable, for the audit and review of the financial reports of the entity by:		
- Ernst & Young	226,580	225,410
Total audit fees	226,580	225,410
(b) Other Services		
Amounts received, or due and receivable for other services in relation to the entity:		
- Ernst & Young Australia ⁽¹⁾	-	225,226
- Ernst & Young Other	904	81,932
Total Other Services fees	904	307,198
Total remuneration of auditors	227,484	532,608

⁽¹⁾ Other services comprised:

- Advice in relation to incentive plans
- Advice in relation to business strategy including proposed high yield bond
- Accounting advice, tax and other assurance related services

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014 (Continued)

NOTE 34: INFORMATION RELATING TO DISCOVERY METALS LIMITED (PARENT ENTITY)

	2014 US\$'000	2013 US\$'000
CURRENT ASSETS	1,974	2,847
TOTAL ASSETS	62,258	68,382
CURRENT LIABILITIES	1,302	30,626
TOTAL LIABILITIES	1,302	30,626
NET ASSETS	60,956	37,756
EQUITY		
Issued capital	277,898	267,243
Foreign currency translation reserve	26,746	26,746
Share based payment reserve	11,864	11,674
Accumulated losses	(255,552)	(267,907)
TOTAL EQUITY	60,956	37,756
Profit or loss of the parent entity	12,355	(240,736)
Total comprehensive income/ (loss) of the parent entity	12,355	(240,736)

The Company and its wholly-owned subsidiaries, as declared in Note 31 to the Financial Statements, have entered into a deed of cross guarantee under which the Parent Company guarantees the debts of its subsidiaries.

Leasing commitments

The Parent Company leases corporate office and administrative facilities in Brisbane. The leases have varying terms, with options to renew the leases on respective expiry dates. There are no restrictions placed upon the lessee by entering into these leases.

Non-cancellable operating lease commitments contracted for at balance date but not yet incurred are:

	2014 US\$'000	2013 US\$'000
Payable		
- not later than one year	366	430
- later than one year but not later than 5 years	937	1,332
Aggregate lease expenditure contracted for at reporting date but not provided for	1,303	1,762

DIRECTORS' DECLARATION

The Directors of Discovery Metals Limited declare that:

1. The financial statements and notes, comprising the statement of financial position, statement of comprehensive income, statement of cash flows and notes to the financial statements, are in accordance with the *Corporations Act 2001* (Cth):
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Company and the Consolidated Group.
2. The financial statements and notes also comply with International Financial Reporting Statements as disclosed in Note 2.
3. The Chief Executive Officer (interim) and Chief Financial Officer have each declared that:
 - (a) the financial records of the Consolidated Group for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001* (Cth);
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
4. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable taking into account matters disclosed in Note 4 to the financial statements.

This declaration is made in accordance with a resolution of the Board of Directors.



Jeremy Read
Executive Chairman

Brisbane: dated 28 August 2014

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration to the Directors of Discovery Metals Limited

In relation to our audit of the financial report of Discovery Metals Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Brad Tozer
Partner
28 August 2014

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Independent auditor's report to the members of Discovery Metals Limited

Report on the financial report

We have audited the accompanying financial report of Discovery Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



Opinion

In our opinion:

- a. the financial report of Discovery Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without altering our conclusions, we draw attention to Note 4 that describes the principal conditions that raise doubt about the entities' ability to continue as a going concern. As a result of these matters there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 18 to 36 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Discovery Metals Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Brad Tozer
Partner
Brisbane
28 August 2014

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STATEMENT OF MINERAL RESOURCES AND ORE RESERVES

30 June 2014

Boseto Mineral Resources

COPPER–SILVER	2014 Estimate ¹			2013 Estimate ²		
PLUTUS						
Classification	Tonnes (Mt)	Cu (%)	Ag (%)	Tonnes (Mt)	Cu (%)	Ag (%)
Measured	5.0	1.25	11	6.5	1.27	12
Indicated	12.9	1.30	13	12.0	1.30	13
Sub-total (M+I)	17.9	1.29	13	18.5	1.29	13
Inferred	63.8	1.31	14	63.6	1.36	12
PLUTUS TOTAL	81.7	1.31	13	82.1	1.34	12

ZETA						
Classification	Tonnes (Mt)	Cu (%)	Ag (%)	Tonnes (Mt)	Cu (%)	Ag (%)
Measured	2.3	1.28	22	3.1	1.35	22
Indicated	7.7	1.35	25	7.2	1.40	25
Sub-total (M+I)	10.0	1.33	24	10.3	1.38	24
Inferred	8.9	1.78	26	8.5	1.73	25
ZETA TOTAL	18.9	1.54	25	18.8	1.54	24

ZETA NORTH EAST						
Classification	Tonnes (Mt)	Cu (%)	Ag (%)	Tonnes (Mt)	Cu (%)	Ag (%)
Measured	-	-	-	-	-	-
Indicated	2.0	1.50	22	-	-	-
Sub-total (M+I)	2.0	1.50	22	-	-	-
Inferred	9.6	1.47	29	12.9	1.30	22
ZETA TOTAL	11.6	1.48	28	12.9	1.30	22

¹ 2014 Mineral Resources are reported as at 30 June 2014 and exclude all mining depletion to that date. Mineral Resources reported here include any Open Pit and Underground Ore Reserves declared. The 2014 Plutus, Zeta and Zeta NE Open Pit Mineral Resources are reported at cut-off grades of 0.5% Cu in fresh rock, 0.7% Cu in transitional material, and 1.0% Cu in oxide; Underground Mineral Resources are reported above a cut-off grade of 1.08% Cu equivalent (CuEq%), where $CuEq\% = Cu\% + 0.008546 \times Ag(g/t)$ and a 4m minimum mining width. 2014 Plutus, Zeta and Zeta NE Open Pit Mineral Resources are constrained within a pit optimisation run at 1.5 times the Ore Reserves commodity price. Underground Mineral Resources are constrained within the limits of geological interpretation.

² Previous Open Pit Mineral Resources for Plutus and Zeta are reported as at 31 May 2013 and use the same cut-off grades and pit shell constraints adopted for 2014 estimates. Underground Mineral Resources are reported above a cut-off grade of 1.07% Cu equivalent (CuEq%), where $CuEq\% = Cu\% + 0.0113 \times Ag(g/t)$, and a 5m minimum mining width. Previous Mineral Resources estimate for Zeta NE are as at 31 May 2013 at a cut-off grade of 0.6% Cu and excludes oxide material.

STATEMENT OF MINERAL RESOURCES AND ORE RESERVES

30 June 2014 (Continued)

Additional Kalahari Copper Belt Inferred Mineral Resources

COPPER–SILVER	2014 Estimate ¹			2013 Estimate ¹		
Inferred	Tonnes (Mt)	Cu (%)	Ag (%)	Tonnes (Mt)	Cu (%)	Ag (%)
Mineral Resource						
Selene ²	16.0	1.0	16	16.0	1.0	16
Ophion ³	14.0	1.0	12	14.0	1.0	12
NE Mango 1 ⁴	4.8	1.2	13	4.8	1.2	13
NE Mango 2 ⁵	28.5	1.3	14	28.5	1.3	14
TOTAL	63.3	1.2	14	63.3	1.2	14

¹ Mineral Resources are reported as at 31 May 2013 at a cut-off grade of 0.6% Cu and are exclusive of interpreted oxide material (no update between 2013 and 2014 estimates).

² Drill hole data as at 12 January 2012.

³ Drill hole data as at 11 October 2012.

⁴ Drill hole data as at 1 August 2012.

⁵ Drill hole data as at 16 October 2012.

Boseto Ore Reserves

COPPER–SILVER	2014 Estimate ¹			2013 Estimate ²		
Classification	Tonnes (Mt)	Cu (%)	Ag (%)	Tonnes (Mt)	Cu (%)	Ag (%)
PLUTUS OPEN PIT						
Proved	3.7	1.2	11	4.8	1.2	11
Probable	3.0	1.3	14	1.2	1.4	16
PLUTUS TOTAL	6.6	1.2	12	6.0	1.2	12

ZETA OPEN PIT						
Proved	1.2	1.2	20	1.7	1.3	20
Probable	0.1	1.2	23	0.1	1.2	17
Sub-total (Open Pit)	1.3	1.2	20	1.8	1.3	20
ZETA UNDERGROUND ³						
Proved	0.9	1.2	22	0.9	1.2	21
Probable	6.4	1.3	24	6.4	1.3	23
Sub-total (Underground)	7.3	1.3	24	7.3	1.3	23
ZETA TOTAL	8.6	1.3	23	9.0	1.3	22

¹ 2014 Boseto Ore Reserves are reported as at 30 June 2014 and exclude material mined to that date. The cut-off grade used for the Open Pit Ore Reserves varies depending on the metallurgical recovery which itself is dependent on the ratio of acid soluble copper (AsCu%) to total copper (TCu%); the higher the ratio of AsCu% to TCu%, the lower the metallurgical recovery. The resulting average cut-off grade (insitu) is generally in the range of 0.5 to 0.6 % Cu.

² 2013 Boseto Ore Reserves are reported as at 31 May 2013 and exclude all material mined to that date. Due to the relationship between the metallurgical copper recovery and the block S:Cu ratio, no traditional cut-off grade was applicable for the Open Pit Ore Reserves. 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.

³ The economic cut-off grade used to determine the 2014 Zeta Underground Ore Reserves is 1.08% Copper Equivalent (CuEq%), where CuEq% = Cu% + 0.008546 x Ag(g/t), and a 4m minimum mining width; 2013 Zeta Underground Ore Reserves used a cut-off grade of 1.07% Copper Equivalent (CuEq%), where CuEq% = Cu% + 0.0113 x Ag(g/t), and a 5m minimum mining width.

STATEMENT OF MINERAL RESOURCES AND ORE RESERVES

30 June 2014 (Continued)

Notes

- This summary of the Mineral Resources and Ore Reserves reported as at 30 June 2014 should be read in conjunction with the release 'Kalahari Copper Belt Mineral Resources and Ore Reserves Update' which was lodged by Discovery Metals Limited with the Australian Securities Exchange on 14 October 2014.
- The independent consultants, QG Australia Pty Ltd, Xstract Mining Consultants Pty Ltd and Runge Pincock Minarco Limited, completed these estimates of Mineral Resources and Ore Reserves in accordance with the principles of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 Edition (JORC 2012).
- A summary of the estimation process and parameters used in the Mineral Resources and Ore Reserves estimate can be found in the release lodged with the Australian Securities Exchange on 14 October 2014.
- The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to estimate the Ore Reserves.
- The Mineral Resources and Ore Reserves estimates are reported on a 100% ownership basis.
- The tonnes and grades are stated to a number of significant digits reflecting the confidence of the estimate. Since each number and total is rounded individually, the table may show apparent inconsistencies between the sum of rounded components and the corresponding rounded total.
- The Zeta and Plutus Deposits are located adjacent to the Boseto Copper Concentrator in north-western Botswana. The Selene, Zeta NE, Ophion, NE Mango 1 and NE Mango 2 Deposits are located outside the current Boseto mining licence but within the Company's prospecting licences in north-western Botswana in the Kalahari Copper Belt and within potential trucking distance to the Boseto Copper Concentrator.
- The Zeta Deposit remains open along strike and down dip. An Exploration Target mineralised with copper and silver, containing between 7 and 15 Mt at 1.1% to 1.5% Cu and 20 g/t to 25 g/t Ag, remains outside of the stated Mineral Resources and is based on existing drill hole data and very high geological continuity both along strike and down dip of the declared Mineral Resources.
- Copper-silver mineralisation at the Plutus Deposit remains open along strike and down dip. An Exploration Target mineralised with copper and silver, containing between 6 and 19 Mt at 1.2% to 1.3% Cu and 10 g/t to 15 g/t Ag, remains outside of the stated Mineral Resources and is based on existing drill hole data and very high geological continuity both along strike and down dip of the declared Mineral Resources.
- The potential quantity and grade of these Exploration Targets is conceptual in nature; there has been insufficient exploration conducted to complete Mineral Resources estimates, and it is uncertain if further exploration will result in the estimate of Mineral Resources.

Material differences between the current and previous estimates

- There are no material differences to the overall Mineral Resources and Ore Reserves compared to the previous estimate, with depletion due to mining offset by extensions to the Mineral Resources and Ore Reserves as a result of additional drilling having been completed.
- Additional grade control drilling for both Plutus and Zeta has increased their Indicated Mineral Resource estimates since the previous estimate, with the Measured Mineral Resources estimates depleted by mining.
- A significant drilling program for Zeta North East (Zeta NE) has resulted in portions of the previously classified Inferred Mineral Resource being upgraded to Indicated Mineral Resource. Improved delineation of Zeta NE and subsequent modelling supported by geostatistical analysis of the updated drill hole database, has resulted in a decrease in overall tonnage, and in increase in both copper and silver grades.
- Plutus and Zeta Open Pit Proved Ore Reserves have decreased in line with mining depletion, with Plutus Probable Ore Reserves increasing in accordance with the updated Indicated Mineral Resource estimate.
- The Zeta Underground Ore Reserves are effectively unchanged from those reported previously.

STATEMENT OF MINERAL RESOURCES AND ORE RESERVES

30 June 2014 (Continued)

Competent Persons Statements

The information that relates to Additional Kalahari Copper Belt Inferred Mineral Resources (Selene, 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). Mr 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. 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 JORC 2012.

The information 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). Mr Stewart is a full time employee of the QG Australia Pty Ltd, and has no interest in, and is entirely independent of, Discovery Metals Limited. Mr 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 that relates to the Plutus Open Pit, Zeta Open Pit and Zeta Underground Ore Reserves is based on information compiled by Mr Joe McDiarmid, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM(CP)). Mr McDiarmid is a full time employee of Runge Pincock Minarco Limited, and has no interest in, and is entirely independent of, Discovery Metals Limited. Mr McDiarmid 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 Readford, Stewart, and McDiarmid 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.

Forward Looking Statements

This document 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.

SUSTAINABILITY UPDATE



2014 SUSTAINABILITY OBJECTIVES

Objective	2014 Target
Zero Harm to Employees and Contractors	Zero Lost Time Injuries Zero Fatalities
Sustainable saline water production	Extract saline water within licence limits
Minimise social and environmental impacts	Nil disruptions of operations due to community issues Nil environmental incidents above minor consequence rating
Support local Botswanan employment opportunities – target	95% Botswanan employees, including 10% women, and maximum of 5% expatriates
Create a significant economic contribution	Royalties, taxes to government as per licencing agreements and Botswanan law
Regular consultation and engagement with community	Regular quarterly updates on operations, weekly informal contacts and consultation forums as required
Support HIV/AIDS awareness	Conduct training, voluntary testing, provide counselling and support for Boseto employees in co-operation with Government authorities

SAFETY AND HEALTH

Our guiding principles are that:

- all injuries are preventable;
- working safely is a condition of employment; and
- health exposures in the workplace can be controlled.

Safety performance is a major and ongoing focus of Discovery Metals. In 2014, the Company continued to further develop safety management and incident reporting systems to provide comprehensive safety, health and risk management for the operations in compliance with AS4801 and ISO31000, ensuring effective management and follow-up of incidents, including preventative and corrective actions and reporting.

Total Injuries for DML and Contractors – July 2013 to June 2014

	Jul-13		Aug-13		Sep-13		Oct-13		Nov-13		Dec-13		Jan-14		Feb-14		Mar-14		Apr-14		May-14		Jun-14		Totals	
	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON	DML	CON
Fatalities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LTIs	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	2	1
MTIs	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	1	1
RWIs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
FAIs	0	2	3	0	4	2	4	0	1	0	0	0	1	0	1	0	2	0	1	0	2	2	2	3	21	9
Totals	0	2	4	0	4	2	4	0	1	0	1	0	1	1	1	0	2	1	2	0	2	2	2	4	24	12

In the year to 30 June 2014, the combined all injury rates for employees at the Boseto and exploration sites was 2.52 per 200,000 hours worked and the occupational disease rate was zero. There were 3 Lost Time Injuries at the Boseto Operations; these lost time days included all days when employees were not able to perform their normal role i.e. days on restricted duties, but it does not include days lost or sick days.

SUSTAINABILITY UPDATE

[Continued]

ENVIRONMENTAL

The Company has adopted best practice environmental standards in accordance with the Equator Principles, International Finance Corporation (IFC) Performance Standards and ISO 14001. We are committed to full certification to ISO14001 standards by the end of 2015. An Environmental Management System is being established to support compliance with these standards and is subject to formal six monthly reviews by the Boseto lending syndicate. An extensive programme of monitoring of environmental, production and regional rancher bores, groundwater modelling and biodiversity is in place. The development of water, land and waste management plans has been substantially completed.

Compliance

The Company's activities comply with the laws and regulations of Botswana and Australia. In 2014, Discovery Metals has not been subject to any fines or penalties for non-compliance with environmental standards in these countries. Social, environmental and operational audits were conducted during the year by external third-party specialists and the Botswana Department of Environmental Affairs, with no significant issues identified which were not already understood and being actioned. Regular formal reviews found that the development of systems and practices to meet IFC performance standards was substantially complete this year.

Spills and Incidents

All environmental incidents are reported in Boseto's safety, health, environment and community Incident Reporting System. No major spills or other environmental incidents were recorded in 2014.

Twenty four minor hydrocarbon spill incidents were recorded; generally minor oil spills of less than 20 litres, associated with failure of hydraulic hoses or maintenance issues with equipment. All twenty four incidents were ranked as moderate or lower, in accordance with Discovery Metals' Risk Consequence matrix. There were four other minor spills recorded involving slurry, reagent, sewage and concentrate.

Energy and greenhouse gas emissions

Diesel fuel is used to operate mobile fleet and vehicles and to generate electricity for the Boseto Operation. Eight diesel generator units are used on site, each nominally of 2.1MW. A preventative maintenance programme, including the upgrade of cooling systems, turbos and fuel injectors continues to ensure the units operate efficiently and minimise emissions.

In 2014, total power consumed within Boseto was 80,028 MWh, of this 18,478 MWh of energy was purchased or consumed from APR hired diesel generators. Options to convert to the national electricity grid depend on the construction of an extension to the national grid which is currently under consideration by the Government of Botswana, and solar power initiatives are also currently being evaluated.

The installation of an automatic monitoring system for wind, rain, temperature, humidity, particulate matter, nitrous oxides and sulphur oxides has been completed and greenhouse gas emissions associated with the Boseto Operations are reported in the table below.

Materials Usage

Discovery Metals endeavours to use materials efficiently, and key materials consumed at Boseto during the reporting period are listed in the table below.

Materials	Total Consumption 2013/14
Ore processed	2,389,031 tonnes
Electricity (generated by DML diesel generators)	61,550 MWh
Electricity (generated by APR backup diesel Generators)	18,478 MWh
Diesel Fuel - Electricity	17.06 Megalitres
Diesel Fuel-Mobile Fleet and Vehicles	24.58 Megalitres
Diesel Fuel – Mobile Fleet, Vehicles and Electricity	41.64 Megalitres
Explosives	7,369.6 tonnes
Grinding Media	1,374 tonnes
Collector PAX	167 tonnes
Frother	118 tonnes
NaHS	453 tonnes
Flocculant	88 tonnes
Saline Water from local Ecca Graben aquifer	2.3m cubic metres
River Water from Nhabe River	621,499 cubic metres
Top soil stored for rehabilitation works	356, 600 cubic metres
Volume of Water Recycled from Tailings Dam	101,254 cubic metres
% Water recycled	4.6%
Greenhouse gas emissions	131,878.183 tonCO ₂ /tonfuel)

Waste and Recycling

Production waste

Discovery Metals is actively working to reduce waste and use resources more efficiently through the implementation of a Waste Management Plan.

A total of 441.7 tonnes non-hazardous/general waste collected materials were disposed of through Government certified waste management contractors, including 395 cubic metres of used oil and 51.4 cubic metres of used grease in 2014. Approximately 29,785 cubic metre of sewage water was treated in 2014, including that transferred from Boseto and also water treatment backwash water.

Waste Rock Stockpiles and Tailings Dam

All waste rock is stored in engineered waste rock stockpiles with a maximum height of 30 metres. These stockpiles will be rehabilitated with a soil cover and vegetation when construction is complete. Samples are collected and tested to determine the waste rock's propensity to produce acid rock drainage (ARD) and to support the development of an appropriate management plan. Thirty-eight waste rock and pit floor samples from Zeta pit were tested by October 2012 and a further 62 from Zeta and Plutus pits were tested by June 2013. The results of these tests, and tests completed during the Bankable Feasibility Studies, indicate that the risk of ARD is low. 31,719,760 tonnes of waste rock were added to the stockpiles in 2014.

SUSTAINABILITY UPDATE

[Continued]

All overflow water from the process plant tailings thickener is recycled in the process plant. The partially dewatered tailings (60% solids) are then pumped to the tailings dam and water is recovered for re-use as process water. There is, therefore, no effluent from the tailings dam and the high local evaporation rate of 800mm per year ensures rapid drying of the tailings in the dam. Monitoring bores located around the tailings dam did not detect any contaminated seepage from the dam in 2014.

A comprehensive ARD Monitoring Procedure has been developed. The main objective of the procedure is to predict the drainage chemistry and determine the type, magnitude, location and timing of measures required to ward off significant environmental impacts. The procedure therefore purports to confirm and build on the existing ARD data, use this data to refine mine water and waste management practices, and develop appropriate data to inform closure management measures. Additionally, a Geochemical Characterisation study was undertaken to assess the potential impacts associated with possible generation of acid and/or metal rich or saline leachates from the disturbed environment of Zeta and Plutus Open Pit mining at Boseto Mine.

As part of the assessment, appropriate management measures are indicated. This study is based on the current and planned mining activity. A total of 103 samples of rock, stockpiles and tailings have been analysed. The Conceptual Model of drainage chemistry was developed in order to understand the nature of the drainage system and estimate the impact on ground and surface water quality. The model is supported by the groundwater numerical model improved and managed by Water Surveys Botswana, groundwater consultants for the DCB.

Water Management

All water consumed in Boseto's process plant and associated support infrastructure is pumped from six production bores, all within about 13 kilometres from the plant. The bores source water from the Ecga Graben aquifer to the north-west of the mine footprint. The aquifer is deep and saline, with total dissolved solids around 35,000mg/l.

In the area around the pits and the plant, the Ghanzi Group aquifer boreholes have high salinity, with TDS of over 5000mg/l in shallower boreholes and 19,000mg/l in the Zeta Open Pit dewatering boreholes, which are hosted in the Ngwako Pan Formation (NPF).

2.3 million cubic metres of saline groundwater was consumed during the annual period of process operations to 30 June 2014 and is within the Water Apportionment Board limits on a monthly basis.

Biodiversity

A Biodiversity Management Plan has been implemented for the Boseto Operation and biodiversity monitoring is undertaken in both the wet and dry seasons.

The area surrounding Boseto is predominantly used for grazing. Two critical habitats occur within close proximity to the Boseto Operation, but are not directly impacted by the mining operations as they lie outside of the Mining Lease Area.

They are:

- Kgwebe Hills – has biodiversity features that are culturally important to the Nharo people; and
- Tale Pan – has a high biodiversity value due to the large number and diversity of wetland bird species that occur there when it holds water.

Though outside the Project Area, Lake Ngami is also included in the Company's monitoring activities as it is listed as a semi-pristine environment, an important birding site and is awaiting declaration as a Nature Reserve.

Bull elephants are listed as 'Vulnerable' on the IUCN Red Data List and frequently visit the Boseto Operation area. Their movement into the Boseto area is in conflict with the existing land use (livestock) and may potentially conflict with the operation of the mine, namely the tailings dam. Elephants are therefore an important focus of the Biodiversity Management Plan.

The most significant potential impact associated with the Boseto Operation activities is secondary habitat disturbance. To address this potential impact, Discovery Metals has limited the area to be cleared (including roads, power line and pipeline routes) to only that necessary for operational activities. Signs have been erected to clearly mark the boundaries of the Boseto Operation. Other potential impacts addressed in the Management Plan include weeds and invasive species, pest and problem animals, fire management and the Nharo people's access to Kgwebe Hills.

Land Management

The total land area disturbed by the Boseto Operation was 676.5 hectares (ha) in 2014, being only 16.3% of the total mine lease area of 4,137.3 ha. Rehabilitation works have been undertaken to date on a borrow pit of 1.8 ha.

Topsoil has been collected from all areas disturbed during construction of the mine and infrastructure. This material has been stored for later use in rehabilitation of the engineered stockpiles, tailings dam walls and other disturbed areas no longer required for the operations. Seed collection from local native species is planned and a nursery will be established to provide seedlings for rehabilitation works. Further rehabilitation programmes are expected to commence in the next reporting period.

A rehabilitation management plan has been developed and it is mainly focused on progressive rehabilitation of disturbed areas where work has totally ceased. Rehabilitation trials on waste dumps were started at Zeta and the results of the trials were good as vegetation grew to cover up the dump area selected. A mine closure plan was developed during the Bankable Feasibility Study (BFS) and will be updated in 2015.

Air Quality and Noise Monitoring

Preventative maintenance programmes have been implemented on mobile equipment and the best available technology is used for controlling dust from the ore processing operations. Dust extraction controls have been installed at transfer points in the process plant and water sprays are also used at the crusher feed ore bin. Dust suppression with water sprays has been used on all gravel roads around the mine site. Sandy areas around the plant have been gravelled to minimise airborne dust.

An occupational hygienist conducted a full site Baseline Health Risk Assessment, including noise tests on mining and processing operations in 2012, and dust and noise monitoring commenced in 2013. An integrated monitoring plan has been implemented in 2014 and improvements have been made during the reporting period to reduce noise generated by the operations, together with designation of plant areas where hearing protection is required.

An air quality and weather monitoring programme was implemented in July 2013 with the installation of an automatic monitoring station.

Archaeological Finds

The Operations area is potentially rich in sites of archaeological, historical and cultural significance. A number of sites in the Operations area have been registered with the Botswana National Museum. Archaeological approval for the Boseto Operations was granted by the National Museum in March 2009. An archaeologist accredited by the National Museum participated in all land clearances and disturbance at the Boseto site.

A Chance Finds Procedure has been implemented, requiring pre-work surveys and assessment and reporting of any finds to the National Museum.

In the year to 30 June 2014, there were no artefacts or cultural finds on the Operations site or along preferred infrastructure routes.

Recent environmental studies for the mine lease enlargement were also subjected to an Archaeological Impact Assessment and no significant archaeological resources were noted.

SUSTAINABILITY UPDATE

[Continued]

EMPLOYMENT

Through the Boseto Operation, Discovery Metals provides an important opportunity for employment in a region where few other opportunities exist and is committed to local recruitment where the skills, or capacity for development, are available. Our site employment policy is to favour local, then Botswanan, then expatriate employees, provided they have the appropriate qualifications, skills and experience for the role.

The table below details employment statistics for the Boseto Operation for the reporting period.

All Depts – Direct Labour	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Mining	226	226	226	227	225	223	195	196	194	194	192	190
Plant Processing	109	108	108	108	106	105	73	72	71	71	71	72
Maintenance & Facilities	120	121	121	120	120	117	112	110	109	106	105	106
Tech Services	39	37	37	35	35	35	29	30	30	30	29	31
OHS & Environment	6	5	5	5	5	5	5	5	5	5	5	3
HR & Community	8	8	8	8	8	8	8	9	9	9	9	8
Commercial & Admin	23	24	27	27	26	25	23	23	21	21	22	22
Total Boseto Direct Headcount	531	529	532	530	525	518	445	445	439	436	433	432
Nationals	499	498	501	498	493	486	416	415	412	411	410	409
Expatriate Employees	32	31	31	32	32	32	29	30	27	25	23	23

At the end of the reporting period this represented 94.88% national employees and 5.12% expatriate employees.

COMMUNITY

Our relationship with the Botswana community and Government is fundamental to our business. Discovery Metals is committed to meaningful engagement with employees and local communities for shared benefits. Our guiding principles are that:

- we engage openly, listen, and respond;
- our communities are our partners; and
- benefits created for our stakeholders outweigh impacts.

Boseto is the first mining activity in the district, providing a range of socio-economic benefits including direct employment and opportunities to supply of goods and services directly to the operations and to our employees, contractors and their families.

Regular consultation and engagement, primarily with local community representatives, affected landholders, local politicians and Government agencies continued in 2014. The main contact reasons related to farmer land compensation, water bore and access issues, employment opportunities, community consultation meetings and forums, Government administration interactions, exploration access to farms, mine tours by various community and Government groups, requests for support and complaints on blasting noise.

Compensation for affected landholders

Compensation procedures are in place to support local landholders affected by the Boseto Operations and due process is being undertaken by Discovery Metals wholly through the recognised Government channel of the Tawana Land Board (TLB). All grievances are handled by the TLB and there is no negotiation by farmers directly with the Company. Four out of nine affected landholders have been compensated in accordance with rates set by the local TLB. Delays in finalising compensation are due to Land Board procedural issues, land ownership disputes subject to court actions, and on-going negotiations with affected farmers by the TLB. Discovery Metals is committed to continuing dialogue and grievance reviews with the TLB and affected landholders in 2015.

ECONOMIC CONTRIBUTIONS

Discovery Metals is committed to supporting local employment and suppliers of goods and services. In 2014, approximately 75% of supplier spend was directed to Botswana based suppliers.

In addition to geographic location, supplier selection is also influenced by other factors including cost and environmental and social performance. These considerations are reflected in our Botswana Supplier Application Form, and are also assessed as part of on-going supplier monitoring and at contract renewal.

Total expenditure that provided socio-economic benefit to the local and regional community in the year to 30 June 2014 through taxes, royalty payments, employee salaries and supplies and services purchased in Botswana.

1. Shareholdings (as at 30 September 2014, unless otherwise stated):

- a. The names of the substantial shareholders listed in the Company's register are (as at 30 September 2014):

Shareholder	Number of Ordinary Fully Paid Shares	% Held of Issued Ordinary Capital
Transamine Trading	84,005,163	13.04
Blumont Copper	64,714,633	10.05
Transaminvest	35,867,105	5.57

- b. As at 30 September 2014, there are 5,967 registered holders of fully paid ordinary shares in the Company on the Australian Securities Exchange.

There were also 1,062 registered holders of fully paid ordinary shares in the Company on the Botswana Stock Exchange.

- c. Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

- d. Distribution of Shareholders Numbers (as at 30 September 2014)

Category (size of Holding)	Number of Ordinary Shareholders
1-1,000	850
1,001-5,000	1458
5,001-10,000	918
10,001-100,000	2,086
100,001 and over	655
Registered on the ASX	5,967

- e. There are 3,709 registered holders with a less than marketable parcel shareholding in the Company.

- f. 20 Largest Shareholders – Fully paid ordinary shares (as at 30 September 2014)

Shareholder	Number of Ordinary Fully Paid Shares	% Held of Issued Ordinary Capital
Transamine Trading	84,005,163	13.04
Blumont Copper	64,714,633	10.05
Transaminvest	35,867,105	5.57
Guotai Junan Securities HK	25,000,000	3.88
Genesis Emerging Markets Opportunities Fund Ltd III - Africa Fund	5,689,068	0.88
UBS Securities Australia Ltd	5,424,399	0.84
Mr Ian E Bollen	5,301,205	0.82
Mr Peng Lim Oon	4,450,000	0.69
Indigo Pearl Capital	4,166,667	0.65
Greenvale Asia	4,166,667	0.65
Government of Norway	4,009,686	0.62
Private Clients of UBS AG Zurich	3,627,941	0.56
Mr & Mrs Gary R Gibbs	3,600,000	0.56
Mr Ross D Spearritt	3,303,323	0.51
Messrs Michael W Daniel & Nigel GL Burton & Michael M Benjamin	3,000,000	0.47
Messrs Kevin A Boyland & Jeff Leech-Hines & Ms Lynn Peterson	2,946,616	0.46
Mr Stephen F Donnelly	2,861,502	0.44
Mr Dacheng Yu	2,780,000	0.43
Credit Suisse AG Zurich	2,743,001	0.43
Mr Robert P Martin	2,600,000	0.40
	270,256,976	41.96

2. The name of the Company Secretary is Kerry Parker (from 30 August 2014). Previously, it was Gregory Seeto (to 10 October 2013) and Paul Frederiks (to 29 August 2014).
3. The address of the Company's registered office and principal administrative office is:

Level 23
333 Ann Street
Brisbane QLD 4000

Telephone: +61 7 3218 0222
Facsimile: +61 7 3218 0233
4. The Company's register of securities is held at:

Computershare Investor Services Pty Limited
117 Victoria Street
West End QLD 4001

Telephone: +61 7 3237 2100
Toll free number: 1300 552 270
5. The Company's address in Botswana is:

Plot 21314 Sebele Station Road
Phakalane Gaborone
Botswana

Telephone: +267 318 0751
Facsimile: +267 318 0752
6. The Company's fully paid ordinary securities are quoted on the Australian Securities Exchange under the ticker DML. The Company is also listed on the Botswana Stock Exchange under the ticker DML.
7. At 30 June 2014, the Company had no options on issue.
8. The Company does not have any restricted securities or securities subject to voluntary escrow. There is no current on-market buy-back.

CORPORATE DIRECTORY

Investor Information Contacts

Robert (Bob) Fulker

Chief Executive Officer

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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

Royston Denysschen – Non-Executive Director

Ribson Gabonowe – Non-Executive Director

Russell Luxford – Non-Executive Director

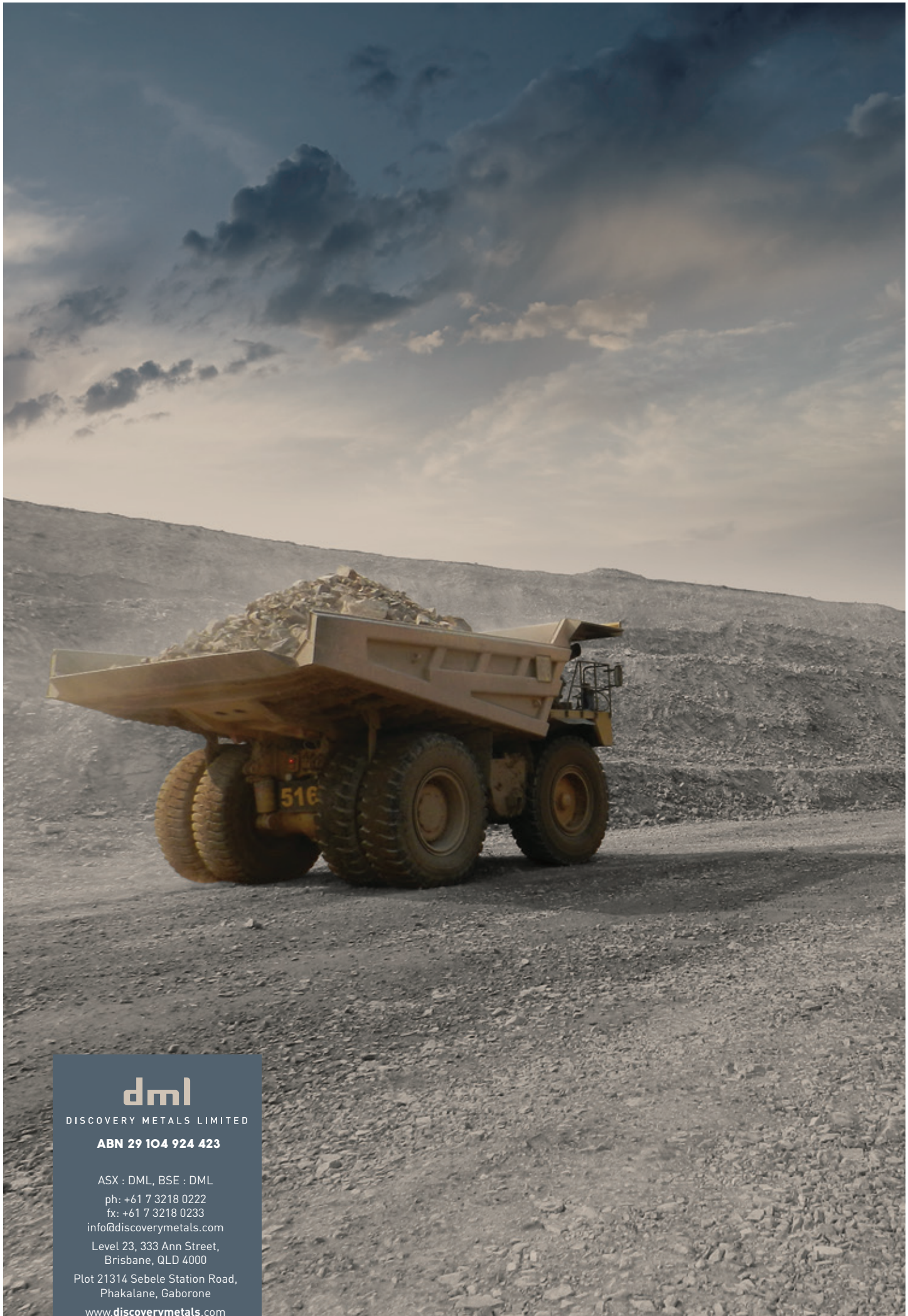
Company Secretary

Paul Frederiks (to 29 August 2014)

Kerry Parker (from 30 August 2014)

2014





dml

DISCOVERY METALS LIMITED

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