Mining at Zeta Pit

ASX/BSE: DML

MARKET CAPITALISATION

Shares on Issue	**487m**
Share Price	**A$1.70**
Market Cap	**A$828m**
Cash (16 Nov)	**US$77.3m**
Debt (16 Nov)	**US$205m**

ABN **29 104 924 423**

CONTACTS
Brad Sampson
Managing Director
Phone: +61 (7) 3218 0222

Paul Frederiks
Chief Financial Officer
Phone: +61 (7) 3218 0220

WEBSITE
discoverymetals.com

BOARD OF DIRECTORS

Chairman
Gordon Galt

Managing Director
Brad Sampson

Non-Executive Directors
Morrice Cordiner
Ribson Gabonowe
Niall Lenahan
Jeremy Read
John Shaw

Company Secretary
Greg Seeto

REGISTERED OFFICE
Level 23, 333 Ann Street,
Brisbane, QLD 4000, Australia
Phone: +61 (7) 3218 0222
Fax: +61 (7) 3218 0233
info@discoverymetals.com

BOTSWANA COUNTRY OFFICE
Plot 21314 Sebele Station
Road, Phakalane, Gaborone,
Botswana
Phone: +267 318 0751
Fax: +267 318 0752

DISCOVERY METALS LIMITED

23 November 2012

ASX ANNOUNCEMENT

Discovery Metals Limited

DML Board recommends Shareholders REJECT Takeover Offer

- The Independent Expert has concluded that the Offer by Cathay Fortune Investment Limited of $1.70 per DML Share is **NEITHER FAIR NOR REASONABLE**.
- The Offer is **opportunistically timed to exploit a period of temporary share price weakness**.
- The Offer Price of $1.70 per share is inadequate. It represents an **insufficient premium of only 17%** to the closing share price on 3 October 2012.
- DML is well positioned to **deliver future value to shareholders** through:
    - the **planned, low cost expansion of Boseto** production to more than 50ktpa production by 2015; and
    - development of future growth options, **including potential parallel projects**.
- DML's **Kalahari Copperbelt prospecting licences are highly prospective** for further growth in Mineral Resources as demonstrated by the recent maiden Mineral Resources at NE Mango 2 and Ophion.
- The Company holds **significant strategic value** as the first producer in the Kalahari Copperbelt, and is positioned to benefit **from a favourable copper market outlook.**
- The DML Board recommends that shareholders **REJECT THE OFFER.**

Discovery Metals Limited today releases its Target's Statement in response to Cathay Fortune Investment Limited's takeover Offer. The Independent Expert has concluded that the current fair market value of a DML Share is in the range of $1.74 to $2.11, which is above the Bidder's Offer Price of $1.70.

Discovery Metals Chairman Gordon Galt said the Cathay Fortune Investment offer fundamentally undervalued Discovery Metals. "The Board and management of Discovery Metals continue to work hard to deliver further value for shareholders and will keep investors informed about progress with Boseto, its planned expansion and our exciting exploration opportunities. For the reasons set out in the Target's Statement, we recommend that shareholders **REJECT THE OFFER**.

"The Bidder would not be offering to buy your Shares at the Offer Price unless it expected to make a good return, and this return should be yours to collect by holding your Shares."

To REJECT THE OFFER, simply DO NOTHING.

Dump truck transporting a load of ore

Workers at the Boseto Copper Project

Concentrate shed

Bagged concentrate

We ***attach*** a copy of the Company's Target's Statement in response to the off-market takeover bid by Cathay Fortune Investment Limited, as set out in its Bidder's Statement dated 8 November 2012.

The Target's Statement has been sent to the Company's shareholders today. A copy of the Target's Statement has also been lodged with the Australian Securities and Investments Commission and sent to Cathay Fortune Investment Limited today.

Shareholder information line

Should shareholders have any queries regarding the Offer, please contact the Discovery Metals Shareholder Information Line on **1800 207 622** (toll free within Australia) or **+61 2 8280 7220** (callers outside Australia).

Forward looking statements

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

Discovery Metals Background

Discovery Metals is an ASX/BSE listed copper exploration and production company focused on the emerging Kalahari Copperbelt in north-west Botswana. The Company is a copper producer at its 100% owned Boseto Copper Project.

The Kalahari Copperbelt sediment-hosted mineralisation of the Boseto copper project is similar in style to the well-known and large deposits of the Central African Copperbelt of Zambia and the Democratic Republic of the Congo.

Discovery Metals has prospecting licences covering 11,872 km^2 along the Kalahari Copperbelt.

Further information on the Company including Mineral Resources and Ore Reserves is available on our website: www.discoverymetals.com

For further information on this release and Discovery Metals Limited, please contact:

Brad Sampson Managing Director Ph: +61 7 3218 0222 brad@discoverymetals.com

Richard Saywell Managing Director, UBS Investment Bank Ph: +61 2 9324 2142

UK PR – Tavistock PR, Contact Jos Simson/Emily Fenton
Ph +44 207 920 3150 or +44 778 855 4035

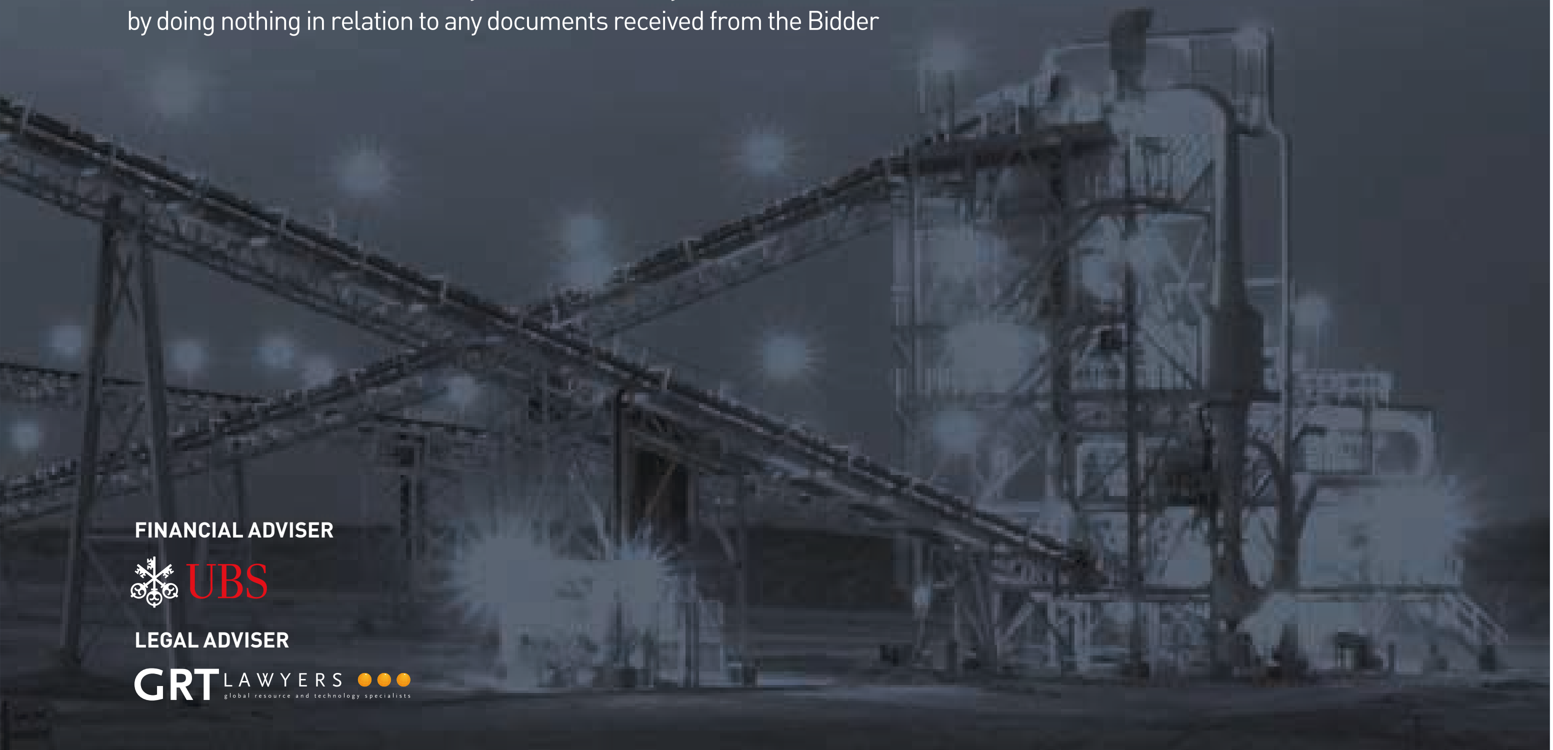
CONTACT DETAILS
Level 23, 333 Ann Street,
Brisbane, QLD 4000, Australia
Phone: +61 (7) 3218 0222
Fax: +61 (7) 3218 0233
info@discoverymetals.com

target's statement

dml
DISCOVERY METALS LIMITED

REJECT
CATHAY FORTUNE INVESTMENT LIMITED'S 鸿商投资有限公司
OFFER

Your DML Directors unanimously recommend that you **REJECT THE OFFER** by doing nothing in relation to any documents received from the Bidder



FINANCIAL ADVISER

UBS

LEGAL ADVISER

GRT LAWYERS
global resource and technology specialists

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you do not understand it or are in doubt as to its contents or how to act, please contact your professional adviser immediately.

This Target's Statement is issued by Discovery Metals Limited ACN 104 924 423, in response to the bid by **Cathay Fortune Investment Limited** to acquire all your shares in Discovery Metals Limited.

CONTENTS

SHAREHOLDER INFORMATION LINE

Discovery Metals has established a Shareholder Information Line which Shareholders should call if they have any queries in relation to the Offer. The telephone number for the Shareholder Information Line is:

> within Australia: 1800 207 622

> outside Australia: +61 2 8280 7220

KEY DATES

Date of the Bidder's Offer	**8 November 2012**
Date of this Target's Statement	**23 November 2012**
Close of the Offer Period (unless extended)	**13 December 2012, 7.00pm AEDST**

THE 3 REASONS TO REJECT THE OFFER

REASON 1 THE OFFER OF $1.70 PER SHARE IS INADEQUATE

REASON 2 DISCOVERY METALS IS WELL POSITIONED TO DELIVER FUTURE VALUE TO OUR SHAREHOLDERS

REASON 3 THE BIDDER WANTS TO EXTRACT VALUE AT YOUR EXPENSE

REASON

1

THE OFFER OF $1.70 PER SHARE IS INADEQUATE

- The Offer does not reflect the full value of the business
- The Offer is opportunistically timed to exploit temporary share price weakness, coinciding with a substantial shareholder reducing its shareholding
- The Offer represents an insufficient premium to the closing Share price as at 3 October 2012
- The Enterprise Value / Mineral Resources multiple implied by the Offer Price is low compared to the average trading multiple of comparable ASX copper producers
- The Offer is below the Independent Expert's valuation range

...FOR MORE INFORMATION OUTLINING THE REASONING PLEASE REFER TO PAGE 13

DISCOVERY METALS IS WELL POSITIONED TO DELIVER FUTURE VALUE TO OUR SHAREHOLDERS

REASON 2

- Discovery Metals plans to increase Boseto throughput by 67% to 5Mtpa and copper production to over 50ktpa by 2015 at low capital cost
- Planned switch to coal–fired power is expected to deliver a significant reduction in operating costs
- Discovery Metals' extensive prospecting licences in the Kalahari Copperbelt provide major potential for increased Mineral Resources
- Discovery Metals is positioned to benefit from a favourable market outlook for copper
- Discovery Metals plans to return value to Shareholders via Share Price growth and dividends

...FOR MORE INFORMATION OUTLINING THE REASONING PLEASE REFER TO PAGE 19

REASON 3

THE BIDDER WANTS TO EXTRACT VALUE AT YOUR EXPENSE

- Discovery Metals' management has created significant value for Shareholders
- As the first copper producer in the Kalahari Copperbelt, Discovery Metals has first mover advantage and significant strategic value
- Discovery Metals holds substantial scarcity value as one of only a few successful, independent, Australian listed, emerging copper producers
- Discovery Metals has systematically been unlocking the value of the Kalahari Copperbelt over the last seven years whilst prudently managing cash. Discovery Metals is only part way through this strategy and the Bidder seeks to acquire the latent value for itself
- The Bidder overemphasises the risks associated with Discovery Metals in an effort to reduce the perceived value of the Company
- The Bidder has outlined a limited set of plans and capabilities and is relying on an inadequate Offer Price to extract value at your expense
- The Bidder has not declared its Offer final

...FOR MORE INFORMATION OUTLINING THE REASONING PLEASE REFER TO PAGE 25

chairman's letter

Dear fellow Discovery Metals Shareholder,

REJECT CATHAY FORTUNE INVESTMENTS' TAKEOVER OFFER

I am writing to you in response to the recent unsolicited, conditional takeover Offer announced by Chinese entity Cathay Fortune Investments Limited.

Your Directors believe that the Offer Price of $1.70 per Discovery Metals Share is inadequate and does not reflect the full value of the company and its future prospects. Accordingly, your Directors unanimously recommend that you **REJECT THE OFFER.**

Directors believe the key reasons you should **REJECT THE OFFER** are:

1. The Independent Expert has concluded that the Offer is neither fair nor reasonable.
2. The Offer represents an insufficient premium to the closing Share Price as at 3 October 2012 in the context of a change of control.
3. The Offer is opportunistically timed to exploit a period of temporary share price weakness, which coincided with sales of DML Shares by a substantial institutional holder.
4. The Company is positioned to deliver future value through implementation of significant expansion initiatives.
5. The Company has well-developed plans to reduce operating costs.
6. Discovery Metals holds extensive prospecting licences in the highly prospective Kalahari Copperbelt which provide major potential for growth in Mineral Resources.
7. The Company holds significant strategic value and is positioned to benefit from favourable copper market trends.
8. Cathay Fortune International Limited's (or Bidder's) Offer is conditional and uncertain.

Each of your Directors intends to **REJECT THE OFFER** for the Shares they hold in Discovery Metals.

To REJECT THE OFFER, simply DO NOTHING.

Discovery Metals has made excellent progress over the last seven years with your continuing support and encouragement. We have weathered significant periods of global uncertainty during that time and have succeeded in building our copper production project in Botswana. We have completed construction of the project on time and on budget, and in doing so we have demonstrated our management capability and substantially reduced investor risk.

We commenced commissioning the Boseto project in June this year, thereby becoming the first company to produce copper from the highly prospective Kalahari Copperbelt and we generated positive cash flows for the first time in September. As we continue to ramp up production at Boseto, and fine tune our mining and processing operations, we expect to begin generating consistent strong cash flows for our shareholders.

Your Board and management have never been content to rest with a 3Mtpa project, as you all know. We have consistently said that we would get on with further exploration when we were appropriately funded and then would expand operations as we brought more reserves into inventory. In 2012 we have done just that, adding 96Mt of Mineral Resources even as we were completing construction and commencing the commissioning of Boseto. We now have advanced plans to expand throughput by 67% from 3Mtpa to 5Mtpa over the next two years based on these increased resources. We expect that we will deliver further resources as we continue exploration and that these will provide us with more value adding opportunities via extensions and expansions.

Your Board and management are working hard to deliver value to shareholders and we will continue to keep investors informed about the progress we are making with the Boseto operation and its planned expansion, as well as our exciting exploration opportunities.

The Independent Expert has concluded that the fair market value of a Discovery Metals Share is in the range $1.74 and $2.11, which is above the Bidder's Offer Price of $1.70 per Share. It is also important to note that the Independent Expert has placed only low valuation on the Company's extensive exploration territory in the Kalahari Copperbelt – territory the Company believes to hold substantial prospectivity and significant value. The Company has explored only approximately 375km of the 1,500km prospective strike horizon of the Company's Kalahari Copperbelt prospecting licences and believes that exploration of the remainder of the horizon is likely to identify a number of potential project sites to replicate the Boseto project. Clearly, the Bidder's Offer undervalues your Company.

As you would expect, the Offer by Cathay Fortune Investment Limited has put your Company 'in play' with other parties. There are a number of highly credentialed and financially capable parties in discussion with the Company, knowing that the minimum price has been set with the Bidder's Offer 'on the table' at $1.70 per share. The Company has not received a firm alternate proposal at the date of this Target's Statement, and there is no guarantee that an alternate proposal will arise but your Directors will continue to pursue value enhancing opportunities

For the reasons outlined above and elsewhere in this Target's Statement, we recommend that you **REJECT THE OFFER**. The Bidder would not be offering to buy your Shares at the Offer Price unless it expected to make a good return, and this return should be yours to collect by holding your Shares.

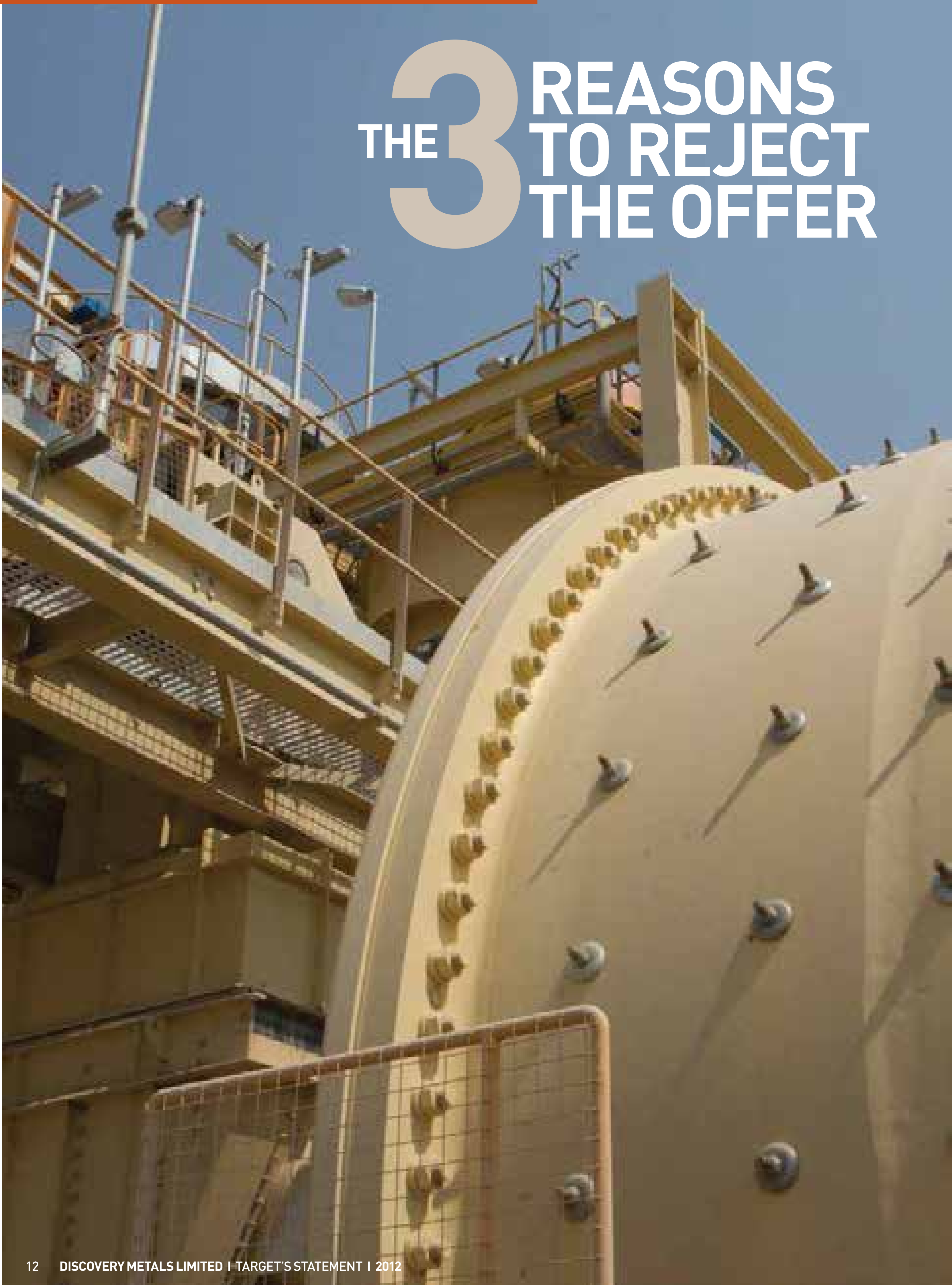
On behalf of all Directors of Discovery Metals, I thank you for your continued support as evidenced by the successful Annual General Meeting last Friday

If you have any queries please contact the Discovery Metals Shareholder Information Line on 1800 207 622 (toll free within Australia) or +61 2 8280 7215 (callers outside Australia).

Yours sincerely,

Gordon Galt
Chairman

THE 3 REASONS TO REJECT THE OFFER



REASON 1

THE OFFER OF $1.70 PER SHARE IS INADEQUATE

THE OFFER DOES NOT REFLECT THE FULL VALUE OF THE BUSINESS

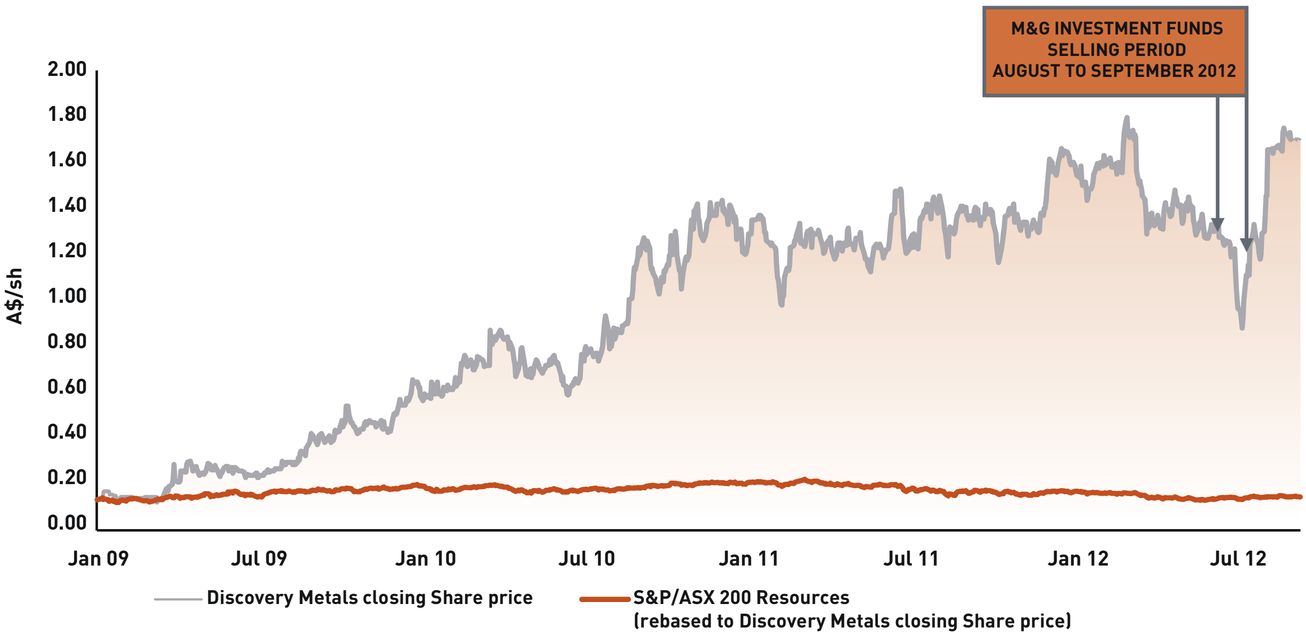
- Discovery Metals has spent the past seven years developing the Boseto copper project and is now on the verge of delivering significant cash flows from the project.
- The ongoing commissioning of Boseto has substantially reduced project risks.
- Boseto has already delivered over 10,000t of copper concentrate from June to October 2012. The concentrate is a high quality, low impurity concentrate, making it attractive to copper buyers.
- Discovery Metals has established Mineral Resources of 207.2Mt @ 1.3% Cu and 16g/t Ag, with major potential within its extensive prospecting licences in the Kalahari Copperbelt.
- This resource base is expected to support:
  - The planned expansion to increase Boseto throughput by 67% to 5Mtpa and copper production to over 50ktpa by 2015 at low capital cost,
  - Further material growth options including potential parallel projects.
- As the first copper producer in the Kalahari Copperbelt, Discovery Metals has first mover advantage and significant strategic value:
  - Sizeable platform for growth in this emerging copper province,
  - Strong relationships with Government and communities in Botswana, which is independently recognised as one of the world's most attractive locations for mining investment.
- Discovery Metals offers the potential for manganese and gold discoveries from recently obtained prospecting licences in southern Botswana.
- Discovery Metals holds substantial scarcity value, as one of few successful independent emerging copper producers globally.
- The Bidder is seeking to acquire the Company just as first commercial production is being established. This is not the time for Shareholders to sell.

DON'T GIVE UP YOUR DISCOVERY METALS SHARES **AT THIS PRICE** AS IT UNDERVALUES YOUR COMPANY

REASON 1

THE OFFER OF $1.70 PER SHARE IS INADEQUATE

THE OFFER IS OPPORTUNISTICALLY TIMED TO EXPLOIT TEMPORARY SHARE PRICE WEAKNESS, COINCIDING WITH A SUBSTANTIAL SHAREHOLDER REDUCING ITS SHAREHOLDING



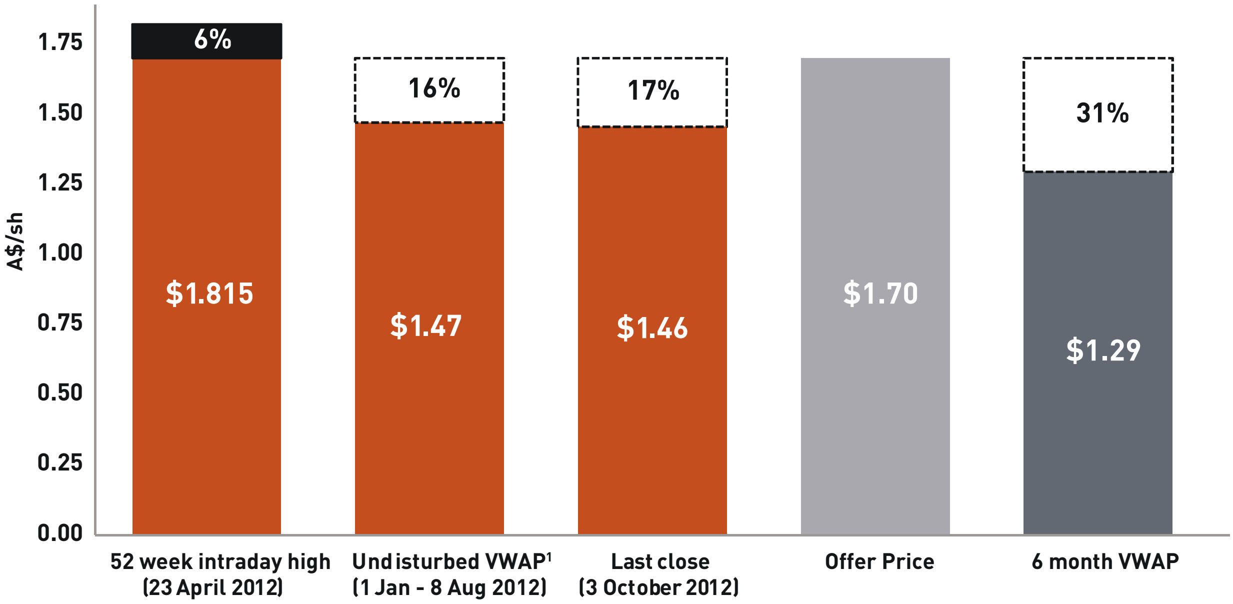
Source: IRESS[1]

Your Directors consider that the Offer has been opportunistically timed to exploit a short term weakness in the Share Price. This weakness coincided with broader market weakness and a substantial Shareholder, M&G Investment Funds, reducing its Shareholding by approximately 37.2m Shares (7.7% of Discovery Metals' currently issued Shares) through on-market sales between August 2012 and September 2012.

Notes

1 This section contains various references to trading data prepared by IRESS Market Technologies Limited which has not consented to the use of references to that data in this Target's Statement. The commentary on the data is that of the Company.

THE OFFER REPRESENTS AN INSUFFICIENT PREMIUM TO THE CLOSING SHARE PRICE AS AT 3 OCTOBER 2012



Source: IRESS

The Offer of $1.70 represents an insufficient premium to Discovery Metals' closing Share price as at 3 October 2012, which was the last trading day of Shares prior to the Bidder's indicative and non-binding proposal being released to the ASX.

The Offer represents:

> A premium of 17% to the last closing price as at 3 October 2012.
> A premium of 51% to the 30 day VWAP to 3 October 2012[2].
> A premium of 41% to the three month VWAP to 3 October 2012[2].
> A premium of 31% to the six month VWAP to 3 October 2012[2].
> A premium of 16% to the undisturbed VWAP from 1 January 2012 to 8 August 2012, the day prior to M&G Investment Funds starting to reduce its Shareholding through on-market sales.
> A discount of 6% to the 52 week intra-day high price of $1.815 on 23 April 2012.

Notes

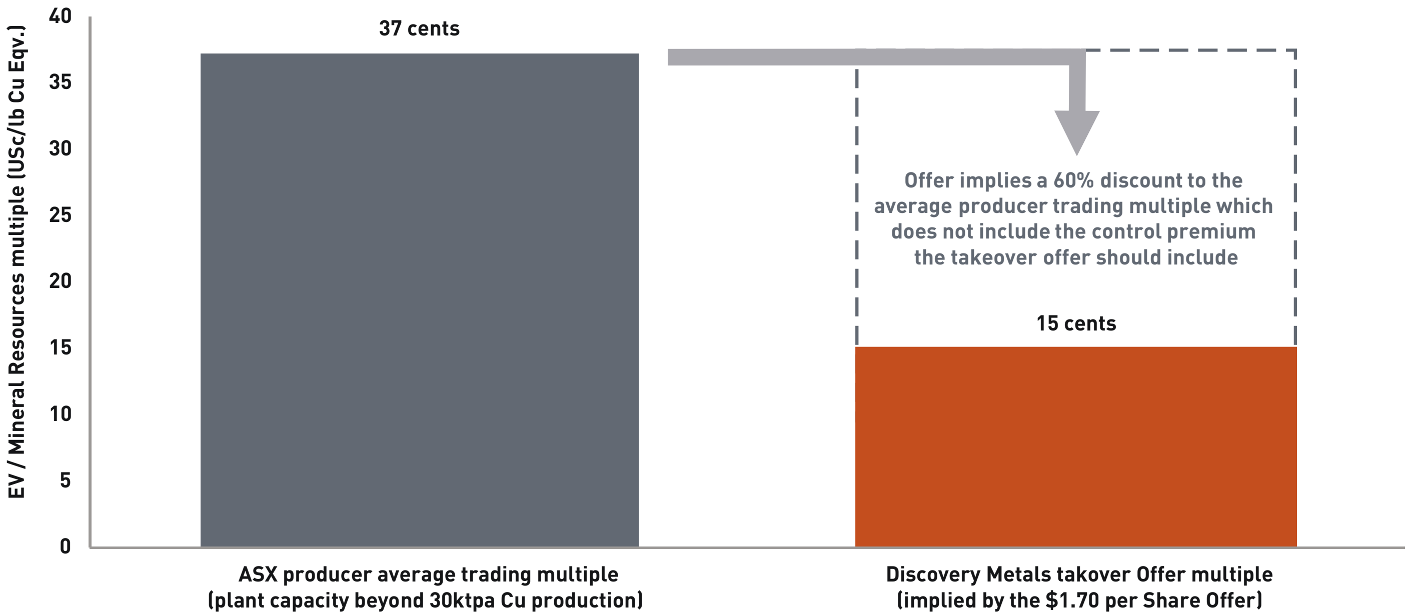
1 Undisturbed VWAP (1 January 2012 to 8 August 2012), being the period prior to M&G Investment Funds starting to reduce its Shareholding.

2 M&G Investment Funds significantly reduced its Shareholding during this period through on-market sales.

REASON 1

THE OFFER OF $1.70 PER SHARE IS INADEQUATE

THE ENTERPRISE VALUE / MINERAL RESOURCES MULTIPLE IMPLIED BY THE OFFER PRICE IS LOW COMPARED TO THE AVERAGE TRADING MULTIPLE OF COMPARABLE ASX COPPER PRODUCERS

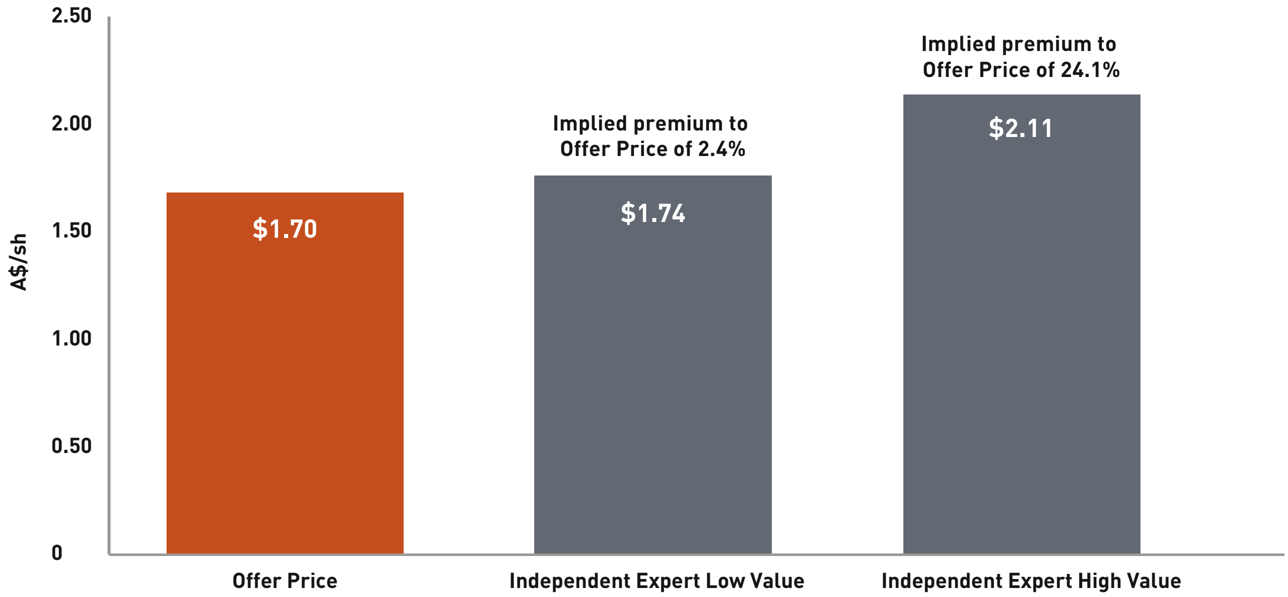


Source: Company filings, IRESS

The Enterprise Value / Mineral Resources (contained copper equivalent) multiple (a metric used for mining valuations) implied by the Offer Price is low compared to the average of comparable ASX producers with plant capacity above 30ktpa copper production (comprising Sandfire Resources NL, PanAust Limited and OZ Minerals Ltd).

Further, the ASX producer average trading multiple does not include a premium for control that the implied multiple for the Discovery Metals $1.70 per share Offer Price should include.

THE OFFER IS BELOW THE INDEPENDENT EXPERT'S VALUATION RANGE



Your Directors appointed KPMG Corporate Finance to prepare an independent assessment of the Offer. The Independent Expert has assessed the current value of the Company to be in the range of $1.74 to $2.11 per Share.

The Independent Expert has determined the Offer to be neither fair nor reasonable.

The above opinion of the Independent Expert, and other references to the Independent Expert's Report in this Target's Statement, are qualified in their entirety by, and should be read in conjunction with, the Independent Expert's Report, which is set out in full in Annexure A.


DISCOVERY METALS
520
CAT

REASON 2

DML IS WELL POSITIONED TO DELIVER FUTURE VALUE TO OUR SHAREHOLDERS

DISCOVERY METALS PLANS TO INCREASE BOSETO THROUGHPUT BY 67% TO 5MTPA AND COPPER PRODUCTION TO OVER 50KTPA BY 2015 AT LOW CAPITAL COST

Discovery Metals is currently progressing the planned expansion of Boseto plant throughput capacity from 3Mtpa to 5Mtpa to lift copper production from 36,000tpa to in excess of 50,000tpa.

Front end engineering design for a 5Mtpa concentrator recently commenced and Discovery Metals anticipates approval to commence procurement of long lead time items in the first half of 2013, with 5Mtpa throughput to be achieved by 2015.

Boseto's planned expansion to copper production of 50,000tpa is projected to cost approximately US$4,400 per tonne of copper equivalent annual production, compared to a global average for brownfield expansion projects of approximately US$12,600 per tonne of copper equivalent annual production. (Source: Wood Mackenzie Metals Market Service: Copper).

The capital efficiency of the planned Boseto expansion is driven by high grade ore, low project management costs and simpler metallurgy processes relative to other projects globally.

PLANNED SWITCH TO COAL–FIRED POWER IS EXPECTED TO DELIVER A SIGNIFICANT REDUCTION IN OPERATING COSTS

Discovery Metals has advanced plans to replace the existing diesel generators at Boseto with coal-fired generation and deliver a significant reduction in operating cash costs of approximately US$0.14/lb.

- Front end engineering design is complete for a coal-fired power plant in Botswana.
- Signed letter of intent for coal supply in April 2011.

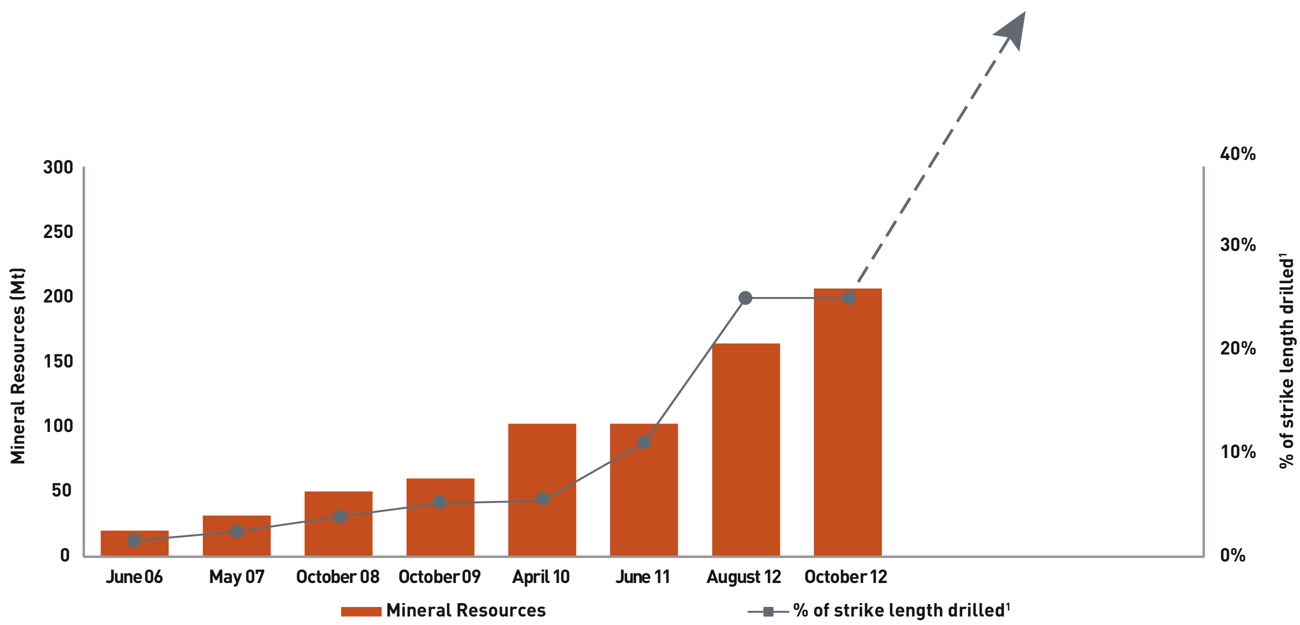
DON'T GIVE UP YOUR DISCOVERY METALS SHARES **AT THIS PRICE** AS IT UNDERVALUES YOUR COMPANY

2 REASON
DML IS WELL POSITIONED TO DELIVER FUTURE VALUE TO OUR SHAREHOLDERS

DISCOVERY METALS' EXTENSIVE PROSPECTING LICENCES IN THE KALAHARI COPPERBELT PROVIDE MAJOR POTENTIAL FOR INCREASED MINERAL RESOURCES

Management has delivered substantial Mineral Resources of 207.2Mt @ 1.3% Cu and 16g/t Ag with approximately 25% of the prospective strike length drilled, leaving a large portion of the Company's prospecting licences in the Kalahari Copperbelt unexplored. Discovery Metals' immediate exploration focus will be on further drilling within the Boseto Zone deposits in addition to drilling in the lower south-west Kalahari Zone.

Management intends to further explore and evaluate the prospective Kalahari Copperbelt and your Directors believe that the Offer fails to adequately compensate shareholders for the value of this growth potential.



Notes

1 Strike length refers to the prospective mineralised horizon.

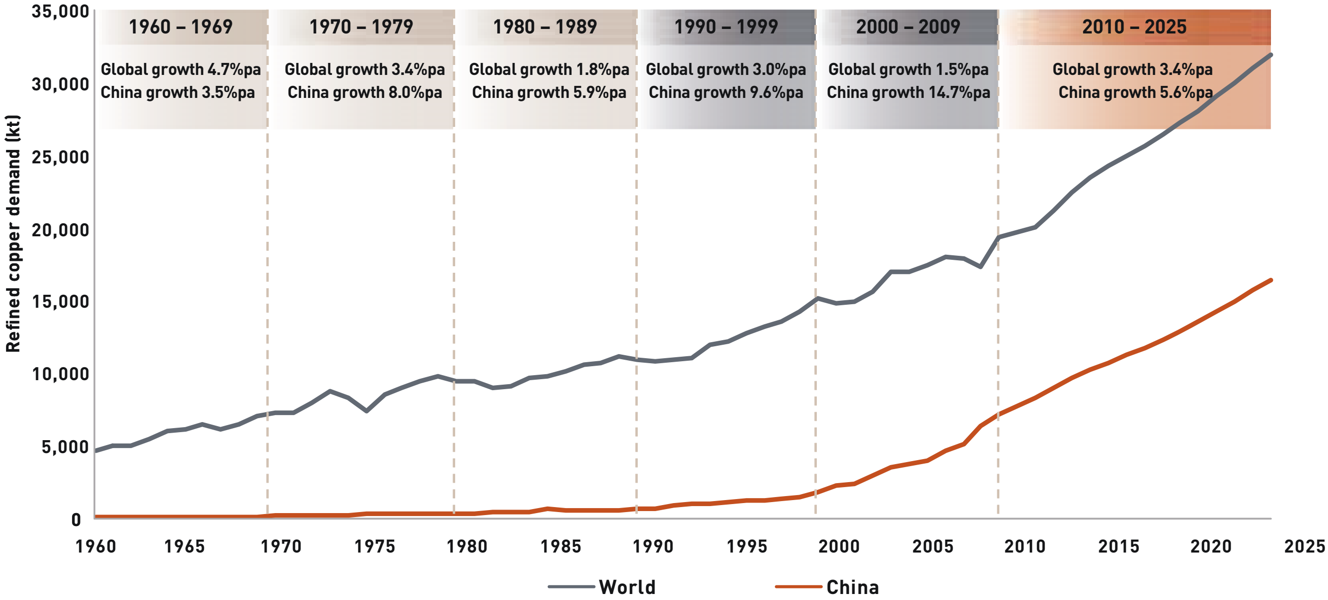
SO FAR WE HAVE PARTIALLY EXPLORED 375KM OF THE 1,500KM PROSPECTIVE HORIZON

Prospective mineralised horizon within Discovery Metals' 18 prospecting licences, currently approximately 1,500km.

Discovery Metals intends to explore the entire prospective mineralised horizon.

DISCOVERY METALS IS POSITIONED TO BENEFIT FROM A FAVOURABLE MARKET OUTLOOK FOR COPPER

Global refined copper demand is expected to continue to grow strongly



Source: Wood Mackenzie Metals Market Service, Copper Q2 2012 long term update

Demand for copper is expected to continue to be driven by developing markets with significant investment forecast in commodity intensive areas such as construction, power and telecommunications infrastructure. China is the most significant driver of demand for copper with expected demand growth of refined copper consumption expected to average 5.6% p.a. from 2010 to 2025.

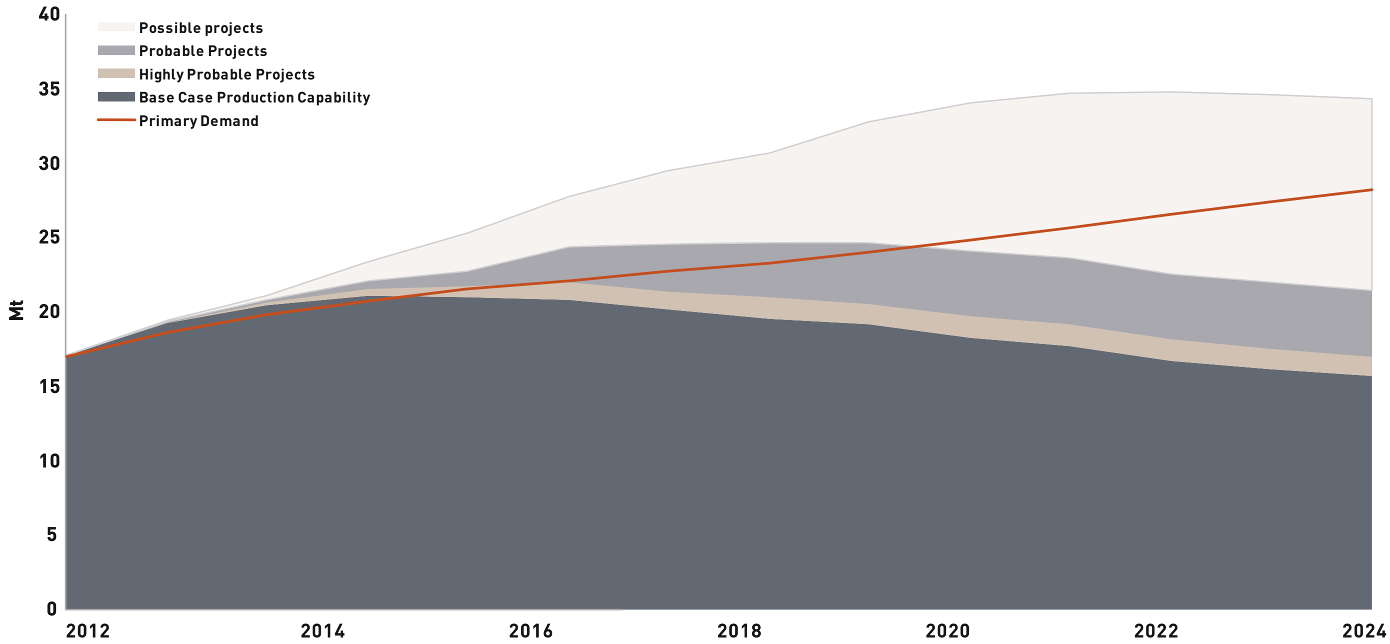
REASON 2

DML IS WELL POSITIONED TO DELIVER FUTURE VALUE TO OUR SHAREHOLDERS

GLOBAL COPPER SUPPLY WILL BE CHALLENGED BY DECLINING GRADES, SUPPLY DISRUPTIONS AND INCREASINGLY RISKY PROJECTS

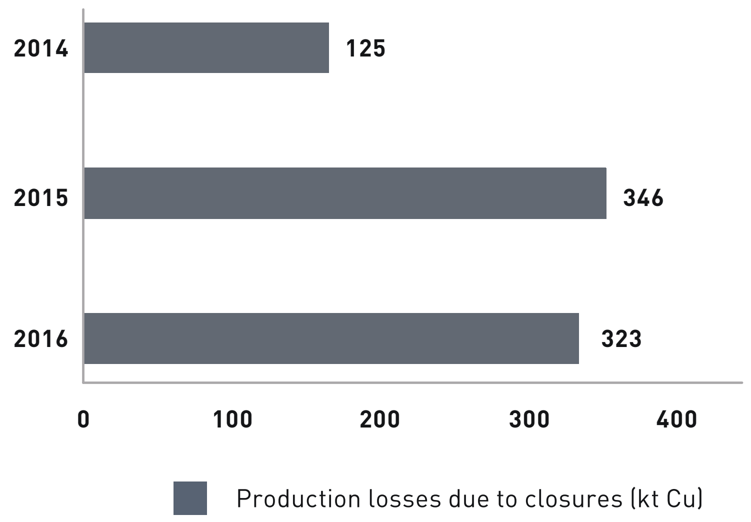
1 ADDITIONAL PROJECT DEVELOPMENT IS NECESSARY TO MEET MEDIUM TERM DEMAND...

Copper mine supply-demand outlook



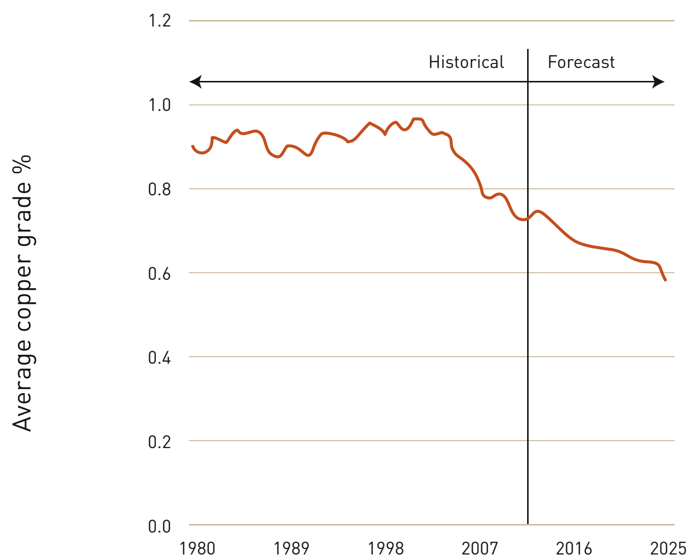
Source: Wood Mackenzie Metals Market Service, Copper Q2 2012 long term update

2 ...WITH 0.8MT PRODUCTION LOSS EXPECTED BETWEEN 2014 -2016 DUE TO CLOSURES...



Source: Wood Mackenzie Metals Market Service, Copper Q2 2012 long term update

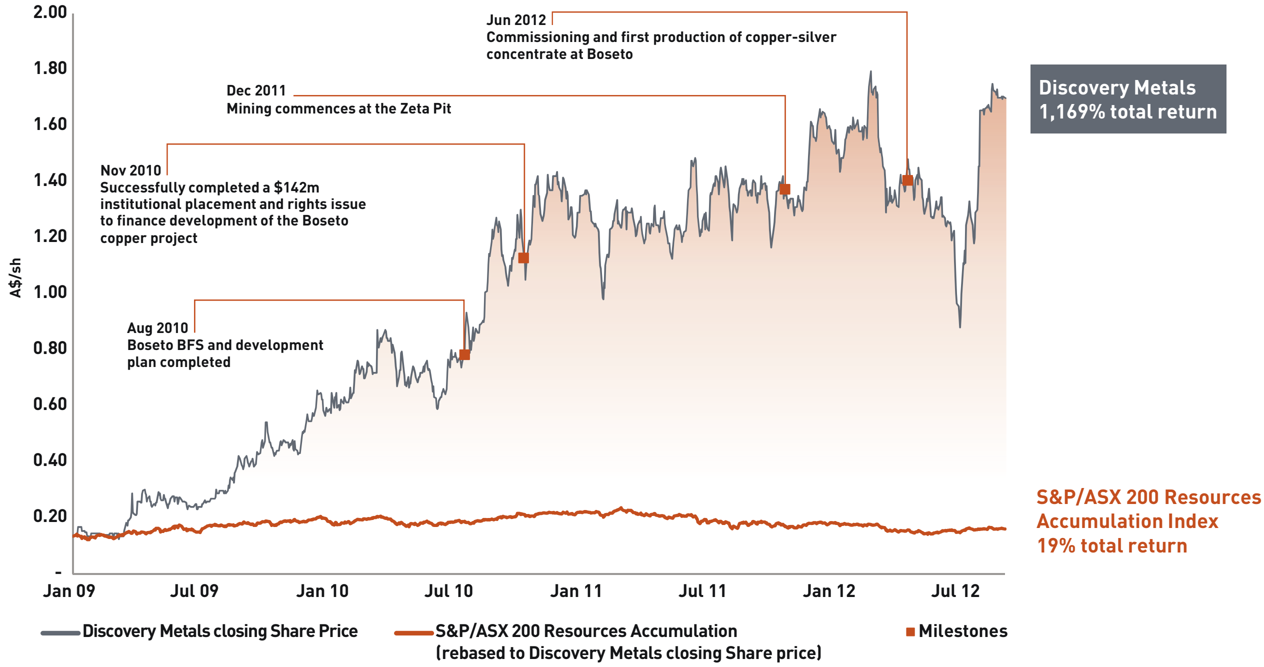
3 ...AND PRODUCTION LOSSES DUE TO GRADE DECLINE



Source: Wood Mackenzie Metals Market Service, Copper Q2 2012 long term update

REASON 3 THE BIDDER WANTS TO EXTRACT VALUE AT YOUR EXPENSE

DISCOVERY METALS' MANAGEMENT HAS CREATED SIGNIFICANT VALUE FOR SHAREHOLDERS



Source: IRESS

Discovery Metals has an experienced management team that has delivered significant value to Shareholders over the past seven years, and accomplished what very few copper companies which have listed as juniors have achieved - successful transitioning from explorer to producer and delivery of copper-silver concentrate to market. Having overseen this growth, the Directors believe in the continued expansion and development of Discovery Metals.

Discovery Metals' market capitalisation has grown from approximately $21m in January 2009 to approximately $830m, yielding a total return of 1,169%, significantly outperforming the S&P/ASX 200 Resources Accumulation Index which yielded 19% over the same period. An investment of $1,000 in Discovery Metals in January 2009 would now be worth $12,690, with the same investment in the S&P/ASX 200 Resources Accumulation Index worth just $1,191.

DON'T GIVE UP YOUR DISCOVERY METALS SHARES **AT THIS PRICE** AS IT UNDERVALUES YOUR COMPANY

REASON 3

THE BIDDER WANTS TO EXTRACT VALUE AT YOUR EXPENSE

AS THE FIRST COPPER PRODUCER IN THE KALAHARI COPPERBELT, DISCOVERY METALS HAS FIRST MOVER ADVANTAGE AND SIGNIFICANT STRATEGIC VALUE

Boseto is the largest copper mine in Botswana and the first in the Kalahari Copperbelt, providing the Company with a unique first mover advantage. The Kalahari Copperbelt mineralisation is similar in style to the well known and large deposits of the Central African Copperbelt of Zambia and the Democratic Republic of Congo which produced 697kt and 526kt of copper respectively in 2011 (Source: Wood Mackenzie Metals Market Service: Copper).

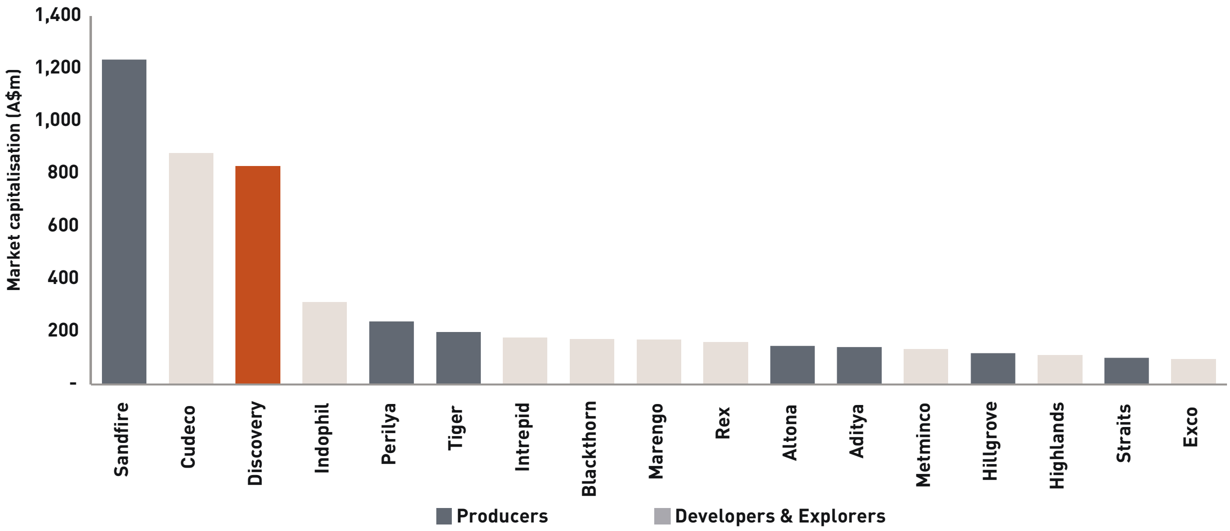
With an exploration area extending approximately 11,900 square kilometres across 18 strategic prospecting licences along this previously undeveloped Kalahari Copperbelt, Discovery Metals is uniquely placed to drive future growth in the region. As a result, the Directors believe that Discovery Metals presents compelling strategic value to copper producers looking to establish a sizeable platform for growth in this emerging copper province.

Increasing investor interest in the Kalahari Copperbelt was recently demonstrated when on 23 October 2012 Hana Mining Limited – a TSX.V-listed company with early stage exploration assets adjacent to Discovery Metals' prospecting licences - announced an Arrangement Agreement with Cupric Canyon, a Canadian private equity firm, at an 84% premium to its 30 day VWAP, 104% premium to its 3 month VWAP and 67% premium to its 6 month VWAP.

DISCOVERY METALS HOLDS SUBSTANTIAL SCARCITY VALUE AS ONE OF ONLY A FEW SUCCESSFUL, INDEPENDENT, AUSTRALIAN LISTED, EMERGING COPPER PRODUCERS

Discovery Metals has significant scarcity value for investors as one of the few ASX copper companies currently producing copper and with substantial further growth potential.

ASX copper companies by market capitalisation[1]



Source: Bloomberg[2]

Notes

1 Market capitalisation of ASX copper companies with market capitalisation below $1.5 billion.

2 This section contains references to trading data prepared by Bloomberg, which has not consented to the use of references to that trading data in this Target's Statement.

THE BIDDER OVEREMPHASISES THE RISKS ASSOCIATED WITH DISCOVERY METALS IN AN EFFORT TO REDUCE THE PERCEIVED VALUE OF THE COMPANY

The Board believes that the Bidder's assertions in relation to uncertainty around Boseto copper project cash costs, expansion plans and Discovery Metals' funding risks are overemphasised, particularly given that the Offer has been timed during commissioning as the project construction and design risks are minimised.

These unjustified assertions about these risks are reflected in the Offer of $1.70 and as a result the Offer undervalues Discovery Metals.

> ***Cash costs***

Open pit mining costs in September 2012 were $1.58/t and are expected to reduce as mining progresses towards design rates. Assertions by the Bidder that cash costs will be significantly higher than those previously disclosed are unjustified.

> ***Expansion plans***

Discovery Metals executed its plan to bring Boseto to production in a disciplined and timely manner and intends to approach the Boseto expansion in the same way. The plans to develop and expand Boseto have been clearly stated for more than 3 years.

The Board believes that there are now sufficient Mineral Resources to commence preparation to commit to an expansion of Boseto. The Board has formed this view considering the quality of the Mineral Resources and the continuity of the copper-silver mineralisation along the prospective horizon with in the prospecting licences.

The Bidder states that the expansion of Boseto is highly uncertain, and its Offer of $1.70 reflects this view. The Board believes that the value of the expansion potential of Boseto is greater than that implied in the Offer.

> ***Funding risk and capital investment risk***

In relation to expansion funding, the Board has considered a number of options. A work stream is already in progress for the first half of 2013, giving the Board the option to refinance the existing project finance facility and fund the Boseto expansion using bonds to supplement free cash flows.

THE BIDDER HAS NOT DECLARED ITS OFFER FINAL

The Bidder has not declared its Offer final and therefore has not committed to $1.70 being the highest Offer it is willing to make.

REASON 3

THE BIDDER WANTS TO EXTRACT VALUE AT YOUR EXPENSE

THE BIDDER HAS OUTLINED A LIMITED SET OF PLANS AND CAPABILITIES AND IS RELYING ON AN INADEQUATE OFFER PRICE TO EXTRACT VALUE AT YOUR EXPENSE

Discovery Metals' Board and management have a proven track record in creating Shareholder value and the vision and capability to create further value. The unique experience possessed by the Discovery Metals management team in developing the first producing copper mine in the Kalahari Copperbelt is not easily replicated.

The Bidder is a private equity fund and does not possess the same level of relevant skills and experience as the Discovery Metals Board.

Cathay Fortune Corporation

Zhang Zhenhao **Age: 39**

B.Eng, MFin, CFA

Relevant experience: 20 years experience private equity. Prior to joining CFC was an Executive Director for sales management at a Chinese local investment bank.

Wang Xiaojun **Age: 37**

MBA

Relevant experience: 15 years experience in corporate administration. General Manager of CFC Beijing Branch since November 2007 and is responsible for government relationship and cooperation alliance.

Xue Fenghui (CADFund Liantuo proposed nominee) **Age: 39**

PhD Ec

Relevant experience: Senior Executive Director of CADFund in charge of mining and metals project investment. 12 years experience in various areas including railway engineering, insurance capital management and private equity investment.

Zhang Yufeng (CFC International proposed nominee) **Age: 37**

B.Eng

Relevant experience: Managing Director of direct investment at CFC since August 2003. 15 years experience in private equity investments in China. Is a non-executive director of China Molybdenum Co Ltd.

The Discovery Metals Board

Gordon Galt **Age:61**

B.Eng (Hons), B Comm, Grad Dip Applied Finance, MAusIMM, MAICD

Relevant experience: Managing Director Cumnock Coal in 1996 and Newcrest Mining. Managing Director responsible for global metals and mining at ABN/AMRO investment bank. Currently Principal at Taurus Funds Management.

Brad Sampson **Age:46**

B.Eng (Mining) (Hons) Qld, MBA Deakin, AMP Oxf, MAusIMM, GAICD

Relevant experience: 25 year's experience as a mining engineer. General management roles at operations across Western Australia, South Africa, PNG and now Botswana. Executive role in a large engineering and contract mining company.

Morrice Cordiner **Age:51**

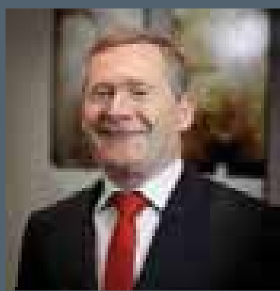
LLB, ASIA

Relevant experience: Trained as a corporate lawyer with 20 year's experience in the finance and resources industries.

Ribson Gabonowe **Age:57**

BSc (Mining Engineering), MSc (Mineral Economics), MBA

Relevant experience: Mining engineer with over 30 year's experience. Former Director of Mines of Botswana responsible for administering the legal and fiscal framework governing mineral exploitation in Botswana.



Niall Lenahan **Age:59**

B Comm (Hons), FCA (Irl), CA (Aus), MBA (UWA)

Relevant experience: Chartered accountant with significant experience in the resources sector. Recently served as Director and CFO at Riversdale Mining prior to takeover by Rio Tinto PLC. Has had CFO and directorships at a number of companies with gold, base metals and coal assets across Australia, Asia and Africa.

Jeremy Read **Age:48**

BSc (Hons), MAusIMM

Relevant experience: Founding Managing Director of Discovery Metals. 23 years domestic and international experience in minerals exploration including a role as Manager of BHP's Australian Exploration Team.

John Shaw **Age:72**

BSc (Geological Engineering), FAusIMM, MCIM, FAICD, SME

Relevant experience: Over 40 year's experience in exploration, development and operations of open cut and underground mines in Asia, Australia, Africa and Canada.

From the Bidder's Statement it is also clear that the Bidder does not have a clear vision or the management team with which to create further value from Discovery Metals if it were to acquire control.

Rather the Bidder is relying on an inadequate Offer Price to extract value for itself at your expense.

KEY INFORMATION

THIS SECTION IS NOT INTENDED TO ADDRESS ALL ISSUES THAT MAY BE RELEVANT TO YOU. THIS SECTION SHOULD BE READ TOGETHER WITH THE REST OF THIS TARGET'S STATEMENT.

2.1 **What is the Offer?**	The Bidder is offering $1.70 for each Share you hold.
2.2 **What choices do I have as a Shareholder?**	As a Shareholder you have the choice to: > **REJECT THE OFFER** and remain a Shareholder, subject to your Shares not being compulsorily acquired by the Bidder (see section 3.4 for further explanation); > **Accept the Offer** for all of your Shares; or > **Sell your Shares on market**. Shareholders should carefully consider the Directors' recommendation and other important issues set out in this Target's Statement before making a decision.
2.3 **What do your Directors recommend?**	Your Directors recommend that you **REJECT THE OFFER**. The reasons for your Directors' recommendation are detailed in Section 1. If there is a change in this recommendation or any material developments in relation to the Offer, Discovery Metals will lodge a supplementary Target's Statement.
2.4 **What should I do?**	To follow the Directors' recommendation to **REJECT THE OFFER, simply do nothing**. If you do not understand the Offer or are in doubt as to how to act, you should seek independent financial and taxation advice from your professional adviser in relation to the action that you should take.
2.5 **What do the Directors intend to do with their Shares?**	Each Director who holds Shares intends to **REJECT THE OFFER** in relation to those Shares.
2.6 **What does the Independent Expert say?**	The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE**. The Independent Expert's Report accompanies this Target's Statement as **Annexure A**.
2.7 **If I accept the Offer now, can I withdraw my acceptance?**	No, once you have accepted the Offer, you will be legally bound to sell those Shares to the Bidder and you cannot later withdraw your acceptance, except in limited circumstances (see Section 2.11).
2.8 **Can the Bidder vary the Offer?**	Yes. The Bidder has not declared the Offer final. The Bidder can vary the Offer by extending the Offer Period by 6 December 2012 or increasing the Offer Price. The Directors do not know if the Bidder will vary its Offer.
2.9 **When does the Offer close?**	The Bidder has stated that the Offer remains open until 7:00pm AEDST on 13 December 2012. It is possible that the Bidder may choose to extend the Offer Period in accordance with the Corporations Act. The Offer Period may also be automatically extended in certain circumstances.
2.10 **What will happen if the Bidder raises its Offer Price?**	The Bidder has not declared the Offer Price final. The Bidder may decide to increase the Offer Price. If this occurs, the Directors will carefully consider the revised Offer and advise Shareholders accordingly. There is no guarantee that the Bidder will increase the Offer Price. If you have already accepted the Offer, you will be entitled to any increase in the Offer Price, subject to the comments noted in Section 2.11.

2.11 What happens if I accept the Offer and a Superior Offer is made for my Shares after I accept?	If you accept the Offer, you are only able to withdraw your acceptance in limited circumstances. This will only be if the Bidder varies the Offer in a way that postpones for more than one month the time by which the Bidder must meet its obligations under the Offer (for example, by extending the Offer Period for more than one month while the Offer remains conditional). **Accordingly, if you accept the Offer, you may be unable to accept a Superior Offer if one is made. At this time, the Directors have not received a firm proposal in relation to a Superior Offer and do not know whether a Superior Offer will be made.**
2.12 What happens if I do nothing?	You will remain a Shareholder. If the Bidder acquires 90% or more of Shares and the Offer becomes unconditional, the Bidder intends to compulsorily acquire your Shares. See Section 3.4 of this Target's Statement for more details. If the Bidder acquires between 50% and 90% of Shares and the Offer becomes unconditional, you will be a minority shareholder in Discovery Metals. The implications of this are described in Section 3.3 of this Target's Statement.
2.13 Can I be forced to sell my Shares?	You cannot be forced to sell your Shares unless the Bidder proceeds to compulsory acquisition of Shares. The Bidder and their associates will need to acquire at least 90% (by number) of Shares (under the Offer or otherwise) AND 75% (by number) of Shares the Bidder offered to acquire under the Offer, in order to exercise compulsory acquisition rights. If the Bidder achieves this and proceeds to compulsory acquisition, then you will be paid the same consideration as is payable by the Bidder under the Offer and you will be forced to sell your Shares.
2.14 If I continue to hold my Shares, are there risks?	Yes, Discovery Metals is subject to a number of risks. These risks include (but are not limited to) those outlined in Section 4.3.
2.15 Will there be any costs associated with accepting the Offer?	A general description of the taxation treatment for certain Australian resident Shareholders accepting the Offer is set out in Section 7 of the Bidder's Statement. Shareholders who are resident in a jurisdiction other than Australia should seek their own professional tax advice. Because this advice is general in nature and does not take into account your individual circumstances, you should not rely on those descriptions as advice for your own affairs. You should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Offer for your Shares. You may, for example, be liable for CGT if you sell your Shares.
2.16 Can I sell my Shares on market?	Yes, unless you have accepted the Offer you can sell your Shares on market. If you sell your Shares on market: > you will not benefit from any possible increase in the value of Shares; and > you will not benefit from any possible increase in the consideration that may be provided under the Offer or a Superior Offer, if one is made.
2.17 Can Foreign Shareholders accept the Offer?	Foreign Shareholders can accept the Offer like any other Shareholder.

2.18 What are the Conditions to the Offer?

There are a number of Conditions to the Offer. The Conditions of the Offer include:

- 51% minimum acceptance;
- Botswana regulatory approvals;
- written confirmation from the Minister of Mines (Botswana) that the Government of Botswana's option to acquire an interest in the Boseto copper project will not/cannot be exercised. As previously advised by Discovery Metals, the Government of Botswana chose not to exercise this option at the time of grant of the current mining licence;
- no order, action or application is made (other than an application to, or a decision of, ASIC or the Takeovers Panel) which restrains, prohibits or impedes or otherwise materially adversely impacts upon the making of the Offer or requires divestiture of Shares or assets;
- no material adverse events occurring, including that there be no material restraint on or hindrance to the development, timely completion, feasibility, operation, profitability or marketability of the Boseto copper project;
- no material acquisitions, disposals or new commitments (generally in aggregate of more than $10 million);
- no transaction tax;
- the Offer has not triggered any repayment, acceleration or alteration provisions of the Debt Financing or other financing arrangements and Discovery Metals makes an announcement on the same. As noted in Section 6.4 of this Target's Statement, if the Bidder obtains voting power in Discovery Metals of 30% or more, a 'Change of Control' event under the Debt Financing will be deemed to have occurred which, at the lenders' discretion, may trigger a requirement for immediate repayment of the Debt Financing;
- the Offer has not triggered any change of control provisions in any material contracts of the Discovery Metals Group and Discovery Metals makes an announcement on the same;
- no corporate type transactions (such as declaration of a dividend, share split or consolidation or share buyback or issuing Shares (other than on the exercise of Options already on issue));
- Discovery Metals announces that Sedgman has not made, nor stated an intention to make, a claim for an amount greater than $20,027,470.07 or amended any claim to a greater amount; and
- no litigation (other than with Sedgman) is threatened or commenced against the Discovery Metals Group which may result in a judgement of more than $5 million, unless previously disclosed.

The Conditions are set out in full in Section 10 of the Bidder's Statement and discussed in more detail in Section 3.2 in this Target's Statement.

2.19 What happens if I accept the Offer and the Conditions are not satisfied?	If the Conditions are not satisfied and the Bidder has not waived the Conditions by the end of the Offer Period, your acceptance of the Offer will be of no effect and you will: > not receive any consideration from the Bidder; and > remain the holder of those Shares. In this case you will be free to deal with your Shares in the normal course. If the Conditions are satisfied or waived before the end of the Offer Period, you will be paid the Offer Price (see Section 2.21). Even where the Offer remains conditional, you cannot withdraw your acceptance before the end of the Offer Period except in limited circumstances (see Section 2.11).
2.20 What happens if I am an employee?	Your employment will continue. Section 4 of the Bidder's Statement contains further information. If the Bidder acquires more than 33% of the Shares, you will be entitled to receive an accelerated payment of your accrued annual leave and a pro-rata payment of any entitlement you have under the Company's short term incentive and long term incentive arrangements.
2.21 What happens if I am a participant under the Share Plan?	Under the Share Plan Rules, all Shares held on behalf of participants in the Share Plan will automatically vest effective on, and subject to, a 'vesting event' occurring. A 'vesting event' will be deemed to have occurred if the Bidder acquires a relevant interest in at least 33% of the total issued capital in Discovery Metals during the Offer and the Offer is unconditional. If a 'vesting event' occurs all vesting conditions under the Share Plan will automatically be waived, and the Shares issued under the Share Plan will automatically vest and be capable of withdrawal from the Share Plan in accordance with the Share Plan Rules.
2.22 If I accept the Offer, when will I be paid?	If you accept the Offer, you may have to wait until the earlier of: > one month after the Offer is validly accepted by you or, if the Offer is subject to a defeating condition, within one month of the Offer becoming unconditional; and > 21 days after the end of the Offer Period, provided the Offer has become unconditional, before you will be paid. It is uncertain when or if the Offer will become unconditional.
2.23 What if I have any questions on the Offer?	Discovery Metals has established a Shareholder Information Line for Shareholders in relation to the Offer. The telephone number is 1800 207 622 (within Australia), and +61 2 8280 7220 (outside of Australia). It is available Monday to Friday between 8.30am and 7.30pm AEDST. Announcements made to ASX by Discovery Metals and other information relating to the Offer can be obtained from Discovery Metals' website at www.discoverymetals.com. Alternatively, you should obtain independent advice from your professional adviser, as necessary.

INFORMATION ABOUT THE OFFER AND OTHER IMPORTANT ISSUES

3.1 SUMMARY OF THE OFFER

The Bidder is offering $1.70 cash for each of your Shares. This will only be payable if all the Conditions of the Offer are satisfied or waived. The Bidder has not declared its Offer Price of $1.70 to be final, so it may increase the Offer Price. The Directors do not know whether the Bidder will increase the Offer Price.

You may only accept the Offer in respect of all of your Shares.

The Offer Price values the equity of Discovery Metals at approximately $830 million on a fully-diluted basis.

3.2 CONDITIONS OF THE OFFER

The Offer is subject to a number of Conditions, all of which are set out in Section 10 of the Bidder's Statement. If any of these Conditions are not satisfied, or not waived by the Bidder, before the end of the Offer Period, then the Offer will lapse and no consideration will be received by Shareholders who have accepted the Offer and those Shareholders will continue to hold their Shares.

However, Shareholders who accept the Offer will, for the duration of the Offer Period, lose the ability to deal with their Shares or accept a Superior Offer (if any such Offer is made), except in certain limited circumstances.

When considering how these Conditions may affect the prospects of success of the Offer, you should be aware of the following information:

- Many of the Conditions are wholly or partly out of Discovery Metals' control. These include:
  - 51% minimum acceptance;
  - no restraining or divestiture orders in connection with the Offer issued by a government agency;
  - no material adverse events;
  - no litigation against the Discovery Metals Group of more than $5 million (individually or in aggregate) being commenced or threatened to be commenced after 23 October 2012 (unless otherwise disclosed to the ASX by Discovery Metals before 23 October 2012); and
  - Sedgman not making or stating an intention to make a claim for an amount greater than $20,027,470.07 and has not amended, nor stated an intention to amend, any existing or potential claim to an amount greater than $20,027,470.07.
- There can be no certainty whether these Conditions will be satisfied. As at 19 November 2012, being the last Business Day before this Target's Statement was printed, Discovery Metals was not aware of any litigation, regulatory actions or material adverse events which it considers would be likely to result in a breach of one or more Conditions.
- One condition is that counterparties to material contracts such as the Debt Financing, are not entitled to exercise certain termination or other rights they might have as a result of the Offer, including acceleration of repayment of monies owed.
- The Debt Financing documents contain acceleration of repayment provisions. If the Bidder obtains voting power of 30% or more, a 'Change of Control' event under the Debt Financing will be deemed to have occurred which, at the discretion of the lenders, may trigger a requirement for immediate repayment of the Debt Financing.
- Many of the other Conditions require Discovery Metals to refrain from taking various actions, where satisfying those Conditions may not be in the interests of Shareholders. These Conditions include not entering into any material transactions (such as acquisitions or disposals) of greater than $10 million other than in the ordinary course of business.
- Other than the Debt Financing, Discovery Metals is not aware of any material contracts, where counterparties may have rights arising as a result of the Offer which may breach the Conditions.

INFORMATION ABOUT THE OFFER AND OTHER IMPORTANT ISSUES

Given the extent to which these Conditions restrict the Discovery Metals Group's activities over a potentially lengthy period of time, it is possible that by pursuing opportunities in the interests of Shareholders one or more of these Conditions could be breached in the future. For example there may be other opportunities or capital expenditure which Discovery Metals wishes to pursue during the Offer Period.

In this case, Discovery Metals will have regard to the best interests of Discovery Metals and Shareholders, the fiduciary duties of the Directors and the applicable policies of the Takeovers Panel, when making a decision to pursue any such opportunity, or take any other action.

Other than as set out above or elsewhere in this Target's Statement, as at 19 November 2012, being the last Business Day before this Target's Statement was printed, Discovery Metals was not aware of any Conditions of the Offer being triggered.

3.3 CONSEQUENCES DEPENDENT ON THE LEVEL OF ACQUISITION ACHIEVED BY THE BIDDER

If less than 90% of Discovery Metals is acquired, but more than 51%

The Offer is presently subject to a 51% minimum acceptance condition.

If the Bidder acquires 51% or more but less than 90% of the Shares, then assuming all other Conditions to the Offer are fulfilled or waived, the Bidder will acquire a majority shareholding in Discovery Metals.

In this case, Shareholders who do not accept the Offer will collectively be minority shareholders in Discovery Metals.

This has a number of possible implications, including (but not limited to):

> the Bidder will be in a position to cast the majority of votes at a general meeting of Discovery Metals. This will enable the Bidder to control the appointment of the Directors of Discovery Metals. Any nominee director would continue to be subject to a duty to act in the best interests of Discovery Metals as a whole;

> the potential acceleration of the payment terms of the Debt Financing described in Section 6.4 of this Target's Statement;

> the vesting of Shares under the Share Plan (refer to Section 6.3); and

> the acceleration of payment of accrued leave entitlements of employees (subject to any restriction at law) and accrued entitlements under the Company's short term incentive and long term incentive arrangements – estimated to be up to approximately $6.5 million.

> the liquidity of Shares may be lower than at present, and there is a risk that Discovery Metals could be fully or partially removed from certain S&P/ASX market indices due to a lack of free float and/or liquidity.

In addition, if the Bidder acquires 75% or more of the Shares it will be able to pass a special resolution of Discovery Metals. This will enable the Bidder, among other things, to change the Discovery Metals constitution.

If less than 51%

If the Bidder waives the 51% minimum acceptance condition and acquires less than 51% of Shares, Shareholders who do not accept the Offer will remain Shareholders.

This also has a number of possible implications (depending on the percentage the Bidder acquires), for example:

If the Bidder acquires 25% or more of the Shares:

> the Bidder will be in a position to block votes for special resolutions, which may affect Discovery Metals' ability to (for example) repeal and replace or amend its constitution.

If the Bidder acquires 33% or more of the Shares:

> the acceleration of repayment terms under the Debt Financing (described in Section 6.4 of this Target's Statement) will be triggered;

> Shares under the Share Plan (refer to Section 6.3) will automatically vest;

> the acceleration of payment of accrued leave entitlements of employees (subject to any restriction at law) and accrued entitlements under the Company's short term incentive and long term incentive arrangements – estimated to be up to approximately $6.5 million;

> the liquidity of Shares may be lower than at present, and there is a risk that Discovery Metals could be fully or partially removed from certain S&P/ASX market indices due to a lack of free float and/or liquidity.

If 90% or more

If the Bidder receives acceptances of 90% or more, the Bidder will be entitled to compulsorily acquire all outstanding Shares. See Section 3.4 for further information.

3.4 COMPULSORY ACQUISITION

The Bidder will be able to compulsorily acquire any outstanding Shares for which it has not received acceptances, on the same terms as the Offer, if during or at the end of, the Offer Period, the Bidder (taken together with its associates) has:

- a relevant interest in at least 90% (by number) of the Shares; and
- acquired at least 75% (by number) of the Shares the Bidder offered to acquire under the Offer.

If this threshold is met, the Bidder will have one month from the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. The consideration payable by the Bidder will be the Offer Price last offered under the Offer.

It is important to also be aware that if the Bidder does not become entitled to compulsorily acquire Shares in accordance with the above procedures, it may nevertheless become entitled to exercise general compulsory acquisition rights should the Bidder subsequently acquire sufficient Shares to give it a relevant interest in 90% (by number) of Shares. This may occur, for example, by way of the Bidder acquiring 3% of Shares on issue in any 6 month period after it has held a stake of greater than 19% for 6 months.

3.5 PAYMENT

The terms of the Offer are that no payment for the Shares tendered into the Offer will be made by the Bidder until after the Offer becomes unconditional. If the Offer becomes unconditional, you will be paid under the Offer by the earlier of:

- One month after the date of your acceptance of the Offer or, if the Offer is subject to a defeating condition when you accept the Offer, within one month after the contract resulting from your acceptance of the Offer becomes unconditional; and
- 21 days after the end of the Offer Period.

Refer to Section 1 of the Bidder's Statement for further details on when you will be sent your payment from the Bidder.

3.6 TAXATION

This Section 3.6 sets out general information about the tax implications of the Offer for Shareholders. This information is of a general nature only.

Shareholders should seek their own taxation advice, having regard to their own circumstances.

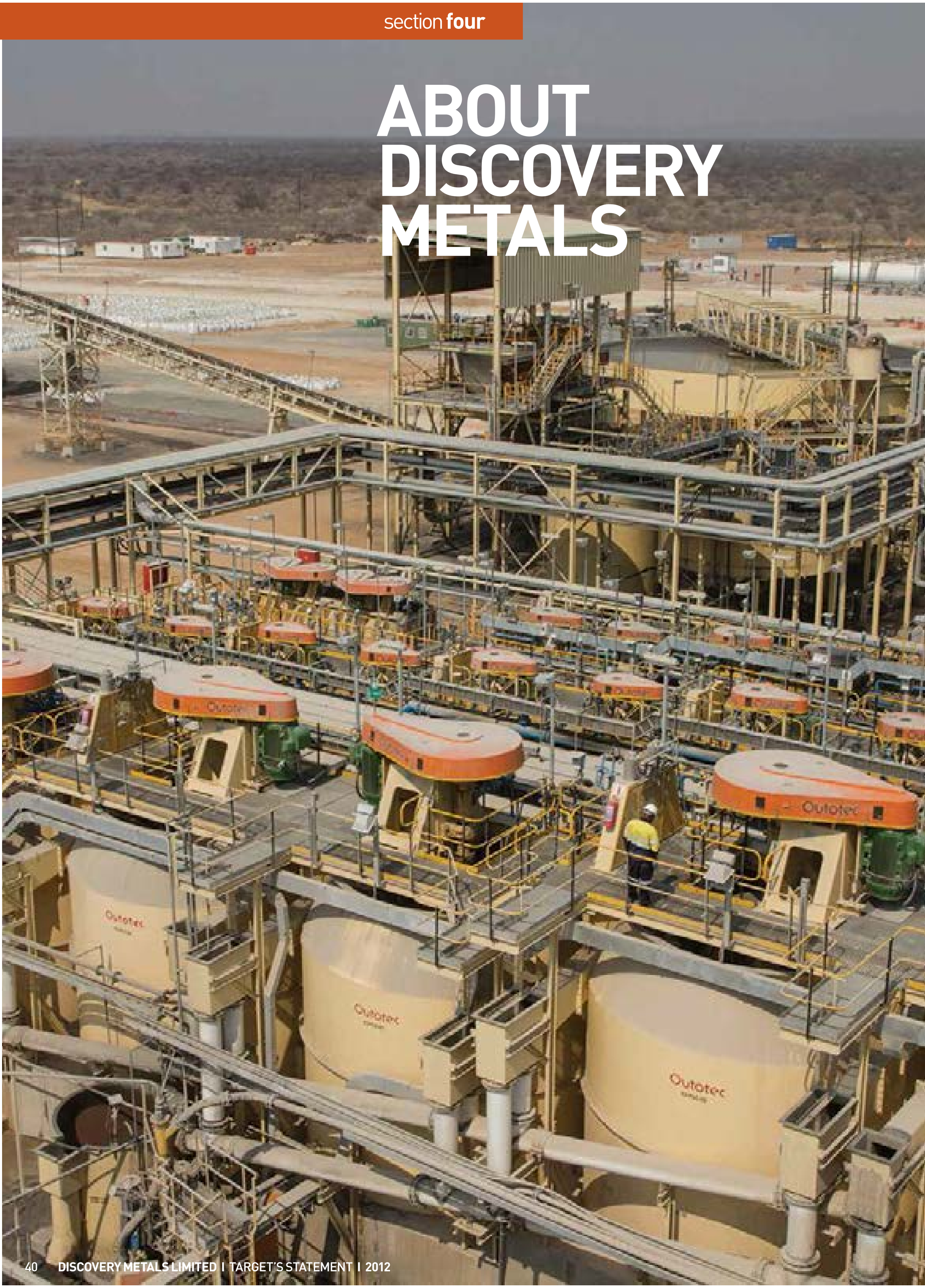
Shareholders should refer to Section 7 of the Bidder's Statement for a further description of the tax implications of accepting the Offer.

Importantly, depending on the individual circumstances, Shareholders who are Australian residents and hold their Shares on capital account may realise a gain or a loss and may incur a liability for taxation by selling their Shares to the Bidder. The extent of any tax liability will depend on each Shareholder's individual circumstances.

Shareholders who are individuals, certain trusts or superannuation funds may be eligible to claim a CGT discount on any net gains arising on Shares acquired at least 12 months before disposal.

No discount is available on any capital gain made on acceptance of the Offer if that acceptance is made within 12 months of the date of acquisition of those Shares.

ABOUT DISCOVERY METALS



4.1 BACKGROUND INFORMATION ON DISCOVERY METALS

Discovery Metals is an Australian based copper exploration and development company, listed on the ASX and the BSE.

The Company is focused on the Kalahari Copperbelt in north-west Botswana, where it has successfully transitioned from a small exploration company to a copper-silver concentrate producer, with first production at its Boseto concentrator commencing in June 2012.

The Boseto copper project is located within a belt of significant copper-silver mineralisation which extends from near the well-known Zambian Copperbelt across north-west Botswana and into Namibia.

The Boseto copper project is 100% owned by Discovery Metals and is its first producing copper mine.

The current operation is focused on mining at the Zeta open pit, producing 3Mtpa of ore using an owner operated fleet of mining equipment. The process plant, which is approximately 8km from the Zeta pit, includes a conventional three stage crushing circuit, ball mill and flotation cells, with a throughput of 3Mtpa, producing approximately 36,000 tonnes of copper and 1.1 million ounces of silver in concentrate.

Commissioning of the process plant commenced in June 2012 and first production occurred in the same month. Discovery Metals is continuing the ramp up of throughput to the design plant feed rate of 3Mtpa.

Current debottlenecking tests of the Boseto process plant indicate the potential to increase throughput to between 3.5Mtpa and 4Mtpa without significant additional capital expenditure and these tests will continue as the plant commissioning proceeds.

The Company has entered into an agreement with Transamine, a concentrate trading house for 100% of the off-take produced from the mine for a period of 5 years.

Discovery Metals has a well-established track record of discovering new copper-silver mineralisation within the Kalahari Copperbelt, and in developing these discoveries into Mineral Resources.

The Company is now determining the expansion / extension potential of the existing Boseto copper project and the additional defined and potential Mineral Resources in its Kalahari Copperbelt prospecting licences.

Discovery Metals is also planning to expand the Boseto copper project to 5Mtpa as soon as possible, based on further increases in the Mineral Resources since announcing the construction of the current 3Mtpa plant. Front end engineering and design for the expanded plant commenced in November 2012. The expanded plant is planned to produce in excess of 50,000 tonnes of contained copper in concentrate.

Exploration at the Mango Deposit has now defined Mineral Resources totalling 33.3Mt @ 1.4%Cu and 14g/t Ag and with thicker copper-silver mineralisation. Exploration at Mango remains at an early stage with approximately 9km of prospective strike length yet to be tested. Further drilling is also required at SW Mango where high grade copper-silver mineralisation has been intersected.

In 2008 the Board committed to the development and funding of the Boseto mine with a smaller quantum of Mineral Resources than already exists at the Mango Deposit.

Significant open pit and underground potential exists at several locations in the Mango area. Mango may generate sufficient Mineral Resources potential to allow the development of a completely separate copper project in the area.

Exploration to define the full extent of Mineral Resources in these areas is proceeding aggressively.

Elsewhere, the potential of the Mid Kalahari and South -West Kalahari Zones is yet to be fully tested, with exploration at a very early stage.

Discovery Metals also continues to pursue opportunities in the Kalahari Manganese Field in the southern part of Botswana, as well as maintaining an active watch on surrounding countries and projects which may add further Shareholder value.

4.2 BUSINESS ACTIVITIES

Development

In July 2008, Discovery Metals announced the results of a pre-feasibility study of the Boseto mine which confirmed the economic viability of the Boseto copper project. A BFS was completed in August 2010 which reconfirmed these results.

The Botswana Government gave the final environmental approval for the Boseto copper project in June 2010. The mining licence for 15 years was awarded in December 2010. The Botswana Government declined to take up its 'once-only' option to buy up to 15% of the project. Discovery Metals retains 100% of the Boseto copper project, and contributes significantly to Botswana through employment, employment taxes and royalties (and in the future, company taxes).

As part of the Boseto development plan, the initial diesel power generation plant is to be replaced by an on-site coal-fired power station using coal from the extensive coal resources which exist in Botswana. The change to a coal-fired power station is aimed at delivering significant operating cost savings and reducing the Boseto copper project's dependence on imported oil products.

The front end engineering design has been completed for a 24MW power station with a 'balance of plant' conceptual design for 36MW (allowing for the Boseto expansion project) and allowance for a spare circulating fluidised bed boiler. These designs incorporate flexibility to readily expand the power plant with additional power train modules.

The Company continues discussions with the Government of Botswana for the necessary power generation permits and an update to the Boseto Environmental Impact Assessment Statement (EIAS).

Zeta Underground Mine Project

The Definitive Feasibility Study (DFS) reported in April 2012 evaluated the Zeta underground project as a standalone contract operation with ore processed at the Boseto concentrator. Planning and preparatory work to integrate the Zeta underground development with the Boseto open pit operations is proceeding, with decline development work scheduled to commence in late 2013.

Highlights of the Zeta underground project are:

- Mining is scheduled over a 2 km strike length at between 150 and 630 metres below surface;
- Sublevel caving mining method;
- Twin-decline development from the Zeta open pit area to provide underground access; and
- Average production of 1.5 Mtpa (18kt Cu and 800koz Ag per annum) scheduled over 11 years.

Recruitment of the underground team has commenced. The Department of Environmental Affairs (DEA) in Botswana has agreed that an addendum to the Boseto EIAS will be sufficient to grant permission to proceed with underground operations. The Company anticipates conclusion of the approval process with the DEA in the March 2013 quarter. Once environmental approval is obtained, the application for the underground mining licence will be lodged with the Department of Mines.

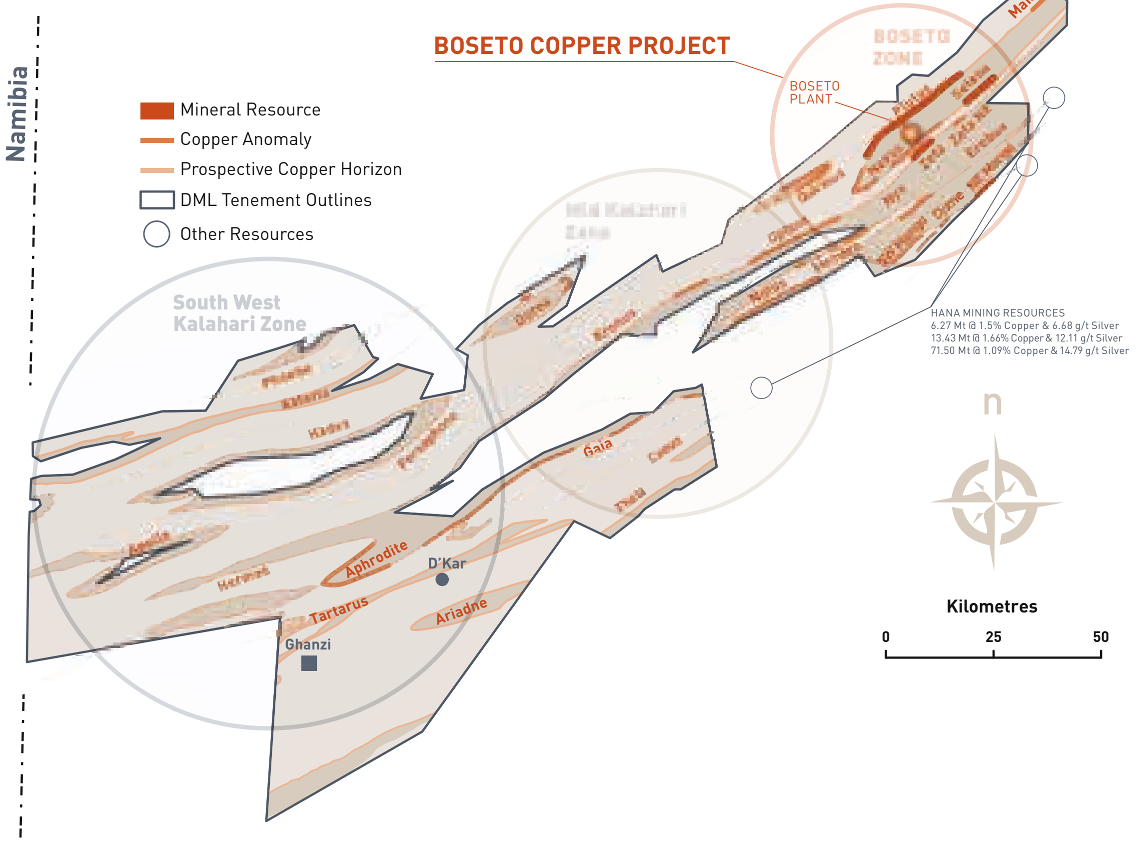
Kalahari Copperbelt Exploration

The Company's exploration activity in the Kalahari Copperbelt has two key objectives:

- Discover copper-silver mineralisation within the Boseto Zone which will contribute to a longer mine life and/or expansion of the Boseto copper project; and
- Discover zones of copper-silver mineralisation in the Boseto, Mid Kalahari and South-West Kalahari Zones that may support the development of standalone projects.

Discovery Metals holds 18 prospecting licences covering 11,872 square kilometres in the Kalahari Copperbelt of north-west Botswana. The prospecting licences extend from 60 kilometres south-west of Maun through to the Namibian border, a distance of over 280 kilometres. The licences contain approximately 1,500 strike kilometres of favourable geology with the potential to host copper-silver mineralisation. Approximately 34% of this prospective horizon's strike has been explored (soil sampled) by Discovery Metals, and approximately 25% has been partially drill-tested.

Kalahari Copperbelt exploration targets



Boseto Zone – targets Boseto extension/ expansion or new standalone project

Maiden Inferred Mineral Resource estimates were completed for Zeta NE, NE Mango 1 and NE Mango 2 during the September quarter 2012.

- **Zeta NE** – In the third quarter of 2012, a maiden Inferred Mineral Resource estimate was prepared and reported at 12.9 Mt @ 1.3% Cu and 22 g/t Ag over a strike length of five kilometres. Discovery Metals is now exploring underground potential with three drill holes to intersect Cu-Ag mineralisation at 600m depth.
- **NE Mango 2** - A maiden NE Mango 2 Inferred Mineral Resources estimate of 28.5 Mt @ 1.3% Cu and 14 g/t Ag was published in early October 2012. Drilling identified significant mineralisation over a strike length of 6.1 kilometres comprising a central higher grade core over a strike length of 2.7 kilometres, with thinner, low grade mineralisation to the north-east and south-west. Within the high grade zone, mineralisation was intercepted to a vertical depth of 260 metres.
- The mineralisation is open to the north-east, south-west & at depth. A series of 3 holes designed to intersect thick, high grade Cu-Ag mineralisation at 600m depth is planned to be drilled by end December to assess underground potential.
- **NE Mango 1** – A maiden Inferred Mineral Resources estimate was completed at NE Mango 1 during the September 2012 quarter. The Mineral Resources are 4.8 Mt @ 1.2% Cu and 13 g/t Ag, including a higher grade zone containing Inferred Mineral Resources of 1.6 Mt @ 2.1% Cu and 25 g/t Ag. This Mineral Resource abuts the Prospecting Licencing boundary and Cu-Ag mineralisation appears to continue into the Hanna Zone 5 Mineral Resource.
- **Selene** – A maiden Inferred Mineral Resources estimate of 16 Mt @ 1.0% Cu and 16 g/t Ag over a strike length of seven kilometres was completed in the March 2012 quarter. Multiple unexplored prospective horizons exist in the Selene area and Discovery Metals intend to exhaust exploration along these prospective horizons.

ABOUT DISCOVERY METALS

Manganese Prospects, south Botswana (Discovery Metals 100%)

Seventeen prospecting licences, covering 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 (KMF) deposits.

Dikoloti nickel project (Discovery Metals 19.3% and diluting)

The Dikoloti nickel project comprises three prospecting licences covering an area of 283 square kilometres adjacent to the nickel operations of BCL Limited in the Selebi-Phikwe region of north-east Botswana.

The Company manages a Joint Exploration Agreement with The Japan Oil, Gas and Metals National Corporation (JOGMEC). JOGMEC previously funded a $3 million exploration programme to earn a 60% interest in the project. Additionally, JOGMEC will provide funding for the future two year exploration programme and therefore Discovery Metals' share of the project is expected to dilute. A total of approximately $2.2 million has been spent on the 2012 programme bringing JOGMEC's total contribution to $5.2 million since the inception of the Joint Exploration Agreement, earning a right to 80.7% of any future project.

Mineral Resources and Ore Reserves

A table summarising the Mineral Resources and Ore Reserves in accordance with JORC is set out in Annexure C.

4.3 WHAT ARE THE KEY RISKS OF INVESTING IN DISCOVERY METALS?

There are risks which are specific to Discovery Metals and other risks which apply to investments generally which may materially and adversely affect the future operating and financial performance of Discovery Metals and the value of Shares.

This Section describes the material risks. The risks described in this Section are not the only ones that Discovery Metals faces.

Other risks may not be known to Discovery Metals. Further, there may be some risks known to Discovery Metals which the Directors currently believe to be immaterial, which may subsequently turn out to be material. One or more or a combination of these risks could materially impact Discovery Metals' business, its operating and financial performance, the price of Shares or any future dividends paid on them.

If you reject the Offer and continue to hold your Shares, your investment in Discovery Metals will be subject to these and other risks.

a) Possible future trading price

If the Offer lapses, Shares may trade at a price below the current market price of Shares and the Offer Price. The Directors are not in a position to speculate on the future trading price of Shares if the Offer lapses, or to guarantee any particular share price. The future price of Shares is dependent not only on Discovery Metals' performance, but also on external market and other factors outside Discovery Metals' control. While the Directors consider the Offer Price to be inadequate in the context of a control transaction, there is no guarantee that the Shares will trade at a price above the Offer Price.

b) Limited mining history

Discovery Metals commenced mining operations at its first mine in June 2012 and its production is still in a 'ramp up' phase. Discovery Metals is subject to particular risks during this 'ramp up' phase. These risks include but are not limited to:

- achieving expected productivity levels from its mining operations, including from its mobile fleet equipment and processing plant;
- maintaining grade control;
- ensuring its employees are adequately trained and skilled in the operation of the mining fleet and processing plant;
- managing the logistics, utility and supply needs of its operations;
- maintaining adequate control over costs; and
- generating sufficient cash flow to ensure compliance with covenants of the Boseto project finance.

c) Changes in the price of copper and silver

Discovery Metals' revenues and cash flows are derived from the mining and sale of copper and to a lesser extent, silver metal in concentrates. Discovery Metals' exclusive concentrate sales agreement with Transamine provides for the sale of all of Discovery Metals' concentrate to Transamine at prices based on market prices for copper and silver and the relative amounts of copper and silver in the concentrate. The prices of these commodities are affected by numerous factors beyond Discovery Metals' control and can fluctuate widely but can be partially controlled/ mitigated by hedging.

Prices for copper and silver are affected by numerous factors, including world GDP growth, international economic conditions, economic and political conditions of copper producing and copper consuming countries, expectations of inflation, currency exchange rates and interest rates.

By way of example, copper is predominantly an industrial metal and is closely linked with economic growth and industrial activity. Therefore any material adverse change in economic growth or industrial activity is likely to have a detrimental impact on the demand for copper. China is the largest consumer and importer of copper, and accordingly economic conditions in China and the decisions of its traders can have a material effect on the copper price.

d) Future acquisitions or difficulties in integrating and developing acquired assets or businesses

Discovery Metals' mining operations are currently concentrated on the Zeta open-pit mine in Botswana, and substantially all of its assets and resources are currently employed in the operation and expansion of the Boseto copper project. While Discovery Metals is actively looking for another project to bring into production and for aquisition opportunities, it is expected that the operations at the Boseto copper project will continue to provide substantially all of its production and revenue for the medium term. As all of its revenues and operating cash flows are derived from the sale of copper and silver concentrate produced from the Boseto copper project, any significant operational or other difficulties in the mining, processing or storage of the copper and silver concentrate at this mine could reduce, disrupt or halt production, which would materially and adversely affect Discovery Metals' business, prospects, financial condition and results of operations.

e) One customer for its off-take

Discovery Metals has entered into a Copper Concentrate Sales Agreement with Transamine for the sale of 100% of the concentrate produced from the Boseto mine.

If Transamine purports to terminate the agreement or if Transamine is unwilling or unable (e.g. through bankruptcy or financial distress) to continue to meet its obligations under the agreement between the parties, Discovery Metals' business, prospects, financial condition and results of operations may be materially and adversely affected.

Discovery Metals' products are traded on global markets, but there is no guarantee that the Company will be able to find another customer or customers willing to agree to the same or more favourable terms to purchase the off-take from the Company.

f) Financing

Discovery Metals' planned exploration, development and future production activities will require substantial expenditures. While Discovery Metals has successfully funded its exploration expenditure and the development of the Boseto mine, there can be no assurance that any future equity or debt funding that Discovery Metals may require will be available to Discovery Metals on acceptable terms.

Furthermore, as noted in Section 6.4, if the Bidder obtains voting power of 30% or more, a 'Change of Control' event under the Debt Financing will be deemed to have occurred and all monies drawn down under the Debt Financing may become immediately due and payable along with other associated costs under the Debt Financing, such as break fees (as applicable). This repayment requirement is at the absolute discretion of the lenders.

If:

> the 'Change of Control' provisions are triggered; and

> the lenders exercise their discretion to require immediate repayment of all monies drawn down under the Debt Financing;

Discovery Metals' would need to refinance the Debt Financing immediately. If the Bidder has acquired less than 100% of Discovery Metals, Shareholders may be materially adversely affected in these circumstances. Given the amount of money owed under the Debt Financing (being $205 million for the Project Financing) and the immediacy of the repayment obligations, Discovery Metals may be unable to meet the repayment obligations.

If Discovery Metals is unable to repay the Debt Financing in these circumstances, the lenders may exercise their security rights (including in respect of the Boseto copper project and Discovery Metals group companies that directly or indirectly own the Boseto copper project), which would have a material adverse effect on Discovery Metals. In these circumstances, Discovery Metals may be placed in external administration and Shareholders may lose some or all of their investment. Further, if the Debt Financing is able to be refinanced, it may be on less favourable terms than is currently the case.

ABOUT DISCOVERY METALS

g) Foreign exchange and inflation risks

Discovery Metals' financial report is presented in United States dollars and all values are rounded to the nearest thousand dollars (US$'000). All revenues and most of the Company's working capital are in U.S. dollars. The Company converts funds to foreign currencies as its payment obligations in jurisdictions where the U.S. dollar is not an accepted currency become due. Certain of the Company's costs will be incurred in currencies other than U.S. dollars, including Australian dollar, Botswana pula and South African rand. Accordingly, the Company is subject to fluctuations in the rates of currency exchange between the U.S. dollar and these currencies.

h) Supply of power to the mine

Currently the Boseto copper project relies on diesel powered generators to power the project's operations. The BFS was based on the use of the diesel fired power station to supply the power for the Boseto copper project. However as part of the Boseto development plan, the diesel power generation plant will be replaced by an on-site coal-fired power station using coal from the coal resources which exist in Botswana.

Until the change to the on-site coal-fired power station is made, reliance on the diesel power generation plant presents several risks to the Company's operations and profitability. For example, currently the Company is dependent on imported oil products for the diesel power generation plant. Should these be delayed or become unavailable the use of the diesel power generation plant may be affected or stopped or the costs associated with using the diesel power generation plant adversely increased above current anticipated levels.

In addition to the 20Mw installed generating capacity the Company has five 1Mw diesel generators as additional back-up power. If there is a material failure of the main generators, or the operating circuitry and electricals between the individual generator sets fail, the operation of the power station will be interrupted and there may be insufficient power supplied for the period of the interruption, which could be significant.

i) Dependence on the Board and key members of management

Discovery Metals' future operating results depend in significant part upon the continued contribution of its Board, key management personnel, technical, financial and operations personnel. Discovery Metals' success is dependent on the ability of its Board and management to operate the growing business and to manage the ongoing changes from accelerated growth and potential future acquisitions. Failure to manage its growth and development effectively, including control of its financial systems and operations, could have a material adverse effect on its business, financial condition and results of operations.

j) Accuracy of resources and reserves estimates based on a number of assumptions

Discovery Metals' Mineral Resources and Ore Reserves estimates are based on a number of assumptions in accordance with the JORC Code. There can be no assurance that its resources and reserves will be recovered in the quantities, qualities or yields expected. Resources and reserves estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and quality of mineralisation and the ability to extract and process the mineralisation economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of drilling and sampling of the mineral deposits and analysis of the mineral samples and the procedures adopted and experience of the person(s) making the estimates.

k) Security of tenure

The Boseto Mining Licence has been issued for 15 years. The Company's prospecting licences in Botswana are issued for a total of 7 years.

Renewal of these licences is routine but subject to Government of Botswana approval on application for renewal from the Company.

l) Dispute with Sedgman

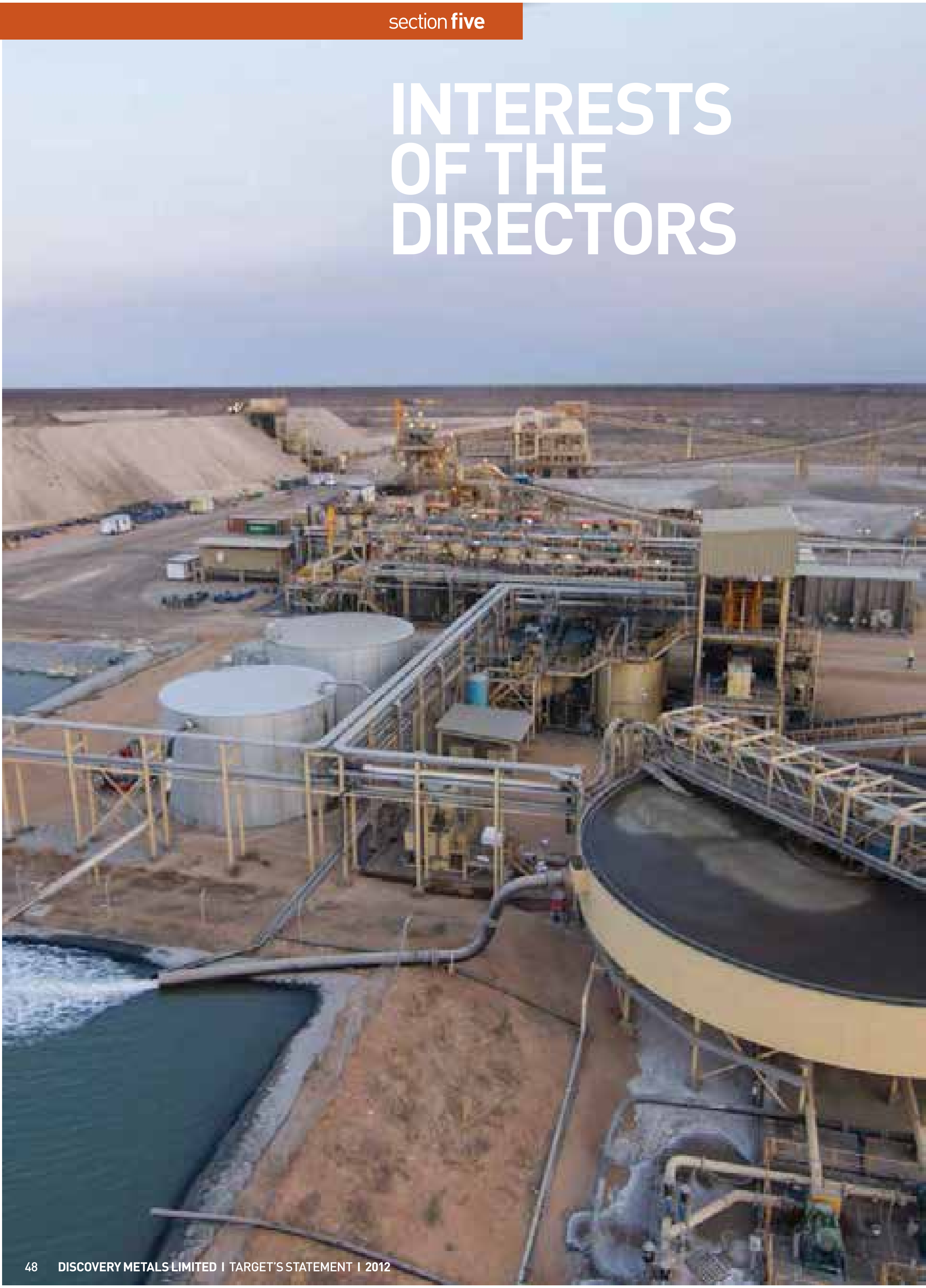
Sedgman has filed an application in the Supreme Court of Queensland seeking an order against DCB in the amount of $20,027,470.07 (plus interest and costs). The claim arises out of the Engineering, Procurement and Construction (EPC) Contract for the construction of the Boseto concentrator plant and relates to money retained or withheld under the EPC Contract. Discovery Metals disputes that it owes any amount to Sedgman.

Whilst Discovery Metals disputes Sedgman's claims and will vigorously defend its position, proceedings can be lengthy and costly, involving considerable amounts of management time, and there is no certainty about the outcome.

m) Operations are subject to the risk of litigation

In addition to the potential litigation against Sedgman noted above, from time to time, the Company may be subject to litigation arising out of its operations. Damages claimed under such litigation may be material or may be indeterminate, and the outcome of such litigation may materially impact the Company's business, results of operations or financial condition. While the Company assesses the merits of each lawsuit and will defend accordingly, it may be required to incur significant expenses or devote significant resources to defending against such litigation. Additionally, the adverse publicity surrounding such claims may have a material adverse effect on the Company's business.

INTERESTS OF THE DIRECTORS



5.1 INTERESTS OF DIRECTORS IN DISCOVERY METALS SECURITIES

The number and description of securities in Discovery Metals or rights to securities in which each of the Directors has a relevant interest is set out in the following table.

As at the date of this Target's Statement, each Director intends to **REJECT THE OFFER** in respect of their Shares.

Director	Number of securities or rights to securities
Mr Gordon Galt	**Indirect interest:** a) 1,000,000 Shares (subject to vesting conditions) held by the trustee of the Share Plan; b) 1,653,919 Shares held by the trustee of the Galt Super Fund; and **Direct interest:** c) 702,317 Shares.
Mr Stuart Bradley Sampson	**Indirect interest:** a) 1,000,000 Shares (subject to vesting conditions) held by the trustee of the Share Plan; and **Direct interest:** b) 1,000,000 unquoted options granted 25 June 2009, vested 25 June 2009, expiring 1 November 2013 and exercisable at $0.35.
Mr Morrice Cordiner	**Indirect interest:** a) 500,000 Shares (subject to vesting conditions) held by the trustee of the Share Plan; b) 305,000 Shares held by the Director's spouse; and **Direct interest:** c) 750,000 Shares.
Mr Ribson Gabonowe	**Indirect interest:** a) 500,000 Shares (subject to vesting conditions) held by the trustee of the Share Plan; and **Direct interest:** b) 953,694 Shares.
Mr Niall Lenahan	**Indirect interest:** 50,000 Shares.
Mr Jeremy Read	**Indirect interest:** a) 500,000 Shares (subject to vesting conditions) held by the trustee of the Share Plan; and **Direct interest:** b) 1,250,000 Shares.
Mr John Shaw	**Indirect interest:** a) 500,000 Shares (subject to vesting conditions) held by the trustee of the Share Plan; and **Direct interest:** b) 500,000 Shares.

INTERESTS OF THE DIRECTORS

5.2 DEALINGS BY DIRECTORS IN DISCOVERY METALS SECURITIES

There have been no acquisitions or disposals of securities or rights to securities in Discovery Metals by any Director in the four months ending on 19 November 2012, being the last Business Day before this Target's Statement was printed.

5.3 INTERESTS AND DEALINGS IN THE BIDDER

Neither Discovery Metals nor any of the Directors has a relevant interest in securities of the Bidder or any Related Body Corporate of the Bidder.

5.4 BENEFITS TO DIRECTORS

As a result of the Offer, no benefit (other than a benefit permitted by section 200F or section 200G of the Corporations Act and compulsory superannuation entitlements) has been paid or will be paid to any Director, secretary or executive officer in connection with the loss of, or their resignation from, their office.

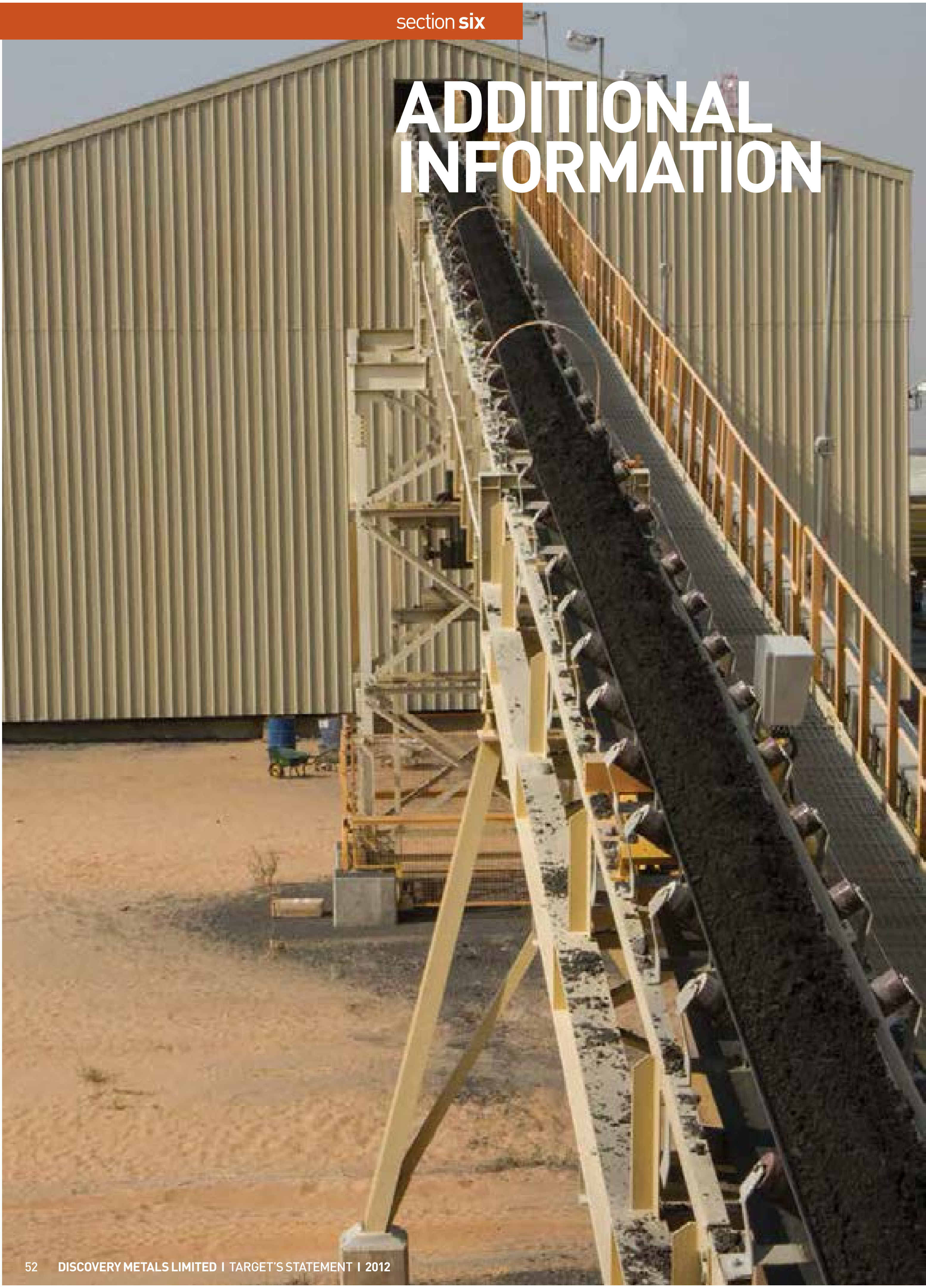
5.5 CONDITIONAL AGREEMENTS

No agreement has been made between any of the Directors and any other person in connection with or conditional upon the outcome of the Offer.

5.6 INTERESTS IN CONTRACTS WITH THE BIDDER

No Director has any interest in any contract entered into by the Bidder.

ADDITIONAL INFORMATION



6.1 OTHER MATERIAL INFORMATION

This Target's Statement is required under the Corporations Act to include all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer, but:

- only to the extent to which it is reasonable for Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

In this context, the Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is the information contained in:

- this Target's Statement (including the information contained in the Independent Expert's Report);
- Discovery Metals' releases to ASX and BSE prior to the date of this Target's Statement; and
- the Bidder's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken to be adopting or endorsing, in any way, any of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to the:

- nature of the Shares;
- matters that Shareholders may reasonably be expected to know;
- fact that certain matters may reasonably be expected to be known to Shareholders' professional advisers; and
- time available to Discovery Metals to prepare this Target's Statement.

6.2 ISSUED SECURITIES

The total number of Shares on 19 November 2012 (being the last Business Day before this Target's Statement was printed) was 486,986,451.

The total number of Options and the terms of those Options on 19 November 2012 (being the last Business Day before this Target's Statement was printed) were as set out in the following table:

Number	Class
250,000	Unquoted Options, exercise price of $0.375 on or before 1 November 2013
1,000,000	Unquoted Options, exercise price of $0.35 on or before 1 November 2013

6.3 SHARE PLAN

The Share Plan and Share Plan Rules were approved by Shareholders at the Discovery Metals Annual General Meeting held on 24 February 2010.

As at 19 November 2012 (being the last Business Day before the Target's Statement was printed) there were 8 million unvested Shares held under the Share Plan (Plan Shares).

Under the Share Plan, Shares are offered to "eligible participants" (Participants) for nil consideration (Plan Offer). Upon acceptance of the Plan Offer by the Participant, the Plan Shares are held on trust by the Share Plan's trustee until the prescribed vesting conditions (prescribed by the Board at the time the Plan Offer is made to the Participant) are either satisfied, waived (as provided for under the Share Plan) or automatically vested to the Participant in specific instances (Vesting Event).

Under the Share Plan Rules, a Vesting Event occurs if (amongst others):

a) Discovery Metals receives a bidder's statement pursuant to Chapter 6 of the Corporations Act from a third party in respect of the acquisition of at least 50% of the total issued capital in Discovery Metals (as the Company did when it received the Bidder's Statement from the Bidder);

b) the Bidder receives sufficient acceptances so that it will have a relevant interest in at least 33% of the total issued capital in Discovery Metals following completion of the Offer; and

c) the offer is unconditional.

On this basis, should the Bidder obtain a relevant interest in at least 33% of the total issued capital in Discovery Metals and declare that the Offer has become unconditional, under the terms of the Share Plan Rules, a Vesting Event will be deemed to have occurred.

ADDITIONAL INFORMATION

If the Vesting Event occurs:

a) all vesting conditions under the Share Plan will automatically be waived; and

b) all Shares held on behalf of Participants under the Share Plan will automatically vest and be capable of withdrawal from the Share Plan in accordance with the Share Plan Rules.

If the Vesting Event occurs, the 8 million Shares held under the Share Plan will automatically vest and Participants will be entitled to those Shares in accordance with their entitlement and the Share Plan.

The Participants (who are Directors or senior management of Discovery Metals) and the number of Shares that each will be entitled to, should the Vesting Event occur, are set out in the following table:

Director	Position with Discovery Metals	Number of Plan Shares that will vest to the Participant
Mr Gordon Galt	Chairman	1,000,000
Mr Stuart Bradley Sampson	Managing Director	1,000,000
Mr John Shaw	Non-Executive Director	500,000
Mr Morrice Cordiner	Non-Executive Director	500,000
Mr Jeremy Read	Non-Executive Director	500,000
Mr Ribson Gabonowe	Non-Executive Director	500,000
Mr Paul Fulton	Chief Financial Officer	500,000
Mr Ross Gibbins	Project Development Executive	250,000
Mr Jan Anderson	General Manager Technical	500,000
Others	Various management roles	2,750,000
Total		**8,000,000**

6.4 POTENTIAL IMPACT OF OFFER ON FINANCING ARRANGEMENTS AND MATERIAL CONTRACTS

Project Debt Financing

The parent entity and one line of subsidiaries of the Discovery Metals Group including Discovery Copper Botswana P/L (DCB) entered into a facilities agreement with Standard Chartered Bank, Standard Bank, Caterpillar Financial Services and Credit Suisse and several of their related entities on 5 July 2011 (Project Debt Financing).

The Project Debt Financing included a:

- Project Loan Facility of US$180 million; and
- Cost Overun & Working Capital Facility of US$25 million.

Discovery Metals has fully drawn down the Project Debt Financing which in aggregate totals US$205 million (Total Loan).

Under the Project Debt Financing, Discovery Metals is required to notify the 'Facility Agent' (being a nominated representative of the lenders of the Project Debt Financing), if a 'Change of Control' occurs or if it becomes aware that a 'Change of Control' may occur within 3 Business Days of such occurrence.

If the Bidder obtains voting power of 30% or more, a 'Change of Control' event under the Project Debt Financing will be deemed to have occurred.

If the Facility Agent determines the Bidder (being the person gaining control of Discovery Metals) is not acceptable, the Facility Agent may:

- cancel the 'Commitments' (being the monies to be loaned under the Project Debt Financing); and
- declare all outstanding loans, together with accrued interest, break costs (being the difference between the interest that would have been received under the Project Debt Financing and the amount obtained if the sum was deposited with a leading bank in the London interbank market) and all other amounts accrued under the Project Debt Financing immediately due and payable, upon which the Total Loan will be cancelled and all such outstanding amounts will become immediately due and payable.

Revolving Credit Facility

On 29 October 2012, certain members of the Discovery Metals Group entered into a US$50 million revolving credit facility (Revolving Credit Facility) with Standard Bank and Standard Chartered Bank.

Under the terms of the Revolving Credit Facility, Discovery Metals must promptly notify the lenders if at any time Discovery Metals becomes aware of a 'Change of Control'. A 'Change of Control' will occur in the context of the Offer, if the Bidder acquires more than 30% of the issued shares of Discovery Metals.

Upon a 'Change of Control' occurring:

- a lender will not be obliged to fund any drawdown request by Discovery Metals; and
- if the 'Majority Lenders' so require, by not less than ten days' notice to Discovery Metals, cancel the 'Total Commitments' (i.e. US$50 million) and declare all outstanding Loans (i.e. monies already drawn down under the Revolving Credit Facility), together with accrued interest, and all other amounts accrued under the Revolving Credit Facility, immediately due and payable.

As at 19 November 2012, being the last Business Day before this Target's Statement was printed, there was no amount drawn under the Revolving Credit Facility.

Hedging arrangements

As part of the Project Debt Financing, DCB has entered into hedging arrangements substantially on the terms of the ISDA 2002 Master Agreement. If a 'Change of Control' (as defined in the Project Debt Financing) occurs and the lenders under the Project Debt Financing exercise their rights to cancel the Commitments under the Project Debt Financing, the counterparties to the hedging arrangements may declare an 'Early Termination Date' under the hedging arrangements, in which case the hedges must be closed out. This will entail a payment to DCB by the counterparties, or a payment by DCB to the counterparties, depending on the value of the hedges at the time of the 'Early Termination Date'.

Agreement with Transamine

On 8 March 2010, Discovery Metals entered into a Copper Concentrate Sales Agreement with Transamine for the sale of 100% of the concentrate produced from the Boseto mine.

There is no change of control provision under the agreement with Transamine, and as such, no obligations or entitlements are triggered as a result of the Offer.

ADDITIONAL INFORMATION

6.5 MATERIAL LITIGATION

As at 19 November 2012, being the last Business Day before this Target's Statement was printed, except for the matter set out below (details of which have been disclosed by Discovery Metals on the ASX and the BSE), there was no current litigation of a material nature against any member of the Discovery Metals Group and the Board had no knowledge of any potential material litigation.

Sedgman has filed an application in the Supreme Court of Queensland seeking an order against DCB in the amount of $20,027,470.07 (plus costs and interest).

The claims relate to money that Discovery Metals has retained or withheld under the EPC Contract, variation claims and bonus payments. Discovery Metals disputes that it is required to make any further payments to Sedgman. Discovery Metals has filed an application in the Supreme Court seeking a stay of the proceedings as the EPC Contract contains a dispute resolution process involving a dispute adjudication board and if necessary, arbitration.

Whilst Discovery Metals disputes Sedgman's claims and will vigorously defend its position, proceedings can be lengthy and costly, involving considerable amounts of management time, and there is no certainty about the outcome.

6.6 CONSENTS

Consents to inclusion of a statement

The following persons have given and have not, before the date of this Target's Statement, withdrawn their consent to the inclusion of the following information in this Target's Statement in the form and context in which it is included, and to all references in this Target's Statement to that information in the form and context in which they appear:

> KPMG Financial Advisory Services Pty Ltd – to be named as Independent Expert, and to the inclusion of the Independent Expert's Report and statements said to be based on statements made in the Independent Expert's Report;

> SRK Consulting (Australasia) Pty Ltd – to be named in this Target's Statement as Technical Expert, and the inclusion of the Technical Expert's Report and to the inclusion of statements said to be based on statements made in the Technical Expert's Report;

> Each competent person as named in Annexure C - to be named in this Target's Statement and to the inclusion of statements said to be based on statements made by them;

> Wood Mackenzie – to be named in this Target's Statement and to the inclusion of statements said to be based on statements made by them (refer to pages 19 and 21 to 23 of this Target's Statement); and

> Each Director – to be named in this Target's Statement and to the inclusion of statements made by them.

Consents to be named

GRT Lawyers has given and has not, before the date of this Target's Statement, withdrawn its consent to the inclusion of its name in this Target's Statement as legal adviser to Discovery Metals.

UBS has given and has not, before the date of this Target's Statement, withdrawn its consent to the inclusion of its name in this Target's Statement as financial adviser to Discovery Metals.

As permitted by ASIC Class Order 01/1543, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules). Pursuant to this Class Order, the consent of persons such statements are attributed to is not required for the inclusion of those statements in this Target's Statement.

Additionally, as permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

> fairly representing a statement by an official person; or

> from a public official document or published book, journal or comparable publication.

Pursuant to that Class Order, the consent of persons such statements are attributed to is not required for inclusion of those statements in this Target's Statement.

As permitted by ASIC Class Order 07/429, this Target's Statement also contains trading data obtained from IRESS Market Technology Limited and Bloomberg without their consent.

Each person named above as having given its consent to the inclusion of a statement or to being named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than, in the case of a person referred to above as having given their consent to the inclusion of a statement, a statement included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement or report which has been included in this Target's Statement with the consent of that party.

6.7 MISCELLANEOUS AND PUBLICLY AVAILABLE INFORMATION

Shareholders should have regard to material announcements that have been lodged with ASX and BSE since Discovery Metals' last published audited financial statements for the year ended 30 June 2012 which were lodged with ASX on 24 August 2012. A list of the price sensitive announcements released by Discovery Metals in the period 24 August 2012 to 19 November 2012, the last Business Day before the date this Target's Statement was printed, is set out in Annexure B.

This Target's Statement also contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to ASX by the Bidder and Discovery Metals.

Any Shareholder who would like to receive a copy of any of the documents described in this Section may obtain a copy free of charge during the Offer Period by calling the Shareholder Information Line on 1800 207 622 (within Australia), and +61 2 8280 7220 (outside of Australia), Monday to Friday between 8.30am and 7.30pm AEDST. Copies of announcements by Discovery Metals may also be obtained from its website at www.discoverymetals.com.

6.8 DATE OF TARGET'S STATEMENT

This Target's Statement is dated 23 November 2012, which is the date on which it was lodged with ASIC.

6.9 APPROVAL OF TARGET'S STATEMENT

This Target's Statement has been approved by a resolution passed by the Directors on Monday 19 November 2012.

Gordon Galt
Chairman

GLOSSARY

7.1 DEFINITIONS

AEDST	Australian Eastern Daylight Savings Time.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691).
BFS	bankable feasibility study.
Bidder	Cathay Fortune Investment Limited.
Bidder's Statement	the bidder's statement in relation to the Offer, prepared by the Bidder and dated 8 November 2012.
Board	the board of Directors of Discovery Metals.
BSE	the Botswana Stock Exchange.
Business Day	a day on which: a) ASX is open for trading in securities; and b) banks are open for general banking business in Sydney and Gaborone.
CGT	capital gains tax.
Competing Proposal	any proposal or transaction, which, if completed, would mean a person (other than the Bidder or any associate of the Bidder) would: a) acquire control of Discovery Metals, within the meaning of section 50AA of the Corporations Act, or a material part of Discovery Metals' business; or b) otherwise acquire or merge with Discovery Metals.
Condition	a condition of the Offer set out in Section 10 of the Bidder's Statement.
Corporations Act	Corporations Act 2001 (Cth).
DCB	Discovery Copper Botswana (Proprietary) Ltd
Debt Financing	means the Project Debt Financing and the Revolving Credit Facility (as applicable in the context).
Directors	the directors of Discovery Metals as at the date of this Target's Statement.
Discovery Metals or Company or DML	Discovery Metals Limited (ACN 104 924 423.)
Discovery Metals Group	Discovery Metals and its Related Bodies Corporate.
Enterprise Value or EV	means the market value of equity plus the market value of hybrid securities (if any) plus the market value of net debt plus minority interest (if any).
Foreign Shareholder	any Shareholder whose registered address as noted in the Discovery Metals register, is outside of Australia or New Zealand.
Independent Expert	KPMG Financial Advisory Services (Australia) Pty Ltd.
Independent Expert's Report	the report prepared by the Independent Expert attached at **Annexure A**.
Inferred Mineral Resource	is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence.
JORC	Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia.
JORC Code	Australian Code for Reporting of Mineral Resources and Ore Reserves (2004 edition).
Measured Mineral Resource	is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence.
Mineral Resource	is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction.

GLOSSARY

Offer	the off-market takeover bid by the Bidder for Shares under Chapter 6 of the Corporations Act as described in the Bidder's Statement.
Offer Period	has the meaning it is given in the Bidder's Statement.
Offer Price	has the meaning it is given in the Bidder's Statement.
Option	an option over a Share.
Ore Reserve	the economically mineable part of a Measured and/or Indicated Mineral Resource.
Plan Rules	the rules governing the Share Plan.
Project Debt Financing	the Financing for US$205 million, described in Section 6.4 of this Target's Statement.
Related Body Corporate	has the same meaning as in the Corporations Act.
Relevant interest	has the same meaning as in the Corporations Act.
Revolving Credit Facility	the revolving US$50 million credit facility announced by the Company on 30 October 2012 and further described in Section 6.4 of this Target's Statement.
Sedgman	Sedgman South Africa (Pty) Limited and its Related Body Corporate as applicable.
Share	an ordinary fully paid share in Discovery Metals.
Share Plan	the Discovery Metals Limited Employee and Director Share Plan.
Shareholder	a registered holder of Discovery Metals' Shares.
Superior Offer	a Competing Proposal which Discovery Metals determines to be more favourable to Shareholders than the Offer, taking into account all terms and conditions of the Competing Proposal.
Takeovers Panel	the Takeovers Panel of Australia.
Target's Statement	this document.
Transamine	Transamine Trading S.A.

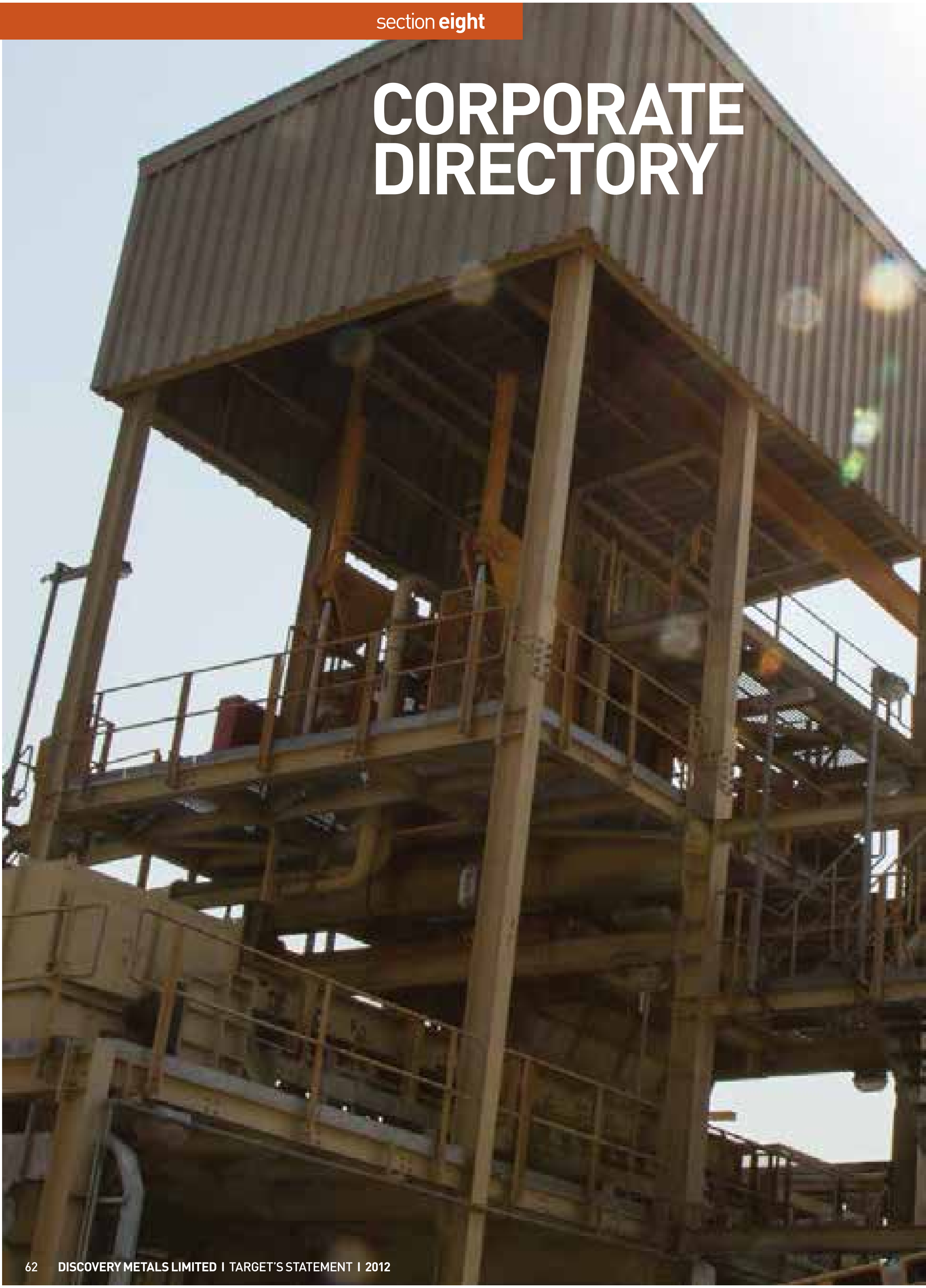
7.2 INTERPRETATION

Unless the context otherwise requires:

- headings used in this Target's Statement are inserted for convenience and do not affect the interpretation of this Target's Statement;
- words or phrases defined in the Corporations Act have the same meaning in this Target's Statement;
- a reference to a "Section" is a reference to, as relevant, a section of this Target's Statement or the Bidder's Statement;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency; and
- Australian dollars, dollars, $ or $ is a reference to the lawful currency of Australia.


503
521
518

CORPORATE DIRECTORY



BOARD OF DIRECTORS

Non-executive Chairman
Gordon Galt

Managing Director
Brad Sampson

Non-executive directors
Morrice Cordiner
Ribson Gabonowe
Niall Lenahan
Jeremy Read
John Shaw

Company Secretary
Greg Seeto
Paul Frederiks

REGISTERED OFFICE

Level 20, 333 Ann Street
Brisbane QLD 4000

Phone: +61 7 3218 0222
Fax: +61 7 3218 0233

info@discoverymetals.com

SHAREHOLDER INFORMATION LINE

1800 207 622 (within Australia)
+61 2 8280 7220 (outside of Australia)

Available Monday to Friday between
8.30am and 7.30pm AEDST.

FINANCIAL ADVISER

UBS AG
Level 16, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

Phone: +61 2 9324 3463
Fax: +61 2 9324 2424

LEGAL ADVISERS

GRT Lawyers
Level 1, 400 Queen Street
Brisbane QLD 4000

GPO Box 2778, Brisbane QLD 4001

Phone: +61 7 3309 7000
Fax: +61 7 3309 7099

INDEPENDENT EXPERT'S REPORT

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Australian Financial Services Licence No. 246901
235 St Georges Terrace
Perth WA 6000

GPO Box A29
Perth WA 6837
Australia

ABN: 43 007 363 215
Telephone: +61 8 9263 7171
Facsimile: +61 8 9263 7129
www.kpmg.com.au

The Directors
Discovery Metals Limited
Level 20, 33 Ann Street
Brisbane QLD 4000

19 November 2012

Dear Sirs

PART ONE – INDEPENDENT EXPERT REPORT

1 Introduction

On 4 October 2012, Discovery Metals Limited (Discovery or the Company) announced that it had received an indicative, non-binding proposal from Cathay Fortune Corporation (CFC) and China-Africa Development Fund (CAD) to acquire all the shares in Discovery to which they were not already entitled for a consideration of $1.70[1] cash per share (the Indicative Proposal).

On 11 October 2012, Discovery announced that it had met with the representatives and advisers of CFC and CAD and advised them that the Indicative Proposal was inadequate.

On 23 October 2012, Discovery announced it had received notification from the CFC and CAD announcing their intention to make an off-market bid through Cathay Fortune Investment Limited (CF Investment or the Bidder)[2] to acquire all Discovery shares to which they were not already entitled for $1.70 per share (the Offer Price) (the Offer).

On 25 October 2012, CF Investment lodged a draft Bidder's Statement with the Australian Securities and Investments Commission (ASIC) and ASX Ltd (ASX) in relation to the Offer (the Bidder's Statement). The Offer opened on 8 November 2012 and will close at 7.00pm (Eastern Standard Time) on 13 December 2012, unless extended or withdrawn.

Discovery is a base and precious metals production and exploration company with its primary listing on the Official List of ASX and a secondary listing on the Botswana Stock Exchange (BSE). As at

---

[1] All amounts are denominated in Australian dollars ($) unless specifically noted otherwise

[2] Reference to the Bidder in this report should also be read as a reference to CFC and CAD

16 November 2012, the Company had a market capitalisation of approximately $823.0 million. Discovery's principal asset is its 100% interest in the Boseto Copper Project (the Boseto Project) located in the Kalahari Copperbelt in the north-west of Botswana.

As set out in the Bidder's Statement, CF Investment is currently a wholly owned subsidiary of CFC and is incorporated in the Hong Kong Special Administrative Region (SAR) of China. The Bidder's Statement also states CF Investment will become 75% owned by CFC and 25% owned by CAD should the Offer be declared unconditional.

CFC is a Chinese private equity investment firm which, since 1997, has invested in China across the network equipment, aviation, industrial automation, financial services, resources and mining sectors.

CAD was established on 26 June 2007 by the China Development Bank (CDB) to support Chinese companies investing in Africa.

2 Summary of the Offer

The principal terms of the Offer are that Discovery shareholders will receive $1.70 cash for each Discovery share that is accepted into the Offer.

The Offer is subject to a number of conditions precedent, including amongst others:

- CF Investment obtaining a relevant interest in more than 51% of Discovery shares (Minimum Ownership)
- no objection from the Treasurer under the Australian Foreign Investment Policy (CF Investment lodged a notice on 30 October 2012 that this condition had been satisfied)
- regulatory approvals and consents in Australia, Botswana and China
- written confirmation from the Botswana Minister for Mines that the Government of Botswana's previous option to acquire an interest in the Boseto Project has lapsed or that the Government of Botswana is unable to exercise same in the future (the Option Confirmation)
- no transaction tax is announced or proposed by the Government of Botswana
- no "change of control" provision being triggered as a result of the Offer the impact of which could be material to Discovery or its financial arrangements (Change of Control)
- no material adverse events impacting the financial position or performance of the Company prior to the end of the Offer period

Further details in relation to the terms of the Offer are set out in the Bidder's Statement which has been sent to shareholders and in the Target's Statement to which this report is attached. We recommend that shareholders read the Bidder's Statement and the Target's Statement in their entirety in conjunction with this report.

3 Scope of Report

Under Section 640 of the Corporations Act (the Act), an Independent Expert Report (IER) is required to be included in a Target's Statement where the bidder is connected with the target. A bidder is regarded as being connected with the target under the following circumstances:

- the bidder's voting power in the target is 30% or more
- the bidder and target have a common director.

There is no statutory requirement for Discovery to commission an IER in the present circumstances. However, in order to ensure that Discovery's shareholders are fully informed in reaching a decision as to whether to accept or reject the Offer, the Directors of Discovery have requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to prepare an IER to shareholders not associated with either CF Investment, CFC or CAD (non-associated shareholders) setting out whether or not, in our opinion, the Offer is fair and reasonable.

Accordingly, this report has been prepared for inclusion in the Target's Statement as if it was required for the purposes of Section 640 of the Act. The sole purpose of this report is an expression of the opinion of KPMG Corporate Finance as to whether the Offer is fair and reasonable to non-associated shareholders. This report should not be used for any other purposes or by any other party.

Regulatory Guide 111 "Content of expert reports" (RG 111), issued by ASIC indicates the principles and matters which it expects a person preparing an IER to consider, in determining whether an offer is "fair and reasonable".

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without considering the percentage holding of the 'bidder' or its associates in the target prior to the bid. That is, RG 111 requires the value of Discovery to be assessed as if the Bidder was acquiring 100% of Discovery, not just the 86.22% that it does not already have a relevant interest in.

Accordingly, the principal matter we were required to consider is whether the Offer Price of $1.70 cash per share is at or exceeds the fair market value of a Discovery share on a 100% control basis.

When assessing the full underlying value of the Company, we have considered those synergies and benefits that would be available to a pool of potential purchasers of Discovery. We have not included the value of special benefits that may be unique to the Bidder. Accordingly, our valuation of Discovery has been determined regardless of the bidder and any special benefits have been considered separately.

Reasonableness

An offer is deemed by RG 111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer. In considering whether the Offer is reasonable, we have therefore also considered the following factors:

- recent trading prices and liquidity of Discovery shares on the Securities Exchange of ASX and the BSE
- the extent of any implied premium for control, if any, being received by non-associated shareholders
- the level of any special value available to the Bidder
- likelihood of an alternative offer
- the consequences of not accepting the Offer
- the implications of the Offer including financial, tax and liquidity issues
- advantages, disadvantages and other considerations in relation to the Offer

This report should be considered in conjunction with and not independently of the information set out in the Target's Statement.

4 Summary of opinion

In our opinion the Offer is neither fair nor reasonable

In forming our opinion on the fairness of the Offer to non-associated shareholders, the principal matter we considered was whether the consideration under the Offer of $1.70 cash per share is at or exceeds the fair market value of a Discovery share on a 100% control basis.

We have assessed the fair market value of a Discovery share, inclusive of a full premium for control, to lie in the range of $1.74 to $2.11 per share. Therefore, in our opinion, the Offer of $1.70 cash is not fair as the value of the consideration to be received by non-associated shareholders falls below our range of assessed fair market values for a Discovery share. Our range of assessed fair values represents a premium to the Offer Price as set out below.

Table 1: Comparison of assessed value range to the Offer Price

Offer Price	Low value	High value	Implied premium	
$	$	$	Low	High
1.70	1.74	2.11	2.4%	24.1%

Source: KPMG analysis

In forming our opinion, we have placed reliance on the report prepared by SRK Consulting (Australasia) Pty Ltd (SRK or the Technical Specialist), the independent mineral industry specialist engaged to assist in relation to the assessment of the technical value of Discovery's mineral assets. A copy of SRK's report is attached at Appendix 8.

Our range of assessed fair values for a Discovery share reflects our assessment, after considering various market related valuation metrics and other modifying factors, that the fair value of Discovery's principal mineral assets (as opposed to technical value) is likely to lie above SRK's assessed 'preferred' technical value. In summary, the factors we considered included, amongst others:

- SRK's comments that: *"The Boseto project is one of a few developing copper projects where the average copper grade is above 1.2%. Many of the existing and proposed copper projects have copper* *grades which are already below 1% copper and declining grade is forecast for many projects and is the average expectation for the copper mining industry (see Wood Mackenzie, 2012)."* and *"SRK recognises that the Valuation derived from a DCF [discounted cashflow] model is a technical value which may not fully recognise other aspects such as strategic value, country experience and skills, which may increase the technical value towards a market value."* refer page *iii* of the executive summary of SRK's report.

- the implied trading multiples of listed copper production companies selected for comparison
- the implied acquisition multiples paid in recent times in relation to copper production/development companies
- the significant potential for further extensions to mining inventory through infill drilling of Discovery's brownfields development projects
- that the Zeta underground project remains open at depth
- Discovery has drilled only 25% of the strike length in its tenements in the Kalahari Copperbelt and the potential of parallel projects in the undrilled areas
- the Company's relationships with the Government of Botswana and communities and its position as the largest copper mine in Botswana and the first copper mine in the Kalahari Copperbelt.

Mitigating this to a small extent, we note that SRK's values reflect:

- the Company's plans (but not yet executed) to expand the plant capacity in response to the additional resources identified at and around the existing project locations
- the proposed change from diesel fuelled to coal powered generation
- a DCF methodology applied to two different cash flow scenarios (a 3.5 million tonne per annum (mtpa) case and a 5.0 mtpa case). Whilst SRK notes that it expects the existing plant has been built to allow space for capacity expansion and that they are not aware of any reasons why the approvals necessary for the expansion plans would not be granted, a degree of uncertainty still attaches to the success of these plans.

We acknowledge that our assessed range of fair values is a subjective assessment based on our professional judgement and that it is conceivable that individual shareholders could form a different view as to the level of difference between SRK's assessed range of technical values and appropriate market values and, as a consequence, potentially form a different view in relation to fairness. In these circumstances we would highlight that it remains open for these shareholders to accept the Offer.

Equally, we would highlight that the high end of our assessed range of fair values equates to the high end of SRK's range of assessed technical values and it is arguable that a premium could also be applied to this end of our range. However, having regard to SRK's "preferred" technical value, we consider it likely the high end of the SRK's technical value range already effectively includes an allowance for prospectivity.

We would also highlight to readers that SRK's range of technical values and, in turn, our range of assessed fair market values for Discovery, is particularly sensitive to assumed future copper price and copper production assumptions including, in particular, copper grade, copper recovery, tonnes milled and operating costs. In this regard we note that:

- commodity prices have exhibited a significant degree of volatility in recent times and there is a wide range of views on the part of commodity and market analysts as to future commodity prices. KPMG's forecast spot commodity price assumptions have been determined after consideration of the consensus forecasts of those market analysts considered by us as well as those assumptions implied by reference to forward curves. However, a wide range of assumptions could credibly be adopted, which could impact assessed fair values either positively or negatively
- whilst the construction of the Boseto Project is largely complete and production is in the ramp up phase, there is a degree of risk inherent in new and early stage operations in comparison to an established production project with known operating profiles and parameters.

In this context, we would draw shareholders' attention to the sensitivity analysis set out in Section 6.4 of SRK's report. The width of SRK's range of technical values primarily reflects the width of the range of technical values assessed by SRK in relation to the Boseto Project.

Our assessment of the key issues considered in forming our opinion, and the issues that non-associated shareholders should consider in deciding whether to accept the Offer, are set out below.

4.1 Assessment of the fairness of the Offer

We have assessed the fair market value of Discovery as a whole, inclusive of a premium for control and strategic value, to lie in the range of $850.8[3] million to $1,031.6[3] million (or between approximately US$876.3 million and US$1,062.6 million), which equates to between $1.74 and $2.11 per Discovery share as summarised in the table below. This compares to the consideration under the Offer of $1.70 per share.

Table 2: Summary of assessed fair market value of Discovery inclusive of a full premium for control and strategic value

	Assessed Values	
	Low US$m	High US$m
The Boseto Project market value	671.0	1,022.0
Premium for market and strategic related factors - 40%	268.4	-
Other mineral assets	67.0	159.0
Total mineral assets	**1,006.4**	**1,181.0**
Add: Cash and cash equivalents	86.4	86.4
Hedge contracts	34.3	34.3
Other net assets	2.0	2.0
Less: Borrowings	(205.0)	(205.0)

[3] Based on a US$:$ spot exchange rate of approximately 1.03

	Assessed Values	
	Low	High
	US$m	US$m
Future corporate overheads	(38.2)	(36.5)
Contingent liability - Sedgman[1] claim	(10.0)	-
Total equity value (undiluted)	**875.9**	**1,062.1**
Add: Funds from exercise of options	0.5	0.5
Total equity value (diluted) - US$m	**876.3**	**1,062.6**
US$:$ exchange rate	1.03	1.03
Total equity value (diluted) - $m	**850.8**	**1,031.6**
Number of ordinary shares (millions)	486.9	486.9
Add: Options (millions)	1.3	1.3
Diluted number of shares on issue (millions)	488.1	488.1
Value per share, inclusive of a premium for control $	**1.74**	**2.11**

Notes:
1. *Sedgman Limited*
2. *Figures may not add exactly due to rounding*

Source: KPMG analysis and SRK report

Our range of assessed values has been prepared on a sum of the parts basis and incorporates additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers and a market premium of 40% at the low end after considering market and strategic related factors. It does not include any other potential strategic or operational benefits that may be unique to CF Investment associated with control of Discovery. Accordingly, our range of values has been prepared independent of the specific circumstances of any particular bidder.

Given that the principal assets of Discovery comprise mineral assets, SRK was engaged by us to act as the independent mineral specialist to assist in relation to the valuation of Discovery's mineral assets. KPMG provided SRK with various macroeconomic and other financial inputs for use in its valuation model. SRK's report is attached as Appendix 8.

In arriving at our range of values for a share in Discovery, we have placed reliance on the report prepared by SRK. SRK calculated a technical value of Discovery's mineral assets, which, as discussed previously, was adjusted by us to reflect specific project, strategic and market matters not taken into account by SRK.

As set out later in our report the multiples of copper equivalent resources and reserves implied by our valuation range is consistent with that currently observed in the market place (on an adjusted control basis) and by recent corporate transactions in the copper sector.

Our range of values represents:

- a premium of between 19.2% and 44.5% to the closing price for a Discovery share of $1.46 on 3 October 2012, being the day immediately prior to the announcement of the Indicative Proposal
- a premium of 22.5% at the low end and a premium of 85.1% at the high end when compared to the volume weighted average trading price (VWAP), (which, in theory, excludes a premium for control)

for a Discovery share measured at various points in the three months prior to the announcement of the Indicative Proposal as set out in the table below. We note that the liquidity of trading in Discovery shares during this period was low.

Table 3: Premium to Discovery's historical VWAP

Period up to and including 3 October 2012	VWAP $	Low value $	High value $	Implied premium Low	Implied premium High
1 day	1.42	1.74	2.11	22.5%	48.6%
1 week	1.31	1.74	2.11	32.8%	61.1%
1 month	1.14	1.74	2.11	52.6%	85.1%
3 months	1.23	1.74	2.11	41.5%	71.5%

Source: Capital IQ and KPMG analysis

In considering the premium implied by our range of fair values to recent portfolio trading in Discovery shares it is important to note that between 9 August 2012 and 6 September 2012, approximately 37.2 million Discovery shares were sold by a single shareholder, M&G Investment Fund (M&G), representing approximately 36.6% of total shares traded over this period. This appears to have had an adverse impact on Discovery's share price during this period.

We note that, following completion of M&G's selling activities, Discovery's share price increased from a low of $0.88 on 5 September 2012 to close at $1.46 on 3 October 2012, being the day prior to the announcement of the Indicative Proposal.

Our range of assessed fair values of between $1.74 and $2.11 represents a small premium of between 3.0% and 24.9% to the closing price of Discovery's shares, being $1.69, on the last trading day immediately prior to the date of this report.

4.2 Assessment of the reasonableness of the Offer

Notwithstanding that we have concluded that the Offer is not fair, we also considered whether there are any other factors that suggest that Discovery shareholders should, on balance, accept the Offer. The principal matters considered by us in forming our opinion in relation to the reasonableness of the Offer are set out below.

In our view, there are certain factors that could be attractive to Discovery shareholders, including the prima facie premium being offered based on pre-bid trading prices. Having regard to each of the considerations set out below, in our opinion these factors are, on balance not sufficient to conclude that Discovery shareholders should be prepared to accept less than fair market value for their Discovery shares.

4.2.1 Advantages

The consideration offered of $1.70 cash for each Discovery share represents a premium to Discovery's historical VWAP in the three months leading up to the announcement of the Indicative Proposal as detailed in the table below.

Table 4: Offer Price premium to Discovery's historical VWAP on ASX

Period up to and including 3 October 2012	VWAP $	Offer price $	Premium above VWAP (%)
1 day	1.42	1.70	19.7%
1 week	1.31	1.70	29.8%
1 month	1.14	1.70	49.1%
3 months	1.23	1.70	38.2%

Source: Capital IQ and KPMG analysis

Table 5: Offer Price premium to Discovery's historical VWAP on BSE

Period up to and including 3 October 2012	VWAP $	Offer price $[1]	Premium above VWAP (%)
1 day	n/a[2]	n/a[2]	n/a[2]
1 week	10.1	13.5	34.6%
1 month	9.8	13.5	37.3%
3 months	10.1	13.5	33.6%

Notes:
1. *Offer Price has been converted to Botswana Pula (BWP) at the exchange rates of $:US$ 1.02 and BWP:US$ 7.75*
2. *n/a indicates insufficient trading liquidity to calculate the VWAP.*

Source: Capital IQ and KPMG analysis

In order to assess a reasonable range for implied acquisition premia in Australia, we have analysed transaction data included in the Metals and Mining classification of the Global Industry Classification Standard (GICS) over the 10 year period 5 November 2002 to 5 November 2012. A data set of 137 takeovers was sourced from Connect 4, constituting successful bids, where data on implied market values utilising two, five and twenty-day premia were available. Including all 137 transactions, our analysis indicated twenty-day acquisition premia had an average and median of approximately 75.2% and 33.3% respectively.

Excluding those transactions considered by us to be outliers, the average and median premia are approximately 44.1% and 35.3% respectively. We also note that approximately 43% of those takeovers reviewed, excluding outliers, had premia greater than 40%.

It is apparent from our review of these transactions that there is a wide dispersion of observed acquisition premia. This is not unexpected given that acquisition premia can be affected by a wide range of factors, including:

- market speculation prior to the official announcement of a takeover
- the level of pre-existing ownership by the offeror
- the level of operating synergies and/or special benefits that may exist to an offeror
- the impact of contested/hostile takeovers
- the liquidity of the stock prior to the offer

- the level of gearing employed by the target company.

Having considered these factors and the nature of the distribution of our observed data, we consider, on balance, that it is reasonable to suggest that in Australia, successful transactions in the metals and mining sector are typically likely to currently complete within an acquisition premia range of 35% to 45%.

Whilst the premium implied by the Offer Price of $1.70 per share over the VWAP for the month prior to the announcement of the Indicative Proposal falls within this likely range based on the observed Australian takeover transactions in the metals and mining sector over the past 10 years, we note our earlier comments in relation to the recent trading activity of M&G and, in particular, the likelihood that the VWAP was adversely impacted during the period 9 August 2012 to 6 September 2012 by the selling activities of this single shareholder, which may not have been reflective of the wider market's assessment as to the prospects of Discovery. When measured based on trading activity in the week prior to the announcement of the Indicative Proposal, the implied premium falls below the likely range.

The Offer provides the opportunity for all non-associated shareholders to exit their investment now for a certain cash amount

Pursuant to the terms of the Offer, non-associated shareholders have the opportunity to receive a certain cash amount now of $1.70 for each Discovery share held. This provides certainty to shareholders in relation to the pre-tax amount that they will receive for their investment and, at the date of this report, represents a premium to the highest price at which Discovery shares traded prior to the Indicative Proposal since 23 April 2012.

The underlying value of a Discovery share can be expected to change as its mineral projects move through their development cycle. Whilst the range of values attributed to Discovery and, in particular Discovery's interest in the Boseto Project, are considered reasonable at the date of this report, the fair value of the Company may increase significantly, or conversely decline in value, depending upon the outcome and timing of future expansion plans and the success of future exploration programmes and any corporate activities.

Non-associated shareholders wishing to exit their investment who do not accept the Offer will, in the absence of a similar transaction, and subject to CF Investment not achieving sufficient acceptances to move to compulsory acquisition, be required to do so through the securities exchange of ASX or BSE as applicable, which may also incur brokerage fees.

Having regard to the volume of trading in Discovery shares in the period prior to the announcement of the Offer, it is likely that, should a significant proportion of non-associated shareholders wish to exit their investment in the short to medium term, this would be required to be completed over an extended period in order to avoid an overhang in Discovery's stock.

4.2.2 Disadvantages

Accepting shareholders will no longer have any exposure to the Boseto Project and Discovery's other mineral assets

Notwithstanding that the Offer is subject to a minimum acceptance condition of 51%, we note that accepting shareholders must do so in respect of their entire shareholding. Accordingly, subject to the

Offer being declared unconditional, accepting shareholders will no longer have any exposure to Discovery and its portfolio of prospective exploration targets and development projects.

Our range of assessed fair values for a Discovery share is particularly sensitive to copper price and copper production assumptions. Commodity markets have exhibited a significant degree of volatility in recent times and there is a wide range of views on the part of commodity and market analysts as to future commodity prices. KPMG's forecast spot commodity price assumptions have been determined after consideration of the consensus forecasts of those market analysts considered by us as well as those assumptions implied by forward curves. However, a wide range of assumptions could credibly be adopted, which could impact assessed fair values either positively or negatively**.**

Accepting shareholders will no longer have exposure to the Boseto Project and the leverage to the future copper price this brings. It would however be open to non-associated shareholders to reinvest the proceeds from acceptance of the Offer in an alternative copper play. However, we note that the underlying projects of the respective alternative companies are likely to be located in different geographic locations to Botswana and display different project economics, characteristics and degree of prospectivity.

Tax consequences

Non-associated shareholders who accept the Offer will receive $1.70 cash for each Discovery share currently held, which may, depending upon individual non-associated shareholders' taxation position, give rise to Capital Gains Tax consequences at a time that may or may not be advantageous to individual non-associated shareholders. Non-associated shareholders are strongly encouraged to read the outline of the taxation implications of the Offer prepared by Discovery, which is included in the Bidder's Statement at Section 7 and, if in any doubt, should seek their own independent taxation advice regarding the taxation consequences of the Offer.

4.2.3 Other considerations

Discovery's share price may fall in the absence of the Offer

We note that in the period subsequent to the announcement of the Indicative Proposal, Discovery's shares have generally traded at or around the offer price of $1.70 representing a premium to the Company's VWAP measured at various points in the 3-month period immediately prior to the announcement. Whilst Discovery's share price subsequent to the announcement will reflect factors other than just the terms of the Offer, including commodity and market movements in general, we consider there is a prospect that Discovery's shares may fall from their current levels in the absence of the Offer, reflecting the withdrawal of the implied premium of the Offer.

Conversely, it is also possible the Company's shares may trade at above pre-announcement levels as a consequence of the additional information provided to the market, in particular, information contained in this report, in the balance of the Target's Statement in relation to the prospects of the Company for the future and as a result of recent announcements to the market by Discovery relating to on-going progress being made at Boseto.

The potential for an alternative superior offer cannot be discounted

We have discussed with Discovery's management and advisers the likelihood of alternative offers emerging for Discovery as a whole or for the key assets of Discovery. We are aware that the Company is currently in dialogue with a number of parties that may be interested in acquiring either Discovery as a whole or an individual project basis, with the potential to provide a superior return to Discovery shareholders than that currently offered by CF Investment.

Having regard to our range of assessed fair values for a Discovery share inclusive of premium, the prospect of an alternative offer emerging for Discovery, either from a third party (including those who are currently demonstrating interest) or from CF Investment itself cannot be discounted.

However, it is important to note that no alternative offer or firm commitment to acquire Discovery or any part thereof has emerged as at the date of this report.

Given CF Investment currently holds a 13.7% interest in Discovery's issued capital, any offer by a third party for Discovery as a whole would require the acceptance of the offer by CF Investment. We also note, however, that any offer for less than full control may not require the acceptance of CF Investment, depending upon the level of control sought.

As such whilst non-associated shareholders could reject the Offer in the hope that CF Investment or an alternative bidder will increase the consideration offered, there can be no guarantee that CF Investment or an alternative bidder would do so.

The Offer is subject to a number of conditions that are yet to be satisfied

The Offer is subject to a number of conditions as set out in Section 10 of the Bidder's Statement, including:

- the Minimum Ownership condition
- CF Investment and its associates obtaining all regulatory approvals or consents that are required for the Offer
- the Option Confirmation condition
- the Change of Control condition

In relation to the Option Confirmation condition we note that, on 9 November 2012, Discovery announced that the Company holds 100% of the Boseto Project, and the Government of Botswana does not hold any option to acquire any stake in the Boseto Project. As at the date of this report, the Government of Botswana has not provided the confirmation required by CF Investment and there is no certainty that it will provide the confirmation being sought.

In relation to the Change of Control condition the Company has advised that if CF Investment obtains an interest of 30% or more in Discovery a 'Change of Control' event under the Company's debt financing agreements will be deemed to have occurred which, at the lenders' discretion, may trigger a requirement for immediate repayment of the loans.

Prior to the end of the offer period, the breach or non-fulfilment of any of the conditions does not prevent a contract arising to acquire Discovery shares upon acceptance of the Offer. However, if at the end of the offer period the condition has not been either waived by CF Investment of fulfilled, all contracts resulting from acceptance of the Offer which have not formed binding contracts are automatically void.

While CF Investment is able, at its discretion, to waive a number of the conditions, we note that, as at the date of this report, a number of these conditions are yet to be either satisfied or waived.

Implications in the event CF Investment does not achieve full control of Discovery

Should CF Investment achieve an interest of 51% or more in Discovery as a result of the Offer, it will, in theory, be able to appoint the majority of the Discovery Board and will gain effective control (other than special resolutions) of Discovery. This may reduce the appeal of Discovery to the market resulting in a diminution of trading volume or traded price.

CF Investment has stated in the Bidder's Statement that should it gain effective control of Discovery but not become entitled to compulsorily acquire the outstanding Discovery shares, it would:

- support the continued listing on the ASX and the BSE, subject to Discovery satisfying the ongoing requirements under the ASX Listing Rules and the BSE Listing Requirements
- attempt to have Discovery's Board implement an operational review and, subject to the outcome of that review, continue the current business of Discovery, including the operation of the Boseto Project.

Should sufficient non-associated shareholders accept the Offer to meet the 51% Minimum Ownership condition and all other conditions are satisfied or waived by CF Investment, Discovery's free float (excluding the shares held by CF Investment) will decrease. Accordingly, whilst not guaranteed, there would appear, based on the potential for a decrease in the free float of Discovery and the existence of a single majority shareholder, to be reasonable prospects for a decrease in the liquidity of Discovery's shares following completion of the Offer.

Further detail in relation to CF Investment's intentions is set out in Section 4 of the Bidder's Statement.

Discovery's Directors' intentions

The Directors unanimously recommend that shareholders reject the Offer. Section 2 of the Target's Statement sets out the Directors' intentions in relation to their Discovery shares, their Discovery options and the Offer. We note that each Director who holds Discovery shares individually intends to reject the Offer in relation to those shares.

5 Other matters

In forming our opinion, we have considered the interests of non-associated shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual non-associated shareholders. It is not practical or possible to assess the implications of the Offer on individual non-associated shareholders as their financial circumstances are not known.

The decision of non-associated shareholders as to whether or not to accept the Offer is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual non-associated shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to accept or reject the Offer may be influenced by his or her particular circumstances, we recommend that individual shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 of the report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 6 of our report.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting non-associated shareholders in considering the Offer. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Target's Statement to be sent to non-associated shareholders in relation to the Offer, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Target's Statement.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Jason Hughes	Ian Jedlin
Authorised Representative	Authorised Representative

Contents

6 Scope of the report

6.1 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Discovery for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with Discovery's management in relation to the nature of the Company's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Discovery has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Discovery. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Discovery remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We do not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective financial information are accurate, complete or reasonable. We do not warrant or guarantee the achievement of any such forecasts or projections.

Accordingly, KPMG Corporate Finance cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period. In particular, we have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any prospective financial information. Any variations from forecasts/projections may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion.

6.2 Disclosure of information

In preparing this report, KPMG has had access to all financial information considered necessary in order to provide the required opinion. Due to commercial sensitivity we have limited the level of disclosure in relation to certain key business arrangements however we have disclosed a summary of material information which we relied on in forming our opinion.

6.3 Reliance on Technical Expert

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG Corporate Finance in the valuation of Discovery's mineral assets SRK was engaged by Discovery to prepare an independent technical report providing a valuation of Discovery's mineral assets. A copy of SRK's report, dated 19 November 2012, is attached to this report at Appendix 8.

SRK's report was prepared in accordance with the requirements of the AusIMM Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (the ValMin Code).

ASIC Regulatory Guides recommend the fees payable to the technical specialists be paid in the first instance by the independent expert and claimed back from the party commissioning the independent expert. KPMG Corporate Finance's preferred basis for appointment of independent technical specialists is that, whilst KPMG Corporate Finance is responsible for determining the scope of work to be performed by the technical specialist, the client pays the fees directly to the technical specialist. We do not consider that the independence of the technical specialist is impaired by this arrangement.

We have satisfied ourselves as to SRK's qualifications and independence from Discovery, CF Investment and its associated parties and have placed reliance on its report.

The valuation methodologies adopted by SRK are outlined in the report attached as Appendix 8 and include a combination, as appropriate, of:

- DCF
- a multiplier based on the DCF analysis for the Boseto Project
- the exploration risk method
- a multiplier based on comparative transactions of copper and nickel resource properties
- a multiplier based on comparative transactions of exploration ground
- the Kilburn method
- the in-situ resource or yardstick approach

Due to the various uncertainties inherent in the valuation process, SRK has determined a range of values within which it considers the technical value of each of the mineral assets of Discovery to lie. We have considered the operational and financial assumptions used in SRK's technical valuations. KPMG Corporate Finance was responsible for the determination of certain macroeconomic and other assumptions such as exchange rates, discount rates, inflation and taxation assumptions. The technical valuations ascribed by SRK to the mineral assets of Discovery have been adopted in our report and formed the starting basis for our assessment of appropriate market values having regard to other commercial and market related considerations.

7 Industry overview

Discovery's principal asset is its 100% interest in the Boseto Project which generates revenue primarily from the sale of copper concentrate. In order to provide context for assessing the prospects of Discovery, we have included at Appendix 3 an overview of recent trends in the global copper market.

8 Profile of Discovery

8.1 Company overview

Discovery was originally incorporated in Australia in 2003 as Discovery Nickel Limited. The Company changed its name to Discovery Metals Limited on 8 December 2006 and is currently listed on both the ASX and the BSE. Discovery was also previously listed on the Alternative Investment Market operated by London Stock Exchange Group plc, but was delisted from this exchange in March 2012.

Discovery is currently focussed on developing its major asset, the Boseto Project in northwest Botswana. Discovery also has a 19.3% (but diluting) interest in the Dikoloti Nickel Project situated in northeast Botswana and a 100% interest in the Kalahari Manganese Project in southern Botswana.

8.2 The Kalahari Copperbelt and the Boseto Project

The Company's principal asset comprises its 100% interest in the Boseto Project. A Bankable Feasibility Study (BFS) on an open cut mine and a copper concentrate project was completed in August 2010 and a Definitive Feasibility Study (DFS) for an underground mine at the conclusion of open cut operations in April 2012. First concentrate was sold in June 2012 and the Boseto Project was officially opened in September 2012.

The Boseto Project currently comprises the Zeta and Plutus mineral discoveries and is located within a belt of copper-silver mineralisation which extends from near the Zambian Copperbelt across the northwest of Botswana and into Namibia. Discovery has acquired 18 strategic prospecting licences along the Kalahari Copperbelt equating to approximately 11,872 square kilometres (km^2).

Discovery has increased its mineral resource base significantly since the DFS for the Zeta Underground Mine. The Company has continued exploration within a 30 kilometre (km) radius of the Boseto Project that may contribute to a further expansion of the project life of mine.

Over the last 12 months, Discovery has made the following announcements in relation to the discovery of additional resources:

- 16 October 2012 – maiden mineral resources estimate reported at the NE Mango 2 deposit extending over a strike length of approximately 6.6 km, located approximately 20 km from the Boseto Project
- 11 October 2012 – maiden mineral resources estimate reported at the Ophion deposit extending over a strike length of approximately 5.5 km, located approximately 35 km from the Boseto Project
- 2 August 2012 – maiden mineral resources estimate reported at the Zeta NE deposit extending over a strike length of approximately 5.0 km, located approximately 11 km from the Boseto Project
- 1 August 2012 – maiden mineral resources estimate reported at the NE Mango deposit extending over a strike length of approximately 2.5 km, located approximately 25 km from the Boseto Project
- 12 January 2012 – maiden mineral resources estimate reported at the Selene deposit extending over a strike length of approximately 7 km, located approximately 20 km from the Boseto Project

Discovery has also completed a front end engineering and design (FEED) package of works for a coal fired power station and a submission to the Government of Botswana for environmental approvals including amendment to the Company's environmental management plan. The Company commenced FEED for an expanded capacity 5 mtpa concentrator in November 2012.

Discovery also continues to explore within its other prospecting licences along the Kalahari Copperbelt, but outside the Boseto Project Zone, to discover areas of copper-silver mineralisation that could be developed into new standalone projects.

Discovery has entered into an offtake (the Offtake) agreement with Transamine Trading S.A. to on-sell 100% of the concentrate produced at the Boseto Project. The initial term of the Offtake is the later of Discovery delivering 300,000 wet metric tonnes of copper concentrate or 5 years from the time of first concentrate production. The Offtake pricing is determined by reference to the LME benchmark prices for the relevant period.

Production

The Boseto Project is currently in the commissioning and ramp up stage. A summary of production from the Boseto Project since commencement to 30 September 2012 and its latest published reserves and resources are set out in the tables below.

Table 6: Production summary

Period	6 months to June 2012	3 months to September 2012
Total material mined (t)[1]	1,420,000	6,700,000
Mill feed (t)	74,000	628,360
Copper feed grade (%)	0.9	1.0
Silver feed grade (g/t)[2]	5	11
Concentrate produced (t)	552	7,506
Copper concentrate grade (%)	30	38
Silver concentrate grade (g/t)	500	640

Note:
1. *t means tonnes*
2. *g/t means grams per tonne*

Source: Discovery Management

Table 7: Summary of Discovery's Mineral Resources and Reserves

	Zeta			Plutus			Total		
	Mt[1]	Cu[2] %	Ag[3] g/t	Mt	Cu %	Ag g/t	Mt	Cu %	Ag g/t
Reserves									
Open Pit									
Proved	4.0	1.6	22.1	0.2	1.3	11.7	4.2	1.6	21.6
Probable	6.5	1.5	23.5	11.1	1.3	13.7	17.6	1.4	17.3
Underground									
Proved	1.0	1.3	24.0	-	-	-	1.0	1.3	24.0
Probable	6.3	1.3	24.6	-	-	-	6.3	1.3	24.6
Total Ore Reserves	**17.8**	**1.4**	**23.6**	**11.3**	**1.3**	**13.7**	**29.1**	**1.4**	**19.8**
Resources									
Measured	4.6	1.6	23.5	11.1	1.4	13.9	15.7	1.4	16.7
Indicated	12.4	1.5	26.1	8.1	1.4	13.3	20.5	1.5	21.0
Total M&I	**17.0**	**1.5**	**25.4**	**19.2**	**1.4**	**13.6**	**36.2**	**1.4**	**19.1**
Inferred	27.1	1.2	20.0	67.7	1.3	13.0	94.8	1.3	15.0
Total Resources[4]	**44.1**	**1.3**	**22.1**	**86.9**	**1.4**	**13.2**	**131.0**	**1.3**	**16.2**

Note:
1. *Mt means million tonnes*
2. *Cu means Copper*
3. *Ag means Silver*
4. *Resources are quoted inclusive of reserves. Mineral reserves and resources reported at cut-off grade of 0.6% Cu, data as at 2 May 2012.*

Source: Discovery's Annual Report 2012

Table 8: Summary of additional Boseto zone Mineral Resources

	Inferred Resources		
	Mt	Cu %	Ag g/t
Selene	16.0	1.0	16.0
Zeta NE	12.9	1.3	22.0
NE Mango	4.8	1.2	13.0
NE Mango 2	28.5	1.3	14.0
Ophion	14.0	1.0	12.0
Total Inferred Mineral Resource	**76.2**	**1.2**	**15.3**

Note: Mineral reserves and resources reported at cut-off grade of 0.6% Cu.

Source: Discovery's Annual Report 2012 and 30 September 2012 Quarterly Report

Further detailed discussions in relation to the Boseto Project and the expansion options being pursued by Discovery are set out in SRK's report attached as Appendix 8 to this report.

8.3 Other mineral assets

Dikoloti Nickel Project (19.3% - diluting)

The Dikoloti Nickel Project comprises three prospecting licences covering an area of 273 km^2 in the Selebi-Phikwe region of northeast Botswana. In August 2005, Discovery announced a JORC compliant resource of 4.1 Mt @ 0.7% nickel, 0.5% copper and 1.2 g/t platinum group elements. In October 2009, Discovery executed a joint venture agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) to undertake exploration across the licences, with JOGMEC contributing $3 million over 2 years to earn an initial 60% of the Dikoloti Nickel Project. JOGMEC is continuing to provide additional funding (beyond the original $3 million) for a further exploration program and as such, Discovery's share of this project is expected to be diluted further.

Kalahari Manganese Field

Discovery holds 17 prospective licences in southern Botswana, covering 15,345 km^2. The area is underlain by rocks of the Transvaal Supergroup which extends southeast into the Griqualand West Basin of South Africa, where it hosts the Kalahari Manganese Field deposits. Work to date indicates that the potential manganese areas are likely to be under Karoo sand cover in excess of 120 metres in places. An additional data compilation exercise has identified the potential for other mineralisation within the licences, including copper and gold, with the licences covering portions of the Kraaipan Archaean Greenstone belt.

For further detail relating to other mineral assets, please refer to SRK's report.

8.4 Historical financial performance

Discovery's historical consolidated financial performance for the years ended 30 June 2010, 30 June 2011 and 30 June 2012 is summarised below.

Table 9: Discovery's historical consolidated financial performance

	Audited 30 Jun 10 US$000	Audited 30 Jun 11 US$000	Audited 30 Jun 12 US$000
Other revenue	763	3,327	599
Salaries and consultants	(1,998)	(4,442)	(7,729)
Share based payments	(1,033)	(4,870)	(3,369)
Mine rehabilitation finance cost	-	-	(1,429)
Other expenses	(2,301)	(6,159)	(4,174)
EBITDA[1]	**(4,570)**	**(12,145)**	**(16,102)**
Depreciation and amortisation	(92)	(258)	(664)
Exploration and expenditure impaired	-	(1,812)	(3,794)
EBIT[2]	**(4,661)**	**(14,215)**	**(20,560)**
Interest expense	-	(1)	(1,536)
Loss before income tax expense	**(4,661)**	**(14,216)**	**(22,096)**
Income tax (expense)/benefit	-	(330)	1,045
Loss after tax	**(4,661)**	**(14,546)**	**(21,051)**
Other comprehensive income, net of tax			
Hedge reserve	-	-	48,363
Foreign currency translation movements	-	12,074	-
Total Comprehensive Income	**(4,661)**	**(2,472)**	**27,312**
Weighted average ordinary shares on issue - 000s	*229,047*	*380,720*	*440,413*

	Audited 30 Jun 10 US$000	Audited 30 Jun 11 US$000	Audited 30 Jun 12 US$000
Basic and diluted ordinary loss per share (cents per share)[3,4]	*(2.01)*	*(3.82)*	*(4.78)*

Notes:
1. *EBITDA is earnings before interest, tax, depreciation and amortisation.*
2. *EBIT is earnings before interest and tax.*
3. *Basic earnings per share is calculated by dividing net earnings attributable to the members of the parent entity by the weighted average number of ordinary shares outstanding during the year.*
4. *Diluted earnings per share is calculated by dividing net profit for the year attributable to member of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential options into ordinary share.*

Source: Discovery's 2010, 2011 and 2012 Annual Reports.

We make the following observations in relation to Discovery's financial performance for the year ended 30 June 2012:

- other revenue of US$0.6 million primarily relates to interest income
- costs generally increased from the previous period in line with the ramp up of the development and construction of the Boseto Project
- exploration and expenditure impaired of US$3.8 million relates to the partial relinquishment of prospecting license PL01/2005 containing the Quirrins Prospect as this area was not seen as containing economic mineralisation
- other comprehensive income includes gains arising from commodity forward contracts (net of tax) and foreign currency transaction movements.

8.5 Historical financial position

Discovery's historical consolidated financial position as at 30 June 2010, 30 June 2011 and 30 June 2012 is summarised below.

Table 10: Discovery's historical consolidated financial position

	Audited 30 Jun 10 US$000	Audited 30 Jun 11 US$000	Audited 30 Jun 12 US$000
Cash and cash equivalents	39,340	88,807	60,308
Trade and other receivables	786	3,876	12,284
Prepaid expenses and deposit	-	1,981	1,498
Inventories	-	-	10,600
Other financial assets	-	-	25,485
Total current assets	**40,126**	**94,664**	**110,175**
Property, plant and equipment	1,304	94,591	288,384
Exploration and evaluation phases - at cost	33,883	37,771	56,179
Intangible assets	53	568	739

	Audited 30 Jun 10 US$000	Audited 30 Jun 11 US$000	Audited 30 Jun 12 US$000
Other financial assets	-	-	36,519
Total non-current assets	**35,240**	**132,930**	**381,821**
Total assets	**75,366**	**227,594**	**491,996**
Trade and other payables	972	19,425	25,564
Interest bearing loans and borrowings	-	-	76,984
Other current financial liabilities	-	73	35
Provisions	309	427	1,395
Total current liabilities	**1,281**	**19,925**	**103,978**
Other financial liabilities	-	159	111
Deferred tax liability	-	336	13,217
Provisions	-	2,812	8,427
Interest bearing loans and borrowings	-	-	128,016
Total non-current liabilities	**-**	**3,307**	**149,771**
Total liabilities	**1,281**	**23,232**	**253,749**
Net assets	**74,085**	**204,362**	**238,247**
Shares on issue – 000s	*300,987*	*437,114*	*442,128*
Net asset backing per share – US$	*0.25*	*0.47*	*0.54*
Gearing -%[1]	*-*	*-*	*86%*
Current ratio – times[2]	*31.31*	*4.75*	*1.06*

Notes:
1. *Gearing represents total loans and borrowings divided by net assets.*
2. *Current ratio represents current assets divided by current liabilities.*

Source: Discovery's 2010, 2011 and 2012 Annual Reports, KPMG analysis

We make the following observations in relation to Discovery's financial position as at 30 June 2012.

- trade and other receivables of US$12.3 million primarily relates to GST/VAT receivable
- inventory of US$10.6 million primarily relates to materials and supplies, excluding copper ore and concentrate
- current and non-current other financial assets include commodity forward contracts for copper and silver

Subsequent to 30 June 2012, Discovery completed a placement of approximately 40 million shares to institutional investors at $1.20 per share, raising $50 million. The Company stated that these funds were raised to pursue growth and cost saving initiatives following the completion of construction and pre-commission of the Boseto Project and provide enhanced balance sheet flexibility during its commissioning and ramp-up phase.

8.6 Statement of cash flows

Discovery's historical consolidated cash flows for the years ended 30 June 2010, 30 June 2011 and 30 June 2012 are summarised below.

Table 11: Discovery's historical consolidated cash flow statement

	Audited 30 Jun 10 US$000	Audited 30 Jun 11 US$000	Audited 30 Jun 12 US$000
Receipts from customers	-	-	846
GST & VAT receipts	206	521	12,847
Payments to suppliers and employees	(5,103)	(11,336)	(23,518)
Interest received	671	3,136	493
Dikoloti management fee	82	182	105
Refunds received	9	9	7
Net cash used in operating activities	**(4,135)**	**(7,488)**	**(9,220)**
Payments for exploration	(11,054)	(10,704)	(18,615)
Purchase of plant and equipment	(883)	(73,535)	(201,324)
Payment of intangibles	(53)	(592)	(479)
Net cash used in investing activities	**(11,991)**	**(84,831)**	**(220,418)**
Proceeds from borrowings	-	-	205,000
Proceeds from issue of shares	45,096	142,429	2,329
Payment of finance lease liabilities	-	-	(86)
Interest paid	-	-	(6,380)
Share issue costs	(708)	(4,892)	-
Net cash provided by financing activities	**44,388**	**137,537**	**200,863**
Net increase/(decrease) in cash held	**28,262**	**45,218**	**(28,775)**
Cash at beginning of period	8,732	33,530	88,807
Effect of exchange rates	2,346	10,059	276
Cash at end of the period	**39,340**	**88,807**	**60,308**

Source: Discovery's 2010, 2011 and 2012 Annual Reports.

Taxation

As at 30 June 2012, Discovery had carried forward revenue tax losses recognised as a deferred tax asset of US$34.7 million and unused tax losses for which no deferred tax assets has been recognised of US$7.2 million, which are available to offset against future taxable income subject to continuing to meet relevant statutory tests.

Hedging

As part of its project financing arrangements Discovery entered into commodity price hedging contracts for approximately 40% of forecast copper production and 65% of forecast silver production for the scheduled period of its loan repayments through to March 2015. The total hedged quantities are 40,000 t of copper and 1,850,000 ounces (oz) of silver.

In July 2012, additional hedging was placed to protect cash flow from the Boseto Project operations for the first six months of operations. A total of 6,100 t of copper and 90,000 oz of silver were contracted, representing approximately 80% of expected production being hedged for both commodities for the period July 2012 to December 2012.

As at 31 October 2012, Discovery held hedging contracts for a total of 43,327 t of copper at an average contract price of US$8,638 per tonne and a total of 1,704,931 oz of silver at an average contract price of US$35.73 per ounce.

Contingent liabilities

Discovery reported in its 2012 Annual Report a number of claims from and against the major construction contractor, Sedgman, on the Boseto Project relating to time extension and associated bonuses or penalties as well as sub-standard and incomplete work which has been remediated and completed by Discovery.

In its quarterly report released on 22 October 2012, Discovery reported that Sedgman had advised it will be filing a court application claiming approximately $20 million against Discovery under the engineering, procurement and construction contract. Discovery believes that there is no merit to Sedgman's claim and has advised Sedgman of significant offsetting claims by Discovery against Sedgman.

8.7 Share capital and ownership

As at 31 October 2012, Discovery had approximately 486.8 million ordinary shares on issue as summarised in the table below.

Table 12: Discovery's top ten shareholders

Shareholder	Number of shares held 000s	% of issued capital
CFC	66,795	13.7
BlackRock Investment Management	53,818	11.1
Genesis Investment Management	37,334	7.7
M&G Investment Management	36,900	7.6
Transaminvest	34,996	7.2
Credit Suisse	21,782	4.5
Antares Equities	17,477	3.6
Botswana Insurance Fund Management	16,287	3.3
Eley Griffiths Group	11,708	2.4
Macquarie Funds Group	11,685	2.4
Total number of shares held by the top 10 shareholders	**308,782**	**63.5**
Other shareholders	178,104	36.5
Total number of shares on issue	**486,886**	**100**

Source: Discovery's management

Substantial shareholder notices for the past 6 months have been received by Discovery as set out below.

Table 13: Substantial shareholders

Shareholder	Date of notice	Number of shares held pre 000s	Number of shares held post 000s	% of issued capital
CFC	08/11/2012	66,795	66,795	13.72
CFC	14/10/2012	56,635	66,795	13.78
National Australia Bank	02/10/2012	26,041	31,341	6.47
Genesis Asset Managers	12/09/2012	30,824	35,887	7.42
National Australia Bank Ltd	11/09/2012	-	26,041	5.38
M&G Investment Management Limited	10/09/2012	45,564	36,900	7.62
Vanguard Precious Metals & Mining Fund	07/09/2012	45,777	40,803	8.43
M&G Investment Fund	06/09/2012	53,106	45,564	9.41
M&G Investment Fund	30/08/2012	57,221	53,106	10.97
Vanguard Precious Metals & Mining Fund	30/08/2012	51,078	45,777	9.46
M&G Investment Fund	23/08/2012	61,680	57,221	11.82
Genesis Asset Managers LLP	20/08/2012	22,426	30,824	6.37
M&G Investment Fund	20/08/2012	64,266	61,680	12.74
M&G Investment Fund	17/08/2012	69,781	64,266	13.28
Genesis Asset Managers LLP	14/08/2012	-	22,427	5.07
M&G Investment Funds	13/08/2012	74,103	69,781	15.78
Forex Investment Group Limited	07/08/2012	56,635	-	-
CFC	07/08/2012	-	56,635	12.81
Vanguard Precious Metals & Mining Fund	18/07/2012	51,500	56,500	12.78
M&G Investment Fund	18/07/2012	66,451	74,103	16.76
Vanguard Previous Metals & Mining Fund	16/07/2012	46,500	51,500	11.65
M&G Investment Funds	10/07/2012	62,048	66,451	15.02
M&G Investment Funds	22/05/2012	58,603	62,048	14.03

Source: Discovery's management and ASX announcements

8.8 Options, share plan and performance rights

Options

At the date of this report, there were 1.25 million unissued ordinary shares of Discovery for which options were outstanding as summarised in the table below.

Table 14: Options on issue

Grant date	Date of expiry	Exercise Price $	Number under Option 000s
25/06/2009	01/11/2013	$0.35	1,000
30/06/2009	01/11/2013	$0.375	250

Source: Discovery's Annual Report 2012

Share Plan

At the date of this report there were 8 million issued Discovery shares which were held in trust in relation to Discovery's share plan. These shares, whilst unvested, were previously issued to the share plan trust company and are reflected in the total ordinary Discovery shares outstanding at the date of this report.

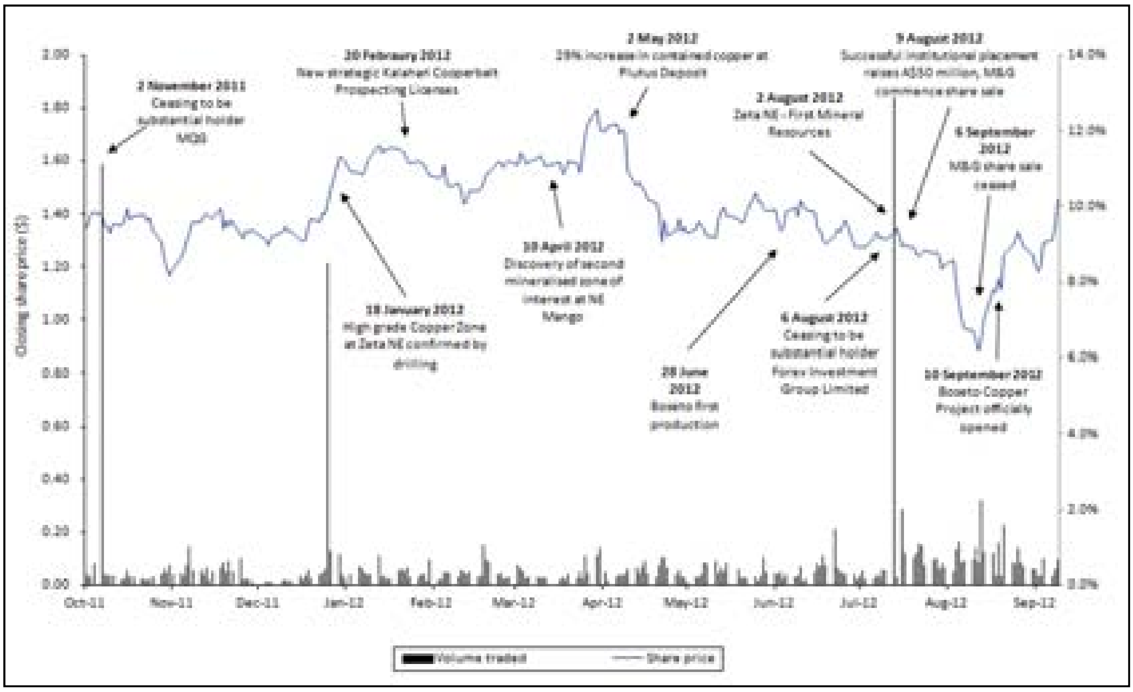
Performance Rights Plan

Discovery has implemented a performance rights plan which, upon a determination by the Board that the performance conditions have been met and subject to the terms of the plan, results in Discovery management being issued fully paid ordinary shares. At the date of this report, no performance rights had been granted with the plan formulated to apply for the year ended 30 June 2013 and thereafter.

8.9 Share price and volume trading history

The chart below depicts Discovery's daily closing share price on ASX in the twelve month period to 3 October 2012, being the last trading day prior to the announcement of the Indicative Proposal, along with the daily volume of shares traded on ASX as a percentage of total issued capital over that period.

Figure 1: Discovery daily closing price and volume of shares traded on ASX



Source: Capital IQ, KPMG's analysis and ASX announcements

As illustrated in the figure above, Discovery's closing share price has generally traded flat over the period with uplifts following certain drill and discovery results in January 2012 and April 2012 and the opening of the Boseto Project on 10 September 2012.

We note that between the period 9 August 2012 to 6 September 2012 approximately 37.2 million shares (or approximately 7.7% of total issued capital) were sold by a single shareholder, M&G, which appears to have had an adverse impact on Discovery's share price during this period. Discovery's share price has recovered strongly since the cessation of sustained selling activity by M&G.

Other than normal annual, half-year and quarterly activities reporting, significant announcements by Discovery in the six months to 3 October 2012 that may have had an impact on its recent share price include:

- 1 October 2012 – NE Mango 2 Prospect drill results
- 10 September 2012 – Boseto Project officially opened
- 24 August 2012 – Full year Director's report and financial statements
- 9 August 2012 – Institutional placement raises $50 million
- 2 August 2012 – Zeta NE – First mineral resources
- 28 June 2012 – Boseto first production
- 14 May 2012 – Drill results from resource definition drilling at Zeta North East
- 2 May 2012 – 29% increase in contained copper at Plutus deposit

Further details in relation to all announcements made by Discovery to ASX can be obtained from either Discovery's website or ASX's website at www.asx.com.au.

As illustrated in the figure below, Discovery's share price has matched the relative performance of the All Ordinaries and outperformed the Metals and Mining Index over the one year period to 3 October 2012, albeit displaying significantly greater volatility over the period than both indices.

Figure 2: Discovery's relative performance to the All Ordinaries and Metals and Mining Index

Source: Capital IQ

Trading liquidity on ASX

An analysis of the volume of trading in Discovery's shares on ASX in the 12 month period to the last trading day prior to the announcement of the Indicative Proposal on 4 October 2012 is set out below.

Table 15: Trading liquidity in Discovery's shares on ASX pre-announcement

Period up to and including 3 October 2012	Share price low $	Share price high $	VWAP $	Cumulative volume m	As a % of total issued capital
1 day	1.37	1.47	1.42	3.3	0.7
1 week	1.16	1.47	1.31	11.3	2.3
1 month	0.88	1.47	1.14	75.3	15.5
3 months	0.88	1.47	1.23	241.9	52.3
6 months	0.88	1.82	1.30	338.7	74.2
12 months	0.88	1.82	1.36	608.2	135.3

Source: Capital IQ and KPMG analysis

Discovery's shares on ASX have, prima facie, exhibited moderate liquidity in recent times, with approximately 135.3% of total shares on issue traded on ASX over the 12 months prior to the announcement of the Offer, with an average daily traded volume of approximately 2.4 million shares. Discovery's shares were traded on 125 days out of 126 trading days over the six month period prior to the announcement of the Offer.

However, as noted previously, between the period 9 August 2012 to 6 September 2012 approximately 37.2 million shares were sold by a single shareholder, M&G. In the event these shares are omitted from the analysis, the total volume of shares traded over the three months up to and including 3 October 2012, reduces to 204.7 million (or approximately 44.3% of issued capital) and in the twelve months to 571.0 million shares (or approximately 127.0% of issued capital).

An analysis of the volume of trading in Discovery's shares on ASX in the period from 5 October 2012 to 13 November 2012 (inclusive) is set out below. We note Discovery has largely traded at or around the Offer Price since announcement.

Table 16: Trading liquidity in Discovery's shares on ASX post-announcement

Period from 5 October 2012 to 13 November 2012	Share price low $	Share price high $	VWAP $	Cumulative volume m	As a % of total issued capital
40 days	1.61	1.76	1.69	72.7	15.0

Source: Capital IQ and KPMG analysis

9 Profile of CF Investment, CFC and CAD

The Bidder's Statement provides the following information in relation to CF Investment, CFC and CAD.

CF Investment

CF Investment is a body corporate incorporated under the laws of Hong Kong SAR in China. As at the date of the Bidder's Statement, CF Investment was a wholly owned subsidiary of Cathay Fortune International (CF International), which was in turn a wholly owned subsidiary of CFC. It is intended that CAD, through China Africa Development Fund Liantuo (CAD Fund Liantuo) will subscribe for 25% of the equity capital of CF Investment in the event the Offer is declared unconditional by CF Investment.

CF International and CAD Fund Liantuo have entered into a subscription agreement which will govern their relationship with respect to their holdings in CF Investment.

As at the date of the Bidder's Statement, CFI has two directors:

- Mr Zhang Zhenhao - Director and Chief Financial Officer of CFC since 2007
- Mr Wang Xiaojun - General Manager of CFC, Beijing Branch since November 2007

CFC

CFC is a Chinese private equity investment firm, which since 1997, has invested in China across the network equipment, aviation, industrial automation, financial services, resources and mining sectors. CFC is 99% owned by Mr Yu Yong and currently has approximately 30 investment professionals in three offices in Shanghai, Beijing and Hong Kong.

CAD

CAD was established in June 2007 by the CDB to support Chinese investment in Africa with a strong focus on investments in agriculture, natural resources and infrastructure sectors in Africa.

CDB was founded in 1994 under the leadership of the State Council of China. CDB specialises in financing infrastructure developments, pillar industries, high technology industries and key national projects. As at December 2011, CDB had total assets of approximately US$995 billion. CDB is wholly owned by the Government of China and its shareholders are the Ministry of Finance of the People's Republic of China (51.3%) and Central Huijin Investment Ltd (Huijin) (48.7%). Huijin is a state-owned investment company incorporated to hold equity investments made in key state-owned financial institutions, as authorised by the State Council of China.

Further details in relation to CF Investment, CFC and CAD are set out in the Bidder's Statement.

10 Valuation of Discovery

10.1 Valuation methodology

The principal assets of Discovery comprise its interests in mineral mining, processing and production assets. Such producing assets have limited lives and future profitability and asset life depend upon factors that are inherently unpredictable. Further, Discovery owns or has rights to various mineral assets that are still at the exploration stage and are yet to record earnings.

In our experience, the most appropriate method for determining the value of companies similar to Discovery is on the basis of the fair value of the underlying net assets, with the principal operating assets being valued using the DCF approach.

The DCF methodology has a strong theoretical basis, valuing a business on the net present value (NPV) of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital. This technique is particularly appropriate for start up companies and companies with a limited asset life, which is often the case with companies dependent upon depleting mineral resources. Application of this technique generally requires a 5-year minimum period of analysis. In addition, a sensitivity analysis for variations in key assumptions adopted needs to be performed.

We have used the audited net assets of the Company as at 30 June 2012 adjusted for subsequent material transactions as set out in Section 8 of this report as the basis for our valuation.

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of Discovery's assets, SRK was retained to prepare an independent technical report providing a technical valuation of Discovery's production, development and exploration assets. A copy of SRK's report is attached to this report as Appendix 8.

Due to the various uncertainties inherent in the valuation process, SRK has determined a range of values within which it considers the technical value of each of the mineral assets of Discovery to lie. We have considered the operational and financial assumptions used in SRK's technical valuations. KPMG Corporate Finance was responsible for the determination of certain macroeconomic and other assumptions such as exchange rates, discount rates, inflation and taxation assumptions. The technical valuations ascribed by SRK to the mineral assets of Discovery have been adopted in our report and formed the starting basis for our assessment of appropriate market values having regard to other commercial and market related considerations.

Other assets and liabilities of Discovery have been incorporated in our valuation at assessed values or book values as discussed later in this section.

10.2 Valuation summary

We have assessed the fair market value of Discovery as a whole, inclusive of a premium for control and strategic value, to lie in the range of $850.8 million to $1,031.6 million (or between approximately US$876.3 million and US$1,062.6 million), which equates to between $1.74 and $2.11 per Discovery share.

We have assessed the market value of Discovery by aggregating the estimated market value of Discovery's interests in mineral assets, adding the assessed value of other assets and, if appropriate, deducting any external borrowings and non-trading liabilities. The value of Discovery has been assessed on the basis of fair market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

In forming our view as to value, we have relied upon the technical valuation of Discovery's mineral asset portfolio prepared by SRK. In arriving at its range of assessed technical values for Discovery's mineral assets, SRK considered various operating scenarios for the Boseto Project, including both 3.5 mtpa and 5.0 mtpa long-term coal powered production scenarios. An overview of SRK's valuation results, adopted methodologies and assumptions in respect of Discovery's mineral assets, in terms of assessed values, is set out below and discussed in greater detail in SRK's report.

Our final range of values reflects that SRK's range of values represents technical values, that is, as defined in the Valmin Code, values excluding any premium or discount to account for such factors as market or strategic considerations.

Having regard to the factors discussed previously in Section 4.1 of this report, our analysis of the trading and transaction multiples for comparable companies set out in Section 10.3 below and the level of premia observed in recent successful takeover transactions in Australia in the Metals and Mining GICS classification; we consider it appropriate in our professional judgement to include a premium of 40% to the low end of the technical values determined by SRK in respect of Discovery's principal assets. Whilst it is arguable that a premium could also be applied to the high end of our value range, we consider it likely that the high end of the SRK's technical value range, whilst being a technical value, already effectively includes an allowance for prospectivity.

Our range of fair market values also includes additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers. It does not include any other potential strategic or operational synergies that may be unique to CF Investment. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

Set out below is a summary of the range of fair market values at which Discovery's shares have been assessed.

Table 17: Summary of assessed fair market value of Discovery inclusive of a full premium for control and strategic value

	Assessed Values	
	Low US$m	High US$m
The Boseto Project market value	671.0	1,022.0
Premium for market and strategic related factors - 40%	268.4	-
Other mineral assets	67.0	159.0
Total mineral assets	**1,006.4**	**1,181.0**
Add: Cash and cash equivalents	86.4	86.4
Hedge contracts	34.3	34.3
Other net assets	2.0	2.0
Less: Borrowings	(205.0)	(205.0)
Future corporate overheads	(38.2)	(36.5)
Contingent liability - Sedgman claim	(10.0)	-
Total equity value (undiluted)	**875.9**	**1,062.1**
Add: Funds from exercise of options	0.5	0.5
Total equity value (diluted) - US$m	**876.3**	**1,062.6**
US$:$ exchange rate	1.03	1.03
Total equity value (diluted) - $m	**850.8**	**1,031.6**
Number of ordinary shares (millions)	486.9	486.9
Add: Options (millions)	1.3	1.3
Diluted number of shares on issue (millions)	488.1	488.1
Value per share, inclusive of a premium for control $	**1.74**	**2.11**

Notes:
1. *Figures may not add exactly due to rounding*

Source: KPMG analysis and SRK report

Our range of assessed fair values for a Discovery share, inclusive of a full premium for control and strategic value, of between $1.74 and $2.11 per share compares to a closing price for a Discovery share on its last trading day prior to the announcement of the Indicative Proposal of $1.46, and to the closing price for a Discovery share on the last trading day prior to the date of this report of $1.69.

Valuation of the Boseto Project

SRK has assessed a technical value of Discovery's 100% interest in the Boseto Project, on the basis of DCF analysis and multiples as set out in the table below, as lying in the range of US$671.0 million to US$1,022.0 million.

Table 18: Summary of SRK's opinion of the technical value of Discovery's interest in the Boseto Project

	Technical values	
	Low US$m	High US$m
The Boseto Project reflected in the DCF	436.0	532.0
Remaining resources	169.0	351.0
Plutus Deep	14.0	29.0
Zeta NE Deep	27.0	57.0
Mango 2 Deep	25.0	53.0
Total technical value for the Boseto Project	**671.0**	**1,022.0**

Source: SRK report

In assessing the technical value of the resources not in the DCF model, SRK has considered implied US$ per pound (lb) metrics derived from the DCF model, discounted for specific factors including resource classification, and a market-based approach to compare resources to other assets on which transactions have been completed. Further details in relation to each of these assets and the valuation methodology adopted are set out in SRK's report.

Key operational assumptions

The principal operational assumptions adopted in SRK's valuation of Boseto Project operations are summarised below for each of the 3.5 mpta and 5 mtpa scenarios considered by SRK.

Table 19: Key operating assumptions

		Assumptions	
Factors	**Unit**	**3.5 mtpa**	**5.0 mtpa**
Mine life	Years	19	14
Total ore feed to mill	Mt	61.4	61.4
Average milled ore grade (copper)	g/t	1.18	1.18
Average copper recovery	%	83	85
Copper recovered	000 t	600	612
Average copper production	000 t	34	46
Average milled ore grade (silver)	g/t	18.7	18.7
Average silver recovery	%	59	59
Silver recovered	Moz	20.4	20.2
Average silver production	Moz	1.1	1.5
Total capital cost over life of mine (2012 dollars)	US$M	307	336
Average operating cost per concentrate tonne (2012 dollars)	US$000/t	2.1	2.1

Source: SRK report and financial models

We have considered SRK's assumptions and discussed them in detail with SRK in the context of Boseto Project's current operating capacity and Discovery's own forecast results. Based on our discussions, we consider the operational assumptions adopted by SRK to be reasonable.

Economic and financial assumptions

Denominations of cash flows

As the principal items of cash flow in respect of the Boseto project are denominated in US$, the NPV of the Boseto Project was calculated in US$.

We note that a proportion of the overall cash costs are incurred by Discovery in BWP. Where appropriate SRK has adjusted Discovery's forecast cash flows to reflect that these local costs will be subject to differing economic factors than those incurred directly in US$.

Exchange rates

Forecast exchange rates were assessed by us having regard to the current spot BWP:US$ exchange rate (approximately 7.7), the most recent estimated 2012 calendar year average to date BWP:US$ exchange rate of 7.7 published by the Economic Intelligence Unit (EIU) and the differential between assumed Botswana and United States forecast inflation rates. In effect, the BWP:US$ exchange rate has been assumed to remain constant in real terms post 2012.

The exchange rate assumptions adopted by SRK as advised by KPMG are summarised in the table below.

Table 19: Summary of exchange rate assumptions

	2012	2013	2014	2015	2016	2017
BWP:US$	7.9	8.2	8.5	8.8	9.1	9.4

Source: Capital IQ, various economic commentaries and KPMG analysis

Inflation

Inflation rate assumptions adopted by SRK as advised by KPMG are set out in the table below.

Table 20: Summary of inflation assumptions

	2013	2014	2015	2016	2017
United States	2.0	2.2	2.3	2.3	2.3
Botswana	6.0	6.0	6.0	6.0	6.0

Source: Capital IQ, brokers' notes, various economic commentaries and KPMG analysis

United States and Botswana inflation was determined having regard to the forecasts of a range of brokers and economic commentators. Subsequent to 2017, the rate has been assumed to remain constant at 2.3% per annum for the United States and 6.0% per annum for Botswana.

Key commodity prices

Key commodity pricing assumptions over the period to 2017, as advised to SRK by KPMG, are summarised in the table below.

Table 21: Key operating assumptions

	2012	2013	2014	2015	2016	2017
Copper price – US$/lb	3.55	3.60	3.60	3.50	3.40	3.30
Silver price – US$/oz	32	32	31	30	29	28

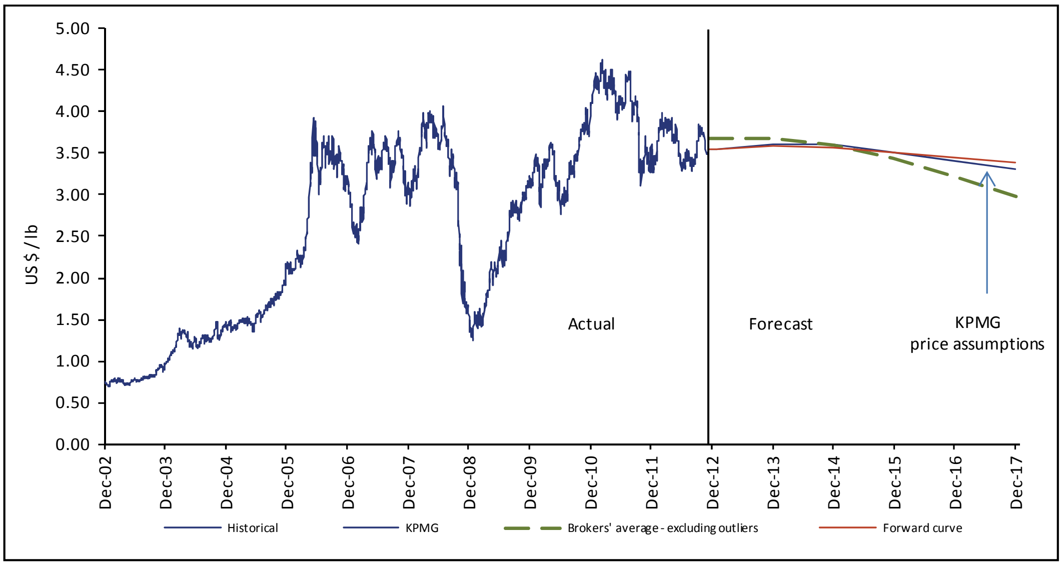
Source: Capital IQ, brokers' notes, various economic commentaries and KPMG analysis

Subsequent to 2017, we have assumed that each of the above commodity prices increase by the long term inflation rate for the Unites States. In effect, the commodity prices are assumed to remain constant in real US$ terms post 2017.

Set out in the charts below are the daily historical spot prices for copper and silver over the 10 years to 30 October 2012, the relevant forward curve for copper at that date, the average spot forecasts of a number of brokers / economic forecasts published at or around the date of the announcement of the Offer and our adopted commodity prices.

Copper

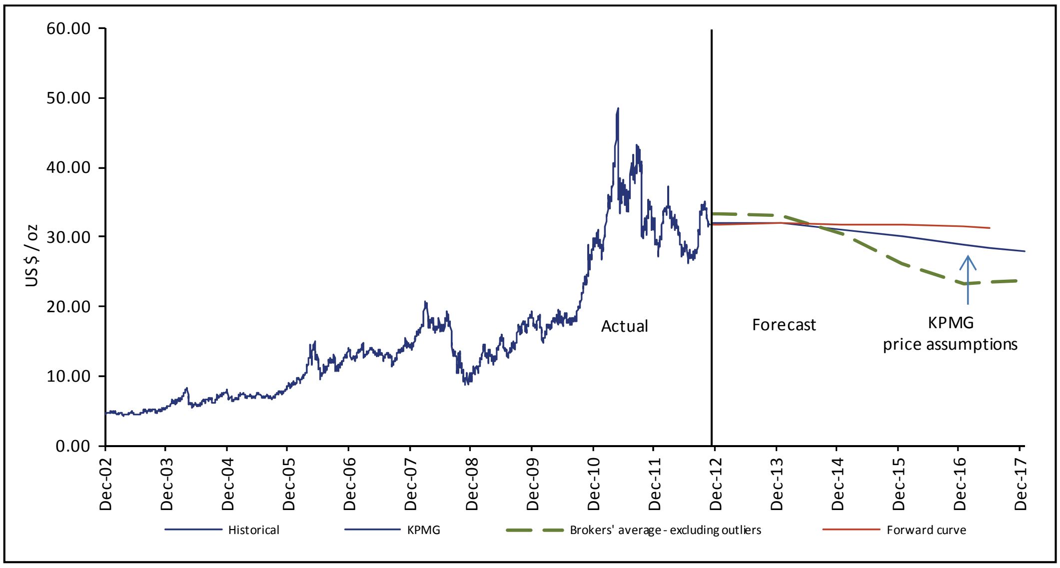
Figure 3: Historical London Metals Exchange (LME) and KPMG forecast copper prices in US$/lb



Source: Capital IQ, brokers' notes, various economic commentaries and KPMG analysis

Silver

Figure 4: Historical LME and KPMG forecast silver prices in US$/oz



Source: Capital IQ, brokers' notes, various economic commentaries and KPMG analysis

As can be seen each of the commodities has exhibited significant volatility in recent years, and although trading off historical highs, are arguably generally trading above long term trends. There is currently significant uncertainty as to the future direction of commodity prices due to general global economic conditions.

Accordingly, we believe any purchaser of the Boseto Project would have regard to a wide range of indicators in determining appropriate commodity prices to adopt in cash flow forecasts. In this context, in selecting appropriate projected key commodity prices we have considered both the price of copper and silver forwards and the expectations of market commentators and broking houses in determining an appropriate copper and silver benchmark for our pricing assumptions. In general, our price forecasts reflect a softening in the recent commodity prices over the medium term. Further details in relation to forward curves and brokers' forecasts are set out in Appendix 3.

Other assumptions

Other key financial and economic assumptions adopted by us in assessing the value of the Boseto Project include:

- a variable rate corporate tax based on the formula specific to mining projects in Botswana, which in effect sets a floor rate of 22% and a ceiling rate of 55% over the life of the mine
- a government royalty of 3% on copper revenues and 5% on silver revenues
- a US$ ungeared, post tax nominal discount rate in the range of 10% per annum to 11% per annum. The basis of our calculation of discount rates is discussed at Appendix 4 to this report.

Sensitivity analysis

SRK has undertaken a sensitivity analysis around its base case valuation for the Boseto Project based on a range of operational, commercial, financial and other key assumptions. This analysis is contained in Section 6.4 of SRK's report.

The sensitivity analysis indicates that the NPV of the Boseto Project is particularly sensitive to movements in the copper price, as well as production assumptions including, in particular, copper recovery, copper grade, tonnes milled and operating expenses.

Valuation of other mineral assets

SRK has valued Discovery's other mineral assets not factored into the Boseto Project in the range of US$67.0 million to US$159.0 million, as summarised in the table below.

Table 22: Summary of SRK's valuation of the other mineral assets held by Discovery

	Values	
	Low US$m	**High US$m**
NE Mango resources	46.0	96.0
Kalahari exploration tenements	8.0	25.0
Dikoloti Nickel Project (Discovery's 19% share)	1.0	2.0
Manganese tenements	12.0	36.0
Total	**67.0**	**159.0**

Source: SRK report

In assessing these values, SRK has adopted accepted methods for valuing mineral assets including a market-based approach to compare resources or defined targets to other assets on which transactions have been completed as well as exploration transaction comparisons for exploration assets which do not have identified mineralisation to a level where a target tonnage and grade can be applied. Further details in relation to each of these assets and the valuation methodology adopted are set out in SRK's report.

Other assets

Net assets not valued as part of Discovery's mineral assets comprise cash and sundry other assets and liabilities. Except as specifically noted below, having regard to their nature and quantum, these assets and liabilities have been incorporated in our valuation at net book values as at 30 June 2012.

Cash

We have adopted the book value of cash for Discovery at 30 September 2012 of US$86.4 million.

Inventory

Inventory has been incorporated in SRK's cashflow model.

Working Capital

Working capital items, including trade receivables and trade payables, have been incorporated in SRK's cashflow model.

Provision for rehabilitation expenses

Rehabilitation expenses related to the Boseto Project have been incorporated in SRK's cashflow model.

Future corporate overheads

Discovery incurs corporate overheads in relation to managing its business and maintaining its operating assets. These costs have not been incorporated into the valuation of Discovery's mineral assets set out above, and therefore it is necessary to deduct the present value of anticipated future management and administrative costs in relation to Discovery's operating assets from the value of the Company. Discovery estimates that its corporate costs in the absence of the Offer are likely to be in the order of US$12.3 million per annum (in 2012 post-tax dollars).

We have been provided with a schedule prepared by Discovery that sets out the Company's assessment of the direct synergies and cost savings likely to be available to a pool of purchasers in acquiring a 100% interest in Discovery. These synergy benefits and cost savings total approximately US$3.9 million per annum (in 2012 post-tax dollars) over the life of the Boseto Project, with once-off associated costs in realising these benefits incurred in the first year expected to be US$1.7 million (in 2012 post-tax dollars). These synergies are expected to be realised as a result of economies of scale, elimination of duplication in running Discovery as a separate public company and general finance and support costs.

We have discussed with Discovery's management the basis of its assessment as to the level of synergies and cost savings that may be realised by a pool of purchasers. Whilst there is both downside risk and potential upside in relation to the final quantum and nature of the synergies that may ultimately be realised, we believe, based on information available as at the date of this report, that the numbers estimated by Discovery are reasonable for the purpose of our evaluation.

The NPV of these adjusted corporate costs, having regard to the nature of the Company's portfolio of operating assets and estimated one-off costs in realising these cost savings, has been estimated to be in order of US$36.5 million to US$38.2 million on a post-tax basis.

Proceeds from the exercise of options

Discovery currently has 1.25 million options on issue, 100% of which were available for exercise at the date of this report. As our assessed undiluted value of a Discovery share exceeds the exercise price of the options, we have included approximately US$0.5 million of funds to be received upon exercise of 1.25 million 'in-the-money' options in our range of fair market values. A corresponding increase to the number of shares on issue has also been included in order to derive our diluted equity values.

Hedge contracts

After consideration of the mark-to-market calculation of Discovery's forward copper and silver sales contracts as at 31 October 2012 completed by Oakvale Capital, along with associated tax implications from a close out, we have included an amount of US$34.3 million in respect of Discovery's net hedge book.

Tax losses

Given that Discovery's principal income producing assets are expected to be taxed in Botswana, the impact of which, including Discovery's current Botswana tax loss position, has been reflected in SRK's range of values, and that the Company expects no foreseeable Australian taxable profits or capital gains against which Discovery's current accumulated Australian tax losses could be absorbed, we have not ascribed a value to Discovery's Australian tax losses for the purpose of our valuation.

Contingent liabilities– Sedgman

On 22 October 2012, Discovery reported that Sedgman had advised it will be filing a court application claiming approximately $20 million against Discovery under the engineering, procurement and construction contract. Discovery believes that there is no merit to Sedgman's claim and has advised Sedgman of significant offsetting claims by Discovery against Sedgman.

Given the early stage of this dispute we have included an adjustment of negative US$10 million at the low end of our range of values and $nil at the high end. We note that had the full amount of US$20 million been included at both the low and high end of our range of values this would have had the impact of reducing our range of values marginally to between $1.72 and $2.07 per Discovery share.

10.3 Other valuation parameters

Implied value per tonne of contained copper equivalent reserves

KPMG's valuation of Discovery's equity, inclusive of a full premium for control and strategic value, lies between US$876.3 million and US$1,062.6 million and its estimated current net debt position implies an enterprise value for Discovery in the order of US$995.0 million and US$1,181.2 million. Based on the Company's quoted reserves, the implied enterprise value to reserve tonne of contained copper equivalent multiples are as set out in the table below.

Table 23: Implied Discovery valuation multiples per reserve tonne of contained copper equivalent

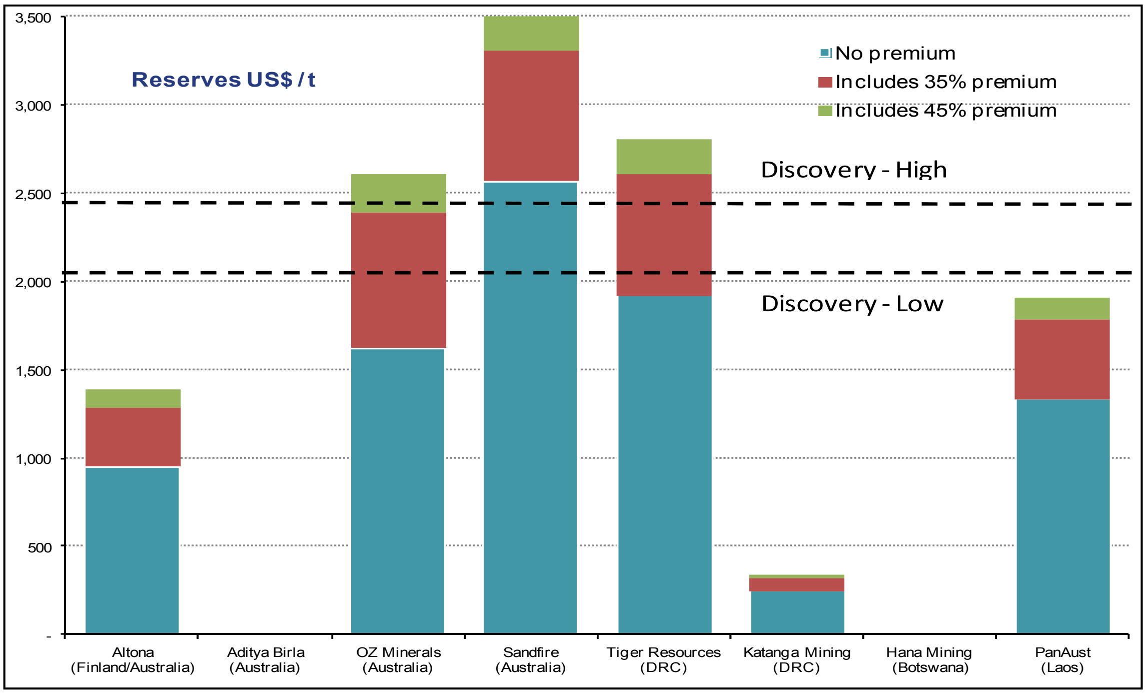
Parameter	Low US$/t	High US$/t
Reserves	2,058	2,443

Notes:
1. *Implied reserve multiples are calculated using Discovery's most recent stated reserve. Contained copper equivalent reserve of 0.48 million tonnes includes the value of silver reserves based on a spot commodity price of US$31.76/oz.*

Source: KPMG analysis

Set out in Appendix 5 is an analysis of the value per reserve tonne of contained copper equivalent for various companies selected for comparison implied by the market capitalisation and most recent net debt/(cash) positions of those companies. As market capitalisation reflects trading in portfolio holdings, whereas our range of assessed market values includes a premium for control and strategic value we have also included a premium of 35% to 45% (consistent with that observed in recent successful takeovers).

Figure 5: Implied valuation multiples per reserve tonne of contained copper equivalent for the selected listed companies



Source: KPMG analysis

This analysis indicates a wide range of outcomes, however we note that the range of Discovery's reserve multiples implied by our range of assessed market values lies comfortably within the observed range.

In considering this outcome we note however that a number of the selected listed companies also hold reserves of other metals, including, amongst others, nickel, gold, zinc and cobalt which have impacted the implied copper equivalent multiples of these companies.

In addition we also note that:

- Sandfire is an outlier and may reflect that its copper grade is significantly in excess of the other companies considered (including Discovery)
- Aditya Birla and Hana Mining (which has been included as it is adjacent to Discovery's land holdings) are yet to report reserves
- Altona Mining has a significant resource holding at Roseby near Mt Isa but is yet to commence production at this location and has a significant weighting to resources rather than reserves. Also Altona's recent share price may have been impacted by uncertainty as to the outcome of a corporate transaction involving the acquisition of a project interest at Roseby by Mount Isa Mines Limited, a subsidiary of Xstrata

- Both Tiger Resources' and Katanga Mining's principal projects are located in the Democratic Republic of Congo (DRC), which is considered to be a significantly more uncertain political and regulatory environment than Botswana, which may have impacted their implied multiples.

The implied value per reserves tonne of copper equivalent as a measure should also be viewed with some caution as it does not capture such things as:

- the extent to which reserves have been developed, their quality, location or proximity to infrastructure
- the weighting of reserves to resources and whether there is any imperative for conversion
- the quantum or timing of future operating and capital costs required to realise the underlying reserves
- potential timing differences companies in reporting updated reserves and resources figures

Implied value per tonne of contained copper equivalent resources

KPMG 's implied enterprise value for Discovery of US$995.0 million and US$1,181.2 million implies contained copper equivalent reserve multiples are as set out in the table below.

Table 24: Implied Discovery valuation multiples per resource tonne of contained copper equivalent

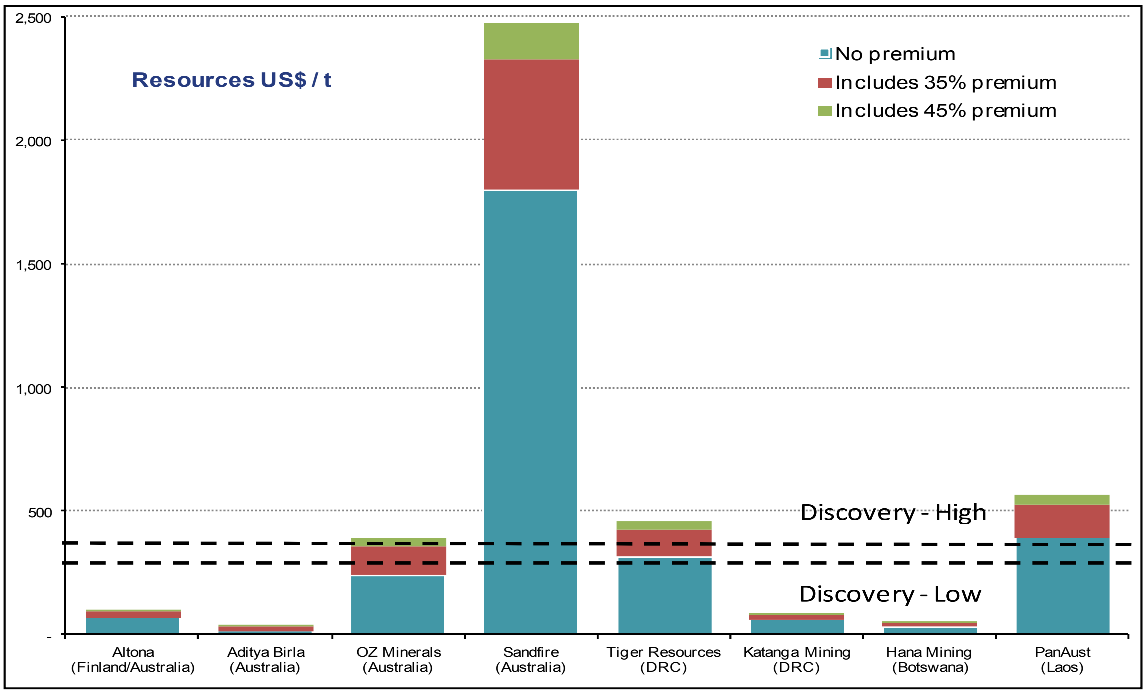
Parameter	Low US$/t	High US$/t
Resources[1]	311	369

Notes:
1. *Implied resource multiples are calculated using Discovery's most recent stated resource. Contained copper equivalent reserve of 3.2 million tonnes includes the value of silver reserves based on a spot commodity price of US$31.76/oz.*

Source: KPMG analysis

Similar to reserves, we have conducted an analysis of the value per reserve tonne for selected listed companies implied by the market capitalisation and most recent net debt/(cash) positions of those companies which are summarised in the chart below. The details of these implied trading resources multiples are set out in Appendix 5.

Figure 6: Implied valuation multiples per resource tonne of contained copper equivalent for selected listed companies



Source: KPMG analysis

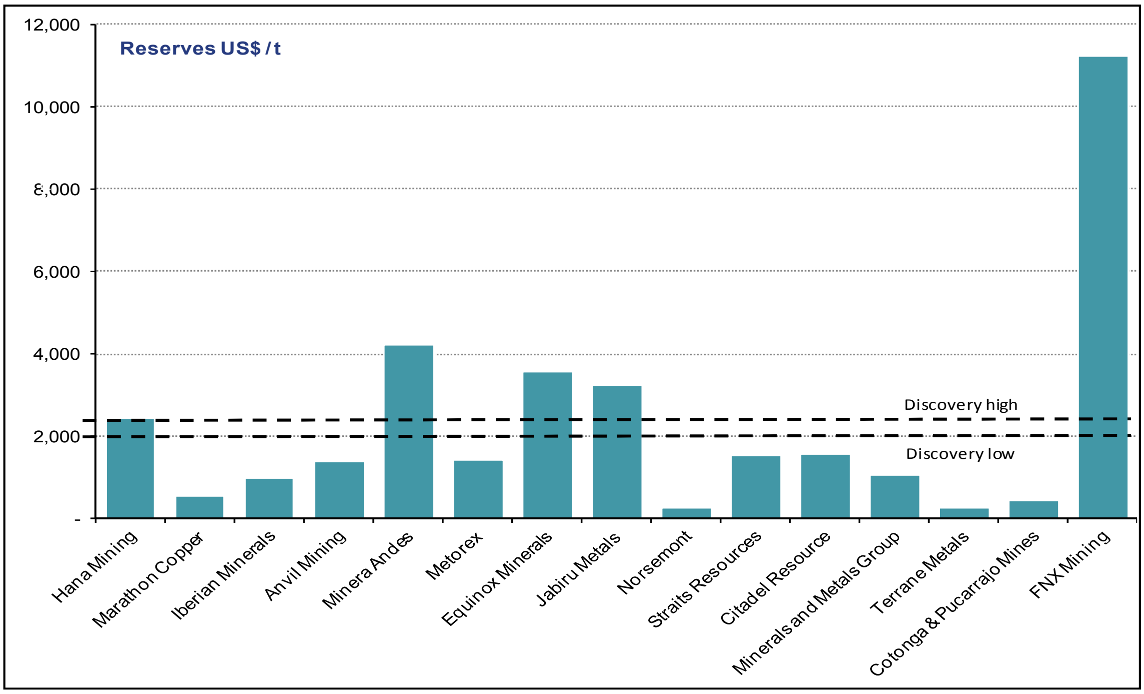
In our view, having regard to the current stage of development of the Boseto Project, the implied multiple of resources is a better measure of Discovery's relativity rather than reserves at this point in its evolution. Again, the chart indicates that the multiple of contained copper equivalent implied by our range of assessed market values for Discovery sits comfortably with the range of selected listed companies, inclusive of a premium for control and strategic value.

We again note that implied value per resource tonne as a measure should be viewed with some caution for the reasons set out above and that, in particular, the market capitalisation of the selected listed companies considered may not include a premium for control.

Transaction reserve and resource multiples

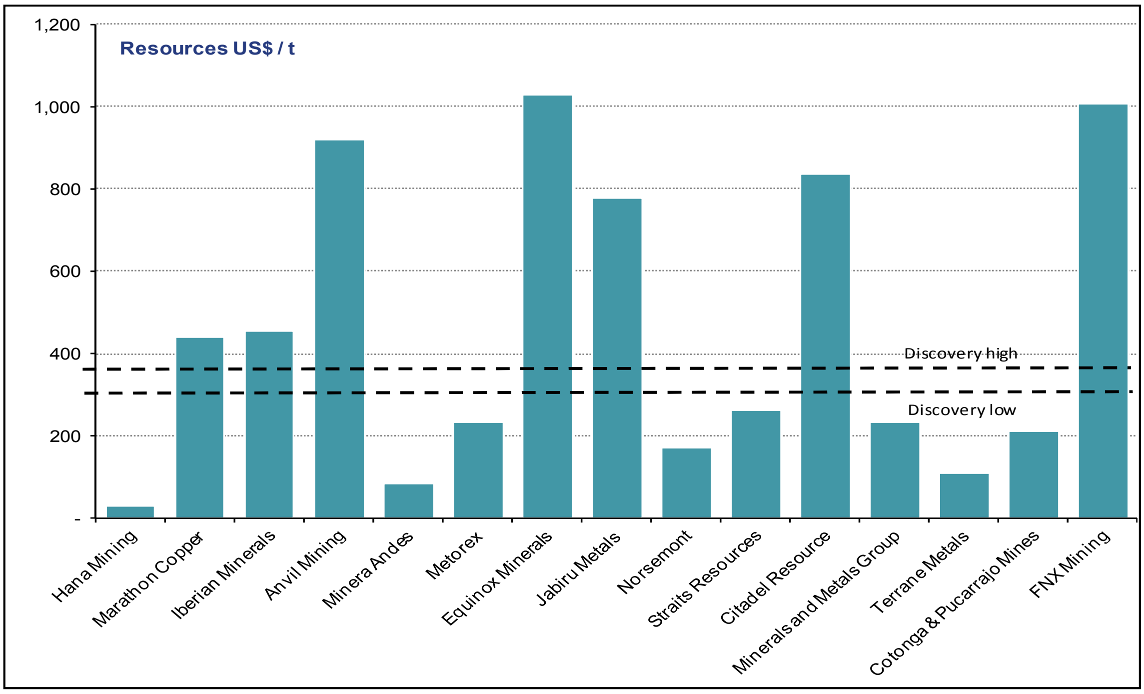
KPMG has also reviewed data on a range of recent acquisition transactions for copper production companies. The results of this analysis are set out at Appendix 6 to this report and indicate a wide range of valuation metrics. However, as shown below the range of values per reserve and resource tonne of contained copper equivalent implied by our valuation range attributable to copper lie within the observed range in recent takeovers which are shown in chronological order left to right.

Figure 7: Comparison of implied transaction multiples per reserve tonne of contained copper



Source: KPMG analysis

Figure 8: Comparison of implied transaction multiples per resource tonne of contained copper



Source: KPMG analysis

We note that the above multiples include an incomplete transaction announced on 24 October 2012 involving the acquisition of Hana Mining. This transaction has been included given Hana Mining's resources are located in the Ghanzi property within the Kalahari cooper belt in North West Botswana adjacent to Discovery's tenements.

The Hana Mining transaction implies a valuation multiples per resource tonne of contained copper equivalent of US$30.0 per tonne, which is below the multiples implied by our assessed values for Discovery. This likely reflects that Hana Mining's assets are at a much earlier stage of development, are lower grade and have limited developed infrastructure relative to Discovery's principal asset, the Boseto Project.

Having regard to the above mentioned analysis we do not consider our range of values ascribed to Discovery to be unreasonable.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG are Jason Hughes, Ian Jedlin and Ben Della-Bosca. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as preparation of expert reports.

Jason Hughes is an Authorised Representative of KPMG Corporate Finance and a Partner in the KPMG Partnership. Jason is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Bachelor of Commerce of the University of Western Australia. Jason has extensive experience in the preparation of independent expert reports and corporate valuations.

Ian Jedlin is an Authorised Representative of KPMG Corporate Finance, a Partner in the KPMG Partnership and Partner in Charge of KPMG's National Valuations Group. Ian is an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Ian has over 20 years experience in the preparation of independent expert reports.

Ben Della-Bosca is a Representative of KPMG Corporate Finance. Ben is an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Masters of Applied Finance from Kaplan Professional and holds a Bachelor of Commerce from the University of Western Australia. Ben has over ten years experience in the provision of corporate financial advice.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Offer is fair and reasonable to the non-associated shareholders. KPMG Corporate Finance expressly disclaims any liability to any Discovery shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Target's Statement or any other document prepared in respect of the Offer. Accordingly, we take no responsibility for the content of the Target's Statement as a whole or other documents prepared in respect of the Offer.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation. Future taxation changes are unable to be reliably determined at this time.

Our report makes reference to "KPMG analysis". This indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Discovery for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Target's Statement to be issued to the shareholders of Discovery. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Professional standards

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board. KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following material sources of information:

Publicly available information:

- Bidder's Statement dated 25th October 2012
- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- company websites
- various reports published by IBISWorld Pty Ltd, the Economist Intelligence Unit Limited, the Australian Bureau of Agricultural and Resource Economics and Sciences, International Copper Study Group, Bank of Botswana and Damodaran Online
- financial information from Capital IQ, Thompson Financial Securities, Thomson Reuters (Professional) Australia Limited, MergerMarket and Connect 4.

Non-public information:

- the draft Target's Statement
- life of mine plans for the Boseto zone
- Discovery's top 10 shareholders as at 31 October 2012
- Boseto Bankable Feasibility Study completed in August 2010
- Boseto Definitive Feasibility Study completed in April 2012
- The offtake agreement between Discovery and Transamine Trading S.A. dated March 2010
- SRK's independent technical specialist report
- Oakvale Capital's valuation of Discovery's hedge book as at 31 October 2012
- Discovery's financial projections.

In addition, we have had discussions with Directors of Discovery and various senior management of Discovery.

Appendix 3 – Overview of the copper industry

To provide a context for assessing the future prospects of Discovery, we have set out below an overview of recent and expected trends in the global copper market.

Copper is an internationally traded commodity with prices driven by global supply and demand factors. Copper is primarily used in infrastructure development, where it is a key input in manufacturing products such as electrical cabling, piping, valves and decorative architectural applications. Copper is also associated with the development of industrial equipment, transportation, communications and electrical products.

IBISWorld states that copper is facing competition from substitute materials such as optic fibres within the communications industry and aluminium for use in the construction of motor vehicle radiators. However, technological developments have also lead to the increased use of copper in the automotive wiring market.

According to IBISWorld, copper currently ranks third in terms of volume of trade worldwide, after iron and aluminium. This is reflective of a number of attractive properties of the metal, which include ductility, malleability, resistance to corrosion and thermal and electrical conductivity.

Demand

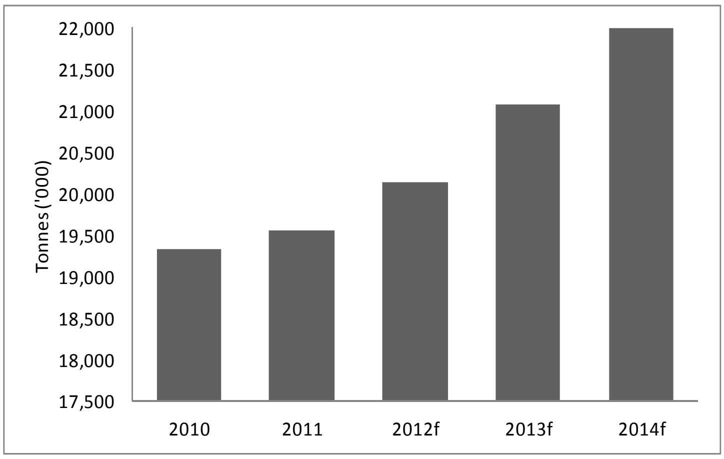
The main driver of demand is activity in the construction industry, where it is used extensively in new buildings, with secondary demand coming from machinery and electronics manufacturing.

China is the world's largest export market for copper closely followed by India. China's rapid industrialisation and growth has reduced the overall impact of the global reduction in demand for copper concentrate as a result of the global financial crisis.

Recent and expected developments in demand for copper are detailed below:

- Calendar year (CY) 2010 - Copper consumption recovered in 2010 following the global financial crisis, with the Economist Intelligence Unit (EIU) reporting copper consumption growth of approximately 6.3% to 19.3Mt.
- CY 2011- Copper demand slowed to a growth rate of 1.2% in 2011 to 19.6Mt, influenced by a slowdown in the rate of growth of Chinese manufacturing and contracted economic activity in the EU and US.
- CY 2012 - EIU estimates growth in global copper consumption to be 3%, reflective of its bearish views for the European Union (EU), where current economic conditions are expected to continue to dampen copper demand.
- CY 2013 - Demand for copper is expected to increase in CY 2013, with EIU forecasting a growth in copper consumption of 4.7% to 21.1Mt. This outlook is dependent on EU recovery next year and a soft landing in China. Rapid industrialisation and urbanisation in China is expected to continue to underpin an increase in world demand for copper.
- CY 2014 – EIU estimates world copper demand will increase by 4.3% to 21.9Mt.

Figure A3-1: Recent global historical and forecast demand for refined copper



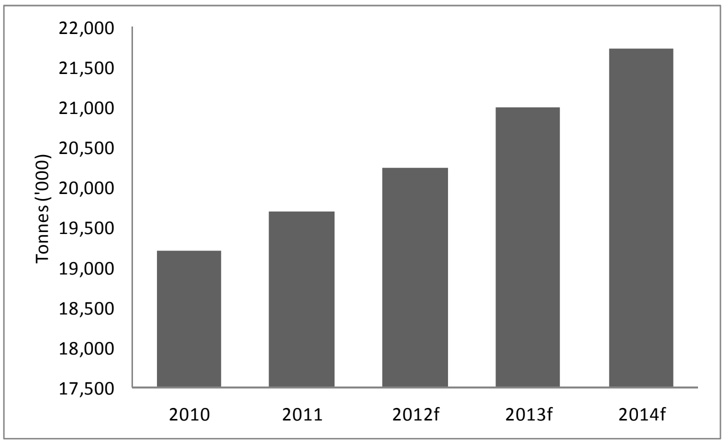
Source: EIU

Supply

Chile, Peru, the US, China and Australia are the major global copper producers. According to International Copper Study Group, the main factors contributing to growth constraints in copper mine production includes production disruptions from project delays, technical problems and labour and political unrest in copper producing countries. However, modest growth in copper output has been experienced in CY2012, as a result of the combination of fewer mine disruptions, new capacity and new investments in primary smelting and refining capacity.

EIU notes that declining ore grades are a long-term problem for the global copper mining industry which has led to a tight outlook for the global copper concentrate market which may place greater constraints on production of refined copper.

Figure A3-2: Recent global historical and forecast supply for refined copper



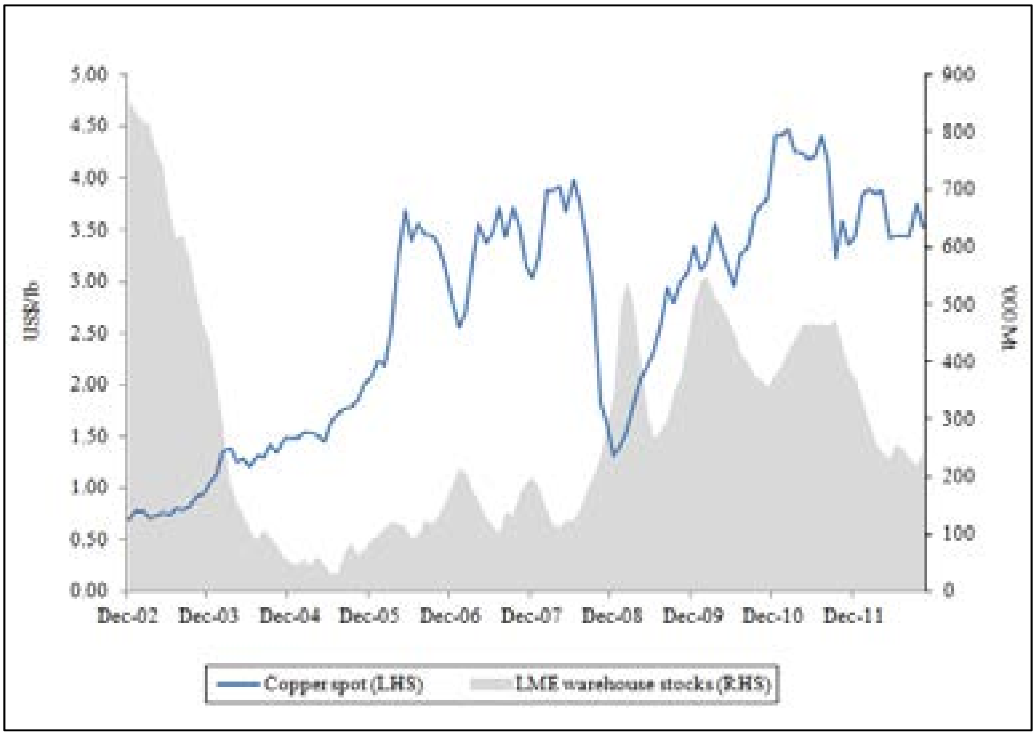
Source: EIU

Pricing

Copper is an internationally traded commodity and therefore its price fluctuates on a daily basis as influenced by supply and demand factors in the international market. In the period since 2002, warehouse stocks fell and copper prices increased significantly, reaching a peak of approximately US$4.04/lb on 2 July 2008, before experiencing an equally steep decline to approximately US$1.27/lb on 24 December 2008, when demand declined as a result of the global financial crisis. Recovery in prices was experienced in 2010 and 2011 due to demand from not only the large developing countries in Asia but also consumption in Organisation for Economic Co-operation and Development member countries.

Set out in the figure below are the daily closing copper prices and inventory since October 2002.

Figure A3-3: Historical closing copper prices and inventory

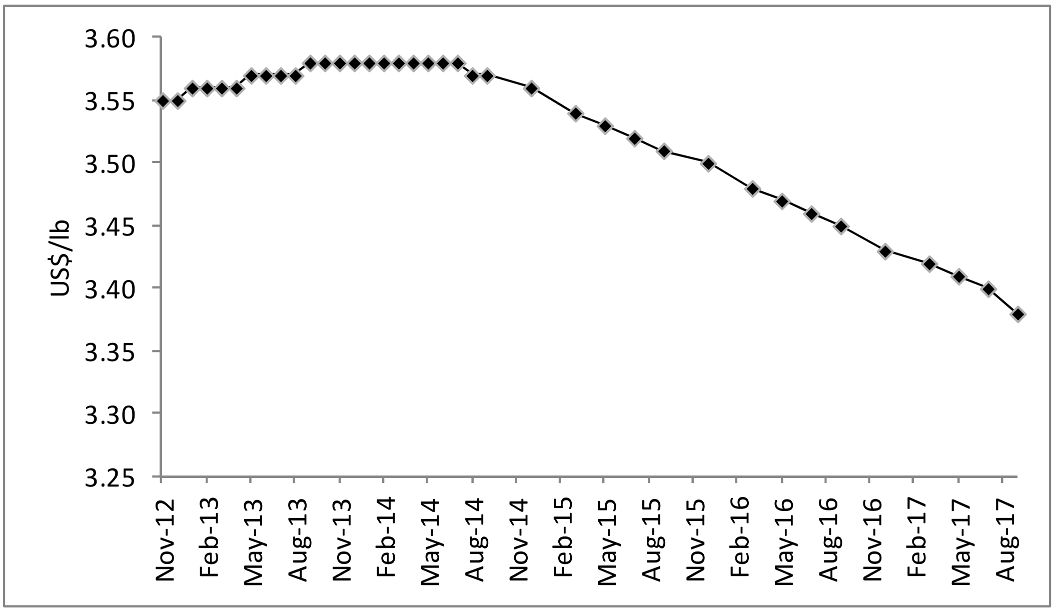


Source: IRESS

Copper prices averaged US$3.55/lb in the June quarter of 2012, a fall of 5% compared with the March quarter. According to EIU, the price drop reflects concerns due to the emergence of the Spanish banking crisis and political troubles in Greece. The closing price for copper as at 15 November 2012 was US$3.46/lb.

Set out in the figure below are the prices of copper futures as at 26 October 2012.

Figure A3-4: Copper futures for various contract maturities as at 26 October 2012



Source: Capital IQ

The copper futures market suggests that the copper price will experience a period of increase through to 2014 before declining steadily to 2017. Medium term expectations of brokers and various market commentators published in the three months prior to 1 November 2012 are summarised below.

Table A3-5: Medium term pricing expectations of various market commentators

	Forecast year			
	CY2012	CY2013	CY2014	CY2015
High (US$/lb)	3.90	4.31	4.45	4.55
Average forecast (US$/lb)	3.67	3.67	3.59	3.43
Low (US$/lb)	3.47	3.10	2.60	2.77
Number of observations	30	32	28	24

Source: Various broker reports, Capital IQ

The above table indicates a wide range of views as to forecast spot copper prices, however on average, prices are expected to increase in 2013 and decline in 2014 and 2015. We note this outlook is largely consistent with the forward curve which implies a slight increase before a softening on the copper prices through to CY2017. In considering these brokers' forecasts, it is important to note that the publications of commentators forecast pricing analysis tends to lag changing market conditions, particularly during the periods of high volatility, which has been the case in recent times.

Appendix 4 – Calculation of discount rates

We have assessed an appropriate nominal, post-tax weighted average cost of capital (WACC) for Discovery's interest in the Boseto Project to be in the order of 10.0% per annum to 11.0% per annum. This is a US$ denominated discount rate, reflecting that SRK's cash flow model for the project is denominated in US$.

Selection of the appropriate rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement. Whilst there is a body of theory that may provide a framework for the derivation on an appropriate discount rate, it is important to recognise that given the level of subjectivity involved in selecting various inputs to the theoretical framework there is no absolute "correct" discount rate.

We consider the rates adopted to be reasonable discount rates that purchasers would use in the current market in assessing the Boseto Project and are reflective of the commercial, operational and technical risks of the project.

WACC – Discovery's Boseto Project

The WACC of a project is the expected cost of the various classes of capital (i.e. its equity and debt) employed in the project, weighted by the proportion of each class of capital to the total capital employed and is represented by the following formula, which calculates an after tax nominal rate:

$$\mathrm{WACC} = \mathrm{K_d} \times (1 - \mathrm{t_c}) \times \left(\frac{\mathrm{D}}{\mathrm{D+E}}\right) + \mathrm{K_e} \times \left(\frac{\mathrm{E}}{\mathrm{D+E}}\right)$$

Where the key inputs are defined as follows:

$\mathrm{K_e}$	the after-tax cost of equity, which is the rate of return required by the providers of equity capital
$\mathrm{K_d}$	the pre-tax cost of debt, which is the expected long-term future borrowing cost of the relevant project and/or business
$\mathrm{t_c}$	the applicable corporate tax rate
D	the market value of debt
E	the market value of equity

The WACC is an opportunity cost of capital in the sense that it reflects the returns that would have been earned in the market with the relevant capital if it was employed in the next best investment of equivalent risk profile. It represents the minimum weighted average rate of return which is required or expected by the providers of capital as compensation for bearing the risks associated with the relevant investment or business operation.

Each of the components of the WACC formula is discussed further below.

Cost of equity (K_e)

The WACC approach represents a merger of the Capital Asset Pricing Model (CAPM) with capital structure theory. In the WACC formula discussed earlier, the CAPM provides the means for estimating the cost of equity.

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM states that the returns expected by an equity investor reflect the risk of the underlying equity investment. The risk can be determined by the risk-free rate of return plus a risk premium which reflects the relative risk (as measured by the “beta” factor) required to be borne by the investor. Therefore, the required rate of return for equity securities is determined as set out below:

$$K_e = R_f + \beta \times (MRP) + \alpha$$

Where the key inputs are defined as follows:

R_f	risk free rate of return
β	beta factor of the investment or business operation
MRP	equity market risk premium
α	company/project specific risk factor

A large degree of subjectivity is involved in estimating the inputs to the formula. These limitations mean that any estimate of the cost of equity must necessarily be regarded as indicative rather than as a firm and precise measure. Furthermore, because the cost of equity is a market-determined measure, changes in market conditions over time will affect its calculation.

Risk free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically for a long-term period. In practice, long dated government bonds are an acceptable benchmark for the risk-free security. The yield to maturity of long dated government bonds at the valuation date is generally accepted as a proxy for the risk-free rate.

Having regard to the projected mine life of the Boseto project, we have used the current yield to maturity on 10-year US Government bonds as a proxy for the long-term risk free rate, which was in the order of 1.8% percent per annum.

Market Risk Premium (MRP)

The MRP represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the expected risk premium (an exante concept). Given that expectations are not observable, a historical risk premium is generally used to proxy for the expected risk premium.

The MRP required by the market is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase their expected return. This figure is within the range of generally accepted market risk premia in Australia.

KPMG has adopted a MRP of 6.0% per annum. This figure is within the range of generally accepted market risk premia in the United States.

Beta factor (β)

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of investments. In theory, the only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or market risk. The concept of beta is central to the CAPM given that beta risk is the only risk that is priced into investor required rates of return.

The beta for equity securities can be statistically measured by regressing the returns on an equity market index against the share price returns of the relevant stock. By definition, the market portfolio has an equity beta of 1.0. A beta greater than 1.0 implies that the returns on a stock are, on average, more volatile, and hence the stock is more risky than the market, whilst a beta of less than 1.0 implies the reverse.

The beta of a stock can be presented as either an adjusted beta or as an historical beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. Conversely, the adjusted beta is an estimate of a security's future beta. It is initially derived from the historical beta, but modified by the assumption that a security's true beta will move towards the market average of one, over time. Generally, an adjusted beta is used because of its greater predictive features.

Betas derived from stock market observations represent equity betas, which reflect the degree of financial gearing of the company. Consequently, it is not possible to compare the equity betas of different companies without having regard to their gearing levels. In theory, a more valid analysis of betas can be obtained by "ungearing" the equity beta, by applying the following formula:

$$\beta_a = \frac{\beta_e}{1 + [\frac{D}{E} \times (1 - t)]}$$

where "D/E" is the debt and equity values of the relevant equity security and "t" is the corporate tax rate. The adjustment involves stripping out the impact of financial gearing from the equity beta to obtain ungeared beta (denoted by β_a).

The following table sets out closing market capitalisation as at 30 October 2012, the two year and five year historical average financial gearing and the adjusted ungeared two year weekly and five year monthly beta estimates for a selection of listed mid-cap copper production/pre-production companies.

The beta factors have been calculated relative to each company's home exchange index and also relative to the Morgan Stanley Capital Index – All Countries (MSCI), an international equities market index that is widely used as a proxy for the global stock market as a whole. The MSCI is often used as a benchmark in respect of assets likely to be attractive to international buyers, which we believe is likely to be the case in relation to the Boseto Project.

Table A4-1: Selected listed companies – financial gearing and ungeared beta

Company	Mkt Cap $m[1]	Gearing %[2,3]		Two year weekly ungeared beta		Five year monthly ungeared beta	
		2 year	5 year	Home exchange	MSCI	Home exchange	MSCI
Discovery Metals Ltd.	833	1%	0%	1.59	1.35	1.73	1.42
Oz Minerals Ltd.	2,488	0%	0%	1.57	1.22	1.56	1.34
PanAust Ltd	1,958	0%	5%	1.78	1.41	1.86	1.38
Sandfire Resources NL	1,252	3%	3%	1.39	1.02	3.40	2.91
Katanga Mining Ltd.	884	4%	n/a[4]	1.47	1.17	n/a[4]	n/a[4]
Tiger Resources Ltd.	246	0%	0%	1.73	1.53	1.33	1.02
Aditya Birla Minerals Ltd.	144	0%	0%	1.72	1.36	3.33	2.82
Altona Mining Ltd.	142	0%	0%	1.78	1.35	1.80	1.79
Hana Mining Ltd.	76	0%	0%	2.26	1.81	2.31	1.89
Average		**1%**	**1%**	**1.70**	**1.36**	**2.17**	**1.82**
Median		**0%**	**0%**	**1.72**	**1.35**	**1.83**	**1.61**

Notes

1. *Market capitalisation as at 30 October 2012 converted to $ as at the same date based on prevailing spot price (where relevant)*
2. *Where a company does not have any interest bearing debt or the resultant net debt figure is negative, i.e. where cash exceeds debt, the ratio of net debt to equity has been recorded as 0%*
3. *Gearing ratio calculated as Net debt / (Net debt + equity) at each annual reporting date for the five-year period prior to 30 October 2012*
4. *Insufficient observations*

Source: Capital IQ, latest available financial statements of the relevant companies and KPMG analysis

In selecting the appropriate ungeared beta for Discovery we have:

- considered that mining assets have varying risk profiles depending on the mining method, the nature of the ore being mined and the maturity of the asset and there is significant variance in observed beta when measured over different observations periods
- given greater weighting to the beta observations relative to the MSCI, reflecting the international nature of copper projects and that copper is well traded internationally
- given greater weighting to the 2-year beta observations, reflecting the greater variation in the 5-year beta observations

- included Hana Mining given the proximity of its copper assets to the Boseto Project, however, we note that Hana is at an earlier stage of development than Discovery and the other companies selected.

Having regard to the above and considering the nature of the Boseto Project, we consider, on balance, an appropriate ungeared beta to be in the order of 1.3 to 1.4.

Having determined an appropriate ungeared beta, it is necessary to "regear" the beta to a specified level of financial gearing to determine the equivalent beta.

Debt/equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity level assumption should reflect what would be the optimal or target capital structure for the relevant asset. Optimal (as opposed to actual) capital structures are not readily observable. Accordingly, any estimate of optimal capital structure is necessarily subjective. In practice, the existing capital structures of comparable businesses can be used as a guide to the likely capital structure for a firm/project, taking into consideration the specific financial circumstances of that firm/project. In drawing any conclusions from the comparable company information, it is important to note that the observed gearing levels usually represent current gearing levels, which may or may not be representative of optimal, long term gearing levels. Furthermore, the gearing level of a company at a given point in time can reflect recent new issues of debt or equity.

In selecting a gearing level for Discovery, we have had regard to the gearing levels of the selection of listed copper producers as set out in Table A4-1 and have also had regard to the fact that recent gearing levels likely reflect the impact of the global financial crisis and, in particular, general global restrictions on the availability of debt funding. Having regard to the long life nature of the Boseto Project operations, we consider there to be reasonable prospects for an increase in gearing levels, particularly for production companies, over the medium to long term. On balance, we consider an appropriate long term gearing level for Discovery to be in the order of 20% to 25% debt to enterprise value.

On this basis, the regeared beta of Discovery is in the order of 1.55 to 1.76.

Company/project specific risk factor

Under CAPM theory, it is assumed that diversified investors require no additional returns to compensate for specific risks because the net effect of specific risks across a diversified portfolio will, on average, be zero i.e. portfolio investors can diversify away all specific risk. In reality many investors will include an additional risk premium to reflect such factors as project location and stage of development. Certainly, it is common for companies to set "hurdle rates" for investments above their own estimates of the cost of capital, to deal with these issues.

It can be argued that the approach of a valuer to this issue should reflect the approach most likely to be adopted by actual or potential purchasers of similar assets. Accordingly, we have considered Discovery's estimated base cost of equity by including a risk premium to reflect sovereign and development risk.

Sovereign risk

The latest relative country risk rating published by the EIU for Botswana are summarised below.

Table A4-2 : Risk ratings published by the EIU

Country	Sovereign risk[3]	Currency risk[4]	Banking sector risk[5]	Political risk[6]	Economic structure risk[7]	Country risk[8]
Botswana	A	BBB	BBB	A	BB	BBB
United States	AA	A	BBB	AA	A	A
Australia	BBB	BB	BBB	AA	BBB	BBB

Notes

1. *Letter scores range from "A" (the lowest risk) to "E" (the highest risk), with "A" ranking ahead of "AA", which in turn ranks ahead of "AAA".*
2. *The United States and Australia have been included as benchmarks to assist non-associated shareholders in assessing the country risk of Botswana*
3. *Sovereign risk - the risk of a build-up in arrears of principle and/or interest on foreign and/or local currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign*
4. *Currency risk – the risk of devaluation against the reference currency (usually the US$) of 25% or more in nominal terms over the next 12 month period*
5. *Banking sector risk – the risk of a systemic crisis where by bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors*
6. *Political risk evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign exchange market*
7. *Economic structure risk – this risk is derived from a serious of macroeconomic variables of a structural rather than cyclical nature. Consequently, the rating for economic structure risk will tend to be relatively stable, evolving in line with structural changes in the economy*
8. *Country risk – is the average of the scores for sovereign risk, currency risk and banking sector risk.*

Source: EIU – Country risk summary

The latest country risk ratings published by Moody's and Standard & Poors (S&P) in relation to foreign currency long-term debt issues for each of Botswana, United States and Australia are summarised in the table below.

Table A4-3: Summary of country risk ratings

Country	S&P	Moody's
Botswana	A-	A2
United States	AA+	Aaa
Australia	AAA	Aaa

Source: S&P and Moody's

This indicates S&P and Moody's consider Botswana's country risk to be higher than the United States and Australia.

We also note that the latest country risk profile prepared by Aswath Damodaran indicates a country risk premium on equity for Botswana in the order of 1.5% per annum.

Having regard to the above, we consider that it is reasonable to conclude that the sovereign risk for a foreign company doing business in Botswana is slightly more than it would be if the project was located in its home country, Australia for example.

Project development risk

Whilst the construction of the Boseto Project is largely complete, there is a degree of inherent risk in the commissioning of the any new operation, which can be considered to add to the risk of the underlying cash flows in comparison to an established production project.

For the purposes of this report we have applied an alpha factor for sovereign and development risk of 0.5% per annum for the Boseto Project.

Cost of equity calculation (K_e)

The following table sets out our cost of equity estimate for the Boseto project based on the assumptions and inputs discussed above:

Table A4-4: Estimated cost of equity

Input	Definition	Low	High
R_f	Risk free rate of return	1.8%	1.8%
β_α	Asset beta (ungeared beta estimate)	1.30	1.40
β_e	Equity beta (regeared beta estimate)	1.55	1.76
MRP	Equity market risk premium	6.0%	6.0%
α	Project specific risk factor	0.5%	0.5%
K_e	**Cost of equity (post-tax)**	**11.6%**	**13.4%**
Note: May not calculate exactly due to rounding			

Source: KPMG analysis

Cost of debt calculation (K_d)

We have considered the current spread of corporate BBB rated bonds over various tenures over the prevailing risk free rate, as well as Discovery's current cost of debt and have adopted a pre-tax cost of debt in the order of 4.8% per annum, which represents a spread of 3% over the risk free rate, which we consider reasonable.

Corporate tax rate (t_c)

For the purpose of our valuation assessment we have adopted a Botswana corporate tax rate of 22% for the Boseto Project, reflecting the rate expected over the majority of the project life.

Calculation of the WACC

The following table summarises the implied base calculation of a nominal post-tax WACC for application in our valuation assessment based on the assumptions/inputs discussed above.

Table A4-5: Calculation of WACC – Boseto Project

Input	Definition	Low	High
K_d	Cost of debt (pre-tax)	4.8%	4.8%
K_e	Cost of equity (post-tax)	11.6%	13.4%
t_c	Corporate tax rate	22.0%	22.0%
D/(D+E)	Proportion of debt in the capital mix	20.0%	25.0%
E/(D+E)	Proportion of equity in the capital mix	80.0%	75.0%
WACC	**Weighted average cost of capital (nominal post-tax)**	**10.0%**	**11.0%**

Source: KPMG analysis

Having regard to the wide variability in data relating to betas and gearing set out above, we consider a discount rate in the order of 10.0% per annum to 11.0% per annum to be appropriate for the Boseto Project.

Appendix 5 – Selected listed companies

Company	Enterprise value US$m[2]	Reserve US$/t[3]	Resource US$/t[4]
Discovery Metals Limited	827.4	1,711.3	258.3
Oz Minerals Limited	1,904.1	1,620.6	239.8
PanAust Limited	2,159.7	1,330.4	390.0
Sandfire Resources NL	1,551.5	2,560.6	1,798.4
Katanga Mining Limited	1,003.5	242.5	61.4
Tiger Resources Limited	247.8	1,917.7	311.6
Aditya Birla Minerals Limited	28.1	n/a[5]	11.8
Altona Mining Limited	142.7	948.0	68.0
Hana Mining Limited	59.3	n/a[5]	29.4

Notes:

1. *The table above shows resource and reserve valuation comparisons for companies predominantly focussed on copper (Cu). In the case where the selected listed companies' resource or reserves contain other metals (for example, gold) a total contained Cu equivalent resource or reserve multiple has been calculated (based on spot metal prices as at 30 October 2012). The spot metal prices were US$25,500/t for cobalt, US$7,729/t for copper, US$1,709/oz for gold, US$16,000/t for nickel, US$31.76/oz for silver, US$591/oz for palladium, US$1,548/oz for platinum and US$1,821/t for zinc.*
2. *Enterprise value has been calculated as market capitalisation as at 30 October 2012 converted to US$ as at the same date based on prevailing sport price (where relevant) and net debt/cash of the selected company reported prior to 30 October 2012. Market capitalisation for Discovery has been calculated as at 3 October 2012, being the last trading day prior to the date the Indicative Proposal was announced.*
3. *Calculated as enterprise value divided by reserves.*
4. *Calculated as enterprise value divided by resource.*
5. *No reserve or resource data available to calculate reserve or resource multiple.*
6. *Reserves and resource multiples have been calculated using reserve and resources as per the relevant companies' most recently released report, which indicate that the reserves and resources have been reported in compliance with the Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (JORC code) or that it has been approved for release in the form and context in which it appears by a Competent Person, as defined by the JORC code.*

Source: Capital IQ, company financial statements and reports and KPMG analysis

Table A5-1: Selected company descriptions

Company	Description
OZ Minerals Limited	OZ Minerals Limited engages in the exploration and development of copper and gold. The company holds a 100% interest in the Prominent Hill copper-gold project located in the Gawler Craton of South Australia and a 100% interest in the Carrapateena copper-gold project in South Australia with iron oxide copper-gold deposits.
PanAust Limited	PanAust Limited is an Australia based copper and gold producer with operations in Southeast Asia. The company's flagship assets include Phu Kham copper-gold operation and the Ban Houayxai gold-silver operation covering 2,636 km^2 contract area in Laos. It also holds interests in the Inca de Oro copper-gold project located near the town of Inca de Oro in the province of Chañaral, Region III of Atacama in Chile.
Sandfire Resources NL	Sandfire Resources NL engages in the exploration, evaluation, and development of mineral tenements in Australia and South America. The company owns a 100% interest in the Doolgunna Project, which covers 400 km^2 of tenement package comprising the DeGrussa Copper-Gold Project, located in the Bryah Basin mineral province of Western Australia. It also owns interests in the Borroloola Project situated in the Northern Territory. The Kennedy Highway Project located in Queensland and the Bland Creek Project situated in the Lachlan Fold Belt of New South Wales.
Katanga Mining Limited	Katanga Mining Limited, through its subsidiaries, engages in copper and cobalt mining and related activities in the Democratic Republic of Congo. It is involved in the exploration, mining, refurbishment, rehabilitation, and operation of the Kamoto/Mashamba East mining complex, the KOV copper and cobalt mine, various oxide open pit resources, the Kamoto concentrator and the Luilu metallurgical plant.
Tiger Resources Limited	Tiger Resources Limited engages in the exploration and development of mineral properties in the Democratic Republic of Congo. The company primarily explores for copper and cobalt deposits. Its principal property includes the Kipoi Copper Project covering an area of approximately 55 km^2 located northwest of Lubumbashi, the capital of Katanga Province, in the central part of the Katangan Copper belt. The company also holds interest in the Lupoto Project that has a surface area of approximately 140 km^2 located to the south of the Kipoi Project area.
Aditya Birla Minerals Limited	Aditya Birla Minerals Limited engages in exploring, mining, processing, and marketing copper metals in Western Australia and Queensland. The company's principal asset is the Birla Nifty copper mine located in the Great Sandy Desert Region of the East Pilbara in Western Australia. It also holds interests in the Maroochydore project located in the Great Sandy Desert Region and the Birla Mt Gordon copper operation located in northwest Queensland.
Altona Mining Limited	Altona Mining Limited engages in the exploration, evaluation, and development of base metal mining projects in Finland and Australia. Its primary projects include the 100% ownership interest in the Outokumpu project comprising copper, gold, nickel, zinc, and cobalt deposits located in the north east of Helsinki, Finland and the Roseby copper project located in north east of Mt Isa in Queensland, Australia.

Company	Description
Hana Mining Limited	Hana Mining Limited engages in the acquisition, exploration, and development of precious, base metal, and other mineral exploration projects in the Republic of Botswana. It principally holds a 100% interest in the 5 prospecting licences in the Ghanzi copper-silver project covering 2,169 km^2 in northwestern Botswana.

Source: Capital IQ and company websites

Appendix 6 – Selected transactions

Target	Percentage acquired	Acquirer	Date announced	Consideration $m[1,2]	Resource multiple[3,4,5,6,7]	
					Resource $/t	Reserve $/t
Hana Mining Limited	81%	Cupric Canyon Capital Limited	24-Oct-12	80.2	31.2	n/a
Marathon Copper/PGE Deposit	25%	Mitsubishi Corporation	30-Mar-12	324.6	439.0	545.2
Anvil Mining Limited	100%	Minmetals Resources Limited	30-Sep-11	1,244.8	919.9	1,386.2
Iberian Minerals Corp.	52%	Trafigura Beheer B.V.	17-Nov-11	480.8	455.8	996.5
Minera Andes Inc	100%	US Gold Corporation	22-Sep-11	613.0	83.3	4,216.7
Metorex Limited	100%	Jinchuan Group International Resources	05-Jul-11	1,235.9	233.0	1,416.6
Equinox Minerals Limited	98%	Barrick Gold Corporation	25-Apr-11	6,981.9	1027.4	3,548.8
Jabiru Metals Limited	100%	Independence Group NL	09-Feb-11	531.7	777.4	3,229.7
Norsemont Mining Inc	100%	HudBay Minerals	10-Jan-11	390.9	170.2	263.4
Straits Resources Limited	100%	PTT Public Company Limited	11-Nov-10	438.9	261.7	1,541.9
Citadel Resource Group Limited	100%	Equinox Minerals Limited	25-Oct-10	1,204.0	837.6	1,575.3
Minerals and Metals Group	100%	Minmetals Resources Limited	19-Oct-10	1,862.9	232.9	1,075.5
Terrane Metals Corp	100%	Thompson Creek Metals Company Inc	15-Jul-10	712.2	108.8	244.3
Cotonga & Pucarrajo Mines	100%	Nyrstar NV	19-Jul-10	26.0	211.1	506.4
FNX Mining Company Inc	100%	Quadra Mining Limited	23-Mar-10	1,888.4	1,007.2	11,244.9

Notes:

1. *Consideration represents the market value of the target, denominated in Australian dollars, calculated based on the bidder's closing share price, the prevailing exchange rate on the last trading day prior to the announcement (as applicable) and the number of shares on issue prior to the announcement date.*
2. *Where the transaction involved a company acquiring an interest of below 100%, the consideration has been grossed up to reflect an implied acquisition of 100%.*
3. *Resources and reserve multiples are calculated using the enterprise value implied by the consideration offered and the target's net debt/cash position reported prior to the announcement of the transaction. Resources and reserves have been sourced from latest resources and reserves statement announced by the company prior to the announcement of the transaction. In the case where the companies' resources or reserves contain other metals (for example, gold), a total contained Cu equivalent resource or reserve has been calculated based on spot metal prices at the date of announcement of the transaction.*
4. *Reserve multiples are based on proven and probable reserves (exclusive of stockpile)*
5. *Resource multiples are based on measured, indicated and inferred resources and includes reserves.*
6. *If the financial report/announcement does not disclose whether resources are inclusive/exclusive of reserves, we have assumed that resources are disclosed as being inclusive of reserves.*
7. *In relation to the resource/reserve multiples, n/a indicates that the resource/reserve figure is not available.*

Source: Capital IQ, MergerMarket, Connect 4, company websites, company announcements, company financial statements and KPMG analysis

Appendix 7 – Overview of valuation methodologies

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and net profit after tax (NPAT).

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted ('the Discount Rate') should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 8 – SRK Consulting (Australasia) Pty Ltd – Independent Technical Specialist Report


505

Independent Technical Report and Valuation of the Mineral Assets of Discovery Metals Limited

Report Prepared for

Discovery Metals Limited

Report Prepared by

srk consulting

SRK Consulting (Australasia) Pty Ltd

DIS002

November 2012

Independent Technical Report and Valuation of the Mineral Assets of Discovery Metals Limited

Discovery Metals Limited

SRK Consulting (Australasia) Pty Ltd

Level 2, 44 Market Street, Sydney, NSW, 2000, Australia

e-mail: sydney@srk.com.au
website: srk.com.au

Tel: +61 02 8079 1200
Fax: +61 02 8079 1222

SRK Project Number DIS001

November 2012

Compiled by

Mike Warren
Corporate Consultant
(Project Evaluations)

Email: mwarren@srk.com.au

Peer Reviewed by

Anthony Stepcich
Principal Consultant
(Project Evaluations)

Authors:

David Adams; Jessica Binoir; Geoff May; Peter Munro; Trivindren Naidoo; Mike Warren; Yili Zhou.

Executive Summary

This report is an Independent Technical Report and Valuation of the Mineral Assets of Discovery Metals Limited (DML), a mining and exploration company, listed on the Australian Securities Exchange (ASX) and the Botswana Stock Exchange. The Mineral Assets held by DML are all located in Botswana.

On 23 October 2012, DML received a hostile takeover offer from Cathay Fortune Investment Limited. DML appointed KPMG Financial Advisory Services (Australia) Pty Ltd (KPMG) as an Expert to complete an Independent Expert Report (IER) and appointed SRK Consulting (Australasia) Pty Ltd (SRK) as Specialist to complete an Independent Technical Report (ITR) and Valuation which complies with the Valmin Code. The ITR is to be attached to the IER and to be distributed to DML's shareholders.

Summary of principal objectives

The purpose of this Report is to provide shareholders of DML with an independent technical assessment and Valuation of the Mineral Assets of Discovery Metals Limited.

Outline of work programme

The work programme for this report was completed from 30 October 2012 to 15 November 2012 and consisted of reviewing data provided by DML, discussions with KPMG, preparation of a draft ITR and Valuation and comments from KPMG, provision of the draft ITR (without Valuation results) to DML for comment on factual matters, review of comments by DML and finalisation of the ITR and Valuation.

Valuation Methods

SRK has valued the Mineral Assets of DML in Botswana using a range of methods depending on the development status of each asset. In the case of the Boseto mine, where Resource and Reserve estimates have been completed and where a Feasibility Study has been completed and the mine constructed and commissioned, SRK used the Discounted Cashflow (DCF) valuation method based on cashflow models provided to SRK by DML but which were modified as SRK considered appropriate. SRK also valued the Resources of the deposits which are included in the mining schedules for the Boseto cashflow models. Those Resources values were cross-checked by yardstick methods where the contained metal in the resource estimate is multiplied by a suitable yardstick. SRK also reviewed Comparative Transactions and derived from them suitable parameters for comparison to the Boseto deposits. The results of the methods were compared and SRK selected a valuation range that it considers reasonable and supported by the technical and economic parameters reviewed.

In the case of tenements that are not included in the Boseto cashflow models, SRK applied several methods including Comparative Transactions, Kilburn, yardstick and Exploration Risk methods.

For the Dikoloti nickel project, SRK reviewed the value of the project by the Comparative Transactions method for Inferred Resources and exploration ground, and the Kilburn method.

For the tenements titled the "manganese" tenements, SRK applied the Comparative Transactions method.

Valuation Results

SRK reviewed the results of all the methods described above and presents SRK's opinion of technical value for the project and tenements in Table ES-1, which shows that the technical value ranges from USD738M to USD1181M, with a Preferred Value of USD954M.

Table ES-1: SRK opinion of the value of the Mineral Assets held by DML

USD million	Low	Preferred	High
Boseto copper project	**671**	**842**	**1022**
NE Mango Resources	46	70	96
Kalahari exploration tenements	8	17	25
Dikoloti nickel project (DML's 19% share)	1	1	2
Manganese tenements	12	24	36
Total	**738**	**954**	**1181**

SRK recognises that further exploration of deposits within the extensive tenement package held by DML may provide additional information which may add to value. SRK further recognises that it is not possible to predict the potential outcomes of the exploration proposed by DML but that the potential optionality has value which is additional to the technical value.

SRK also recognises that DML has developed considerable knowledge and skills regarding operating in Botswana and recruited a skilled workforce. This knowledge, skills, workforce and experience provide DML with a comparative advantage to companies considering entering the exploration and mining industry in Botswana, and therefore that advantage has a value which is additional to technical value.

The Boseto project is one of a few developing copper projects where the average copper grade is above 1.2%. Many of the existing and proposed copper projects have copper grades which are already below 1% copper and declining grade is forecast for many projects and is the average expectation for the copper mining industry (see Wood Mackenzie, 2012).

The Boseto project also has a value due to the scarcity of similar projects. Many other copper projects are based on large, low grade deposits which require large tonnage throughputs and hence large capital expenditures. A copper project with relatively low capital expenditure requirements, with copper grade averaging above 1.2% and located in a reasonably stable government environment has a scarcity value. These value aspects are additional to technical value derived from a DCF model.

SRK recognises that the Valuation derived from a DCF model is a technical value which may not fully recognise other aspects such as strategic value, country experience and skills, which may increase the technical value towards a market value. A technical value usually has no recognition of takeover control premiums which often exists as another component of market value. SRK recommends that KPMG consider these aspects when estimating the market value of the DML Mineral Assets.

Where the Valuations utilise the Comparative Transactions method, which uses comparisons to market value of other mining or exploration projects, a component of market value is inherently included in the analysis.

Table of Contents

List of Tables

List of Figures

Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Discovery Metals Limited (DML). The opinions in this Report are provided in response to a specific request from DML to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

List of Abbreviations

Abbreviation	Meaning
Ag	The chemical symbol for silver
AUD	Australian dollars
bcm	bank cubic metre
CAPEX	capital expenditure
Cu	The chemical symbol for copper
CY	Calendar year
DFS	Definitive Feasibility Study
DML	Discovery Metals Limited
dmt	dry metric tonne
FS	Feasibility Study
hr	hour
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore
K	thousand
kJ	kilojoule
kt	kiloton, equal to 1,000 tonnes
kW	kilowatt
l	litre
LOM	Life of Mine
M	million
m^3	cubic metre
m^3/hr	cubic metre per hour
Mt	million tonnes
Mtpa	million tonnes per annum
MW	megawatt
NPV	net present value
OPEX	operating expenditure
PFS	Pre-Feasibility Study
ROM	run of mine
S	The chemical symbol for sulphur
Sedgman	Sedgman Ltd
SRK	SRK Consulting (Australasia) Pty Ltd
t	tonne
tpa	tonnes per annum
USD	United States Dollars
Valmin Code	The VALMIN Code is the code adopted by the Australasian Institute of Mining and Metallurgy for the Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Exert Reports.
WACC	Weighted Average Cost of Capital

1 Introduction and Scope of Report

This report is an Independent Technical Report and Valuation of the Mineral Assets of Discovery Metals Limited, a mining and exploration company listed on the Australian Securities Exchange (ASX) and the Botswana Stock Exchange. The DML Mineral Assets are all located in Botswana.

2 Background and Brief

2.1 Background of the project

On 23 October 2012, Discovery Metals Limited (DML) received a hostile takeover offer from Cathay Fortune Investment Limited. DML appointed KPMG Financial Advisory Services (Australia) Pty Ltd (KPMG) as an Expert to complete an Independent Expert Report (IER) and appointed SRK Consulting (Australasia) Pty Ltd (SRK) as Specialist to complete an Independent Technical Report (ITR) and Valuation which complies with the Valmin Code. The ITR is proposed to be attached to an IER and to be distributed to DML's shareholders.

3 Programme Objectives and Work Programme

3.1 Purpose of the Report

The purpose of this Report is to provide shareholders of DML with an independent technical assessment and technical valuation of the Mineral Assets of Discovery Metals Limited. This Report provides a technical valuation of the Mineral Assets but does not make any comment on the fairness and reasonableness of any transactions related to the Mineral Assets.

3.2 Reporting Standard

This Report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment Report under the guidelines of the VALMIN Code.

The VALMIN Code is the code adopted by The Australasian Institute of Mining and Metallurgy (AusIMM) and the standard is binding upon all AusIMM members. The VALMIN Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

3.3 Work Programme

The work programme for this report was completed from 30 October 2012 to 19 November 2012 and consisted of the following:

- Receipt and review of data and discussions with DML
- Discussions with KPMG regarding inputs to the technical-economic models
- Preparation of a draft ITR and comments by KPMG
- Provision of the draft ITR (without Valuation results) to DML for comment on factual matters
- Review of comments by DML
- Finalisation of the ITR

While SRK recognises that the time available to complete the ITR and technical valuation was limited, SRK does not believe it impacted materially on the ability of SRK to be satisfied with the inputs to the technical-economic models, the exploration valuation methods or to reach conclusions regarding value. SRK had the advantage of having provided independent technical services to DML regarding the Boseto project (as independent technical engineers for the project finance lenders) from 2008 onwards and therefore SRK had considerable knowledge of the Boseto project. SRK also had geological knowledge and experience of some tenements adjacent to Boseto.

3.4 Project Team

The SRK team for this ITR and Valuation consisted of those shown below.

- Mr Mike Warren, Corporate Consultant (Project Evaluations) – Project Manager, review of mining and technical-economic models
- Mr Peter Munro, Principal Associate – Review of Metallurgy and Processing
- Dr David Adams, Principal Associate – Review of Project Infrastructure
- Mr Geoff May, Principal Associate – Review of Project Infrastructure
- Dr Yili Zhu, Principal Associate – Review of Project Power
- Mr Trivindren Naidoo, Senior Consultant – Valuation of exploration tenements
- Ms Jessica Binoir, Senior Consultant – Review of Mineral Resource Estimates
- Mr Peter Williams, Principal Associate – Peer Review of Valuation of exploration tenements
- Mr Anthony Stepcich and Mr Peter Fairfield, Principal Consultant (Project Evaluations) – Peer Review.

3.5 Statement of SRK independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

3.6 Representation

DML has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

3.7 Indemnities

As recommended by the VALMIN Code and approved by ASIC in Regulatory Guide 111, DML has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by DML or to DML not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

3.8 Consents

SRK consents to this Report being included, in full, in the IER prepared by KPMG, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

4 Introduction

4.1 Location of Mineral Assets

The Mineral Assets of DML are all located in Botswana, with the operating Boseto copper-silver (Cu-Ag) mine and surrounding tenement located in the Kalahari Copperbelt, near the village of Toteng, which is approximately 100km south west of the regional centre of Maun. Additional exploration tenements extend south west from Boseto towards the city of Ghanzi. The Dikoloti nickel project is located in the east of Botswana, with the nearest city being Francistown. The tenements referred to by DML as the "manganese" tenements are located in the south of Botswana, with the nearest city being Jwaneng.

The location of the Mineral Assets held by DML are shown in Figure 4-1.

Figure 4-1: Location map of DML Mineral Assets

Source: DML and Bell Potter

4.2 List of Mineral Assets

The Mineral Assets are contained within tenements held by DML. Table 4-1 provides a list of all tenements held by DML in Botswana.

SRK notes that the Mining Lease which contains the Boseto mine has been granted until 2025 but it is likely that DML will be able to extend the term of the Mining lease by following normal renewal processes with statutory bodies in Botswana. SRK also notes that the exploration tenements have expiry dates ranging from 2012 to 2015 but recognises it is normal to have a schedule of exploration tenement renewals, which will be supported by expenditure records and exploration success. SRK anticipates that DML will be able to renew all required exploration tenements after following usual renewal applications and processes. As stated in a footnote to Table 4-1, SRK anticipates that DML will be granted renewals for tenements as they fall due, based on a letter to DML received from the Botswana Department of Geological Survey, dated 25th October 2012.

Table 4-1: Tenements held by DML in Botswana

Project	Prospecting Licence	Area (Km^2)	Initial Grant date	Current Expiry
Dikoloti Nickel	P020/2004	89.6	1-Jul-04	31-Dec-13
Dikoloti Nickel	P021/2004	40.7	1-Jul-04	31-Dec-13
Dikoloti Nickel	P022/2004	197.4	1-Jul-04	31-Dec-13
Boseto Copper	P98/2005	520.0	1-Oct-05	30-Sep-12*
Boseto Copper	P99/2005	890.0	1-Oct-05	30-Sep-12*
including	2010/99L	Mining lease	20-Dec-2010	19-Dec-2025
Boseto Copper	P100/2005	736.0	1-Oct-05	30-Sep-12*
Boseto Copper	P101/2005	380.0	1-Oct-05	30-Sep-12*
Ngamiland Copper	P102/2005	474.0	1-Oct-05	30-Sep-12*
Ngamiland Copper	P103/2005	223.0	1-Oct-05	30-Sep-12*
Ngamiland Copper	P104/2005	726.0	1-Oct-05	30-Sep-12*
Ghanzi Copper	186/2008	804.0	1-Jul-08	30-Jun-13
Ghanzi Copper	187/2008	894.0	1-Jul-08	30-Jun-13
Ghanzi Copper	188/2008	634.0	1-Jul-08	30-Jun-13
Ghanzi Copper	189/2008	271.0	1-Jul-08	30-Jun-13
Ghanzi Copper	190/2008	760.0	1-Jul-08	30-Jun-13
Ghanzi Copper	191/2008	927.0	1-Jul-08	30-Jun-13
Ghanzi Copper	192/2008	638.0	1-Jul-08	30-Jun-13
D'kar Copper	60/2012	890.5	1-Apr-12	31-Mar-15
D'kar Copper	61/2012	881.1	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	31-Dec-13
Manganese	PL002/2011	720.8	1-Jan-11	31-Dec-13
Manganese	PL003/2011	974.8	1-Jan-11	31-Dec-13
Manganese	PL004/2011	950.4	1-Jan-11	31-Dec-13
Manganese	PL005/2011	914.8	1-Jan-11	31-Dec-13
Manganese	PL006/2011	962.4	1-Jan-11	31-Dec-13
Manganese	PL007/2011	933.5	1-Jan-11	31-Dec-13
Kraaipan Gold	PL008/2011	866.2	1-Jan-11	31-Dec-13
Manganese	PL009/2011	982.7	1-Jan-11	31-Dec-13
Manganese	PL010/2011	958.0	1-Jan-11	31-Dec-13
Manganese	PL011/2011	856.3	1-Jan-11	31-Dec-13
Manganese	PL012/2011	983.1	1-Jan-11	31-Dec-13
Manganese	PL013/2011	883.6	1-Jan-11	31-Dec-13
Manganese	PL014/2011	1000.0	1-Jan-11	31-Dec-13
Manganese	PL015/2011	991.3	1-Jan-11	31-Dec-13
Manganese	PL016/2011	963.6	1-Jan-11	31-Dec-13
Manganese	PL147/2011	920.0	1-Oct-11	30-Sep-14

Source: DML

* Renewal applications have been submitted. SRK anticipates that DML will be granted renewals for these tenements, based on a letter to DML received from the Botswana Department of Geological Survey, dated 25th October 2012

4.3 Kalahari Copperbelt Assets

The geology of the Boseto Project is summarised from the Boseto Feasibility Study completed by DML in 2010. The Boseto Project, situated in northwest Botswana, is hosted by the Neo-Proterozoic Ghanzi-Chobe Fold Belt. This belt is a 100km wide, northeast-trending, linear zone of volcano-sedimentary rocks and generally poorly exposed. The Ghanzi-Chobe Fold Belt is made up of the Kgwebe Formation overlain by the Ghanzi Group. The Kgwebe Formation consists of ~2,500m thick predominantly basalt and rhyolite suite. The Ghanzi group is made up, from bottom to top, of the Ngwako Pan, D'Kar and Mamuno Formations. The Ngwako Pan Formation consists of three predominantly sandstone units whereas the D'Kar and Mamuno Formations predominately consist of sandstone, siltstone and mudstone units. The volcano-sedimentary sequence of the Ghanzi-Chobe Fold Belt is thought to have been deposited in an intra-continental rift basin and subsequently deformed during at least three discrete deformation events resulting in a prominent interference fold pattern and a series of late faults. The major deformation is thought to have occurred during the Pan-African Orogeny and is evident as a series of northeast-trending, open to isoclinal, folds and associated parallel to sub-parallel thrust faults.

The copper deposits and occurrences in the Ghanzi-Chobe Fold Belt are examples of stratabound sediment-hosted copper-silver mineralisation. The known deposits all occur at the base of the D'Kar Formation, which represents a classic redox interface within the stratigraphy. The mineralized zone can be up to 20m thick in places, although higher grades (>2% copper) typically only occur over 3-5m. The major ore minerals are chalcocite, bornite, chalcopyrite and pyrite, with minor sphalerite and galena.

Three separate copper-silver deposits were initially defined on the Boseto Project tenement; namely Zeta, Plutus and Petra. Since then, infill drilling between Plutus and Petra has confirmed the continuity of grade between the two deposits and they are now regarded as a single deposit and referred to as Plutus or Plutus-Petra. The Zeta and Plutus-Petra deposits are located along two separate "lines of mineralization", which are about 8km apart. These lines are the result of the contact between the Ngwako Pan Formation and the overlying D'Kar Formation being repeated due to folding.

In cross-section, the mineralization always occurs within the basal 25m of the D'Kar Formation, but the immediately underlying sandstones of the Ngwako Pan Formation are rarely mineralized. The highest copper grades usually occur close to the footwall contact. In long section, at both Zeta and Plutus-Petra, the high grade ore clearly defines "pay shoots" along strike. The geological criteria that control their location are unknown, at the moment, and this issue represents an ongoing exploration challenge.

4.3.1 Boseto Copper Project

The Boseto copper project is 100% owned by DML and is located approximately 80 km south-west of the town of Maun, within a belt of significant copper-silver mineralisation that extends from the well-known and more highly developed Zambian Copperbelt across north-west Botswana and into Namibia.

The tenement area including Boseto is shown in Figure 4-2 and covers 11,872 square kilometres.

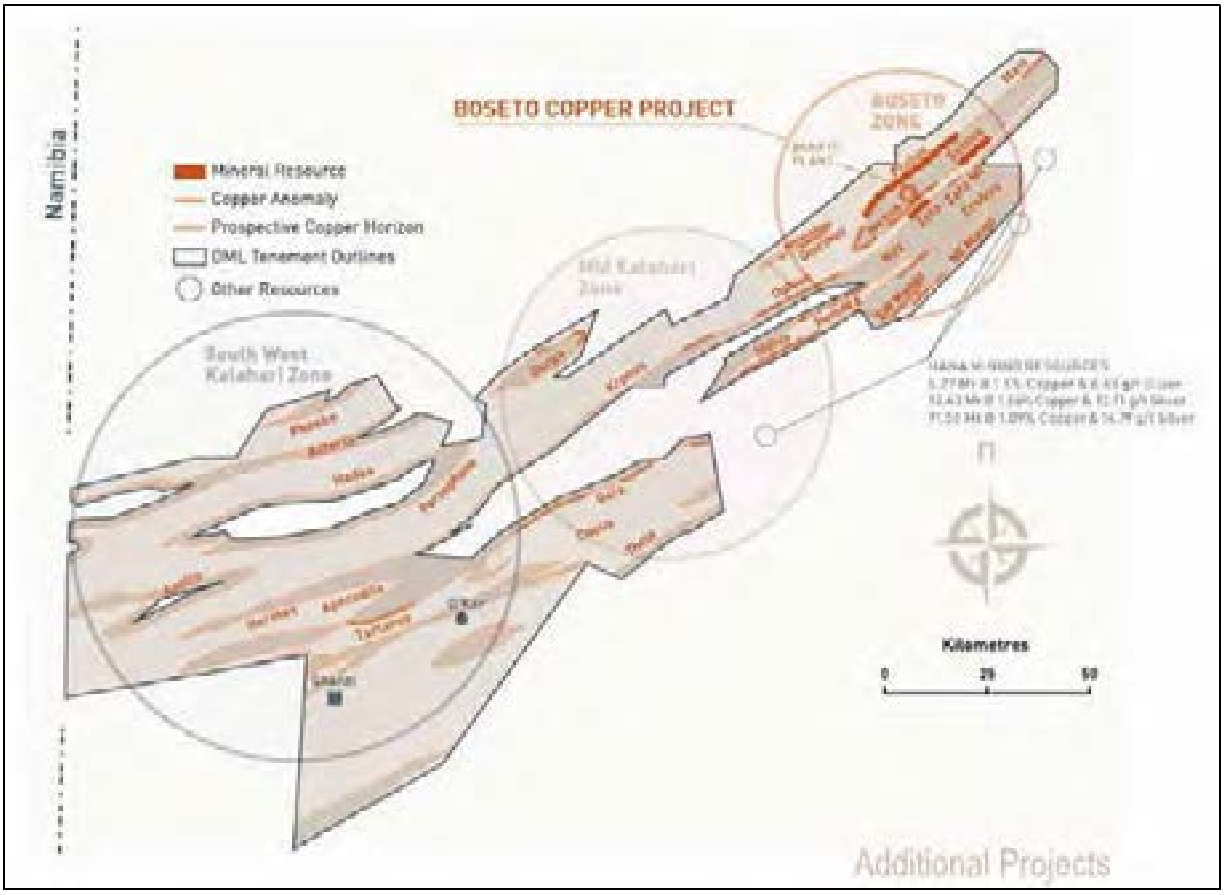


Figure 4-2: DML's tenement holding in the Kalahari Copper Belt

4.3.2 Boseto Resources

DML has estimated the Mineral Resources for deposits which are part of the Boseto project, as shown in Table 4-2.

Table 4-2: Mineral Resource estimate, Zeta and Plutus

MINERAL RESOURCE	ZETA			PLUTUS			TOTAL		
	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)	Mt	Cu (%)	Ag (g/t)
Measured	4.6	1.6	23.5	11.1	1.4	13.9	15.7	1.4	16.7
Indicated	12.4	1.5	26.1	8.1	1.4	13.3	20.5	1.5	21.0
Subtotal M&I	**17.0**	**1.5**	**25.4**	**19.2**	**1.4**	**13.6**	**36.2**	**1.4**	**19.1**
Inferred	27.1	1.2	20.0	67.7	1.3	13.0	94.8	1.3	15.0
TOTAL RESOURCE	**44.1**	**1.3**	**22.1**	**86.9**	**1.4**	**13.2**	**131.0**	**1.3**	**16.2**
Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement. Data as at 2 May 2012.									

Inferred Resource estimates for the Selene, Zeta NE, Ophion, Mango_1 and Mango_2 deposits are shown in Table 4-3.

Table 4-3: Inferred Resources for Boseto regional deposits

	Inferred Mineral Resources		
	Mt	Cu (%)	Ag (g/t)
Selene[3]	16.0	1.0	16
Zeta NE[4]	12.9	1.3	22
Ophion[5]	14.0	1.0	12
NE Mango_1[6]	4.8	1.2	13
NE Mango_2[7]	28.5	1.3	14
TOTAL INFERRED MINERAL RESOURCES	**76.2**	**1.2**	**15**

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.
[3]Data as at 12 January 2012. [4]Data as at 2 August 2012. [5]Data as at 11 October 2012.
[6]Data as at 1 August 2012. [7]Data as at 16 October 2012.

After completion of Feasibility Studies, DML has converted parts of the Mineral Resource estimates into Ore Reserve estimates for Zeta and Plutus deposits, as shown in Table 4-4.

Table 4-4: Ore Reserves estimates at Boseto

ORE RESERVES	ZETA			PLUTUS			TOTAL		
Open Pit[1]	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**
Proved	4.0	1.6	22.1	0.2	1.3	11.7	4.2	1.6	21.6
Probable	6.5	1.5	23.5	11.1	1.3	13.7	17.6	1.4	17.3
Open Pit Ore Reserves	**10.5**	**1.5**	**23.0**	**11.3**	**1.3**	**13.7**	**21.8**	**1.4**	**18.2**
Underground[2]									
Proved	1.0	1.3	24.0				1.0	1.3	24.0
Probable	6.3	1.3	24.6				6.3	1.3	24.6
Underground Ore Reserves	**7.3**	**1.3**	**24.5**				**7.3**	**1.3**	**24.5**
TOTAL ORE RESERVES	17.8	1.4	23.6	11.3	1.3	13.7	29.1	1.4	19.8

Ore Reserves are reported at cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.
[1] Data as at 31 August 2010. [2] Data as at 27 April 2012.

Competent Persons Statement

The information in this report that relates to exploration results is based on information compiled by Mr Fred Nhiwatiwa who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and Mr Wallace Mackay who is a Member of the Australian Institute of Geoscientists. Messrs Nhiwatiwa and Mackay are employed full-time by Discovery Metals Limited. Messrs Nhiwatiwa and Mackay have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code).

The information in this report that relates to the Zeta and Plutus Mineral Resources was reviewed by Mr Ivor Jones, who is a fellow of AusIMM. Mr Jones is employed full-time by Snowden Mining Industry Consultants Pty Ltd (Snowden). Mr Jones 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 the JORC Code. The information in this report that relates to the Zeta and Plutus Ore Reserves was reviewed by Mr Frank Blanchfield, who is a fellow of the AusIMM. Mr Blanchfield is employed full-time by Snowden. Mr Blanchfield 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 the JORC Code.
The information in this report that relates to the Zeta Underground Ore Reserves has been reviewed by Mr Andrew Gasmier, who is a MAusIMM. Mr Gasmier is employed full-time by Mining Plus Pty Ltd. Mr Gasmier has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

The information in this report as it relates to the Selene Mineral Resource, Zeta NE Mineral Resource, Ophion Mineral Resource, NE Mango 1 Mineral Resource and NE Mango 2 Mineral Resource estimates for the Boseto Copper Project has been compiled by Mr Matthew Readford, who is a MAusIMM. Mr Readford is employed fulltime by Xstract Mining Consultants Pty Ltd. 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 the JORC Code. Messrs Nhiwatiwa, Mackay, Jones, Blanchfield, Gasmier and Readford 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.

4.3.3 Regional Exploration Ground

DML holds a total of approximately 11,872km^2 under 18 current Prospecting Licences (Table 4-1). DML is actively exploring these tenements, and has developed a pipeline of targets to be tested (Figure 4-3).

Table 4-5: DML's Kalahari Copperbelt Tenement Holding

Project	Prospecting Licence	Area (km^2)	Initial Grant date	Current Expiry
Boseto Copper	P98/2005	520	1-Oct-05	30-Sep-12*
	P99/2005	890	1-Oct-05	30-Sep-12*
	P100/2005#	736	1-Oct-05	30-Sep-12*
	P101/2005	380	1-Oct-05	30-Sep-12*
Ngamiland Copper	P102/2005	474	1-Oct-05	30-Sep-12*
	P103/2005	223	1-Oct-05	30-Sep-12*
	P104/2005	726	1-Oct-05	30-Sep-12*
Ghanzi Copper	186/2008	804	1-Jul-08	30-Jun-13
	187/2008	894	1-Jul-08	30-Jun-13
	188/2008	634	1-Jul-08	30-Jun-13
	189/2008	271	1-Jul-08	30-Jun-13
	190/2008	760	1-Jul-08	30-Jun-13
	191/2008	927	1-Jul-08	30-Jun-13
	192/2008	638	1-Jul-08	30-Jun-13
D'kar Copper	60/2012	890.5	1-Apr-12	31-Mar-15
	61/2012	881.1	1-Apr-12	31-Mar-15
	62/2012	740.1	1-Apr-12	31-Mar-15
	63/2012	484.1	1-Apr-12	31-Mar-15

Includes Mining Lease 2010/99L, valid to 19 December 2025

* Renewal applications have been submitted. SRK anticipates that DML will be granted renewals for these tenements, based on a letter to DML received from the Botswana Department of Geological Survey, dated 25th October 2012.

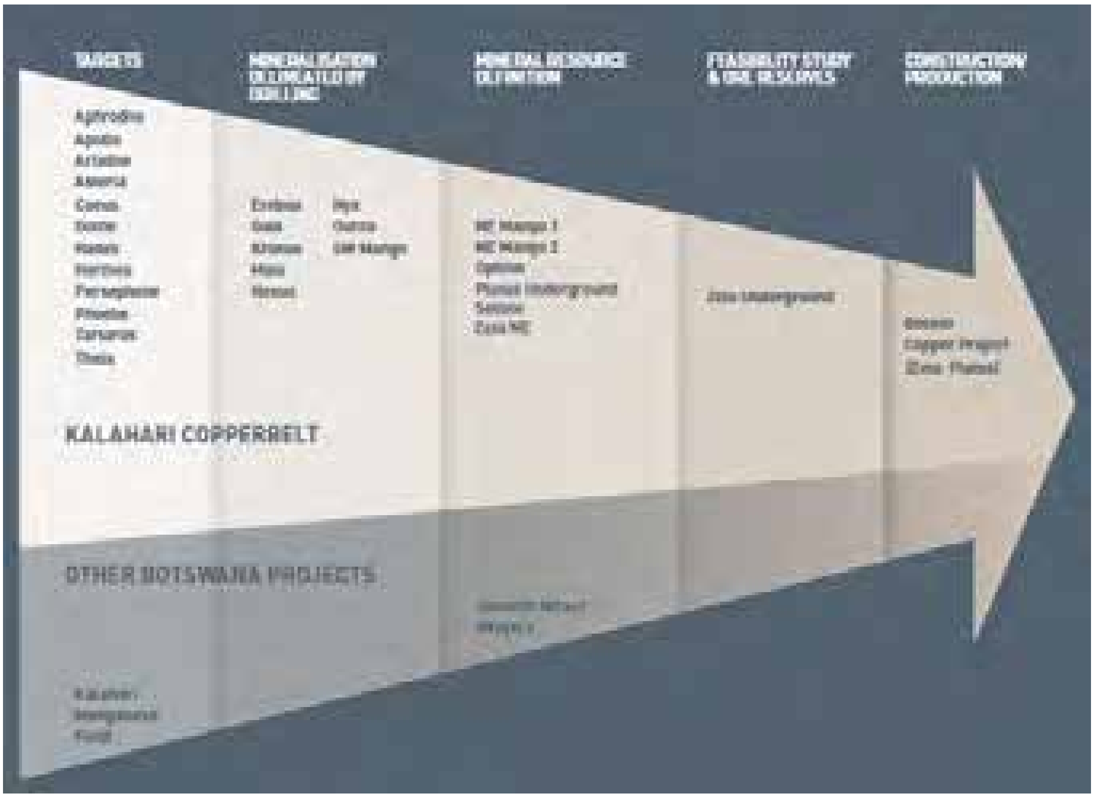


Figure 4-3: Copper Targets and Prospects within DML's Kalahari Copperbelt tenement holding

Refer to Figure 4-2 for relative locations.

4.4 Dikoloti Nickel Exploration Assets

DML holds a total of approximately 283 km^2 under three current Prospecting Licences (Table 4-6). DML has entered into a JV agreement with JOGMEC, whereby JOGMEC can earn a 60% interest in the tenements by funding an AUD3 million exploration programme.

Table 4-6: Dikoloti Nickel Tenement Holding

Project	Prospecting Licence	Area (km^2)	Initial Grant date	Current Expiry
Dikoloti Nickel	P020/2004	89.6	1-Jul-04	31-Dec-13
Dikoloti Nickel	P021/2004	40.7	1-Jul-04	31-Dec-13
Dikoloti Nickel	P022/2004	197.4	1-Jul-04	31-Dec-13

At a 0.7% nickel cut-off the Inferred Resource estimate for Dikoloti is 1,900,000t at 0.82% nickel and 0.84% copper.

The following description of the geology of the Dikoloti project is summarised from "Discovery Nickel Limited, Dikoloti Nickel Project FS, Project No. 5151, Resource Estimate, August 2005", prepared by E Haren. The Dikoloti Nickel Project is situated in the Limpopo Mobile Belt. Dikoloti, together with the nearby Selebi-Phikwe deposits, form part of a number of Archaean-aged nickel deposits forming an 800 km-long belt passing north-eastwards into Zimbabwe. The Selebi-Phikwe deposits are hosted by extensive subvolcanic ultramafic-mafic sills, which intruded quartz-arkosic metasedimentary rocks, close to the contact with granitic basement terranes. The area has undergone several phases of intense deformation giving rise to complex folding and refolding. The Dikoloti Nickel deposit occurs within a folded sequence of amphibolites, ultramafic rocks and gneisses. Mineralisation includes massive sulphides preferentially hosted in a fold hinge.

A brief, high-level review of the Mineral Resource Estimates (MRE) for the Dikoloti project was undertaken. The review did not include an analysis of the actual models or datasets but only the approach and methodology as documented in the following MRE report:

Haren's review findings and conclusions for Dikoloti are summarised Table 4-7.

Table 4-7: Summary, findings and conclusion of Dikoloti review

Criteria	Summary	Comment
Sampling Techniques and Data		
Sampling techniques	• No surface samples collected	
Drilling techniques	• DD drilling in late 1967 and 1971/1972, 2004 and 2005.	• No further details supplied, add risk to MRE
Drill sample recovery	• Not covered in reporting. • Not available for legacy data.	• Uncertainty in recovery and potential bias add risk to MRE.
Logging	• Not covered in reporting. • Snowden reviewed core in relation to legacy summary logs and found geological logs to correlate well with the core.	• Uncertainty adds low risk to MRE.
Sub-sampling techniques and sample preparation	• Not covered in reporting. • Not available for legacy data. Snowden noted from brief inspection of legacy core that core had been cut indicating sampling was probably reasonable.	• Uncertainty in sampling sub-sampling techniques and preparation resulting in possible bias add high risk to MRE.
Quality of assay data and laboratory tests	• QA/QC not available for legacy data. • Twinned holes by DML joint venture reviewed by Snowden and showed comparison of geology logged from the twinned holes with the geology logged from the original. Visual inspection indicates a good correlation between twins. • DML joint venture (9 holes) includes some standards, blanks and duplicates. • Uncertified internal standard but no details given. • Standard results indicate Ni assaying to be questionable. Three samples (27%) failed and further four (36%) flagged. • Cu standard results are within control limits. • Blanks show acceptable level of results. • Only two duplicates fell outside tolerance limits.	• Uncertainty in quality of legacy data adds risk to the MRE. Risk mitigated by good correlation with later twinned holes. • Non-certified standard and associated poor Ni results add risk to MRE although dataset is very small to support definitive conclusions.
Verification of sampling and assaying	• Twinning by DML showed good visual correlation between DML and legacy holes.	
Location of data points	• Not specified.	• Uncertainty in location of data points adds risk to the MRE.

Criteria	Summary	Comment
Data spacing and distribution	• Between 50mE by 50mN and 100mE by 250mN.	• Widely spaced and limited number of holes only appropriate to support Indicated Resource as is the case.
Orientation of data in relation to geological structure	• Not discussed. Sections show high angle of intersection.	• Taken into account in the geological model.
Audits or reviews	Not applicable	
Reporting of Exploration Results		
Mineral tenement and land tenure status	• Not specified.	
Exploration done by other parties	• Drilling by BCL in 1967, 1971/1972.	• Uncertain data quality of legacy holes adds risk to MRE but mitigated by twin hole results.
Geology	• Massive sulphide hosted in Archaean greenstone belt. • Preferentially hosted in fold hinge.	• Geology and mineralisation reasonably well understood and appropriately considered in MRE.
Reporting of Exploration Results		
Data aggregation methods.	• Predominant sample length is of 0.5m and samples composited to 0.5m.	• Samples appropriately composite on most frequent sample interval. • Grade truncations not applied and supported by low CV's.
Relationship between mineralisation widths and intercept lengths	• Not specified. Sections show high angle of intersection.	• Appears to be appropriately considered in geological model.
Estimation and Reporting of Mineral Resources		
Database integrity	• Basic data validation. • Some errors found and corrected in consultation with DML.	• Adequate data verification to demonstrate database integrity.
Geological interpretation.	• Sectional interpretation from legacy BCL and DML operators.	• Uncertainty in logging quality results in uncertainty in geological model.
Dimensions	• Not specified.	
Estimation and modelling techniques	• Variography undertaken for Ni and Cu – reasonable to poor. • Ordinary kriged estimate Ni and Cu. Co, S, Pt, Pd, Au and Pd calculated by regression equations based on Ni or Cu. • Parent model dimensions set to approximately half best drill hole spacing, 20mE by 40mN by 10mRL, with sub-celling allowed to 1mN by 1mS by 0.5mRL to allow narrow geometry of mineralisation to be honoured.	• Continuity analysis adequately considered for each individual domain. • Regression equations not ideal for estimation but supported by strong correlation. • Contact analysis not

Criteria	Summary	Comment
	• Estimation parameters based on variography results. • Two stage search with min/max samples 5/40 and 5 samples/hole. • 1st search 200m by 200m by 50m. Double for 2nd search.	considered probably due to limited data. • Estimation parameters not optimised but adequate for Inferred Resource. • Not stated if parent cell kriging was utilised.
Moisture	• Not specified.	• Bulk density method not discussed adds risk to MRE.
Cut-off parameters	• MRE reported at range of cut-offs showing sensitivity to cut-off grade.	
Mining factors or assumptions	• Not specified.	• Uncertainty adds risk to MRE.
Metallurgical factors or assumptions	• Not specified.	• Uncertainty adds risk to MRE.
Bulk density	• 363 density measurements available but method not specified. • Average of $3.72t/m^3$ for the mineralised material and $2.85t/m^3$ for the waste material assigned.	• Uncertainty in bulk density method adds risk to MRE. • Uncertainty related to small dataset adds risk to MRE.
Classification	• Inferred Resource due to: - low drilling density; - lack of QA/QC for drilling; and - only two drill holes intersect the fold nose where most of the tonnes are contained.	• Resource appropriate classified as Inferred due to uncertainty in data quality, reliability of geological model, data spacing as well as uncertainty in mining and metallurgical considerations.
Audits or reviews	• Snowden internal peer review.	
Discussion of relative accuracy/confidence	• Visual validation, moving window plots and summary statistics.	• Model validation adequately demonstrates reasonable correlation between input assay data and estimate results.
Competent person	• Includes competent person statement and sign-off.	• According to JORC 2004 guidelines.

Conclusion
SRK did not identify a fatal flaw in the approach and methodology applied by Snowden in the Dikoloti Mineral Resource Estimate dated August 2005. The uncertainty in data quality, sample representativity and geological confidence is appropriately addressed in the classification of the MRE as Inferred implying a high degree of uncertainty inherent in the estimation results.

4.5 Kalahari Manganese Field Exploration Assets

DML holds a total of approximately 15,345km^2 under 17 current Prospecting Licences as shown in Table 4-8.

Table 4-8: DML's Kalahari Manganese Field tenement holding

Project	Prospecting Licence	Area (km^2)	Initial Grant date	Current Expiry
Manganese	PL001/2011	483.7	1-Jan-11	31-Dec-13
	PL002/2011	720.8	1-Jan-11	31-Dec-13
	PL003/2011	974.8	1-Jan-11	31-Dec-13
	PL004/2011	950.4	1-Jan-11	31-Dec-13
	PL005/2011	914.8	1-Jan-11	31-Dec-13
	PL006/2011	962.4	1-Jan-11	31-Dec-13
	PL007/2011	933.5	1-Jan-11	31-Dec-13
	PL009/2011	982.7	1-Jan-11	31-Dec-13
	PL010/2011	958.0	1-Jan-11	31-Dec-13
	PL011/2011	856.3	1-Jan-11	31-Dec-13
	PL012/2011	983.1	1-Jan-11	31-Dec-13
	PL013/2011	883.6	1-Jan-11	31-Dec-13
	PL014/2011	1000.0	1-Jan-11	31-Dec-13
	PL015/2011	991.3	1-Jan-11	31-Dec-13
	PL016/2011	963.6	1-Jan-11	31-Dec-13
	PL147/2011	920.0	1-Oct-11	30-Sep-14
Kraaipan Gold	PL008/2011	866.2	1-Jan-11	31-Dec-13

5 Valuation Methods

5.1 Background to Valuation Methods

5.1.1 Discounted Cashflow

Discounted Cashflow (DCF) models are generally accepted as the preferred method of valuing a mining project if at least a Pre-Feasibility Study has been completed and Mineral Resources and Ore Reserves have been estimated. In the case of the Boseto project, Mineral Resources and Ore Reserves have been estimated, DML has completed a Feasibility Study and the project has been built and commissioned. As a result there is sufficient information of physical inputs, operating costs, capital costs and project revenues to allow a DCF model to provide a reasonable view of future cash flows, which can be used to estimate a technical value of the Boseto project.

5.1.2 Exploration Tenements

Geological Risk Valuation Methodology

In the Geological Risk Valuation method, as described by Lord et al. (2001) and Morley (2007), the value of a project at a given stage of knowledge/development is estimated based on the potential value of the project at a later stage of development, discounted by the probability of the potential value of the later stage being achieved, and considering the estimated cost of progressing the project to the next stage.

This can be illustrated in the following equation:

EV = (TV * P) – C

(where EV = Expected Value; TV = Target Value; P = Probability of advancing exploration project; and C = Cost of advancing exploration project).

This valuation method generates an Expected Value for each project at each of the main exploration stages, or decision points, by working back from a project's target value.

Based on a study of gold exploration programmes in the Laverton area of Western Australia, Lord et al. (2001) concluded that the probability of success (successfully moving from one phase of exploration to the following phase of exploration) was as set out in Table 5-1.

Table 5-1: Probability of successfully proceeding from one exploration stage to another

Stages	Probability of Advancing
Generative to Reconnaissance	0.54
Reconnaissance to Systematic Drill testing	0.17
Systematic Drill testing to Resource delineation	0.58
Resource delineation to Feasibility	0.87
Feasibility to Mine	0.90

Source: Lord *et al.* (2001)

Geoscientific Rating (Modified Kilburn) Method

The Geoscientific or modified Kilburn method of valuation, as described by Kilburn (1990), attempts to quantify the relevant technical aspects of a property through the use of appropriate multipliers (factors) applied to an appropriate base (or intrinsic) value. The intrinsic value is referred to as the Base Acquisition Cost (BAC), and is critical as it forms the standard base from which to commence a valuation. It represents “the average cost to identify, apply for and retain a base unit of area of title”.

Multipliers or factors are considered for Off-property aspects, On-property aspects, Anomaly aspects and Geological aspects. These multipliers are applied sequentially to the BAC to estimate the Technical Value for each tenement. A further Market Factor is then considered to derive a Fair Market Value.

A BAC of United States Dollars (USD)192.94/km^2 for Botswana has been assumed here, and this has been calculated based on a rent of BWP5/km^2 and a minimum exploration expenditure of BWP1,578.95/km^2, with an exchange rate of BWP0.1256:USD1.

The rating criteria used for assessing the modifying factors are provided in Table 5-2.

Table 5-2: Geoscientific rating criteria (Modified after Xstract, 2010)

Rating	Off Property Factor	On Property Factor	Anomaly Factor	Geological Factor
0.1				Unfavourable geological setting
0.5			Extensive previous exploration gave poor results	Poor geological setting
0.9			Poor results to date	Generally favourable geological setting, under cover
1	No known mineralisation in district	No known mineralisation on lease	No targets outlined	Generally favourable geological setting
1.5	Minor workings	Minor workings or mineralised zones exposed	Target identified, initial indications positive	
2	Several old workings in district	Several old workings or exploration targets identified		Favourable geological setting, with structures or mineralised zones
2.5			Significant grade intercepts evident, but not linked on cross or long sections	
3	Mine or abundant workings with significant previous production	Mine or abundant workings with significant previous production		Significant mineralised zones exposed in prospective host rock
3.5			Several economic grade intercepts on adjacent sections	
4	Along strike from a major deposit (s)	Major mine with significant historical production		
5	Along strike from a world class deposit			
10		World class mine		

Yardstick Valuation Methodology

In the Yardstick method of valuation, specified percentages of the spot price of the metal is used to value the resources. Commonly used Yardstick factors are:

- Not in reported resource: <0.5% of spot price
- Inferred Resources: 0.5% to 1% of spot price
- Indicated Resources: 1% to 2% of spot price
- Measured Resources: 2% to 5% of spot price

In broad terms, the comparable market transactions for copper-gold resources analysed in the previous SRK reports relate reasonably well with the relevant Yardstick factors described, falling within the range of 0.89% to 5.35% of the spot price.

5.2 Technical Value and Market Value

The Valmin Code (2005) provides guidance on the components of value, as follows:

> *"Value is the Fair Market Value of a Mineral or Petroleum Asset or Security". … "Value is usually comprised of two components, the underlying or 'Technical Value' of the Mineral or Petroleum Asset or Security, and a premium or discount relating to market, strategic or other considerations. Value should be selected as the most likely figure from within a range after taking account of risk and the possible variation in ore grade, metallurgical recovery, capital and operating costs, commodity prices, exchange rates and the like."*

Where SRK has used the comparative sales method or the yardstick method of valuation, which usually relate to actual market transactions, these can be an indicator of market value.

5.3 Valuation Methods Adopted

5.3.1 Boseto Mine

SRK adopted the DCF method as the primary method for valuing the Boseto project which includes the Zeta, Plutus, Zeta NE, Ophion and Selene deposits. The Zeta, Plutus and Selene deposits are located within tenement P99/2005, which contains Mining Lease 2010/99L. The Ophion deposit is located within tenement P100/2005.

SRK's review of the DCF model(s) provided by DML is provided in Section 6 of this report.

SRK also used the Comparative Transactions method and the Exploration Risk method as a check on the value estimate for the Boseto project, as described in Section 8 of this report.

The layout of the Kalahari Copper tenements held by DML are shown in Figure 5-1.

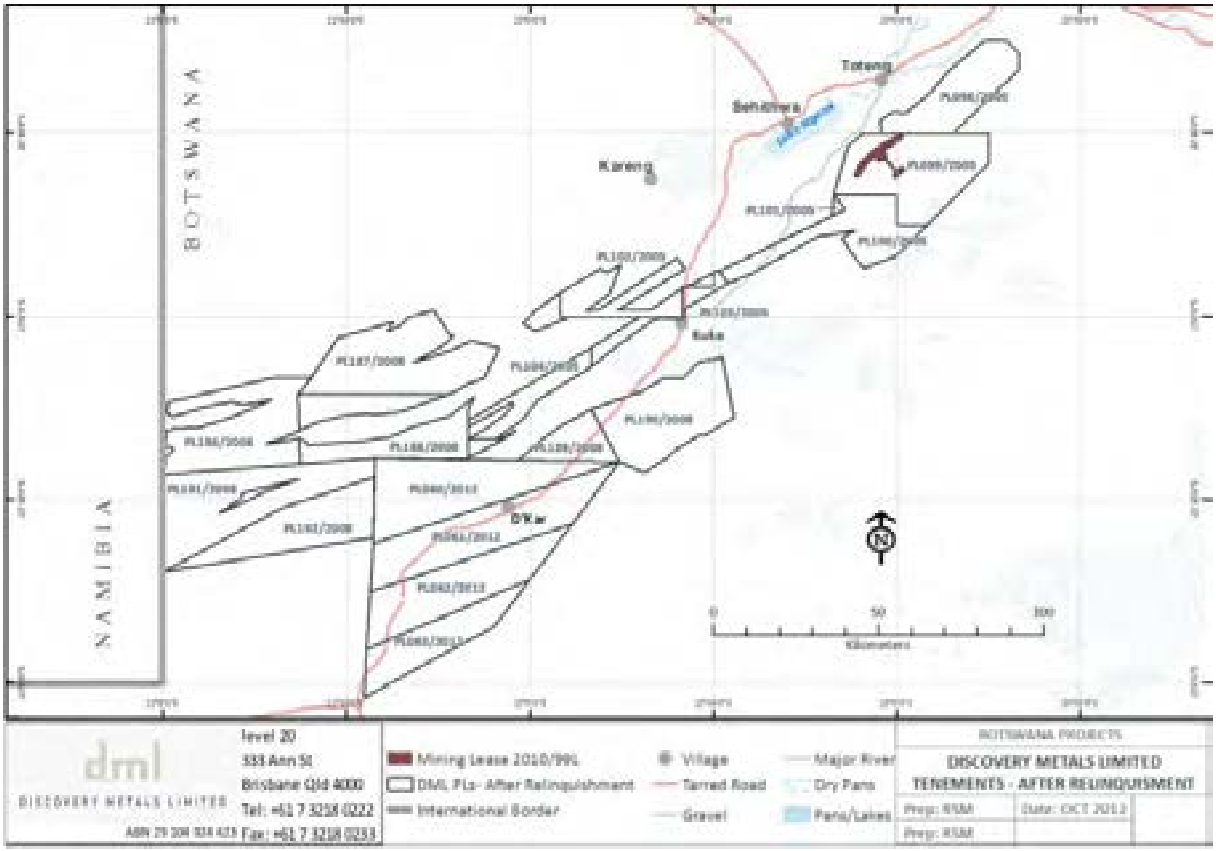


Figure 5-1: Location map of the Boseto tenements as at October 2012

Source: DML

5.3.2 Exploration Tenements in the mid and southern Kalahari

SRK adopted a market-based approach in valuing these tenements, based on Comparative Transactions of exploration ground.

SRK adopted a modified Kilburn method as a secondary valuation method.

5.3.3 Dikoloti Nickel Project

The Dikoloti Nickel Project was valued using a market-based approach, based on Comparative Transactions of Nickel Resource properties.

SRK adopted the Yardstick approach as a secondary valuation method, and further considered the value of the tenements on an area-based Comparative Transaction method.

5.3.4 Manganese Tenements

SRK adopted a market-based approach in valuing these tenements, based on Comparative Transactions of exploration ground.

6 Review of Technical-Economic models for Boseto

6.1 Introduction

DML provided two technical-economic models of the Boseto project for review by SRK, one being at a milling rate of 3.5 Mtpa and the other at 5 Mtpa.

The 3.5 Mtpa model “121102_Project Greenhouse – Boseto financial model – 3.5Mtpa (downside case).xls” was provided by DML and is based on monthly data from September 2012 to December 2014, quarterly data for 2015 and 2016, then 6 monthly data for 2017 onwards. The data has also been summarised in annual periods. The model extends until 2029. Further details are discussed below.

The 5 Mtpa DCF model “121026_Project Greenhouse – Boseto financial model.xls” was also provided by DML and is based on monthly data from September 2012 to December 2014, quarterly data for 2015 and 2016, then 6 monthly data for 2017 onwards. The model extends until December 2025. Further details are discussed below.

6.2 Macro-Economic Assumptions

KPMG provided SRK with macro-economic inputs to be used in the DML cashflow models, as follows.

6.2.1 Commodity Prices

The copper price and silver price inputs were provided by KPMG in annual increments and are shown in Figure 6-1.

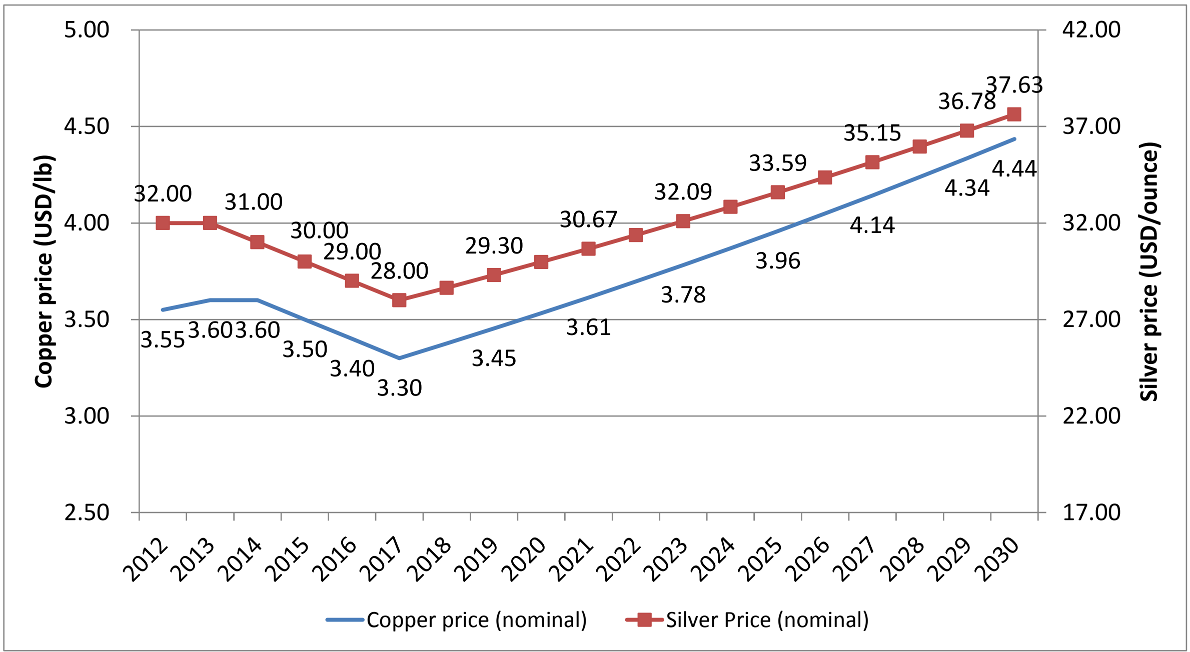


Figure 6-1: KPMG forecast of copper and silver prices, nominal, 2012 to 2030

6.2.2 Currency Exchange Rates

The USD / BWP currency exchange rate inputs provided by KPMG are shown in Figure 6-2.

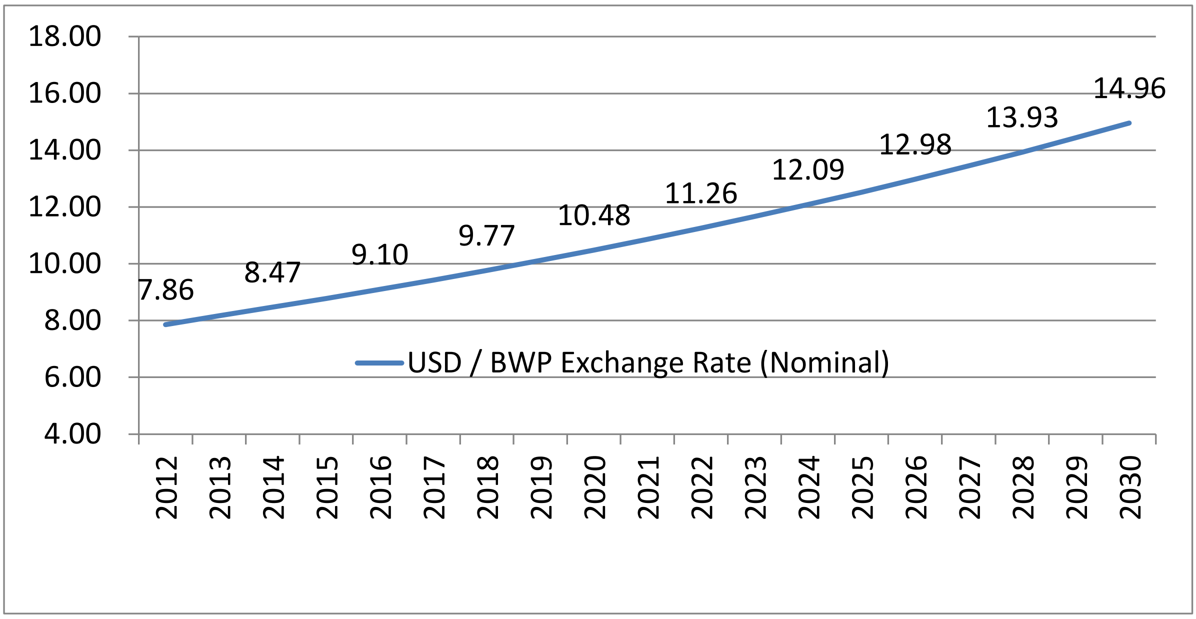


Figure 6-2: KPMG forecast of USD / BWP exchange rate in nominal terms, 2012 to 2030

6.2.3 Inflation Factors

The USD inflation rate forecast provided by KPMG was 2.0% per annum for the calendar year to December 2013, 2.2% per annum for the calendar year to December 2014, then 2.3% per annum for January 2015 onwards.

The BWP inflation rate forecast provided by KPMG was 6% per annum from 2012 to 2030.

6.2.4 Weighted Average Cost of Capital

KPMG advised that the range of USD weighted average cost of capital (WACC) for discounting the Boseto project cashflows was 10% to 11%.

6.3 Review of Technical Inputs

6.3.1 Boseto Mineral Resource estimate

SRK has reviewed the drilling and sampling processes used by DML to sample the deposits in the Boseto area and the resource estimate procedures and is confident that the resulting Mineral Resource estimates meet the requirements of the JORC Code. SRK notes that the Mineral Resource estimates are not calculated directly by DML, but are completed by an independent consultant who is a Competent Person under the guidelines of the JORC Code and who is familiar with the geology and sampling of the relevant deposits.

A brief, high-level review of the Mineral Resource Estimates (MRE) for the Boseto project's Plutus-Petra and Zeta deposits was undertaken. Reports for the Boseto project's Selene, Zeta NE and NE Mango are still being prepared and were not made available to SRK for review. The review did not include an analysis of the actual models or datasets but only the approach and methodology as documented in the following MRE reports:

- Snowden, 2011. Discovery Metals: Zeta Mineral Resource Update. Project No. 02245. Zeta Mineral Resource Update, October 2011, prepared by David Hope.

- Snowden, 2012. Discovery Metals Limited: Plutus-Petra Mineral Resource Update. Resource Estimation Project NO. 02946. Resource Estimation, May 2012, prepared by Phillip Micale.

The review findings and conclusions are summarised in Table 6-1 for Plutus-Petra, and Table 6-2 for Zeta.

Table 6-1: Summary, findings and conclusion of Plutus-Petra review

Criteria	Summary	Comment
Sampling Techniques and Data		
Sampling techniques	• No surface samples collected	
Drilling techniques	• 582 diamond (DD) drill holes. • Further 6 DD and 16 Reverse Circulation (RC) excluded due to uncertainty data quality.	• No further details supplied, add low risk to MRE but mitigated by acceptable recoveries.
Drill sample recovery	• Recoveries only for DML DD holes. • 0 – 2,240%, mean 84.65%. • Mean 80.97% for >0.6 ppm Cu (mineralisation) and recovery ≥0 and ≤105%). • Recoveries >150% generally for <1m runs, attributed to cavity collapse.	• Acceptable recoveries for mineralised zone. Lack of legacy recoveries add risk to MRE but mitigated to low due small number of legacy holes.
Logging	• Geological logging included lithology, structural, mineralogical and contact features. • Quality of logs inadequate to support lithological modelling	• Inadequate quality of logging to support robust geological model adds risk to MRE.
Sub-sampling techniques and sample preparation	• Core split and half sent for assaying. Quarter for field duplicates.	• Detail procedure not discussed and adds low risk to MRE due to uncertainty.
Quality of assay data and laboratory tests	• Compared selection of assay certificates with database – no discrepancies. • Assayed for suite of elements including Cu, Ag and S. • Legacy samples by XRF. • DML samples by multi-acid digest with ICP finish. • High bias in legacy holes but well constrained by more new holes. • QAQC data for DML drilling but not for 28 historical DD holes. • QAQC consisted of laboratory duplicates, field duplicates, standards, blanks, inter-laboratory checks • Field standards and blank – 1:20. • Standards externally sourced. • 4 out of 8 standards not similar style of mineralisation to Boseto. • Majority of standard grades above average Boseto grades. • Blanks are DML sourced Boseto material. • Six Ag blanks failed. • Cu field duplicates have correlation coefficient of 0.96 and Ag 0.836. • High level review by Snowden found sufficient quality to support Mineral Resource. • 95 pulps by SGS to Genalysis for check assay – 99.4% correlation. • 79 pulps by ALS to SGS for check assay – 99.8% correlation.	• Observed bias, probably resulting from different assay techniques adds risk to MRE. Risk mitigated by great number of DML constraining legacy holes. • Lack of legacy QAQC adds risk to MRE. Risk mitigated by great number of DML constraining legacy holes. • Certified standards not matrix/grade matched add risk to MRE. Risk mitigated by good check assay correlation between accredited laboratories. • SRK is of the opinion that classification of Measured Resource is optimistic based on QAQC results but defendable in light of check assay results from accredited laboratories.

Criteria	Summary	Comment
	• 287 pulp samples by SGS to ALS for check assay – 99.8% correlation.	
Verification of sampling and assaying	• Check assays.	• Check assay results increase confidence in assay results.
Location of data points	• DML collars surveyed by DGPS with ±0.5m horizontal and ±0.75m vertical accuracy. • DML downhole surveyed mostly (75%) by Reflex single shot with accuracy of ±0.5° azimuth and ±0.2° dip. • Snowden reviewed drill hole traces, issues referred to DML for correction, if not resolved excluded from MRE data. • Legacy holes not collar or downhole surveyed (28 DD holes). • Topography based on Lidar survey with reported ±0.6m accuracy, except extreme north based on collars.	• DML collar and downhole survey of appropriate quality. • Lack of accurate collar and downhole surveys for legacy holes adds risk to MRE but mitigated by small number of legacy holes compared to DML holes. • Topographic surface of adequate quality.
Data spacing and distribution	• Nominal 60m along strike by 30m across strike. Northern extent 500m drill sections with generally 1 hole per section. Southern extent 500m along strike by 150m across strike.	• Data spacing and distribution sufficient to establish adequate degree of geological and grade continuity appropriate for Mineral Resource.
Orientation of data in relation to geological structure	• Holes angled between 30°-90° (average 57°) toward southeast and intersect mineralisation at ~45° to normal.	• Intersect mineralised zone at oblique angle but appropriately considered in geological model.
Audits or reviews	• Not applicable.	
Reporting of Exploration Results		
Mineral tenement and land tenure status	• 7 prospecting licenses (PL). • Petra and Plutus within PL99/2005, NE Plutus within PL98/2005. • No detailed verification of tenement status.	
Exploration done by other parties	• Historical drilling by Delta Gold. 16 RC holes not included in MRE due to quality uncertainty. • Historical drilling by US Steel, only 28 DD in MRE.	• Legacy data with questionable data quality appropriately excluded from MRE.
Geology	• Sedimentary hosted strataform Cu deposit. • Moderate dip to northwest (55°-70°). • Apparent 4m thickness. • Disseminated Cu sulphides mainly chalcocite and less fracture and cleavage related. • Regarded as diagenetic and localised later remobilisation. • Minor oxidation.	• Geology and mineralisation reasonably well understood and appropriately considered in MRE.
Reporting of Exploration Results		
Data aggregation methods	• Samples composited to 1m length based on dominant sample length. • Declustering analysis showed little impact – not applied. • Statistical analysis including summary statistics, histograms and log probability plots from which high-grade truncations were determined. Only 1 Ag high-grade truncation applied.	• Samples appropriately composite on most frequent sample interval. • Grade truncations appropriately based on statistical analysis but impact on metal content not assessed. Adds very low risk to MRE due to limited truncation.

Criteria	Summary	Comment
Relationship between mineralisation widths and intercept lengths	• Not specified.	• Appears to be appropriately considered in geological model.
Estimation and Reporting of Mineral Resources		
Database integrity	• Site visit by Snowden, drill core inspections and high level audit of data capture and storage processes and procedures. • MS Access database managed by single person. • Data validation by Snowden including: - duplicate hole, sample id and co-ordinates; - overlapping intervals; - element ranges and sample lengths, - discrepancies in collar and logged end-of-hole; - invalid codes; - visual survey check and major deviations; - acceptable recovery results; - topographic correlation. • Issues referred to DML, if unresolved removed from dataset.	• Adequate data verification to support MRE. • Controlled data storage and access.
Geological interpretation	• Inadequate quality of geological logs prevented construction of lithological model. • Model based on grade population thresholds derived from statistical analysis and manually interpreted on section. • Domains at ≥0.1 %<0.6% Cu and ≥0.6% Cu. • Regolith surface constructed from logging data. • Oxidation surfaces based on logging and S:Cu ratios. • Block model coded with domains and oxide prior to estimation.	• Lack of robust geological model adds moderate risk to the MRE. Risk mitigated to low by main geological controls considered during construction of grade shells.
Dimensions	• Strike length ~28km, to depth 450m below surface and open, width ~4m.	
Estimation and modelling techniques	• Continuity analysis for individual domains. Variography refined on Cu:S ratio domains to differentiate oxide and sulphide material. • Ranges of ~450m for Cu, 250m for Ag and 520m for S. Nugget of ≤25% for Cu, ≤25% for Ag and ≤20 for S. • Contact analysis to establish nature of boundaries to apply. Hard boundary between 0.1% Cu and 0.6% Cu shells. • Kriging neighbourhood analysis carried out on Cu data on one domain to minimise conditional bias. • Block ordinary kriging for Cu, Ag and S and density. • Blocks:5mE by 25mN by 6mRL and sub-celled to 1.25mE by 1.25mN by 3mRL • Parent cell kriging. • 1/2/3 Search ellipse 135/165/1,000m down dip, 325/425/2,000m along strike and 25/25/25m across strike. • Min/max samples 16/35 for 1st/2nd search with 4 samples/hole and 4/20 for 3rd search • Small areas not estimated assigned background values and excluded from Resource. • Blocks with grade estimate but no density estimate assigned density default value.	• Continuity analysis adequately considered for each individual domain. • Experimental variograms reasonable to good. • Nature of boundaries adequately considered reducing risk of potential bias. • Kriging neighbourhood analysis appropriately reduces conditional bias in MRE. • Size of blocks not ideal considering drill spacing but required to adequately honour geometry of mineralized units.
Moisture	• Dry densities.	

Criteria	Summary	Comment
Cut-off parameters	• MRE reported at 0.6% Cu cut-off. • Grade/tonnage curve provided.	• Reason for reporting at 0.6% Cu not stated. Grade tonnage curve however illustrates grade and tonnage sensitivity to cut-off grade selection.
Mining factors or assumptions	• Assumes open pit mining for all defined resources and underground mining of higher grade Cu material at depth.	• Mining assumptions appear reasonable.
Metallurgical factors or assumptions	• Test work from Zeta comparable with Plutus-Petra indicates metallurgical recoveries broadly correlate with S/Cu ratio. • Cu recovery in oxide <10% due to Cu silicate minerals. • Recovery in transitional and fresh reportedly higher but not stated. • Several studies attempted to establish portion Cu silicate in assay samples but no clear-cut conclusions reached.	• Test work highlights possible low Cu recoveries from silicate material not reflected in assay results. Adds high risk to MRE but mitigated low-med due silicate minerals only present in top oxide zone although proportion not stated.
Bulk density	• DML drill holes via Archimedes immersion method of half core within sample interval. 5,358 samples. • Legacy on-site Archimedes immersion method. Do not match assay intervals (spatial co-ordinates unknown) and include mineralised and non-mineralised material. Not used.	• Density estimates based on large dataset determined by reliable method.
Classification	• Reportedly based on: - geological confidence; - integrity of data; - spatial continuity (variography); - quality of estimation. • Measured (~13%): informed in first pass Cu, kriging efficiency >40%, drill hole spacing ≤50m. • Indicated (~9%): informed in first pass Cu, kriging efficiency 0-40%, drill hole spacing 50-100m. • Inferred (~78%): informed in 2nd or 3rd search Cu, drill holes 100-1000m.	• Classification appears reasonable based on geology, data and estimation quality. Comment by Snowden in MRE that data quality only support Indicated Resource should be disregarded as error (pers. Comm. Rod Carlson).
Audits or reviews	• Snowden internal peer review.	
Discussion of relative accuracy/confidence	• Model validation included: - visual validation of block grades against drill hole grades in section; - comparison of mean sample grade against estimated block grades. - moving window statistics.	• Model validation adequately demonstrates good correlation between input assay data and estimate results.
Competent person	• Includes competent person statement and sign-off.	• According to JORC 2004 guidelines.

Conclusion
SRK did not identify a fatal flaw in the approach and methodology applied by Snowden in the Plutus-Petra Mineral Resource Estimate dated May 2012. SRK is of the opinion that classification of Measured Resources is optimistic in light of some identified shortcomings in the DML QAQC programme but that it is defendable based on overall data quality and check assay result.

Table 6-2: Summary, findings and conclusion of Zeta review

Criteria	Summary	Comment
Sampling Techniques and Data		
Sampling techniques	• No surface samples collected	
Drilling techniques	• 70 RC, 408 DD holes and 2 "unknown' • 43 holes excluded due to validation errors.	• No further details supplied, add low risk to MRE but mitigated by acceptable recoveries.
Drill sample recovery	• Recoveries recorded for DML DD holes only. • 0 – 4,799% with 87.82% average. • Mean 73.57% for >0.6 ppm Cu (mineralisation) and recovery ≥0 and ≤105%). • Core recoveries >105% generally for <1m runs.	• Acceptable recoveries for mineralised zone. Lack of legacy recoveries add risk to MRE but mitigated to low due small number of legacy holes.
Logging	• Lithology, weathering, mineral assemblage. • Recent relogging failed to improve geological understanding due to focus on mineralisation rather than lithology. • Not adequate to support lithological modelling.	• Inadequate quality of logging to support robust geological model adds risk to MRE.
Sub-sampling techniques and sample preparation	• Core split and half sent for assaying. • Quarter for field duplicates. • RC unknown.	• Detailed core procedure not supplied. • Unknown RC procedure adds risk to MRE due to potential sample bias. Risk mitigated by adequate recoveries and RC being only 15% of total dataset.
Quality of assay data and laboratory tests	• Compared selection of assay certificates with database – no discrepancies. • Assayed for suite of elements including Cu, Ag and S. • Legacy samples by XRF or aqua regia with AAS, AAS and AARL. • DML by multi-acid digest with ICP finish. • Low to 30% bias observed between legacy and DML assays on regional scale. Only 14 holes with 30% bias included. Remaining holes well supported by DML drilling. • DML QAQC data only. • Field standards 1:25. Standards externally sourced but Snowden comments that 5 of 10 standards not similar style of mineralisation to Boseto. • Snowden considers uncertainty in standard results low risk due to absolute difference between assay and standard mean <0.02% for most frequently used standards (6). • Blanks (1:25) are DML sourced from Boseto. • Blank material returned average value below detection limit. • Field duplicates – 214. Cu field duplicates have correlation coefficient of 0.945 and Ag 0.935. • Pulp duplicates – 642. Cu pulp duplicates have correlation coefficient of 0.929 and Ag 0.989. • 382 pulps by Genalysis to Ultratrace for check assay – 99.6% correlation. • 204 pulps by ALS to SGS for check assay – 99.7% correlation.	• Observed bias, probably resulting from different assay techniques adds risk to MRE. Risk mitigated by small number of holes with bias and great number of DML constraining legacy holes. • Lack of legacy QAQC adds risk to MRE. Risk mitigated by great number of DML constraining legacy holes. • Risk associated with some uncertainty of QAQC results noted by Snowden mitigated by good check assay correlation between accredited laboratories.
Verification of sampling and assaying	• Check assays.	• Check assay results increase confidence in

Criteria	Summary	Comment
		assay results.
Location of data points	• 382 DML collars surveyed with DGPS with ±0.5m accuracy. Some historical collars DGPS surveyed. • Majority (80%) downhole surveyed with single shot camera. Accuracy of ±0.5° azimuth and ±0.2° dip. • Topographic surface based on Lidar survey with reported ±0.6m accuracy. • Historical collar data adjusted to Lidar surface.	• DML collar and downhole survey of appropriate quality. • Lack of accurate collar and downhole surveys for legacy holes adds risk to MRE but mitigated by small number of legacy holes compared to DML holes • Topographic surface of adequate quality.
Data spacing and distribution	• Drilled on nominal grid of 100m along strike and 30m across strike with 50mN by 30mE infill in places.	• Data spacing and distribution sufficient to establish adequate degree of geological and grade continuity appropriate for Mineral Resource.
Orientation of data in relation to geological structure	• Holes angled toward east and intersect mineralisation at ~45° to normal.	• Intersect mineralised zone at oblique angle but appropriately considered in geological model.
Audits or reviews	• Not applicable.	
Reporting of Exploration Results		
Mineral tenement and land tenure status	• PL99/2005, verified previously but not for latest MRE.	
Exploration done by other parties	• Legacy drilling by Anglo, Delta Gold and US Steel – of 22 DD and 70 RC.	• Legacy data with questionable data quality appropriately excluded from MRE.
Geology	• Sediment hosted stratiform Cu deposit. • Disseminated Cu sulphides mainly chalcocite and less fracture and cleavage related. • Regarded as diagenetic and localised later remobilisation. • Minor oxidation.	• Geology and mineralisation reasonably well understood and appropriately considered in MRE.

Criteria	Summary	Comment
Reporting of Exploration Results		
Data aggregation methods	• Samples composited to 1m length based on dominant sample length. • Declustering analysis showed little impact and declustering not used. • Statistical analysis including summary statistics, histograms and log probability plots from which high-grade truncations were determined. • Only high grade truncation applied to Ag affecting ≤1% of samples.	• Samples appropriately composite on most frequent sample interval. • Grade truncations appropriately based on statistical analysis but impact on metal content not assessed. Adds very low risk to MRE due to limited truncation.
Relationship between mineralisation widths and intercept lengths	• Not specified.	• Appears to be appropriately considered in geological model.
Estimation and Reporting of Mineral Resources		
Database integrity	• Data stored in custom database and managed by external service provider. • Snowden conducted site visit in 2008 to review mineralisation and data collection processes. • Data validation undertaken by Snowden included: - duplicate hole and sample id and co-ordinates; - topographic correlation; - overlapping intervals; - visual survey check.	• Adequate data verification to support MRE. • Controlled data storage and access.
Geological interpretation	• Based grade population thresholds derived from statistical analysis due to inadequate quality of geological logs. • Manually interpreted on section. • Regolith surface constructed from logging data. • Oxidation surfaces based on combination of logging and assay data. • Block model coded with 3 mineralisation domains and oxide prior to estimation.	• Lack of robust geological model adds high risk to the MRE. Risk mitigated to low by overall geological setting considered during construction of grade shells.
Dimensions	• Strike length of ~8km and dips 75° to the northwest. Depth extent of 600m and open at depth. Average 4m thickness.	
Estimation and modelling techniques	• Block ordinary kriging to estimate Cu, Ag and S and density into parent cells. • Contact analysis to establish nature of boundaries to apply. • Hard boundary used for grade estimate between 0.1% and 0.6% Cu grade domains. • Continuity analysis carried out for individual domains based on normal scores and back-transformed. • Estimation parameters maintained from previous MRE. • Blocks of 5mE by 25mN by 10mRL and sub-celled to 1E by 5mN by 1mRL. • 1/2/3 Search ellipse 150/450/1,500m down dip and along strike and 10/30/100m across strike. • Min/max samples 10/30 for 1/2 search and 4/20 for 3rd with 5/hole. • Areas along strike extremities not estimated were assigned below detection values.	• Continuity analysis adequately considered for each individual domain. • Experimental variograms reasonable to poor. • Regression equations not ideal for estimation but supported by strong correlation. • Nature of boundaries adequately considered reducing risk of potential bias. • Size of blocks not ideal considering drill spacing but required to adequately honour geometry of mineralized units. • Maintaining estimation parameters not ideal. Adds risk to MRE as conditional bias not minimised. Risk

Criteria	Summary	Comment
		mitigated by assumption that parameters were optimised in previous MRE and would not have change significantly. • Overall parameters appear reasonable considering data spacing, continuity analysis and geometry of mineralised zone.
Moisture	• Dry densities.	
Cut-off parameters	• MRE reported at 0.6% Cu cut-off. • Grade/tonnage curve provided.	• Reason for reporting at 0.6% Cu not stated. Grade tonnage curve however illustrates grade and tonnage sensitivity to cut-off grade selection.
Mining factors or assumptions	• Assumes open pit mining or all defined resources and underground mining of higher grade Cu material at depth.	• Mining assumptions appear reasonable.
Metallurgical factors or assumptions	• Test work indicate metallurgical recoveries broadly correlated with S/Cu rations, three zones identified: - Oxide – S:Cu<0.1; - Transitional S:Cu = 0.1-0.2; - Fresh S:Cu>0.2. • Cu recovery in oxide <10% due to Cu silicate minerals. Recovery in transitional and fresh reportedly higher but not stated. • Several studies attempted to establish portion Cu silicate in sample but no clear-cut successes.	• Test work highlights possible low Cu recoveries from silicate material not reflected in assay results. Adds high risk to MRE but mitigated low-med due silicate minerals only present in top oxide zone but proportion not stated.
Bulk density	• 2,872 Archimedes immersion method.	• Density estimates based on large dataset determined by reliable method.
Classification	• Based on geological confidence, integrity of data, spatial continuity of mineralisation (variography) and quality of estimation. • Measured (~10%): informed in first pass Cu, drill hole spacing 50m. • Indicated (~28%): dominantly within first pass Cu, drill hole spacing 50-100m. • Inferred (~61%): informed in 2nd or 3rd search Cu, drill holes >100mN by 30mE.	• Classification appears reasonable based on geology, data and estimation quality. Although stated that estimation quality was taken into consideration, parameters are not discussed.
Audits or reviews	• Snowden internal peer review.	
Discussion of relative accuracy/confidence	• Model validation included: - Visual validation of block grades against drill hole grades in section. - Comparison of mean sample grade against estimated block grades.	• Model validation adequately demonstrates good correlation between input assay data and estimate results.
Competent person	• Includes competent person statement and sign-off.	• According to JORC 2004 guidelines.
Conclusion		
SRK did not identify a fatal flaw in the approach and methodology applied by Snowden in the Zeta Mineral Resource Estimate dated October 2011.		

6.3.2 Boseto Ore Reserves estimate

SRK reviewed the Ore Reserve estimate for the Zeta and Plutus open pit mines (as shown in Table 4-4) which is based on the Mineral Resource estimate dated 31 August 2010. The Ore Reserve estimate was completed by an independent consultant and the factors used included;

- A cut-off grade of 0.6% copper;
- A copper price of USD5512/t (USD2.50/lb);
- the mining method selected was standard truck and shovel open pit mining;
- ore extraction and dilution rates of 98% and 4% respectively;
- operating costs estimated from first principles with an expected accuracy of -5% +10%;
- geotechnical and blasting parameters as recommended by an independent consultant; and
- A metallurgical recovery rate of 93% for copper.

SRK reviewed the Ore Reserves estimate for the Zeta underground mine published by DML (as shown in Table 4-4) which is based on the Mineral Resource estimate dated October 2011. The Ore Reserve estimate was completed by an independent consultant and the factors used included;

- a cut-off grade of 1.25% copper equivalent, where the copper equivalent = % copper + 0.006547 times the silver grade in g/t;
- metal prices of USD5512/t (USD2.50/lb) for copper and USD0.48/g (USD14.93/oz) for silver;
- the mining method selected was longitudinal sub-level stoping;
- ore extraction and dilution rates of 100% and 10% respectively during the development phase and 69% and 19% during the stoping production phase;
- operating costs estimated from first principles with an expected accuracy of -5% +10%;
- geotechnical parameters as recommended by an independent consultant; and
- metallurgical recovery rates of 92% for copper and 65% for silver;

SRK accepts that the DML Ore Reserve estimates comply with the JORC Code and are reasonable estimates of tonnes and grade that are likely to be mined from the Zeta and Plutus deposits. The Ore Reserve estimates provide a good basis for mine planning and mine scheduling.

6.3.3 Mining Schedules

3.5 Mtpa case

SRK has reviewed the mining schedule shown in the 3.5 Mtpa model and has been advised by DML that it is based on the mining scheduled named Version 27, Option 10, as shown in "Combined LOM Schedule MS_v27_opt10.pptx". This schedule assumes mining from six sources as shown in Figure 6-3.

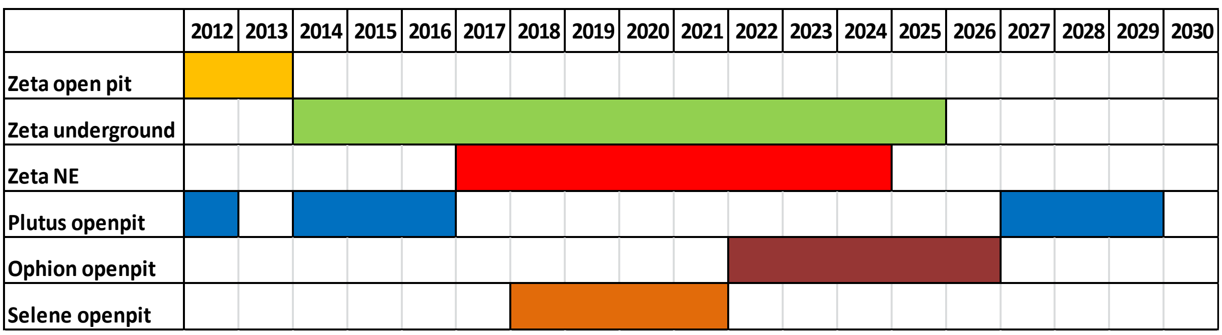


Figure 6-3: Illustration of ore sources for mining schedule Version 27, Option 10

SRK notes that Zeta NE, Ophion and Selene are currently classified as Inferred Resources and are therefore of lower confidence than the Proved and Probable Reserves at Zeta and Plutus. However SRK also notes that the first mining in Option 10 of Zeta NE is scheduled to occur in 2017, which should allow sufficient time for DML to complete drilling programs to increase the confidence of geological continuity and possibly to improve the resource classification to Measured and Indicated Resources, from which Proved and Probable Reserves can be estimated. As Selene is also scheduled for mining in 2017 and mining of Ophion does not start until 2022, there is sufficient time for DML to also complete additional drilling at these deposits.

SRK notes that the total ore mined for mill feed in Option 10 is 38.5 Mt from open pits and 16.4 Mt from Zeta underground totalling 54.9 Mt plus 6.4 Mt of low grade material, for a total of 61.4 Mt of material that will be fed to the mill. SRK notes that this total is 25.8 Mt in excess of the 2012 Ore Reserves statement of 29.1 Mt. SRK also notes that the total Measured and Indicated Resources total 36.2 Mt, therefore the Option 10 mining schedule assumes 18.7 Mt of mill feed (30% of total) is sourced from areas that are currently classified as Inferred Resources.

5 Mtpa Case

SRK has reviewed the mining schedule shown in the 5 Mtpa model and has been advised by DML that it is based on the mining scheduled named Version 27, Option 12, as shown in "Combined LOM Schedule MS_v27_opt12.pptx". This schedule assumes mining from six sources as shown in Figure 6-4.

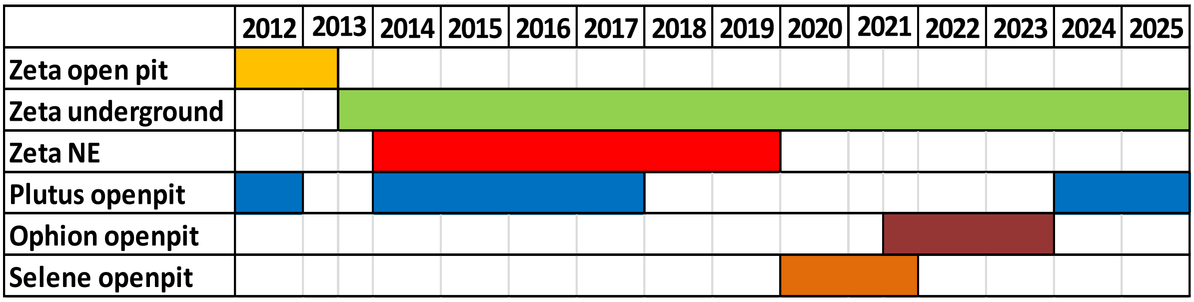


Figure 6-4: Illustration of ore sources for mining schedule Version 27, Option 12

SRK notes that Zeta NE, Ophion and Selene are currently classified as Inferred Resources and are therefore of lower geological confidence than the Proved and Probable Ore Reserves at Zeta and Plutus. However SRK also notes that the first mining in Option 12 of Zeta NE is scheduled to occur in 2014, which should allow sufficient time for DML to complete drilling programs to increase the confidence of geological continuity and possibly to improve the resource classification to Measured and Indicated Resources, from which Proved and Probable Reserves can be estimated. As Selene is scheduled for mining in 2020 and mining of Ophion does not start until 2021, there is sufficient time for DML to also complete additional drilling at these deposits.

SRK notes that Option 12 (the 5 Mtpa case) is scheduled to mine and mill the same tonnages as Option 10 (the 3.5 Mtpa case), however Option 12 does so by 2025, whereas Option 10 continues until H1 2030.

SRK notes that both schedules are forecast to mine 54.8 Mt of high grade and oxide ore and 6.4 Mt of low grade material, for a total of 61.4 Mt of material that will be fed to the mill.

6.3.4 Source of mining tonnes

SRK has analysed the mining schedule and compared it to DML's Resource and Reserve estimates. The Resources and Reserves and mining tonnes are re-stated in Table 6-3.

Table 6-3: Deposit Resources and Reserves and mining tonnes

HG + Oxide	Measured Resource	Indicated Resource	Inferred Resource	Total (Meas, Ind & Inf)	Proved Reserve	Probable Reserve	Total Proved & Probable	Tonnes Mined
Zeta	4.6	12.4	27.1	44.1	4.0	6.5	10.5	4.0
Zeta UG	(Included in above)				1.0	6.3	7.3	16.3
Plutus	11.1	8.1	67.7	86.9	0.2	11.1	11.3	19.2
Zeta NE			12.9	12.9				6.2
Ophion			14.0	14.0				5.4
Selene			16.0	16.0				3.7
Total	**15.7**	**20.5**	**137.7**	**173.9**	**5.2**	**23.9**	**29.1**	**54.8**

Subtracting the mining schedule from the Resources and Reserves results in the remaining tonnes being as shown in Table 6-4.

Table 6-4: Resources remaining after mining schedule

Remaining	Measured Resource	Indicated Resource	Inferred Resource	Total (Measured, Indicated & Inferred)	Proved Reserve	Probable Reserve	Total Proved & Probable)
Zeta OP	0	9.9	27.1	37.0	0	0	0
Zeta UG	0	0	0	0	0	0	0
Plutus	0	0	59.8	59.8	0	0	0
Zeta NE			0				0
Ophion			0				0
Selene			0				0
Total	**0**	**9.9**	**86.9**	**96.8**	**0**	**0**	**0**

The source of high grade, transitional and oxide ore from each pit is shown in Table 6-5.

Table 6-5: Mining schedule and source of tonnes mined

Deposit / mine	Tonnes Mined (HG, Transitional and Oxide) (Mt)	Comment regarding source of tonnes mined
Zeta OP	4.0	100% of Proved Reserve. 6.5 Mt of Probable Reserve remaining
Plutus	19.2	100% of Proved and Probable of 11.3 Mt (19.2Mt = 100% of Measured and Indicated Resources)
Zeta NE	6.2	48% of Inferred Resources
Ophion	5.4	38% of Inferred Resources
Selene	3.7	23% of Inferred Resources
Zeta UG	16.3	100% of Proved and Probable Reserves of 7.3 Mt. Remaining 9 Mt from Inferred Resources.
Total	**54.8**	

An additional 6.4 Mt of low grade is scheduled to be mined and is scheduled to be fed to the mill as the availability of higher grade material diminishes. The sources of the low grade material are shown in Table 6-6. SRK notes that the low grade tonnes are not included in the Resources or Reserves estimates, as they are below the economic grade cut-off for total costs.

Table 6-6: Low grade ore sources

Deposit / mine	Low grade mined (Mt)
Zeta OP	0.36
Plutus	3.90
Zeta NE	0.10
Ophion	2.01
Selene	0.05
Zeta UG	0
Total	**6.42**

From the above analysis, SRK notes that 40% of the mill feed is sourced from material that is currently classified as Inferred Resources and 10% is from low grade material. As stated above, DML proposes to complete additional drilling to improve the Resource classification prior to the material being mined and has until early 2014 before the first of the material is scheduled to be mined.

SRK accepts the inclusion of a percentage of Inferred Resources in the cashflow model on the basis that the Inferred Resources are immediately adjacent to Resources with a higher classification and that the Inferred Resource category is a result of current drill hole spacing, not some other restriction. SRK also notes that the copper grade of the Inferred Resources at the deposits proposed to be mined are in the range of 1.0 to 1.3% copper, which is similar to the average grades mined from Ore Reserves. As DML proposes to reduce the drill hole spacing during 2013 and 2014, SRK accepts it is likely that a percentage of the Inferred Resource material will be mined.

6.3.5 Stockpiles

SRK notes that the forecast mining schedules and milling schedules (described in the following section of this report) result in substantial stockpiles. SRK recognises that there are areas near each pit where significant stockpiles can be located, in addition to the run-of-mine (ROM) stockpile area, adjacent to the primary crusher.

The open pit high grade ore stockpile from 2012 to 2015 is shown in Figure 6-5 and indicates that that ore is stockpiled for a maximum of 2 years before being fed to the concentrator. The maximum stockpile size is forecast to be 1.4 Mt in November 2014.

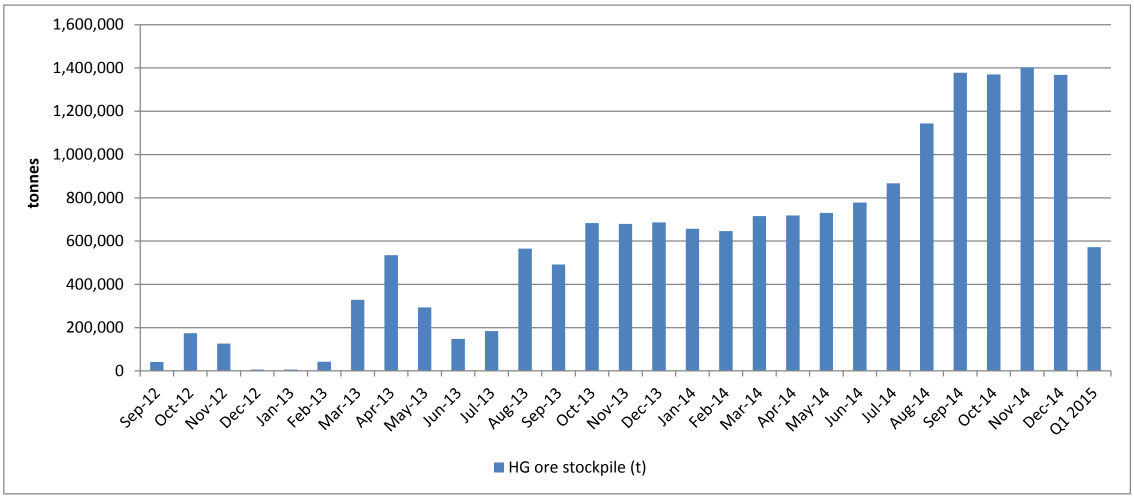


Figure 6-5: Open pit high grade ore stockpile

The stockpile of fresh and transitional ore from the Zeta underground mine is shown in Figure 6-6 and indicates that ore is stockpiled for a maximum of 2 years before being fed to the concentrator. The maximum high grade stockpile size is forecast to be 2.9 Mt in H1 2020.

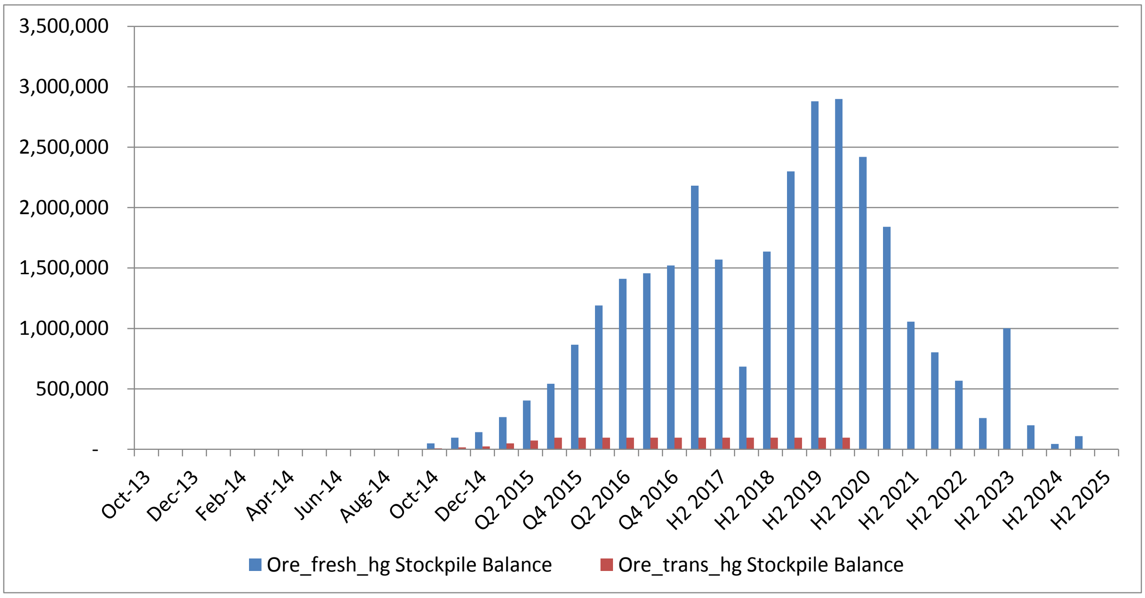


Figure 6-6: Zeta underground mine fresh and transitional ore stockpiles

The low sulphide content, and especially that of iron sulphide minerals, determined to date in the proposed feed materials to the Boseto concentrator suggests that the mined material could be stockpiled for extended periods of time without significantly affecting copper and silver recoveries. This assumes that good industry practices for stockpile construction and management will be followed. SRK suggests it would be prudent to examine the sensitivity impact of decreasing expected copper and silver recoveries by 0.5% to 1% absolute compared with freshly mined material.

6.3.6 Milling Schedule and Feed Grade

The milling schedule from the 3.5 Mtpa model is shown in Figure 6-7 and the milling schedule from the 5 Mtpa model is shown in Figure 6-8.

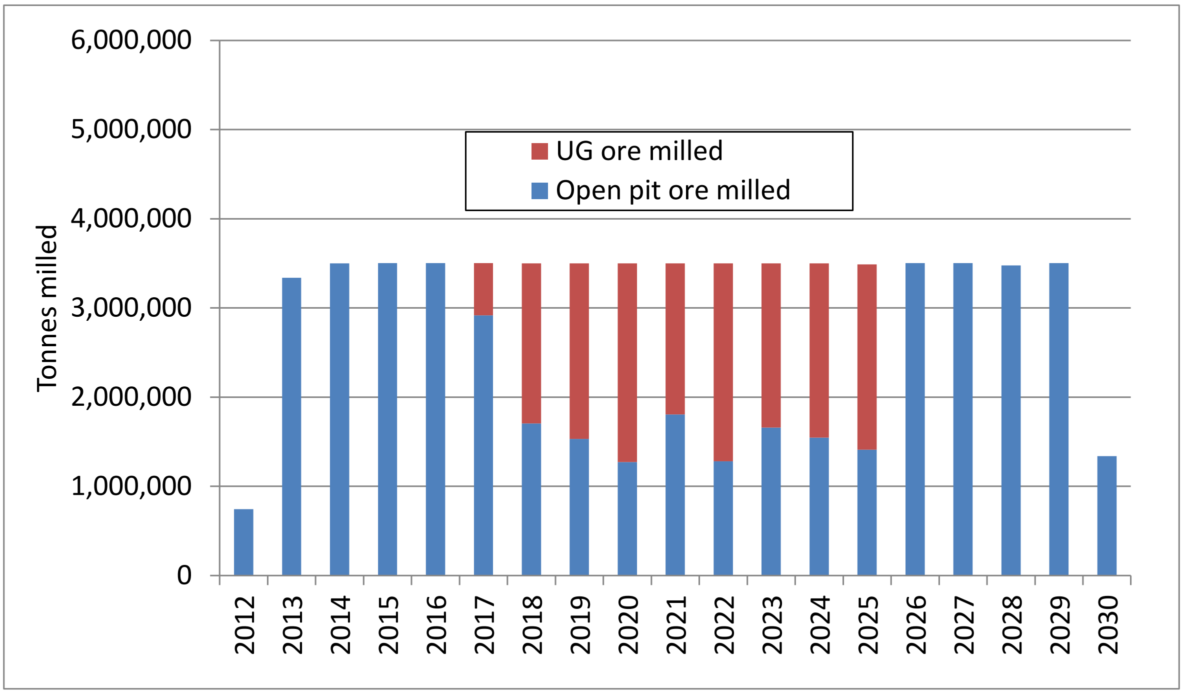


Figure 6-7: 3.5 Mtpa scheduled annual mill feed by mine type

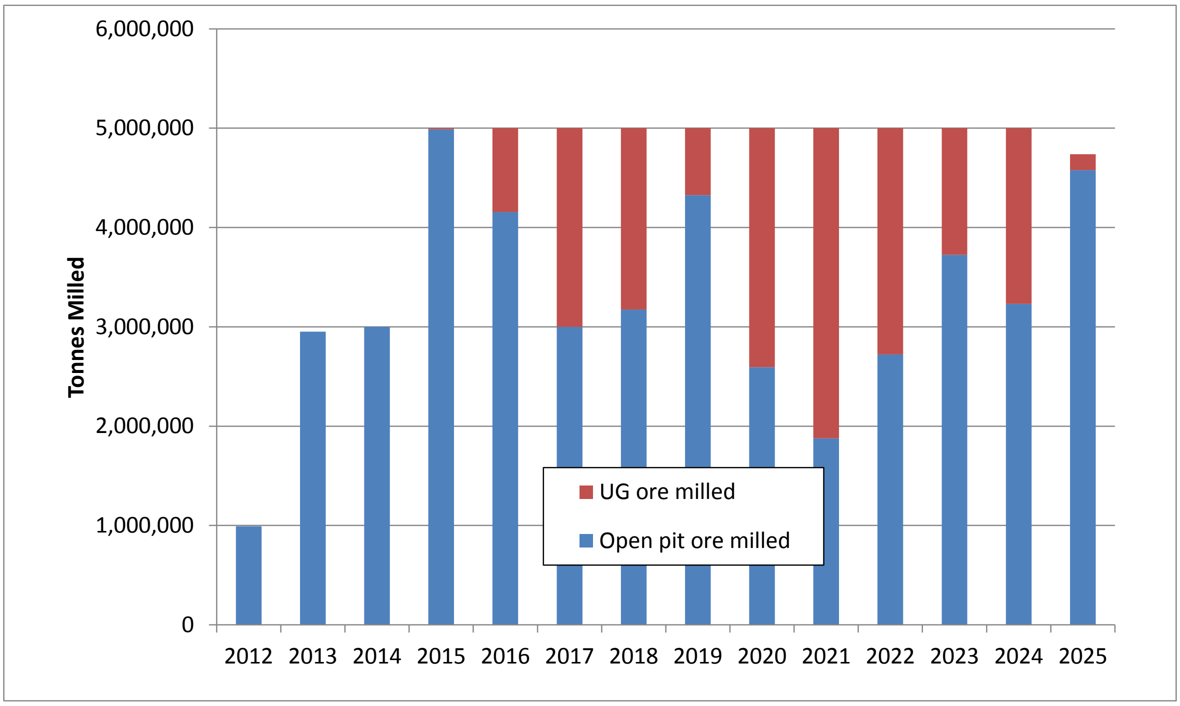


Figure 6-8: 5.0 Mtpa scheduled annual mill feed by mine type

The mill feed grades shown in the 3.5 Mtpa model are shown in Figure 6-9 and for the 5.0 Mtpa model are shown in Figure 6-10. Further refining of mining and stockpile schedules may be able to create a smoother grade profile.

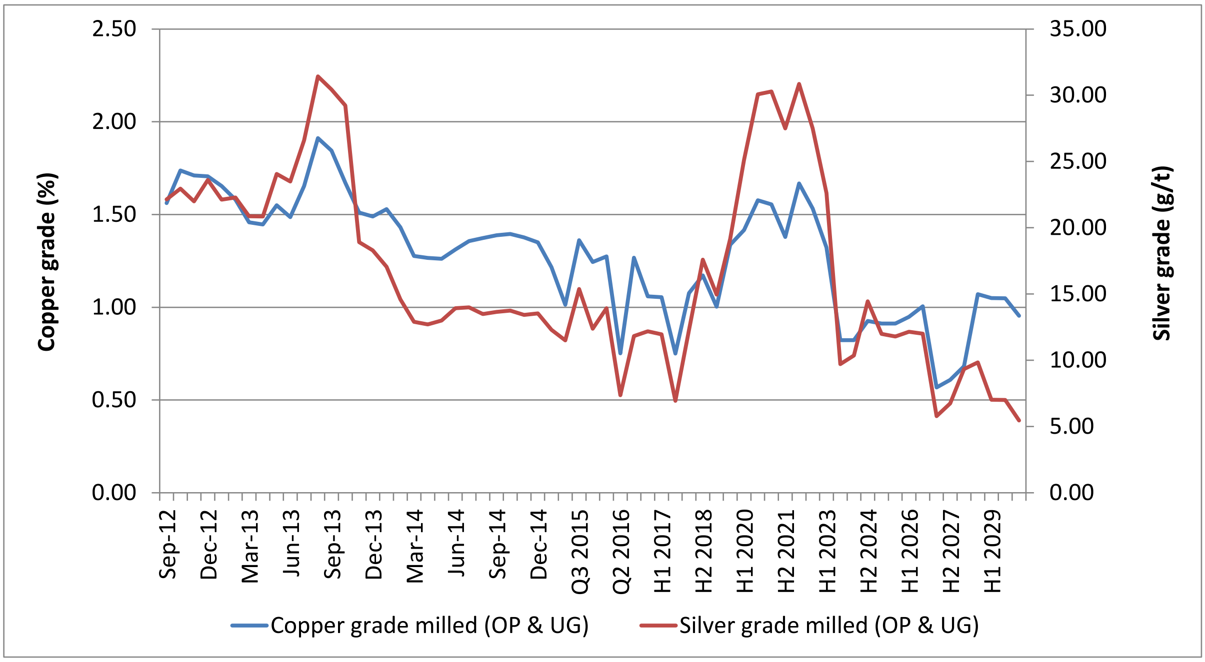


Figure 6-9: 3.5 Mtpa forecast mill feed grades for copper and silver, 2012 to 2030

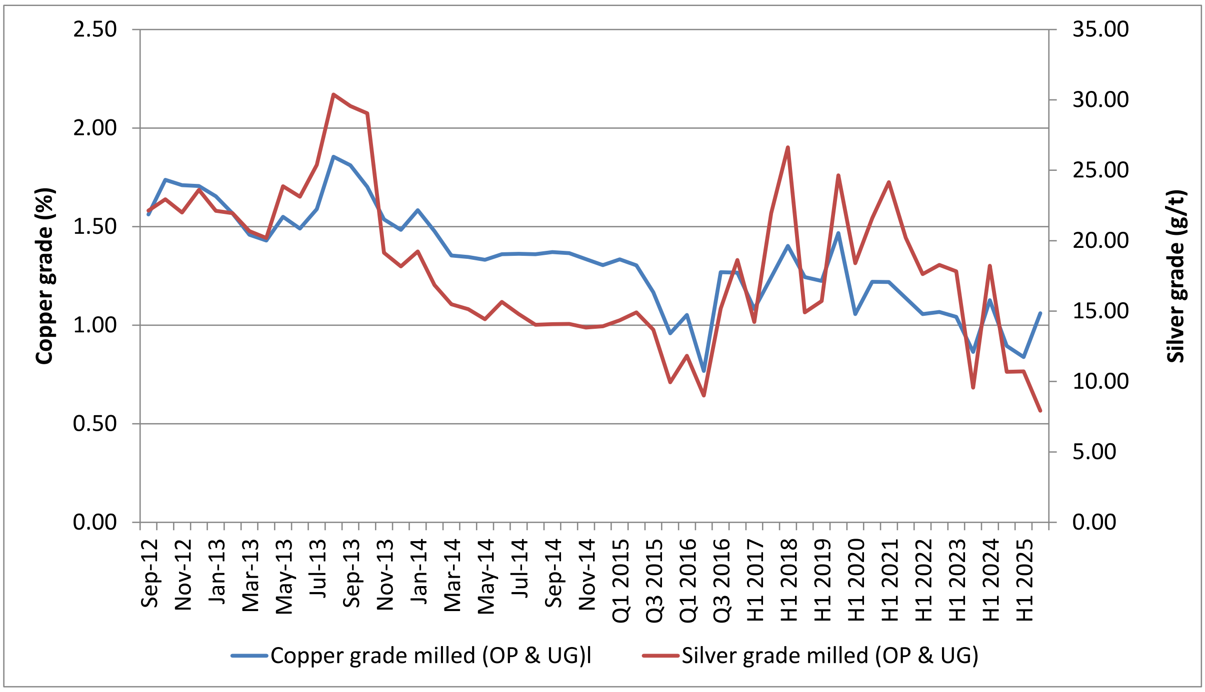


Figure 6-10: 5.0 Mtpa forecast mill feed grades for copper and silver, 2012 to 2025

SRK is satisfied that the mill feed tonnes and grades shown in the model are based on the Resource block models for each deposit and are a reasonable estimate.

6.3.7 Metallurgical Recovery

Laboratory metallurgical test work at Mintek in South Africa (Hearne 2009) showed that a 49% copper concentrate grade could be produced from Zeta sulphide material at 90% copper recovery with ~65% silver recovery to the copper concentrate. Tests on Plutus sulphide material gave similar results. No test work has been sighted for the proposed Ophion or Selene open pit mines so the assumption has been made that these materials have similar mineralogy and comminution characteristics to the materials tested from Zeta and Plutus. Both the 3.5 Mtpa and the 5.0 Mtpa models show copper and silver recovery in the concentrator varying according to the percentage of transition, oxide and low grade material that is fed to the mill. Based on the minerals present in the deposits, SRK accepts that the full scale and optimised Boseto concentrator should be capable of achieving up to 93% copper recovery, depending on the blend of ores in the feed.

For the 3.5 Mtpa case, as shown in Figure 6-11, in 2017 Zeta underground primary ore is the main feed which results in forecasts recovery of 93% for copper. From 2026, stockpiled oxide ore and low grade ore is scheduled to be fed to the mill, which results in reduced copper recovery.

At the time of writing this report (November 2012) the Boseto concentrator was still “ramping up” with transition material in the feed but achieving encouraging metallurgical results of +40% copper concentrate grade at +80% recovery for some periods when treating Zeta sulphide material.

Based on the Mintek test work, copper recovery vs. flotation feed sizing for Zeta material was relatively insensitive between 100µm and 150µm so there should be some tolerance to accommodate modest coarsening of the grinding product from both operating the nominal 3.0 Mtpa plant at a throughput of 3.5Mtpa and after the proposed expansion to a throughput of 5 Mtpa. However, a coarser flotation feed sizing could affect the trade-off between concentrate grade and recovery.

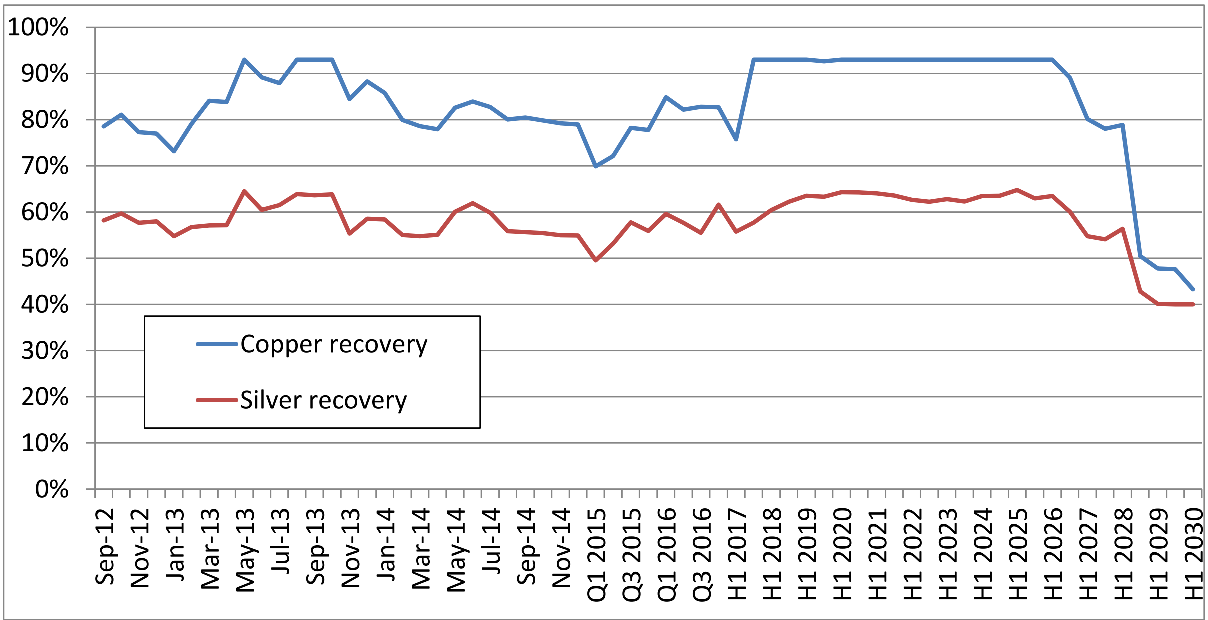


Figure 6-11: 3.5 Mtpa forecast copper and silver recovery, 2012 to 2030

In the 5 Mtpa case, as shown in Figure 6-12, in 2018 and in the final two years, stockpiles of transition, oxide and low grade material is scheduled to be processed. DML expects that this will not eventuate, as DML expects additional discoveries and conversion of Inferred Resources will allow the mill to continue to be fed by higher grade material. SRK accepts that the DML scenario is likely but will use the DCF model as currently presented to examine cashflow and NPV.

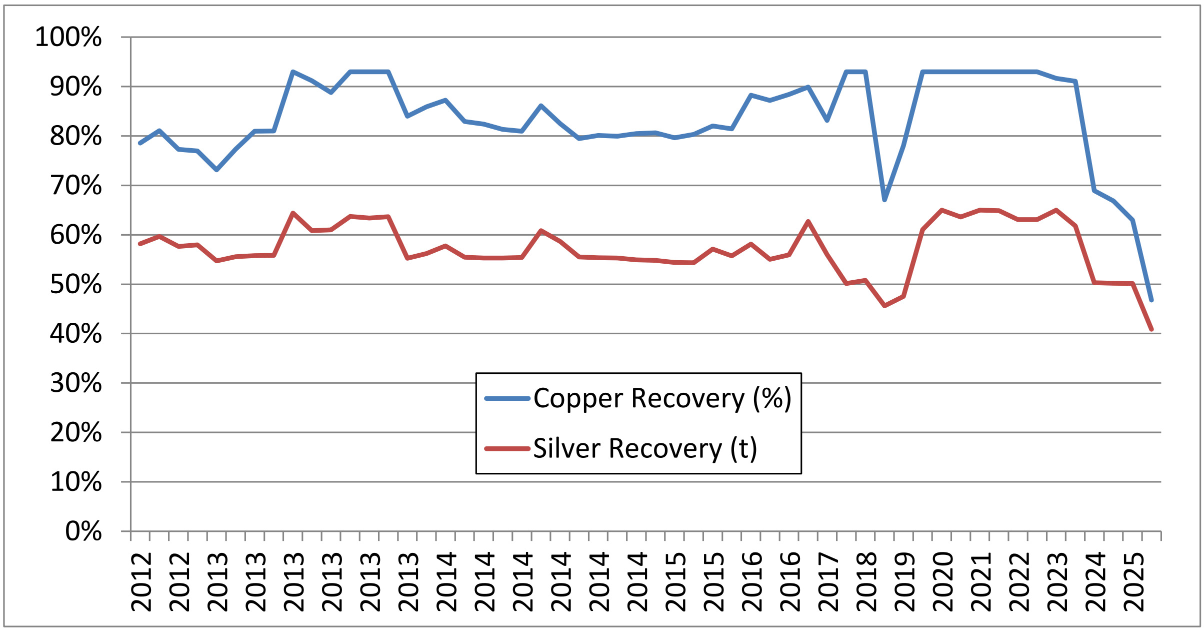


Figure 6-12: 5.0 Mtpa forecast copper and silver recovery, 2012 to 2025

6.3.8 Concentrate Quality

The 5 Mtpa model shows concentrate grade of copper varying between 30% and 50%, as shown in Figure 6-13. The increase in concentrate grade coincides with the increase in sulphide ore in the plant feed and a reduction in the percentage of oxide ore.

Sulphide zone mineralization at Zeta and Plutus is nearly all chalcocite (Cu_2S, 79.9% Cu) so a 50% copper concentrate is only ~63% w/w chalcocite which could be achievable in an operating production sulphide flotation plant. Significant amounts of chalcopyrite ($CuFeS_2$, 34.6% Cu) in the plant feed will dramatically reduce the achievable copper concentrate grade. The combination of both high concentrate grade (51% copper) and high recovery (93%) for Zeta material has not been seen in the metallurgical test work reviewed to date and thus assumes that optimisation of the flotation section in the Boseto concentrator will be successful.

As noted in Section 6.3.5 coarsening of the flotation feed sizing is likely to reduce the ability to trade copper concentrate grade against copper recovery.

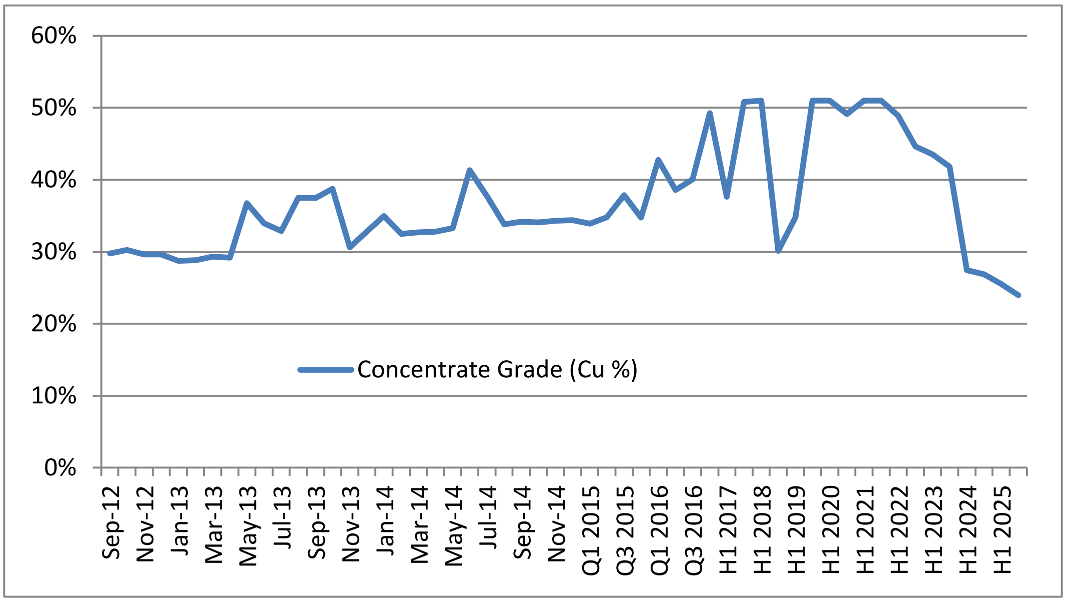


Figure 6-13: Forecast concentrate grade of copper, 2012 to 2025

The planned expansion of the reverse osmosis (RO) plant to provide additional fresh water at the filtration section of the plant is expected to enable the control of deleterious elements such as chlorine. See further discussion in Section 0 below.

6.3.9 Metal Recovered

The amount of metal recovered in each case is shown in Table 6-7 and SRK notes that the 5.0 Mtpa case is shown to recover 5,897t more copper than the 3.5 Mtpa case and 232,986 ounces less of silver. DML has explained that these differences result from mining and processing schedules which have yet to be optimised and that the iterative nature of developing mining schedules has not yet allowed them to rationalise the mining schedules.

Table 6-7: Forecast metal recovered

	3.5 Mtpa case	5.0 Mtpa case
Copper recovered (t)	606,263	612,160
Silver recovered (oz)	20,414,108	20,181,122

The forecast annual amount of metal recovered in each production case is shown below in Figure 6-14 and Figure 6-15.

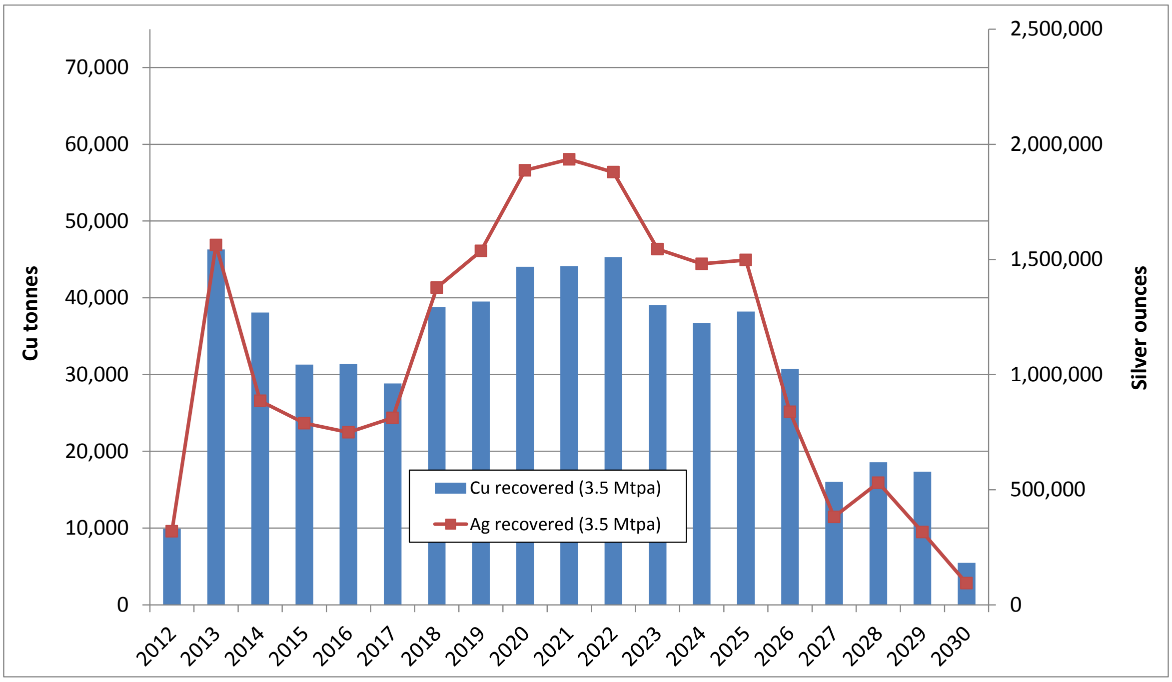


Figure 6-14: Forecast metal recovered in the 3.5 Mtpa case, 2012 to 2030

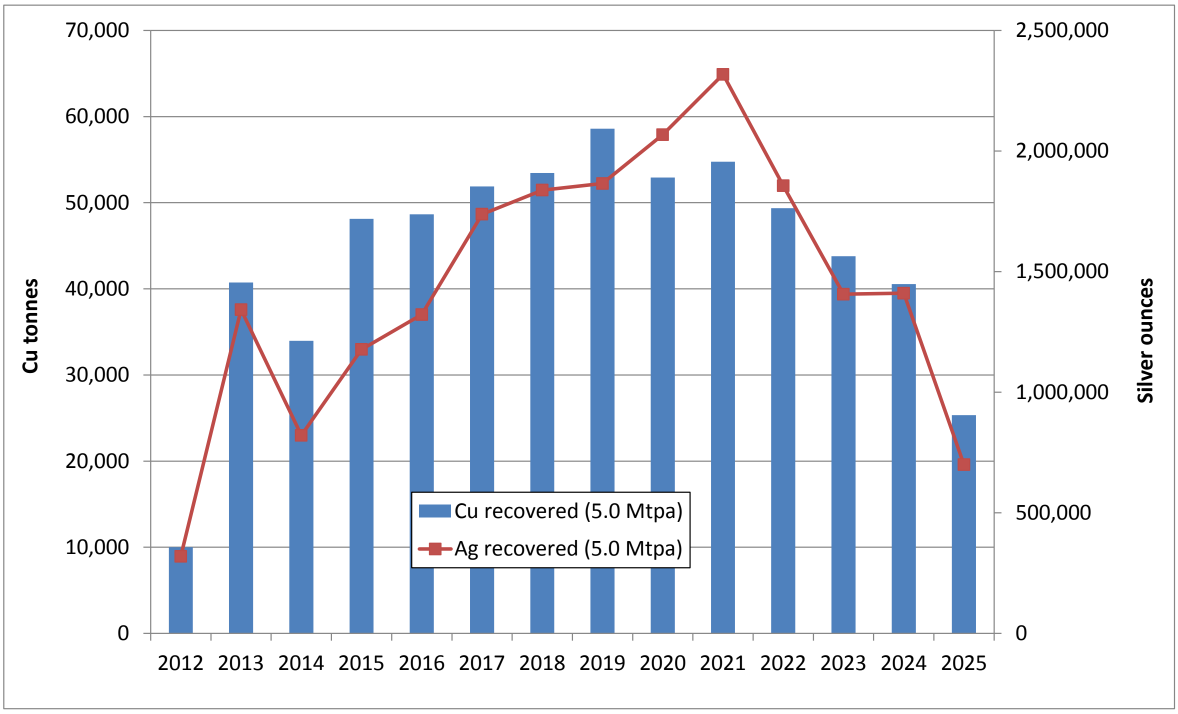


Figure 6-15: Forecast metal recovered in the 5.0 Mtpa case, 2012 to 2025

6.3.10 Electrical Power Supply

The Boseto project currently uses diesel fuelled generators to provide electrical power to the concentrator, RO plant, workshops and offices. The generating capacity currently on site includes a station of eight 2.2 MW diesel engines and alternators purchased by DML and an additional 5 MW of diesel generators from a power generation hire company. According to the inspection reports on Units 1 and 8 of the DML power station by FAR Diesel and Ensburg Engineering and Electro Motive, the current DML diesel fuelled generators have multiple problems. These include incompatible equipment that has been installed at the power plant such as automatic voltage regulators and diesel engine turbo chargers, and incorrect injectors. The incompatibility also leads to the need to use a load bank, which results in unnecessary waste of energy and operating costs. The two units that have been inspected are 38 years old and have mechanical defects.

The generator substation as it was configured in September 2012 is considered by SRK to be inherently unreliable. The eight generating units are connected into two groups, and connected to a single 11kV busbar to supply two groups of 11kV feeders. Electrical fault at any cables or transformers of one group would take out one group and may lead to overload of the other group and shut down of the entire power station.

Considering this power supply condition, it is necessary to replace these diesel generators with a new and more economic coal fired power station. In addition, the generator terminal substation needs to be augmented for connection of a larger power station as well as for improving supply reliability for underground mining operation.

DML has proposed for several years and announced to the ASX in August 2010 and on 27 April 2012 the intention to replace diesel fuel power generation with a coal-fired power station which is forecast to have an operating cost per kWh of approximately one quarter to one third of that of the existing diesel fuelled power plant.

DML has stated that the Environmental Impact Assessment for the coal-fired power station has been completed and submitted to the Botswana Government for approval.

SRK reviewed the approval process in Botswana and observes that the approval timeline depends upon government and public review timing and objection/response requirements. Based on these factors and an amendment to the relevant Act in 2011, a time frame of 60 days is indicated for approval of projects that do not require significant re-examination, additional test-work or research, or further studies. Areas of environmental interest without accumulated baseline data or with any significant further requirement prior to authorisation of approval may delay the approvals process beyond the anticipated timeline.

A Letter of Intent for coal supply was signed by Moropule Coal, Botswana in April 2011.

Front End Engineering Design (FEED) is now complete for a 24 MW (2 x 12 MW units) with option for an additional 12 MW unit coal-fired power plant. DML is now targeting the completion of coal-fired capacity installation by the start of 2015 and has allowed USD 60 M in the capital expenditure schedule for this item.

6.3.11 Water Supply

Water supply to the Boseto concentrator is sourced from a local borefield which has an adequate supply for both 3.5 Mtpa and 5 Mtpa but would require additional bores to be drilled and fitted with pumps for the higher milling rate. DML has made a capital allowance for the additional bores, equipment and piping.

DML proposes to expand the RO plant to provide additional fresh water to maintain concentrate quality for the 5 Mtpa milling rate. The additional fresh water is planned to be utilised at the filtration section of the plant to keep soluble contaminants such as chlorides within acceptable limits ensuring that DML receives full payment for the contained copper in the concentrates. DML has made a capital allowance for the expansion of the RO plant.

The expanded RO plant will continue to provide fresh and potable water needs for the workshops and offices. The proposed 36 MW coal fired power station will have sufficient capacity to run the RO plants.

6.3.12 Other Site Infrastructure

The access road to the Boseto project was built by DML from a point on the public Toteng to Ghanzi road. The access road was originally designed for and has approval for a wider carriageway than has been constructed. The as-built road is now recognised as not being sufficiently wide to allow safe passing of trucks loaded with copper concentrate and other supply trucks. DML proposes to expand the width of the access road to ensure safer conditions and has made a capital allowance for the access road widening.

6.3.13 Workforce Accommodation and Services

The intention to expand the mining and milling rate of the Boseto project to 5 Mtpa will require a larger workforce, including management, supervision and operators for mining equipment and the concentrator. The existing DML village at Toteng is planned to be expanded to accommodate the larger workforce. This expansion will require additional housing, access roads, water supply and electrical supply. DML is well advanced with plans to expand the DML village at Toteng and has made a capital allowance of USD20 M for the expanded accommodation and services.

6.3.14 Operating Costs

The major inputs which influence operating cost in the 5 Mtpa model are shown in Table 6-8. SRK has reviewed the source of the inputs and verified that they have a reasonable basis. However SRK has modified one of the assumptions in the financial models. SRK replaced the average unit cost for underground mining with the actual calculated annual cost from the mining schedule. This was the same schedule used by DML to calculate the average cost. SRK expects that the use of the actual annual mining unit costs will better replicate the actual cashflow than the use of an average unit cost.

SRK has accepted the remainder of the assumed unit costs as provided by DML.

Table 6-8: Major operating cost inputs

Cost item	Units (2012 USD)	Value	Source of verification
Mining cost – Open Pit	USD/t mined	$1.52	Average from DML approved budget
Mining cost – UG contractor	USD/t ore feed	$45.10	Mining Plus: Zetu UG Feasibility Study
Concentrator cost	USD/t ore feed	$7.39	Quotes for consumable inputs
Coal fuel cost	USD/tonne	$60.00	Quotes from Botswana supplier (Morapuli delivered to site)
Coal burn rate	kg fuel/MWh	654.00	FEED proposal by Indian firm
Coal % non-power fuel costs	%	40%	Estimate by DML
Diesel fuel cost	USD/tonne	$847.00	Based on USD100/barrel.
Diesel burn rate	kg fuel/MWh	200.00	DML estimate. More conservative than DFS
Diesel % non-power fuel costs	%	30%	Estimate by DML
Power generation	kg fuel/MWh	200	Estimate by DML
Power cost – non fuel	%	30.00%	Estimate by DML
Transport Cost	USD/t concentrate	$200.00	Currently paying $230/t. Possible reduction using back freight.
Administration cost	USD/t ore feed	$2.75	DML budget.
Technical Services cost	USD/t ore feed	$1.60	DML budget.
Copper Royalty rate	%	3.00%	Botswana royalty rate.
Silver Royalty Rate	%	5.00%	Botswana royalty rate.

6.3.15 Plant Expansion Capex

To achieve the mill throughput of 5 Mtpa, DML proposes to install additional processing capacity, with the major item being an additional ball mill. Additional capacity will need to be provided to the flotation and filtration sections of the plant.

DML requested GR Engineering Services Pty Ltd (GRES) to provide a cost estimate to complete a FEED study for the plant expansion. However the FEED study has yet to be completed, so that a detailed cost estimate for the plant expansion is not available.

DML completed a cost estimate in-house, based on a factored scaling up of the costs incurred for the 3.0 to 3.5 Mtpa existing plant at Boseto. DML's estimate of the capital cost (in USD) for the plant expansion to 5 Mtpa is shown in Table 6-9.

Table 6-9: DML estimate of plant expansion capital cost

Cost area	Capital cost estimate for expansion to 5 Mtpa (2012 USD)
Engineering	3,469,208
Procurement	22,466,457
Construction	11,902,216
Commissioning	456,599
Ball Mill Reliner	638,563
OSA	541,830
Other	420,000
Construction Camp Accommodation Costs	6,000,000
Total	45,894,874
Allow Plant Total Cost	**50,000,000**
Infrastructure	
Bore water supply	6,000,000
Power (36 MW) (to be provided by coal-fired PS)	not included here
Tailings Dam	3,000,000
Housing (+100*$30,000)	3,000,000
Owner's Team	3,000,000
Infrastructure Total	**15,000,000**
Contingency	**10,000,000**
TOTAL Plant Expansion Cost	**75,000,000**

DML noted that the above cost estimate was at a Scoping Study stage and the expected accuracy of the estimate was -25% / + 30%. SRK accepts that the accuracy band is appropriate for the level of study completed.

Until a more detailed cost estimate is completed by a FEED study, SRK accepts the USD75 M cost estimate as reasonable and observes that the contingency of USD10 M represents 15% of the total and is appropriate at the Scoping Study stage of the cost estimate.

SRK notes that DML has inserted a capital cost estimate of USD75 M in the 5 Mtpa model and the capital is assumed to be spent in CY2014.

6.3.16 Coal-Fired Power Station

Based on Sedgman's FEED Cost Estimates report dated July 2010, it is estimated that a total of 30 MW power supply would be required to provide sustained power supply for 5 Mtpa milling capacity. Alternative power supplies have been considered by DML including grid supply but have not been considered for the purposes of this report. A new coal fired power station is considered by DML to be the best option to meet the power demand and reliability requirement.

The proposed new 36 MW coal fired power station (discussed in Section 6.3.10) should consist of three 12 MW generating units. This will provide flexibility in generating capacity to meet the mining and ancillary plant load. It will also allow continuous and reliable power supply in the event of plant failure or scheduled plant maintenance.

The terminal substation will need to be upgraded to satisfy the N-1 reliability requirement because of the planned underground mine. In the event one major element in the substation is out of service, the substation would be capable of maintaining full power supply to the mine.

DML sought specifications and cost estimates for construction of a 36 MW coal-fired power station from an Indian supplier and a Chinese supplier. Although the Chinese estimate was considerably lower, DML has used USD60 M in the 5 Mtpa model, which is 10% lower than the Indian estimate but 170% higher than the Chinese estimate. SRK has reviewed the estimates and considers the USD60 M allowance used by DML in the financial models to be appropriate at this stage.

6.3.17 Revenue

The revenue in both models resulted from sales of contained copper and silver. The copper revenue forecasts for the Boseto project represent approximately 90% of the total revenue of the project, with silver accounting for approximately 10%.

Total forecast annual revenue from sales of concentrates is shown in Figure 6-16 for the 3.5 Mtpa case and in Figure 6-17 for the 5.0 Mtpa case.

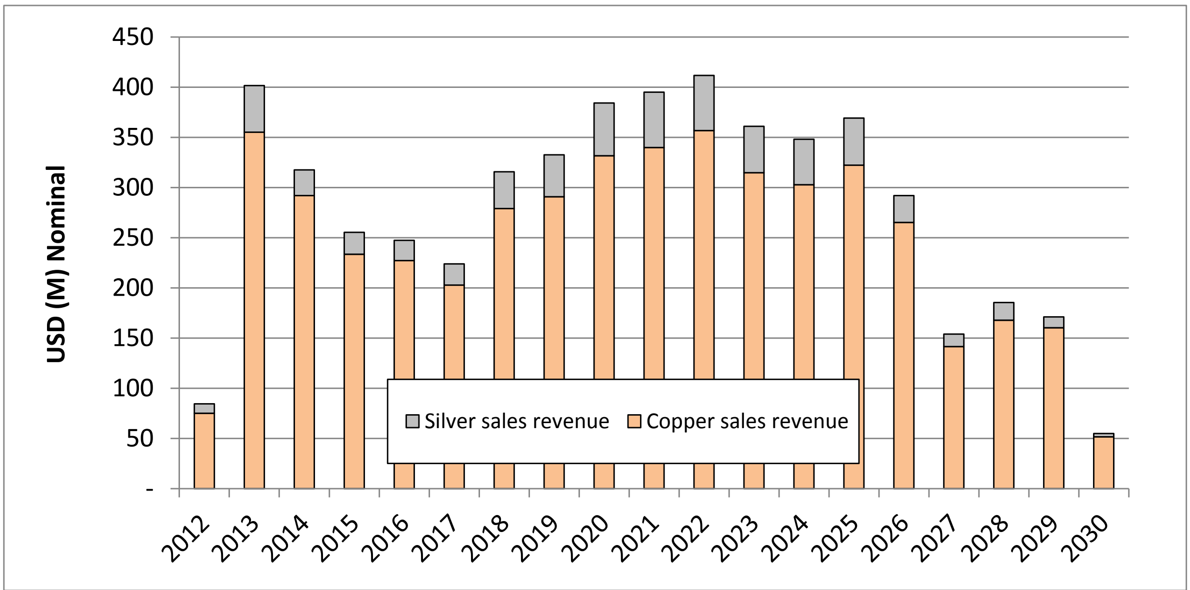


Figure 6-16: Total forecast sales revenue, 3.5 Mtpa case, 2012 to 2029

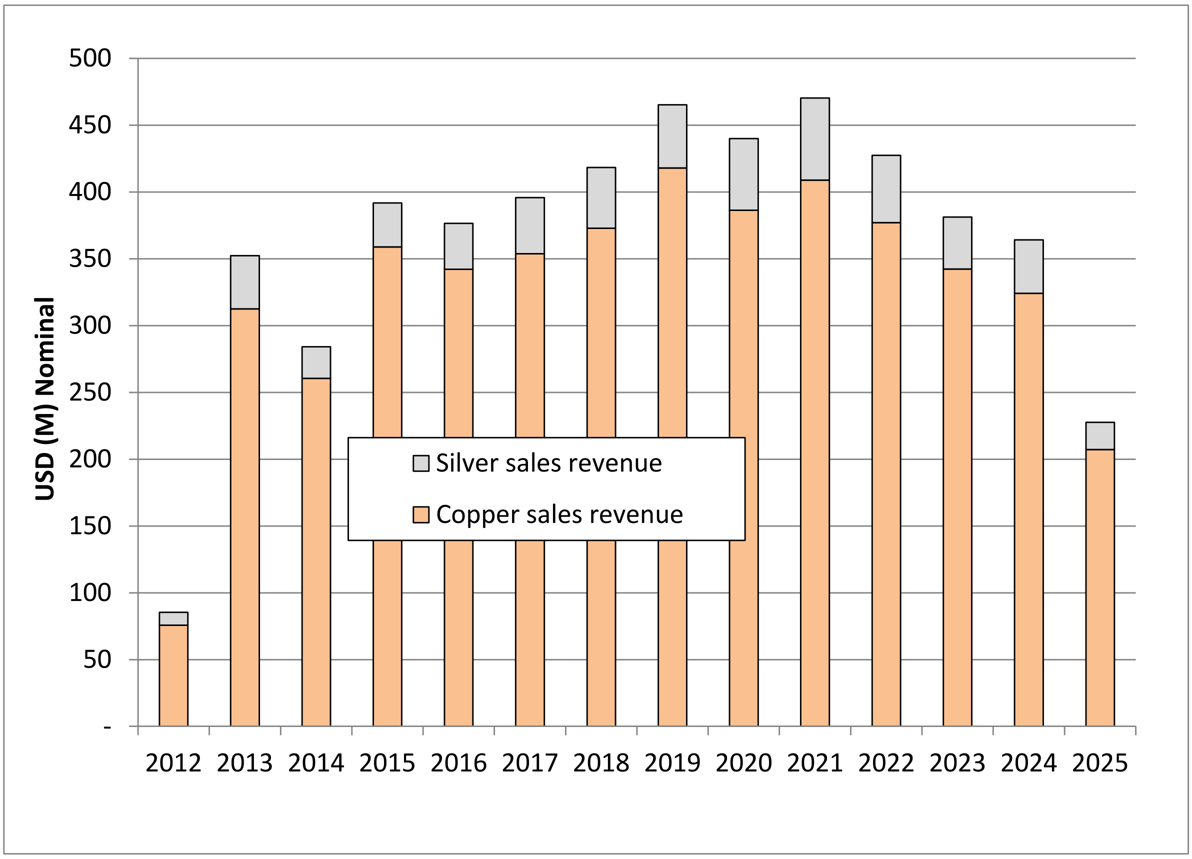


Figure 6-17: Total forecast sales revenue, 5.0 Mtpa case, 2012 to 2025

SRK notes that the higher mill feed in the 3.5 Mtpa case in 2013 (as shown in Figure 6-7) results in higher revenue in 2013 for the 3.5 Mtpa case compared to the 5.0 Mtpa case and will result in a positive influence on NPV for the 3.5 Mtpa case. DML indicated that the iterative nature of developing mining schedules has not yet allowed them to rationalise the mining schedules.

6.4 Sensitivity Studies

SRK edited the models to allow the completion of sensitivity studies which indicated the input to NPV of varying each input. The following Figure 6-18 shows the results of such a sensitivity study where the parameters have been varied by +/- 10%.

As SRK expected, NPV was quite sensitive to copper price, copper grade, copper recovery, tonnes milled, WACC and operating costs ("Opex"). Capital costs (Capex) and silver price have a lesser sensitivity to NPV.

SRK notes that NPVs are often very sensitive to currency exchange rates, but for the Boseto project the majority of costs are linked to the US dollar. An analysis has indicated that costs denominated in BWP is limited to the range of 8 to 20%. KPMG has advised SRK that, due to different inflation rates for each of USD and BWP, the impact of BWP on cashflows is limited and that after NPV discounting, is not material. However SRK has included modelling of 20% of operating costs being denominated in BWP.

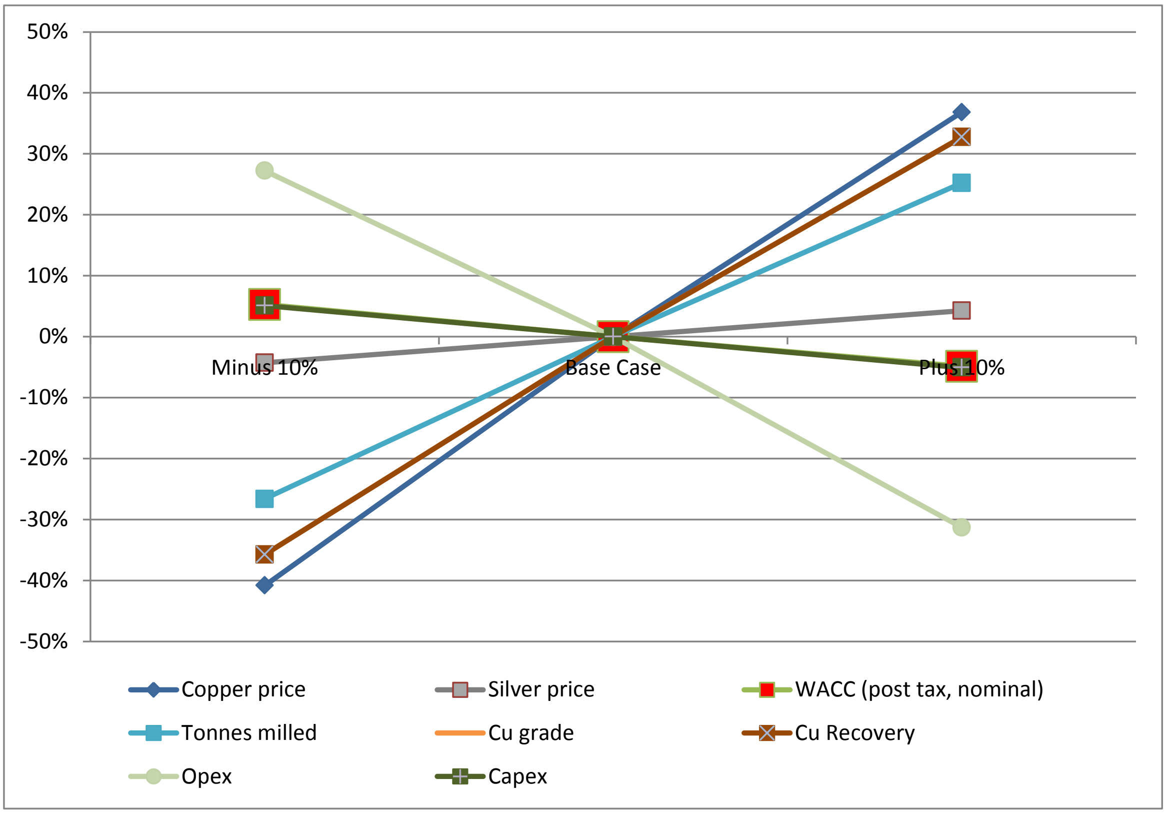


Figure 6-18: Results of Sensitivity Study

The following Figure 6-19 presents the results of the sensitivity study as a “tornado graph”, which indicates the percentage impact of each variable on NPV where the parameters have also been varied by +/- 10%.

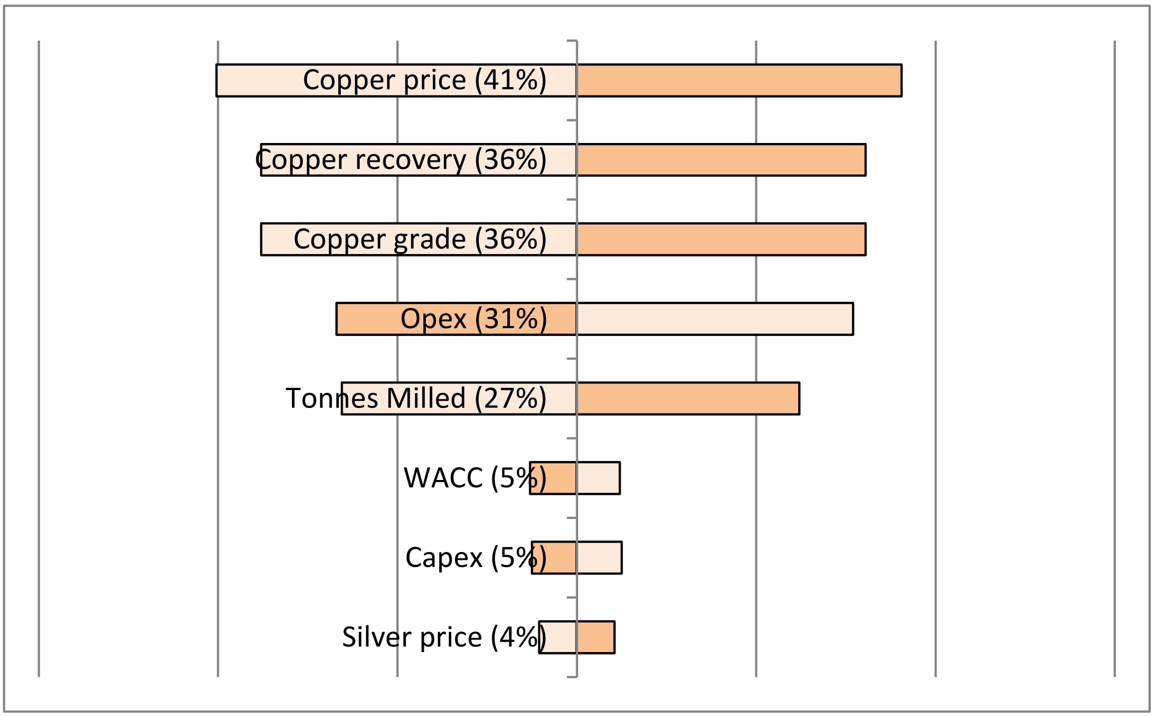


Figure 6-19: Tornado graph of sensitivity study results

7 Material edits to technical-economic models

SRK reviewed the data provided by DML and compared the data to the assumptions and calculations in each of the technical-economic models of the Boseto project. SRK also reviewed the use of macro-economic parameters and methods used to calculate cashflows and NPVs. SRK made a number of edits to the models where it was considered appropriate. The material edits are described below.

7.1 Macro-economics

SRK linked the models to the KPMG spreadsheet which provided forecasts for copper price, silver price, inflation, currency exchange rates and WACC to be used as the discount rate for calculation of NPVs.

7.2 Hedging income

At the request of KPMG, SRK removed the hedging income from the model, as KPMG has accounted for hedging income separately.

7.3 Power Source

DML is currently generating electrical power at Boseto using diesel generators but proposes building a coal-fired power station which is expected to significantly reduce the cost of power. However there remains some uncertainty regarding when construction of a power station will be approved or if the Botswana government will prefer to see Boseto connected to the state power grid. Either of these alternatives are expected to provide lower cost power than the current diesel generators. However, as a sensitivity, SRK has considered cashflows assuming diesel generated power as an alternative to coal-fired power.

7.4 Zeta underground mine mining costs

Rather than use the average operating cost for the Zeta underground mining cost, SRK has used the annual calculated mining cost, as described above in Section 6.3.14. As this schedule was the same as that used by DML to calculate an average operating cost, the resulting expense should be the same but higher costs in the early years (when tonnages are low) will create timing differences.

7.5 Rehabilitation Costs

DML did not include rehabilitation costs in their models and indicated they were shaping waste dumps as they were progressively built, that only fencing of the perimeter of completed open pits was required and that the removal of the material which forms the haul road would incur little expense.

SRK estimated costs to fence each pit in the year after production ceased from that pit and allowed USD5,000 per hectare of waste dump area for waste dump shaping and drainage. These costs amounted to less than USD5 M over the life of the project.

7.6 Salvage Value of plant

SRK has reviewed the Boseto concentrator and compared it to the purchase and relocation of the concentrator from the Lennard Shelf in Western Australia to the Kanmantoo copper mine in South Australia. SRK believes the two concentrators are comparable due to the designed capacity and the unit operations included in the plant. SRK had access to the purchase price and relocation costs of the Kanmantoo concentrator and believes that after processing of the Boseto deposits as currently scheduled by DML, the Boseto plant is likely to have a salvage value of USD15 M. SRK has applied a USD15 M salvage value to the cashflows in the year after the final year of processing for both DCF models.

7.7 Discounting of cashflow and NPV

The model provided by DML converted each year's discounted cashflow from USD to AUD at the assumed exchange rate for that year. SRK adjusted the formulas so that the USD cashflows are discounted using a USD WACC to provide a NPV in USD terms.

8 Valuation of Mineral Assets

8.1 Market Considerations

The copper and silver price variations since January 2009 are presented in Figure 8-1. Note that there has been some variation in the relative price of these commodities in this period.

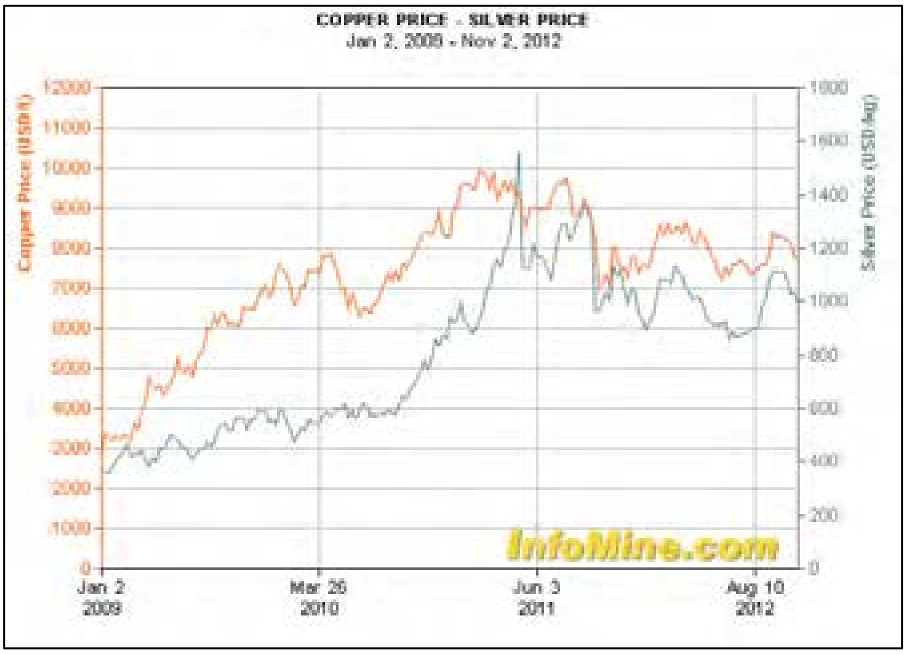


Figure 8-1: Recent Copper and Silver price history

Source: Infomine

The nickel and copper price variations since January 2009 are presented in Figure 8-2. Note that there has been some variation in the relative price of these commodities in this period, especially from April 2011 onwards.

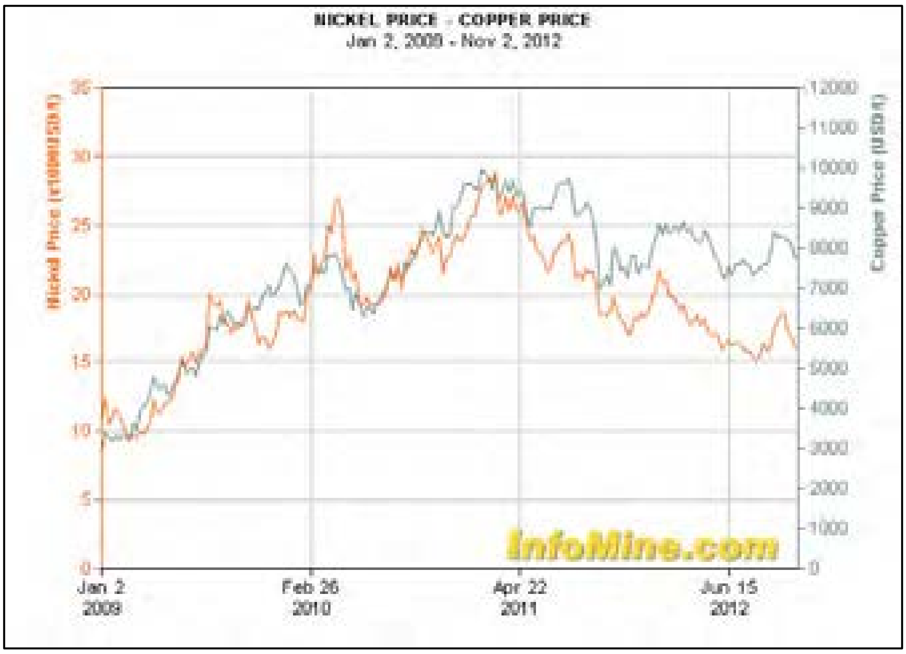


Figure 8-2: Recent Nickel and Copper price history

Source: Infomine

8.1.1 Comparative Copper Resource Transactions

SRK considered five transactions involving copper-silver projects in the period from January 2009 to November 2012 which, based on commodity, jurisdiction and project stage, were suitable for comparative purposes (Table 8-1).

Note that the Ghanzi property adjoins DML's Boseto Project in Botswana, and essentially occurs in the same stratigraphy. This property is therefore considered highly analogous with DML's Boseto property, in terms of geological setting, type of mineralisation and sovereign risk. It is worth noting that Boseto grades (both copper and silver) are higher than those reported for the Ghanzi resources, and the Boseto project is further advanced towards production. It is also worth noting that the Boseto Project is more favourably situated in terms of existing infrastructure.

The implied value paid per copper-equivalent resource tonne showed a wide range of values from USD3.97 to USD773.46, with a median of USD52.06 and a weighted average of USD33.90. The high value of USD773.46 was for Kombat mine, a past producer on care and maintenance, with significantly different geology and grade profile to Boseto. Due to the comparatively small resource, this transaction does not have a significant effect on the weighted average of the transactions, and raises the median by approximately USD5/t. Note that copper equivalent tonnes and grade were calculated based on the average copper and silver prices at the time of the transaction. For the sake of consistency, recovery factors were not considered in calculating copper equivalence.

Table 8-1: Comparative copper/silver resource transactions in the period January 2009 to November 2012

Project	Dikulushi	Vista Hermosa	Kombat	Ghanzi Transaction1	Ghanzi Transaction2
Country	Democratic Republic of Congo	Chile	Namibia	Botswana	Botswana
Date	Feb-10	Feb-12	Dec-11	Jul-09	Oct-12
Commodity	Copper, Silver	Copper	Copper, Silver	Copper, Silver	Copper, Silver
Cu price ($/t)	6,848	8,583	7,553	5,215	8,100
Ag price ($/kg)	512		891	440	1,026
Synopsis	Anvil Mining sold its 90% interest in the Dikulushi Mine to Mawson West in an all-share transaction.	QRS Capital Corp purchased the rights to the Vista Hermosa copper project in La Serena, Chile, from an undisclosed party. The transaction is cash-based, with payments spread over approximately 30 months.	Pan Terra Industries acquired an 80% interest in the Kombat copper mine in Namibia by acquiring 80% of Manila Investments shares for $14.9 million in cash and shares.	In July 2009 Hana Mining purchased Stellent, which controlled the Ghanzi Copper Project, for a combination of cash and shares.	Private equity firm Cupric Canyon Capital is acquiring Hana Mining and its Ghanzi copper-silver project in Botswana for $66.8 million in cash.
Resource Category	Measured, Indicated, Inferred	Historic	Measured, Indicated, Inferred	Inferred	Indicated and Inferred
Tonnage	2,185,000	10,890,000	623,444	163,544,571	248,500,000
Cu (%)	4.32%	1%	2.72%	0.82%	0.72%
Ag (g/t)	115.87		26.96	9.81	8.5
Contained Cu (t)	94,392	108,900	16,958	1,341,065	1,789,200
Contained Ag (kg)	253,176		16,808	1,604,372	2,112,250
Contained Cu Equivalent (t)	113,327.60	108,900.00	18,940.50	1,476,574.32	2,056,851.86
Cu Equivalent (%)	5.19	1.00	3.04	0.90	0.83
Implied $/t Cu	62.51	192.31	863.90	4.37	45.06
Implied $/t Cu Equivalent	52.06	192.31	773.46	3.97	39.19
Normalised to current copper price	45.91	212.55	752.34	2.66	40.88

Data sourced from MEG and Intierra subscription databases

8.1.2 Comparative Nickel Resource Transaction

SRK considered eight transactions involving nickel-copper projects in the January 2009 to November 2012 period which were found to be suitable for comparative purposes (Table 8-1).

One of these eight transactions was for a property in Botswana, with the remaining transactions involving properties from South Africa (1), Ivory Coast (1), Australia (1) and Canada (4).

Note that the October 2009 transaction involving DML's Dikoloti property is included in this analysis. SRK considers this to be a relevant transaction, as DML was not the buyer in this transaction. SRK is satisfied that this transaction does not bias the results, as the implied USD/t of nickel equivalent calculated for this transaction is midway between the median value and the weighted average value for all transactions.

The implied value paid per nickel-equivalent resource tonne ranged from USD6.01 to USD302.80, with a median of USD105.67 and a weighted average of USD154.84. Note that nickel equivalent tonnes and grade were calculated based on the average nickel and copper prices at the time of the transaction. For the sake of consistency, recovery factors were not considered in calculating nickel equivalence.

Table 8-2: Comparative Transactions involving Nickel-Copper Resources in the period January 2009 to November 2012

Project	Dikoloti	Golden Valley	Samapleu	Hawk Ridge	Lynn Lake	Nisk	Wellgreen	Yillaree
Country	Botswana	South Africa	Ivory Coast	Canada	Canada	Canada	Canada	Australia
Date	Oct-09	Aug-11	Dec-09	Feb-12	Mar-10	Mar-11	Jan-11	Dec-11
Commodity	Ni, Cu, PGE	Ni, Cu, PGE	Ni, Cu, Co, PGE	Ni, Cu, Co, PGE	Ni, Cu, Co	Ni, Cu, Co, PGE	Ni, Cu, Co, PGE, Au	Ni, Cu, PGE
N price ($/t)	18,525.23	22,045	17,066.43	20,205	22,459.55	26,075	27,075	18,275
Cu price ($/t)	6,287.98	9,196	6,981.71	8,583	7,462.83	9,399	9,720	7,553.5
Synopsis	In October 2009, JOGMEC entered into a farm-in agreement to earn a 60% interest in the Dikoloti tenements by funding a AUD3M exploration programme.	In August 2011, African Nickel was in talks with Boynton to acquire its remaining 15% interest in Golden Valley for R8M (USD1.1M)	In December 2009, Landen agreed to acquire all the shares of Sama Nickel for 12.5 million shares. Sama's only asset was the Samapleu deposit in Cote d'Ivoire.	In February 2012, Virginia Energy signed a letter of intent to option its Hawk Ridge project to Orient Venture Capital for C$3M in cash and shares.	In March 2010 Xanadu Resources (later renamed Corazon) entered into an option agreement to acquire a 100% interest in the Lynn Lake project from Manitoba Nickel in a cash, shares and expenditure deal.	In March 2011, Monarques Resources Inc agreed to acquire all rights, titles and interests owned by Nemaska Exploration Inc. in Nemaska's Nisk project, in an all-share deal.	Pacific Coast Nickel Corp agreed to purchase the Wellgreen and Lynn Lake Nickel Projects from Prophecy Resource Corp by issuing up to 550M common shares.	In the December 2011 quarter, Hampton Hill sold its 18.73% contributing interest in the Yillaree nickel project to its joint venture partner, Breakaway Resources, for A$64,700
Resource Category	Inferred	Inferred	Historic	Inferred	Non-compliant	Measured, Indicated,Inferred	Indicated, Inferred	Inferred

Project	Dikoloti	Golden Valley	Samapleu	Hawk Ridge	Lynn Lake	Nisk	Wellgreen	Yillaree
Tonnage	4,100,000	20,400,000	2,560,000	57,496,000	1,900,000	3,091,000	58,423,200	600,000
Ni (%)	0.7	0.43	0.49	0.21	1.3	0.98	0.43	1.39
Cu (%)	0.5		1.59	0.52	0.7	0.47	0.31	0.3
Contained Ni (t)	28,700	87,720	12,544	120,742	24,700	30,292	252,763	8,340
Contained Cu (t)	20,500		40,704	298,979	13,300	14,528	178,711	1,800
Contained Ni Equivalent (t)	35,658	87,720	29,196	247,747	29,119	35,528	316,920	9,084
Ni Equivalent (%)	0.87	0.43	1.14	0.43	1.53	1.15	0.54	1.51
Implied $/t Ni	159.60	83.60	296.60	12.34	98.92	217.62	379.65	42.07
Implied $/t Ni Equivalent	128.46	83.60	127.44	6.01	83.91	185.55	302.80	38.62

8.1.3 Comparative Exploration Ground Transactions

SRK considered 14 transactions involving exploration projects in Botswana, Namibia and Tanzania in the January 2009 to November 2012 period. Of these 14 transactions, only eight were found to be suitable for comparative purposes (Table 8-1).

Three of these eight transactions involved properties in Botswana, with four of the remaining transactions involving properties in Namibia, and one involving a property in Tanzania. Three of the properties were copper-silver properties, two were nickel properties, and the remaining three properties were uranium properties. The uranium properties were included as they are early exploration projects in this region.

The implied value paid per square kilometre of area for all eight properties ranged from USD999.99 to USD7,472.27, with a median of USD1,604.50 and a weighted average of USD1,575.14. The weighted average for the three copper-silver properties was similar at USD1,532.46, as was the weighted average for the two nickel properties, at USD1,514.38.

Table 8-3: Comparative Exploration Property transactions in the period January 2009 to November 2012

Project	Country	Commodity	Area (km^2)	Date	Transaction Synopsis	Implied $\$/km^2$
Corner K	Botswana	Copper, Silver	8,360	Mar-11	MOD acquired 14 prospecting licences covering approximately 8,360km^2 in the Kalahari Copperbelt region in Botswana, for a combination of cash and shares.	1,353.41
Kaoko	Namibia	Copper, Silver	8,728	Aug-09	INV Metals can earn an initial 50% interest in the Kaoko property by making exploration expenditures of $7 million over four years, with a commitment to fund a minimum of $CDN 3 million over the first two years.	1,411.24
Dikoloti Nickel Project	Botswana	Nickel, Copper	613	Oct-09	In October 2009, JOGMEC entered into a farm-in agreement to earn a 60% interest in the Dikoloti tenements by funding a AUD3M exploration programme.	7,472.27
Ghanzi	Botswana	Copper, Silver	2,169	Jul-09	Hana Mining purchased 70% of the Ghanzi property, and an exclusive option to purchase the remaining 30% of the property, in a cash and share deal.	2,710.35
Haneti	Tanzania	Nickel, PGE, Gold	7,100	May-12	Votorantim signed a joint venture agreement with Kibo to earn a 50% interest in the Haneti project by expending a total of GBP2.7M during a 3 year period, in a mutually agreed work program budget.	999.99
Erongo	Namibia	Uranium	692	Jan-11	In January 2011, Erongo entered into an agreement to dispose of its interest in Erongo Granites to its minority partner, Geocon Exploration CC, for $625,000, payable in cash at settlement	1,003.53
Huab	Namibia	Uranium	2,000	May-12	In May 2012, Golden Deeps agreed to acquire an 80% interest in the Huab project from Glendale Asset Pty Ltd in a primarily share-based transaction.	2,319.11
Uis	Namibia	Uranium	890	Sep-10	In September 2010 North River Resources agreed to subscribe USD800,000 to earn a 50% interest in Extract Namibia, which holds EPL3327 and EPL3328.	1,797.75

Data sourced from MEG and Intierra subscription databases

8.2 Boseto Project

8.2.1 Valuation by DCF methods

SRK was provided with DCF models of the Boseto project at three different milling rates, 3.0 Mtpa, 3.5 Mtpa and 5.0 Mtpa. The 3.0 Mtpa case is based on the Feasibility Study but following commissioning DML believes the current plant is capable of milling 3.5 Mtpa. SRK accepts that milling rate is possible but has yet to be achieved consistently over an extended time period. The 5.0 Mtpa case is DML's expansion case for which capital expenditure has been included to achieve. SRK accepts that the resource base of the project warrants expanding to 5.0 Mtpa and that the mine and plant have been constructed to allow expansion and can be scheduled to achieve a milling rate of 5.0 Mtpa. SRK reviewed and modified the cashflow models provided by DML to calculate a cashflow which SRK believes is supported by the technical inputs and expected performance of the mine, the concentrator and the supporting project infrastructure. SRK has reviewed the technical inputs, the operating cost estimates and the capital expenditure estimates and modified them where SRK considered it necessary. Sensitivity studies have been completed by varying a range of technical and cost inputs, as well as macro-economic inputs. SRK reviewed the range of NPV results from both the 3.5 Mtpa case and the 5.0 Mtpa case and found them to be similar. The Preferred Value for the DCF was generated using a WACC of 10.5% and the lower and upper values were generated using a WACC of 8.5% and 12.5% respectively. The range of net present values (NPVs) were calculated from the resulting cash flows, ranging from USD436M to USD532M, with a Preferred Value of USD480M. SRK considers the detail included in the DCF models provides a better understanding of the likely performance of the underlying Resources than the Comparative Transactions method described above in .

8.2.2 Valuation of Remaining Resources

SRK reviewed the Resources consumed in the mining schedules which are included in the DCF models and recognised that there were Resources remaining, as is shown in Table 6-4. SRK believes that the DCF model provides a more detailed and acceptable valuation of the Resources consumed and therefore generated a factor for USD/lb of contained copper which was used to calculate a value for the remaining Resources. The factor derived was USD0.32/lb copper contained in the Resources. SRK also applied a discount on the remaining tonnes of Resources to account for the probability that the Resources would convert to Ore Reserves. SRK applied a 50% conversion factor for Indicated Resources and a 30% factor for Inferred Resources. SRK also used a cross-check by applying a factor derived from the DCF model of USD7.94/t of mill feed. The mid range of these two results provided the Preferred Value and a 35% factor was used to calculate upper and lower values, as the Resources remaining were predominantly Inferred Resources.

As a result SRK valued the remaining Indicated and Inferred Resources in the range of USD169M to USD351M, with a Preferred Value of USD 260M.

8.2.3 Exploration Targets in the Boseto area

DML provided SRK with documents which showed DML has a planned exploration program which is targeted on 12 highly prospective targets. Of those, three targets account for 73% of the proposed expenditure and are named Plutus Deep, Zeta NE Deep and NE Mango_2 Deep. The NE Mango_2 Deep is discussed below in Section 8.3.1. As the Plutus Deep and Zeta NE Deep targets are within trucking distance to the Boseto concentrator, SRK reviewed the potential value of added mill feed. SRK used the Boseto DCF model and added 1 Mt of mill feed at the average copper grade for high grade ore to the mill feed grade in 2026 to simulate the potential for additional mill feed after the currently scheduled project. If the exploration was successful it is more likely that the mill feed would be added prior to oxide ore stockpile and low grade material but for conservatism and ease of review, the 2026 timing was adopted. Using the average copper recovery, payability and operating costs and discounted from 2026 to 2012, the NPV improved by USD5M. SRK applied that result to the tonnes shown in the DML targets, then applied discounts of 80% for the probability of progressing to the Feasibility Study stage, then 90% for the probability of progressing to construction. A range of 35% as applied to derive low and high values to determine the range of values for these targets. The results are shown in Table 8-4.

Table 8-4: Valuation of Boseto exploration targets

Target Name	Target tonnes (Mt)	USD value per 1 Mt	Proba-bility 1	Proba-bility 2	Proba-bility 3	Preferred Value at current status (USD M)	Low value (USD M)	High Value (USD M)
Plutus Deep	6.66	5.00	80%	90%	90%	21.6	14.02	29.11
Zeta NE Deep	13.00	5.00	80%	90%	90%	42.1	27.38	56.86
Mango_2 Deep	13.52	5.00	80%	80%	90%	38.9	25.31	52.57

(1) Probability of progressing to Resource definition

(2) Probability of progressing to Feasibility Study

(3) Probability of progressing to mining

8.2.4 Valuation of Boseto Resource estimates by Comparative Transactions

As an alternative valuation method, SRK has considered Comparative Transactions in deriving a valuation range for DML's Boseto Resources. SRK has placed the greatest reliance on the October 2012 Ghanzi transaction, as this represents a transaction involving an analogous property in current market conditions. SRK considers that a premium is appropriate for the Boseto Project, based on the higher copper and silver grades, more advanced state of the project, and more favourable infrastructure.

SRK has therefore based its Preferred Value for this method on a factor of USD52.06/copper equivalent tonne for the Measured and Indicated Resources, and USD33.84/copper equivalent tonne for Inferred Resources. The Measured and Indicated factor is based on the median value of the Comparative Transactions, and in SRK's view represents a reasonable premium to the October 2012 Ghanzi transaction. The Inferred factor represents a 35% discount on the Measured and Indicated factor, and is consistent with the weighted average of all transactions. SRK has based the High and Low values for the Measured and Indicated Resources on applying a range of 20% to the Preferred Value. In the case of the Inferred Resources, SRK has based the high and low values on applying a 35% range to the Preferred Value. SRK considers these ranges appropriate in reflecting the varying levels of technical risk associated with these Resources.

Table 8-5: Valuation Range of Boseto project Resources based on analysis of Comparative Transactions

Deposit	Resource Category	Low Value (USD M)	Preferred Value (USD M)	High Value (USD M)
Zeta	Measured	3.65	4.56	5.47
	Indicated	9.49	11.86	14.23
	Inferred	8.69	13.37	18.05
Plutus	Measured	7.30	9.13	10.95
	Indicated	5.30	6.63	7.95
	Inferred	21.86	33.62	45.39
Selene	Inferred	4.25	6.53	8.82
Zeta NE	Inferred	4.49	6.91	9.33
Ophion	Inferred	3.56	5.47	7.39
Total		**68.59**	**98.08**	**127.58**

SRK notes the Comparative Transactions method produces a valuation range that is well below that produced by the DCF method. SRK notes that some of the transactions reviewed involve deposits which are not at an advanced stage and are not in production like Boseto. Given the amount of detail involved in the development of the Boseto DCF model and that the model directly relates to the technical and economic parameters of the Boseto project, SRK believes the DCF model is a much more reliable method for valuing the Boseto project and is preferred by SRK.

8.3 Boseto Project Valuation

SRK reviewed the results of the methods described above, included the Valuation from the DCF models, the remaining Resources and the exploration targets and presents SRK's opinion of value for the Boseto project in Table 8-6.

Table 8-6: SRK opinion of the technical value of the Boseto copper project

USD million	Low	Preferred	High
Boseto project mining schedules from the DCF model	436	480	532
Remaining Resources	169	260	351
Plutus Deep	14	21	29
Zeta NE Deep	27	42	57
Mango_2 Deep	25	39	53
Total Boseto copper project	**671**	**842**	**1022**

SRK values the Boseto project and regional projects in the range of USD671 to USD1022M, with a Preferred Value of USD842M.

SRK recognises that further exploration of deposits within the extensive tenement package held by DML may provide additional information which may add to value. SRK further recognises that it is not possible to predict the potential outcomes of the exploration proposed by DML but that the potential optionality has value which is additional to the technical value.

SRK also recognises that DML has developed considerable knowledge and skills regarding operating in Botswana and recruited a skilled workforce. This knowledge, skills, workforce and experience provide DML with a comparative advantage to companies considering entering the exploration and mining industry in Botswana, and therefore that advantage has a value which is additional to technical value.

The Boseto project is one of a few developing copper projects where the average copper grade is above 1.2%. Many of the existing and proposed copper projects have copper grades which are already below 1% copper and declining grade is forecast for many projects and is the average expectation for the copper mining industry (see Wood Mackenzie, 2012).

The Boseto project also has a value due to the scarcity of similar projects. Many other copper projects are based on large, low grade deposits which require large tonnage throughputs and hence large capital expenditures. A copper project with relatively low capital expenditure requirements, with copper grade averaging above 1.2% and located in a reasonably stable government environment has a scarcity value. These value aspects are additional to technical value derived from a DCF model.

SRK recognises that the Valuation derived from a DCF model is a technical value which may not fully recognise other aspects such as strategic value, country experience and skills, which may increase the technical value towards a market value. A technical value usually has no recognition of takeover control premiums which often exists as another component of market value. SRK recommends that KPMG consider these aspects when estimating the market value of the DML Mineral Assets.

Where the Valuations utilise the Comparative Transactions method, which uses comparisons to market value of other mining or exploration projects, a component of market value is inherently included in the analysis.

8.3.1 Mango Inferred Resources

The Inferred Resource estimates for the Mango deposits have been valued by reference to Comparative Transactions and the results are shown in Table 8-7. The Preferred Value has been based on a factor of USD33.84/copper equivalent tonne (the same value as used for Inferred Resources previously), and the High and Low values have been based on applying a 35% range to the Preferred Value.

Table 8-7: Valuation Range of Mango_1 and Mango_2 Inferred Resources based on analysis of Comparative Transactions

Deposit	Resource Category	Low Value (USD M)	Preferred Value (USD M)	High Value (USD M)
NE Mango_1	Inferred	1.44	2.22	3.00
NE Mango_2	Inferred	9.28	14.28	19.28
Total		**10.72**	**16.50**	**22.28**

SRK has compared the valuation factor derived from the analysis of Comparative Transactions with the expected factors for Inferred Resources generally used in Yardstick valuations. SRK notes that the applied factor of USD33.84/tonne is equivalent to approximately 0.43% of the spot price of copper, using a spot price of USD7765.56/t. This is comparable to, but lower than, the lower value of the generally applied Yardstick factor for Inferred Resources, which is 0.5% to 1% of the spot price.

Using the generally applied valuation factors for Inferred Resources for the Yardstick Method, the Valuation range for the NE Mango Inferred Resources is USD18.9M to USD37.9M, with a Preferred Value of USD 28.4M.

SRK notes that the Yardstick Method is not generally considered to be a suitable primary valuation method, but is considered an acceptable secondary valuation method. SRK therefore believes that a Preferred Value based on the Comparative Transactions is most suitable, but believes that the higher end of the valuation range should be adjusted upwards to incorporate the Yardstick method. SRK believes that the mean Yardstick value would be suitable as the upper end of the preferred Valuation Range.

Exploration Risk Method

SRK has estimated a value of the Mango Inferred Resources as well as known mineralisation extensions to these resources by means of the Exploration Risk method. This used data supplied by DML in terms of exploration, feasibility and mine construction costs, as well as DML's view of a reasonable exploration target in the Mango area. SRK factored the contained copper in the NE Mango_1 and NE Mango_2 targets by the contained copper in the Boseto DCF model and derived a factor of 60%. The preferred value of the Boseto DCF model of USD490M was thus factored to a target value of USD293M. DML advised that a 2 Mtpa mine and concentrator at Mango is expected to cost of the order of USD150M, with administration and logistics support being provided from Boseto. DML has calculated a budget for this resource drilling at USD30M. The probability of the project then progressing to Feasibility Study was assessed by SRK at 80%. The cost of a Feasibility Study was assessed by DML and SRK at USD5M, as much of the project definition, FEED work and logistics is in place. The probability of progressing from the Feasibility Study to construction was assessed by SRK at 90%. The above information was used in the Exploration Risk method and resulted in a Preferred Value at the current stage of the Mango project of USD70M. Applying a 35% range around that Preferred Value resulted in a low value of USD46M and a high value of USD96M.

SRK reviewed the methods used above to estimate the value of the Mango project and prefers the use of the Exploration Risk method as it better recognises the current status of the project, which has an estimate of Inferred Resource of 33Mt at copper grades in the range of 1.2% to 1.3% copper. SRK believes the project has considerable potential for expansion and conversion to higher Resource categories. DML indicate their confidence in this prospectivity by allocating USD30M for exploration work, which is 28% of the total DML exploration budget and signifies Mango as one of three targets out of 12 that DML considers to be most likely to reward the funds allocated.

The Valuation of DML's 100% interest in the Inferred Copper and Silver Resources of the NE Mango deposits ranges from a low value of USD46M to a high value of USD96M with a Preferred Value of USD70M.

8.4 Kalahari Exploration Tenements

SRK has used the analysis of Comparative Transactions method to obtain a Valuation range for DML's Dikoloti tenements, consisting of approximately 283km^2 of granted tenements (Table 8-8). Based on a factor of USD1,575.14/km^2 and a range of 50%, SRK calculated a Valuation range of USD8.3M to USD24.8M, with a Preferred Value of USD16.6M.

Table 8-8: Valuation of DML's Kalahari Exploration Tenements using Comparative Transactions

	Area (km^2)	Low (USD M)	Preferred (USD M)	High (USD M)
Boseto Copper	1,833	1.44	2.89	4.33
Ngamiland Copper	749	0.59	1.18	1.77
Ghanzi Copper	4,928	3.88	7.76	11.64
D'Kar Copper	3,003	2.36	4.73	7.09
Total	**10,513**	**8.3**	**16.6**	**24.8**

SRK also conducted a modified Kilburn valuation method on DML's Kalahari Exploration tenements (Table 8-8), based on the ratings criteria provided in Table 5-2.

Using a base acquisition cost (BAC) of USD192.94/km^2 and a market factor of 0.4, the Kilburn valuation yields a range of USD3.7M to USD30.6M, with a Preferred Value of USD17.1M.

SRK notes that the Preferred Values derived from the Comparative Transactions method and the modified Kilburn method are similar, although the Kilburn method has yielded a larger range, indicating the technical uncertainties associated with exploration ground. SRK believes that the modified Kilburn results lend support to the Valuation range and Preferred Value derived from the Comparative Transactions.

The Valuation of DML's 100% interest in the 10,513km^2 of exploration ground that comprises the Kalahari Exploration Tenements ranges from a low value of USD8.3M to a high value of USD24.8M with a Preferred Value of USD16.6M.

Table 8-9: Kilburn valuation matrix for DML's Kalahari Exploration Tenements

					Off property		On Property		Anomaly		Geology		Technical Value		Market Factor	Valuation		
Project	Prospecting Licence	Area (Km^2)	BAC (USD1000)	Equity	Low	High	Low	High	Low	High	Low	High	Low (USDM)	High (USDM)		Low (USDM)	High (USDM)	Preferred (USDM)
Boseto Copper	P98/2005	509.0	101.27	100%	1.5	4	2	2.5	2	3.5	2	3	1.22	10.63	0.4	0.49	4.25	2.37
Boseto Copper	P99/2005	798.4	158.85	100%	1.5	4	2	3	2.5	3.5	2	3	2.38	20.01	0.4	0.95	8.01	4.48
Boseto Copper	P100/2005	514.1	102.29	100%	1.5	4	2	2.5	2	3.5	2	3	1.23	10.74	0.4	0.49	4.30	2.39
Boseto Copper	P101/2005	11.0	2.19	100%	1.5	4	2	2.5	2	3.5	2	3	0.03	0.23	0.4	0.01	0.09	0.05
Ngamiland Copper	P102/2005	331.0	65.85	100%	1.5	2.5	1.5	2.5	1.5	3	1	2.5	0.22	3.09	0.4	0.09	1.23	0.66
Ngamiland Copper	P103/2005	133.1	26.48	100%	1.5	2.5	1.5	2	1.5	2.5	1	2.5	0.09	0.83	0.4	0.04	0.33	0.18
Ngamiland Copper	P104/2005	285.0	56.70	100%	1.5	2.5	1.5	2	1.5	2	1	2.5	0.19	1.42	0.4	0.08	0.57	0.32
Ghanzi Copper	186/2008	804.0	159.95	100%	1.5	2.5	1	1.5	1	1.5	1	2.5	0.24	2.25	0.4	0.10	0.90	0.50
Ghanzi Copper	187/2008	894.0	177.86	100%	1.5	2	1.5	2	1.5	2	1	2.5	0.60	3.56	0.4	0.24	1.42	0.83
Ghanzi Copper	188/2008	634.0	126.13	100%	1.5	2.5	1.5	2	1.5	2	1	2.5	0.43	3.15	0.4	0.17	1.26	0.72
Ghanzi Copper	189/2008	271.0	53.91	100%	1.5	2	1.5	2	1.5	3	1	2.5	0.18	1.62	0.4	0.07	0.65	0.36
Ghanzi Copper	190/2008	760.0	151.20	100%	1.5	2	1.5	2.5	1.5	2.5	1	2.5	0.51	4.72	0.4	0.20	1.89	1.05
Ghanzi Copper	191/2008	927.0	184.42	100%	1.5	2.5	1	1.5	1.5	2	1	2.5	0.41	3.46	0.4	0.17	1.38	0.77
Ghanzi Copper	192/2008	638.0	126.93	100%	1.5	2	1	2	1.5	2	1	2.5	0.29	2.54	0.4	0.11	1.02	0.56
D'kar Copper	60/2012	890.5	177.16	100%	1.5	2.5	1.5	2.5	1.5	2	1	2	0.60	4.43	0.4	0.24	1.77	1.01
D'kar Copper	61/2012	888.1	176.68	100%	1.5	2	1	1.5	1	1.5	1	2	0.27	1.59	0.4	0.11	0.64	0.37
D'kar Copper	62/2012	740.1	147.24	100%	1.5	2	1	1.5	1	1.5	1	2	0.22	1.33	0.4	0.09	0.53	0.31
D'kar Copper	63/2012	484.1	96.31	100%	1.5	2	1	1.5	1	1.5	1	2	0.14	0.87	0.4	0.06	0.35	0.20
		10,512	**2,091.41**										**9.24**	**76.46**		**3.70**	**30.58**	**17.14**

8.5 Dikoloti Nickel Tenements

SRK has used the analysis of Comparative Transactions method to obtain a Valuation range for DML's Dikoloti tenements, consisting of approximately 283km^2 of granted tenements (Table 8-8). Based on a factor of USD1,575.14/km^2 and a range of 50%, SRK calculated a Valuation range of USD0.22M to USD0.67M, with a Preferred Value of USD0.45M.

Due to the fact that there are currently declared Inferred Resources within the area, and current expenditure is significantly higher than generally spent on greenfields properties, SRK believes that a more appropriate value for the tenement holding may be derived by considering the Resources.

The Inferred Resource estimates for the Dikoloti deposits have been valued by reference to Comparative Transactions and the results are shown in Table 8-11. The Preferred Value has been based on a factor of USD154.84/nickel equivalent tonne, and the High and Low values have been based on applying a 35% range to the Preferred Value.

Table 8-10: Valuation of DML's Dikoloti tenements (exploration area) based on Comparative Transactions

	Area (km^2)	Low (USD M)	Preferred (USD M)	High (USD M)
Dikoloti	283	0.22	0.45	0.67

Table 8-11: Valuation of DML's Dikoloti Inferred Resources based on Comparative Transactions

		Low (USD M)	Preferred (USD M)	High (USD M)
Dikoloti Resources	Inferred	3.87	5.96	8.04

SRK has compared the valuation factor derived from the analysis of Comparative Transactions with the expected factors for Inferred Resources generally used in Yardstick valuations. SRK notes that the applied factor of USD154.84/tonne is equivalent to approximately 0.95% of the spot price of nickel, using a spot price of USD16,232.5/t. This is within the generally applied Yardstick factor range for Inferred Resources, which is 0.5% to 1% of the spot price.

Using the generally applied valuation factors for Inferred Resources for the Yardstick Method, the Valuation range for the Dikoloti Inferred Resources would be USD3.1M to USD6.2M

SRK notes that the Yardstick Method is not generally considered to be a suitable primary Valuation method, but is considered an acceptable secondary Valuation method. SRK therefore believes that a Preferred Value based on the Comparative Transactions is most suitable, but believes that both the higher end and the lower end of the Valuation range should be adjusted to incorporate the Yardstick method.

The Valuation of a 100% interest in the Inferred Nickel and Copper Resources of the Dikoloti deposit ranges from a low value of USD3.1M to a high value of USD8.04M with a Preferred Value of USD6.2M.

However DML holds only a 19% interest in the Dikoloti JV, therefore the Valuation of DML's 19% interest in the Inferred Nickel and Copper Resources of the Dikoloti deposit ranges from a low value of USD0.59M to a high value of USD1.53M with a Preferred Value of USD1.12M.

8.6 Manganese Tenements

SRK has used the analysis of Comparative Transactions method to obtain a Valuation range for DML's Manganese tenements, consisting of approximately 15,345km^2 of granted tenements (Table 8-12). Based on a factor of USD1,575.14/km^2 and a range of 50%, SRK calculates a Valuation range of USD12.1M to USD36.3M, with a Preferred Value of USD24.2M.

Table 8-12: Valuation of DML's Manganese tenements on the basis of Comparative Transactions

	Area (km^2)	Low (USD M)	Preferred (USD M)	High (USD M)
Manganese	14,479	11.40	22.81	34.21
Kraaipan Gold	866	0.68	1.36	2.05
Total	**15,345**	**12.1**	**24.2**	**36.3**

9 Valuation Conclusions

SRK reviewed the results of all the methods described above presents SRK's opinion of technical value for the project and tenements in Table 9-1, which shows that the technical value ranges from USD738M to USD1181M, with a Preferred Value of USD954M.

Table 9-1: SRK opinion of the value of the Mineral Assets held by Discovery Metals

USD million	Low	Preferred	High
Boseto copper project	**671**	**842**	**1022**
NE Mango Resources	46	70	96
Kalahari exploration tenements	8	17	25
Dikoloti nickel project (DML's 19% share)	1	1	2
Manganese tenements	12	24	36
Total	**738**	**954**	**1181**

Compiled by

Mike Warren

Corporate Consultant

Peer Reviewed by

Anthony Stepcich

Principal Consultant

10 References

SRK was provided with access to a digital dataroom and separately had access to a range of documents provided by DML. The following lists the major documents reviewed and used to complete this report but is not a complete list.

Anon, 2009, *Boseto Copper Bankable Feasibility Study – Comminution Circuit Trade-Off Report*, GRD Minproc Limited, Document No. S2102-G120-0000-005, 21 August

Aquasol Limited, *Quotation, 15m^3/hr RO Plant*, 18 October 2012

Discovery Metals Limited, *Board Paper – Botswana Manganese Project*, 16 May 2012

Discovery Metals Limited, *Boseto coal fired power station – Overview and Development update for IER,* November 2012

Discovery Metals Limited, *Boseto Copper Project, Definitive Feasibility Report*, 30 September 2010

Discovery Metals Limited, *Group Budget Detailed Narrative,* 12 June 2012

Discovery Metals Limited, *Plutus-Petra Mineral Resource Update Resource Estimation*, May 2012

Discovery Metals Limited, *UG Cost Model Summary-Contractor Op 2012-02-24.xlsx*, 24 February 2012

Discovery Metals Limited, *Zeta Underground Definitive Feasibility Study*, March 2012

EISC Power Services PVT LTD, *FEED report, Boseto Coal Fired Power Station*, 16 July 2012

GR Engineering Services, Boseto Copper Project Upgrade, Detailed Engineering Study Proposal, October 2012

Haren, E. 2005. Discovery Nickel Limited: Dikoloti Nickel Project FS. Project No. 5151. Resource Estimate, August 2005. Snowden Mining Industry Consultants.

Hearne, T.M., 2009, Laboratory Characterisation Testwork on Copper Ore (Zeta Section) from the Boseto Deposit in Botswana, Mintek Report No. 5298, 15 May

Marsh, *Risk Underwriting Survey – Boset Copper Project*, 29 January 2012

Sedgman Limited, *Plant Asset Register Sedgman 0260-04500-RT-001_0*, 3 July 2012

Snowden Mining Industry Consultants, *Dikoloti Drilling Evaluation*, November 2011

Wood Mackenzie, Metals Market Service, Copper from Q2 2012 update of 2012 long term update

PART TWO – FINANCIAL SERVICES GUIDE

Dated 19 November 2012

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Jason Hughes as an authorised representative of KPMG Corporate Finance **(Authorised Representative)**, authorised representative number 484183.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities, and
- superannuation,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products.

The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Discovery Metals Limited (Client or Discovery) to provide general financial product advice in the form of a Report to be included in the target's statement (Document) prepared by Discovery in relation to off-market takeover offer by Cathay Fortune Investment Limited (CF Investment) for all of the shares in Discovery (Transaction).

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance $90,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representatives are partners in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have not provided services to the Client or the Bidder for which professional fees were received over the past two years

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address:	Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone:	1300 78 08 08
Facsimile:	(03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

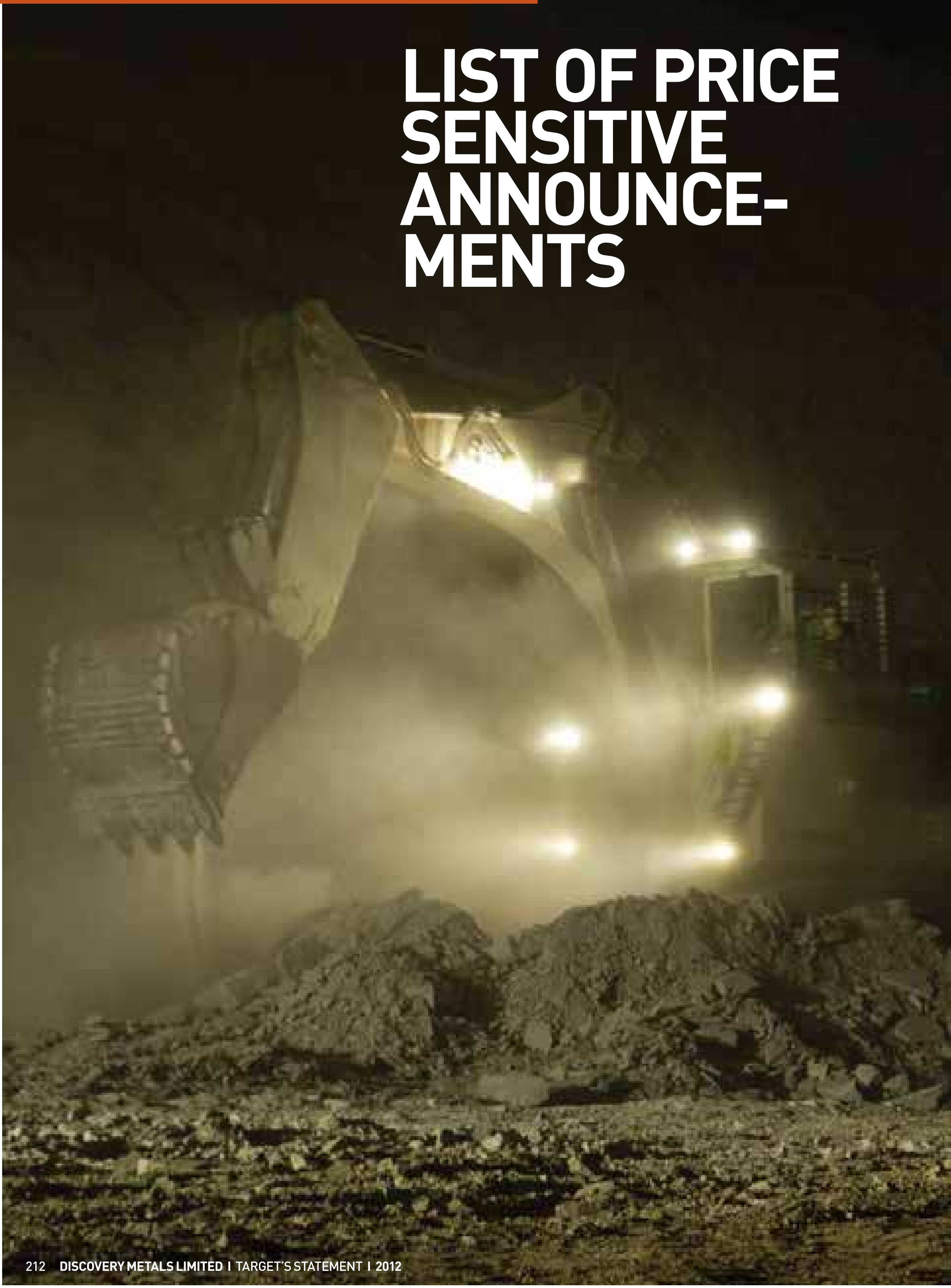
You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000

PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Jason Hughes/Ian Jedlin
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 700

LIST OF PRICE SENSITIVE ANNOUNCE-MENTS



The following table contains a list of all price sensitive announcements released by Discovery Metals in the period 24 August 2012 to 19 November 2012, being the last Business Day before the Target's Statement was printed:

No.	Title of announcement	Date of announcement
1.	Financials reflect Boseto Completion	24 August 2012
2.	Response to ASX Price Query	31 August 2012
3.	Boseto Copper Project Officially Opened	10 September 2012
4.	Boseto Commissioning Update, September 2012	11 September 2012
5.	Further encouraging NE Mango 2 Prospect drill results	1 October 2012
6.	Trading Halt	4 October 2012
7.	Indicative, non-binding proposal for all Discovery Metals' shares	4 October 2012
8.	Maiden Mineral Resources at Ophion	11 October 2012
9.	Update on indicative, non-binding proposal	11 October 2012
10.	Maiden Mineral Resources at NE Mango 2	16 October 2012
11.	Quarterly Activities and Cash flow Reports	22 October 2012
12.	Off-Market Takeover Offer	23 October 2012
13.	Boseto Commisioning Update	14 November 2012

MINERAL RESOURCES AND ORE RESERVES

COMPETENT PERSONS STATEMENT

The information in this Target's Statement that relates to exploration results is based on information compiled by Mr Fred Nhiwatiwa who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and Mr Wallace Mackay who is a Member of the Australian Institute of Geoscientists. Messrs Nhiwatiwa and Mackay are employed full-time by Discovery Metals Limited. Messrs Nhiwatiwa and Mackay have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code).

The information in this report that relates to the Zeta and Plutus Mineral Resources was reviewed by Mr Ivor Jones, who is a Fellow of the Australasian Institute of Mining and Metallurgy (FAusIMM). Mr Jones is employed full-time by Snowden Mining Industry Consultants Pty Ltd (Snowden). Mr Jones 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 the JORC Code.

The information in this report that relates to the open pit Zeta and Plutus Ore Reserves was reviewed by Mr Frank Blanchfield, who is a fellow of the AusIMM. Mr Blanchfield is employed full-time by Snowden. Mr Blanchfield 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 the JORC Code.

The information in this Target's Statement that relates to the Zeta Underground Ore Reserves has been reviewed by Mr Andrew Gasmier, who is a MAusIMM. Mr Gasmier is employed full-time by Mining Plus Pty Ltd. Mr Gasmier has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

The information in this Target's Statement as it relates to the Selene Mineral Resource, NE Mango 1 Mineral Resource, NE Mango 2 Mineral Resource, Ophion Mineral Resource and Zeta NE Mineral Resource estimates for the Boseto Copper Project has been compiled by Mr Matthew Readford, who is a MAusIMM. Mr Readford is employed fulltime by Xstract Mining Consultants Pty Ltd. 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 the JORC Code.

Messrs Nhiwatiwa, Mackay, Jones, Blanchfield, Gasmier and Readford consent to the inclusion in this Target's Statement of the matters based on information provided by them and in the form and context in which it appears.

BOSETO ORE RESERVES

	Zeta			Plutus			Total		
Open Pit[1]	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**
Proved	4.0	1.6	22.1	0.2	1.3	11.7	4.2	1.6	21.6
Probable	6.5	1.5	23.5	11.1	1.3	13.7	17.6	1.4	17.3
Open Pit Ore Reserves	**10.5**	**1.5**	**23.0**	**11.3**	**1.3**	**13.7**	**21.8**	**1.4**	**18.2**
Underground[2]	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**
Proved	1.0	1.3	24.0				1.0	1.3	24.0
Probable	6.3	1.3	24.6				6.3	1.3	24.6
Underground Ore Reserves	**7.3**	**1.3**	**24.5**				**7.3**	**1.3**	**24.5**
TOTAL ORE RESERVES	**17.8**	**1.4**	**23.6**	**11.3**	**1.3**	**13.7**	**29.1**	**1.4**	**19.8**

Ore Reserves reported at cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement. [1]Data as at 31 August 2010. [2]Data as at 27 April 2012.

BOSETO MINERAL RESOURCES

	Zeta			Plutus			Total		
	Mt	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**	**Mt**	**Cu (%)**	**Ag (g/t)**
Measured	4.6	1.6	23.5	11.1	1.4	13.9	15.7	1.4	16.7
Indicated	12.4	1.5	26.1	8.1	1.4	13.3	20.5	1.5	21.0
Subtotal M&I	**17.0**	**1.5**	**25.4**	**19.2**	**1.4**	**13.6**	**36.2**	**1.4**	**19.1**
Inferred	27.1	1.2	20.0	67.7	1.3	13.0	94.8	1.3	15.0
BOSETO MINERAL RESOURCES	**44.1**	**1.3**	**22.1**	**86.9**	**1.4**	**13.2**	**131.0**	**1.3**	**16.2**

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement. Data as at 2 May 2012.

ADDITIONAL BOSETO ZONE MINERAL RESOURCES

Inferred Mineral Resources	Mt	Cu (%)	Ag (g/t)
Selene[3]	16.0	1.0	16
Zeta NE[4]	12.9	1.3	22
Ophion[5]	14.0	1.0	12
NE Mango 1[6]	4.8	1.2	13
NE Mango 2[7]	28.5	1.3	14
ADDITIONAL BOSETO ZONE MINERAL RESOURCES	**76.2**	**1.2**	**15**

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement. [3]Data as at 12 January 2012. [4]Data as at 2 August 2012. [5]Data as at 11 October 2012. [6]Data as at 1 August 2012. [7]Data as at 16 October 2012.

MINERAL RESOURCES SUMMARY

	Mt	Cu (%)	Ag (g/t)
Boseto Mineral Resources	**131.0**	**1.3**	**16.2**
Additional Boseto Zone Mineral Resources	**76.2**	**1.2**	**15.0**
TOTAL MINERAL RESOURCES	**207.2**	**1.3**	**16**

Mineral Resources reported at a cut-off grade of 0.6% Cu. Please refer to Competent Persons Statement.

important notices

This Target's Statement is dated 23 November 2012 and is given by Discovery Metals under Part 6.5 of the Corporations Act in response to the Offer made pursuant to the Bidder's Statement dated 8 November 2012 which was served on Discovery Metals by the Bidder on 8 November 2012.

Financial data
All dollar values are in Australian dollars unless stated otherwise.

Defined terms
A number of defined terms are used in this Target's Statement. These terms are explained in the glossary in Section 7.

ASIC, ASX and BSE disclaimer
A copy of this Target's Statement has been lodged with ASIC and sent to ASX and BSE. None of ASIC, ASX, BSE or any of their respective officers takes any responsibility for the content of this Target's Statement.

No account of personal circumstances
This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of each Shareholder. Before making a decision in relation to the Offer, you may wish to seek independent financial, taxation and other professional advice.

Warning regarding forward looking statements
This Target's Statement contains various forward looking statements. You should be aware that these statements are predictions only and are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors. Those risks and uncertainties include factors and risks specific to Discovery Metals and the industry in which Discovery Metals operates as well as general economic conditions and conditions in the financial markets. While the Directors consider that all forward looking statements are based on reasonable grounds, actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are likely.

None of Discovery Metals, any of its officers, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on those statements. The forward looking statements in this Target's Statement reflect views held as at the date of this Target's Statement.

Notice to Foreign Shareholders
The distribution of this Target's Statement may, in some countries, be restricted by law or regulation. Persons who come into possession of this Target's Statement should inform themselves of and observe those restrictions.

Information on Bidder in this Target's Statement
Except where disclosed otherwise, the information on the Bidder in this Target's Statement has been obtained from the Bidder's Statement. Discovery Metals and its Directors are unable to verify the accuracy or completeness of the information on the Bidder.

Subject to the Corporations Act, neither Discovery Metals, nor its officers make any representation or warranty, express or implied, regarding such information and disclaim any responsibility in respect of that information.

Shareholder Information Line
Discovery Metals has established a Shareholder Information Line which Shareholders should call if they have any queries in relation to the Offer. The telephone number for the Shareholder Information Line is:

- within Australia: 1800 207 622
- outside Australia: +61 2 8280 7220

The Shareholder Information Line is available Monday to Friday between 7.30am and 5.30pm AEDST.

Further information relating to the Offer can be obtained from Discovery Metals' website at www.discoverymetals.com.

key points

1 The Bidder is offering $1.70 in cash for each Share you hold. The Offer Price is **INADEQUATE**.

2 The Directors recommend that you **REJECT THE OFFER** and **TAKE NO ACTION** in relation to the Offer.

3 Shareholders should carefully consider the Directors' recommendation and read this Target's Statement in its entirety.

4 Each Director currently **REJECTS THE OFFER** in respect of their Shares.

5 [The Independent Expert has determined the Offer neither fair nor reasonable]

6 Shareholders have the following choices:

> **REJECT THE OFFER**; or

> Accept the Offer for all of your Shares; or

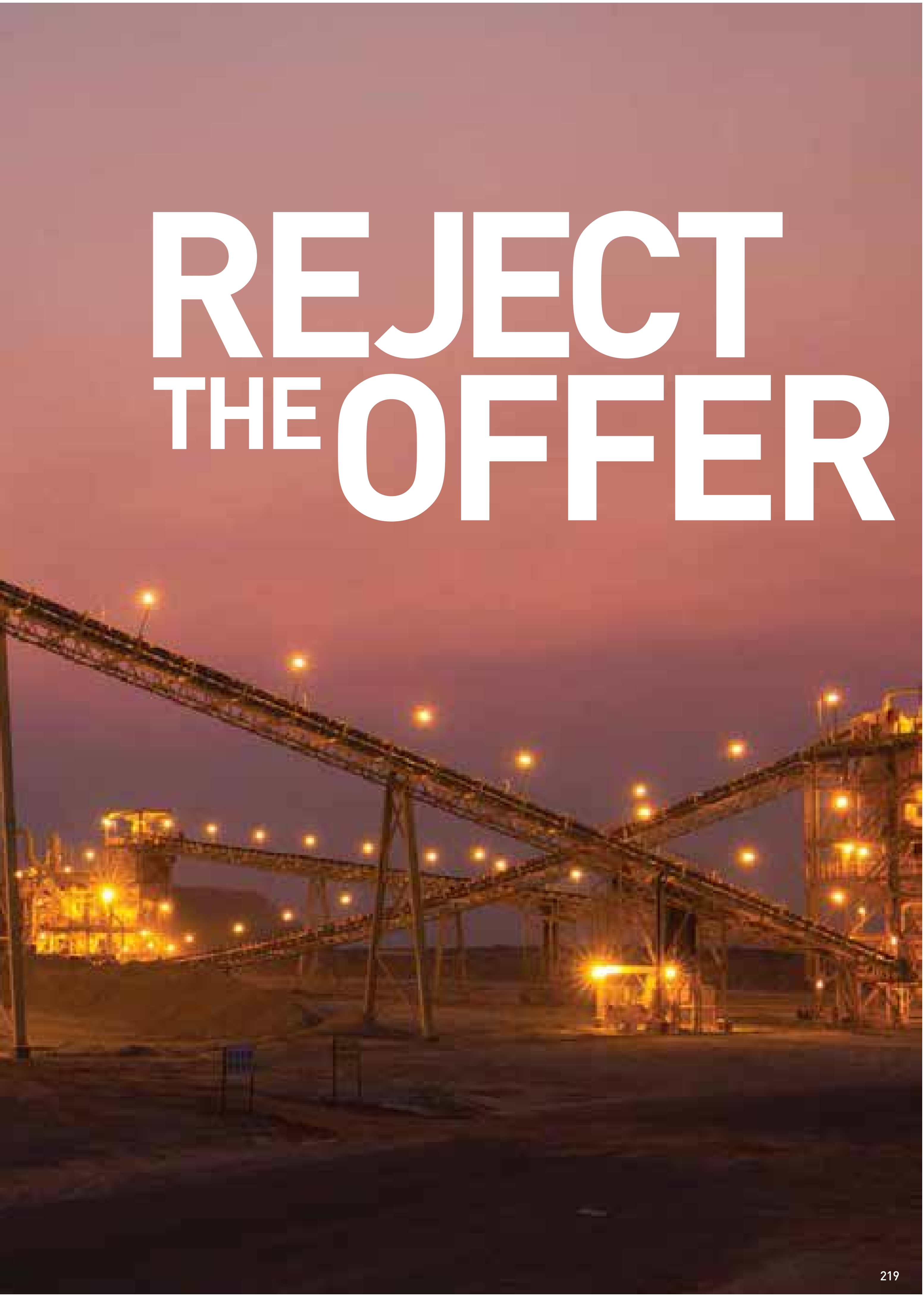
> Sell your Shares on market.

If you accept the Offer, you will only be able to withdraw that acceptance in limited circumstances.

7 The Offer is still subject to a number of conditions.

8 The Offer will expire 13 December 2012, 7.00pm AEDST (unless extended or withdrawn in accordance with the Corporations Act).

REJECT THE OFFER



REJECT THE OFFER

DISCOVERY METALS LIMITED

ABN 29 104 924 423 / ASX : DML, BSE : DML / ph: +61 7 3218 0222 / fx: +61 7 3218 0233 / info@discoverymetals.com
Level 20, 333 Ann Street, Brisbane, Queensland 4000 / Plot 21314 Sebele Station Road, Phakalane, Gaborone
www.discoverymetals.com