

# Quarterly REPORT



21 January 2015

## IN BRIEF

### BOSETO COPPER OPERATION

- Quarterly production of 5,569 tonnes of copper in concentrate produced – a 13% decrease in copper production compared with Q1 FY15.
- 7.56 Mt total material mined – a 19% decrease compared with Q1 FY15.
- High-grade sulphide recovery of 90.0% – a 3% decrease compared with Q1 FY15.
- Quarterly C1 cash costs of \$2.89/lb – a 53% increase compared with Q1 FY15.
- Year-To-Date C1 cash costs of \$2.35 / lb – a 34% decrease compared with FY 2014.
- Continued positive safety performance.

### CORPORATE

- On 31 December 2014, the Company had \$3.1m in cash holdings.
- On 2 December 2014, the Company announced it had entered into exclusive discussions with Cupric Canyon Capital LP (**Cupric**) for the potential sale of a 100% interest in DML's Boseto Copper Operation in Botswana, Southern Africa.
- On 28 November 2014, the Company entered into a \$5 million short term working capital facility with Cupric. The total of \$5 million was drawn down prior to 31 December 2014.
- The Annual General Meeting was held on 27 November 2014, with all resolutions passed on a show of hands.
- The Company further revised its Settlement Deed with Sedgman with a favourable outcome for DML.
- Mr Robert (Bob) Fulker was appointed as Managing Director.

All financial amounts in this document are expressed in US dollars unless otherwise stated.

## 1. Boseto Copper Operation

This section of the quarterly report contains commentary on operations at Discovery Metals' 100% owned Boseto Copper Operation in Botswana, Southern Africa. Commentary is provided for mining, concentrator performance, metal production and costs for Q2 FY15 (being the period from 1 October 2014 to 31 December 2014).

Q2 FY15 results reflect a general decline in performance across most of the metrics as a result of:

- loss of Excavator 903 (**EX903**) due to a fire incident;
- progressive decommissioning of the Zeta open pit which was the Operation's main source of higher grade sulphide ore;
- treatment of lower grade / lower recovery transitional ore from Plutus Stage 2 pit; and
- adoption of a low strip ratio mine plan towards the end of the quarter in order to align with announced plans to place the operation into "care and maintenance" prior to 30 June 2015.

**Table 1. Q2 FY15 Performance**

	Q2 FY15	Q1 FY15	Change (Quarter on Quarter)
Material Mined, Mt*	7.56	9.31	-18.8%
Ore Milled, kt	675.6	701.5	-3.7%
Concentrate Produced, kt	12.6	15.0	-16.0%
Copper in Concentrate, t	5,569	6,428	-13.4%
Silver in Concentrate, oz	177,486	238,563	-25.6%

\* Material mined = Waste plus ore

### a) Mining

Ore to ROM for Q2 FY15 was delivered from Zeta and Plutus Stage 1 pits during the first month of the quarter. The main sources of ore supply to the ROM during the last two months of the quarter were sulphide and transitional ore from Plutus Stages 1 and 2 with only minor volumes of sulphide ore still coming from the Zeta pit's "good bye cuts".

Total material movement performance was lower as a result of the loss of EX903 due to a fire incident and major component change out work on EX902 for a full month. This had negative impacts on the progress to expose additional ore faces, hence adversely affecting quality ore delivery to the ROM pad.

All pits were redesigned for the change in commodity prices and to allow the new plan to put the Operation into care and maintenance by June 2015 to be implemented.

The focus going forward is to safely and effectively execute the new mine plan aimed at putting the Operation into care and maintenance by June 2015 to ensure that production and revenues from the Operation are maximised within this time period.

### b) Concentrator Performance

The process plant continued to perform well, although process stability continued to be compromised by inconsistent supply of ore during the quarter.

Process performance was also affected by the treatment of significant volumes of transitional ore from the Plutus Stage 2 pit and the treatment of the low grade stockpile that had accumulated from the previous quarter.

Focus continued on control of process re-agents usage and optimisation of key parameters in order to promote efficiency and lower the cost of production, results of which continued to be encouraging.

**Table 2. Q2 FY15 Processing Performance**

	Tonnes	Cu Grade (%)	Ag Grade (g/t)	Cu Recovery (%)	Ag Recovery (%)
Sulphide High Grade Ore	391,426	1.12	14.8	90.0	75.7
Transitional High Grade Ore	207,610	0.91	7.5	67.5	62.7
Transitional Low Grade Ore	76,592	0.72	4.0	58.5	50.4

### c) Metal Production

Contained copper produced for the quarter was 13% lower than Q1 FY15, while contained silver was 26% lower.

Decreased metal production was due to reduced higher grade sulphide ore treated from Zeta as this pit was depleted and increased low recovery transitional ore as the Plutus Stage 2 pit started delivering ore to the ROM pad following waste stripping in Q1 FY15.

Significant low grade ore material from stocks carried over from Q1 FY15 was also treated during the quarter.

Concentrate production also deteriorated by 16% compared to Q1 FY15 due to the factors described above.

### d) Costs

**Table 3. Q2 FY15 Financial Performance**

KPI	Q2 FY15	Q1 FY15	Change (Quarter on Quarter)
C1 Cash Cost USD/lb	2.89	1.89	+52.9%
Mining USD/t mined <sup>1</sup>	1.94	1.64	+18.3%
Processing USD/t milled <sup>1</sup>	2.82	3.38	-16.6%

<sup>1</sup> Excludes mining related maintenance costs and before waste stripping adjustment.

C1 cash costs per pound of copper production increased 52.9% compared to Q1 FY15. There were two primary drivers of the increase:

- the 13% quarter on quarter decrease in copper in concentrate produced; and
- in Q1 FY15, \$9.6m of Plutus Stage 2 overburden waste stripping costs were capitalised to the balance sheet in accordance with applicable accounting standards. In Q2 FY15, production of the first ore from Plutus Stage 2 (169kt ore mined) was achieved and in line with the accounting standards the cost capitalised (\$6.7m) during the quarter was significantly less. The \$2.9m reduction in cost capitalised accounted for \$0.36 of the \$1.00 increase in C1 cash cost.

Mining productivity declined in Q2 FY15 compared to Q1 FY15 with an 18.8% reduction quarter on quarter in total material moved. Mining costs per tonne grew 18.3% as a consequence. Q2 FY15 productivity was impacted by delays and costs associated with a fire that occurred on waste excavator EX903 as well as unscheduled repairs to other digging units. Initiatives driving process plant efficiencies continue to bear fruit and despite a 3.7% reduction in ore milled, processing costs per tonne milled fell for the third successive quarter (Q1 FY15 6.6%) with a solid 16.5% reduction achieved in Q2 FY15.

Overall total Boseto site operations costs were flat quarter on quarter (before waste stripping adjustments).



## 2. Exploration

Work in Q2 FY15 focused on evaluating the results of the exploration programs on the copper leases to date, with a view to designing a strategy for calendar year 2015.

The Company expended approximately \$250,000 on exploration in Q2 FY15.

### a) Newport Farms (Copper)

(Discovery Metals 100%)

Prospecting licences 60/2012 to 63/2012 are due to expire at the end of March 2015. As per Botswana statutory requirements, an application to renew these licences for a further period of two years was submitted in December 2014.

### b) Boseto (Copper)

(Discovery Metals 100%)

Following discussions with the Ministry of Mines in Botswana, a revised Mining Lease application covering the Zeta NE deposit was submitted in November 2014.

A Mining Lease application covering the remainder of the deposits within a 30km zone of the Boseto Plant on PLs 98/2005 to 101/2005, was submitted in December 2014.

Application for a prospecting licence extension for the remainder of PLs 98/2005 to 101/2005 was also submitted in the quarter.

### c) Lobatse Manganese Project ((Discovery Metals 33% / JOGMEC – 67%) currently in pro-rata funding period)

The earn-in period is deemed to now be complete. The JV has now entered the pro-rata funding period with DML retaining 33% equity in the project while JOGMEC have earned the right to 67% equity in the project. DML currently remain as Operator of the project.

Work completed to date indicates diminished potential for world class manganese deposits. The focus of exploration on the Lobatse JV has now shifted to a focus on iron oxide copper gold (IOCG) targets and Ni/PGE targets of the Bushveld age Molopo Farms intrusive complex.

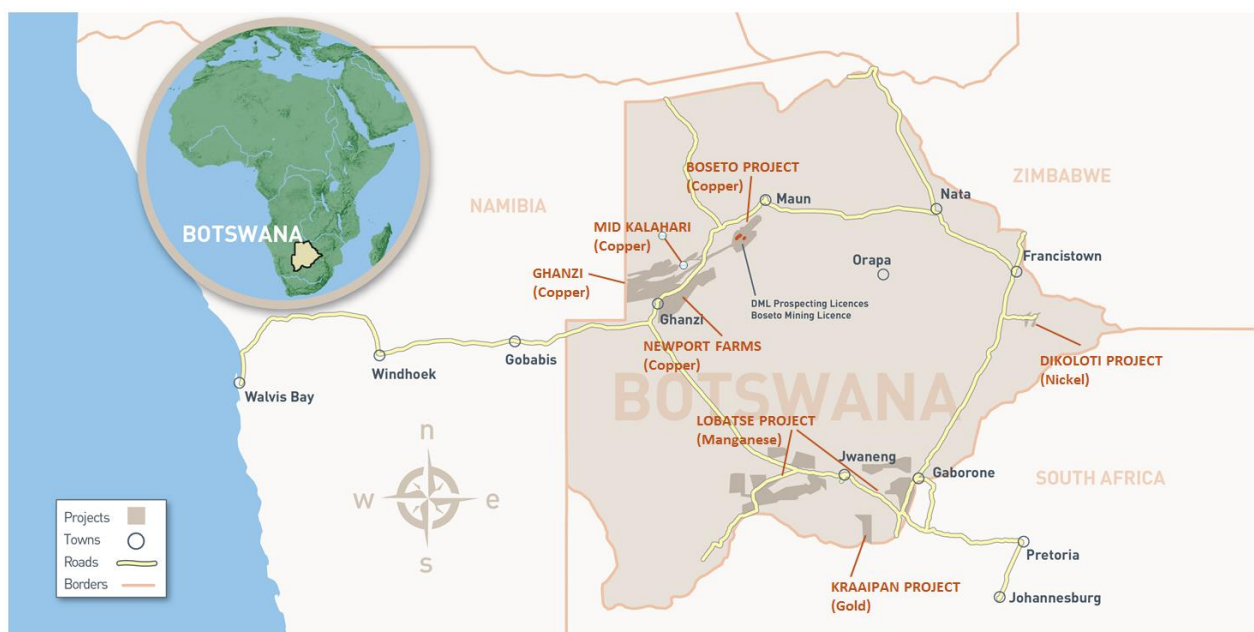
Desktop compilation studies on the Molopo Farms complex and the IOCG targets are in progress.

Initial IOCG targets were determined from previous work based on current information and genetic models for the formation of IOCG deposits.

In the Lobatse JV area, IOCG targets were identified in the upper and lower part of Molopo Formations.

Historical data holes were filtered to identify those holes that were drilled into IOCG targets that are on Discovery Metals' prospecting licences.

Work planned for the next quarter will include confirming the existence of the drill cores, with the next stage aimed to verify the geological logs and any assays, and possible re-sampling of the drill core.



## d) Dikoloti Nickel Project

(Discovery Metals 28% / JOGMEC 72%)

The Dikoloti Nickel Project comprises three prospecting licences covering an area of 283km<sup>2</sup> surrounding the three nickel deposits of BCL in the Selebi-Phikwe region of north-east Botswana.

DML has an agreement with BCL and JOGMEC and has commenced work aimed at converting the Dikoloti Nickel Project from a prospecting licence into a mining lease in accordance with the terms of the Dikoloti Nickel Project Joint Venture Agreement (**Dikoloti Agreement**).

The work of updating the 2005 Pre-Feasibility Study (**PFS**), which will be used as part of the application for the Mining Lease over Dikoloti, is in progress. Completion of the PFS has been extended to allow for further metallurgical test work.

Drilling to secure an additional 100t of ore for further metallurgical test work commenced in December 2014.

It is expected that the PFS will be completed in Q3 FY15.

Key findings from the work completed to date include:

	<b>Dikoloti / BCL, 20/80 Blend</b>	
	<b>%Ni</b>	<b>%Cu</b>
Feed Assays	0.78	0.74
Concentrate Assays	2.05	1.91
Recovery	96.25	95.69

- 20% Dikoloti blend with 80% BCL ore achieves recoveries of above 90% Ni with a concentrate grade of 2% Ni;
- blending to be done prior to flotation;
- optimisation for lower mass pull required;
- a pilot plant (1 tonne ore) flotation test for the same blend to be carried out in Q2 FY16;
- leaching of Dikoloti continuing at Kupfermelt Lab;
- acid leaching achieved recoveries above 90% with acid to ore ratio of 2:1; and
- further work on Ni and Cu recovery from leachate solution required.

Under the terms of the Dikoloti Agreement, BCL will fund all the expenditure required for the conversion of the Dikoloti prospecting licence into a mining licence.

## e) Kalahari Manganese

(Discovery Metals 33% / JOGMEC 67%)

Prospecting licences 001-007/2011 and 009-13/2011 are currently awaiting the first renewal.

Prospecting licence 147/2011 was relinquished after a thorough review indicated poor prospectivity.

## f) Kraaipan (Gold)

(Discovery Metals 100%)

Prospecting licence 008/2011 is currently awaiting the first renewal.

## 3. Corporate

On 31 December 2014, the Company had \$3.1m in cash holdings.

During Q2 FY15, \$5.0m in operational funding was secured from Cupric.

Including Cupric financing, Total Group Debt was \$118.7m consisting of interest bearing debt of \$108.9m (\$105.0m principal and \$3.9m of outstanding interest) and non-interest bearing debt of \$9.8m (being the present value of the \$20.0m incentive payment payable to the Lending Syndicate pursuant to the Debt Re-Profile that was completed during mid 2014).

## a) Agreements with Cupric Canyon Capital LP (Cupric)

On 2 December 2014, the Company announced it had engaged in exclusive discussions with Cupric for the potential sale of its Boseto Copper Operation (the **Transaction**).

As part of the engagement to enter exclusive discussions, the Company concluded a \$5.0m short term working capital facility (the **Facility**) with Cupric.

The exclusivity period extends until the earlier of the execution of a legally binding Terms Sheet Agreement with Cupric, or 31 January 2015 (or such other date as may reasonably be agreed between the Company and Cupric).

A condition of the Facility Agreement grants Cupric a period of exclusivity to allow it to complete due diligence, and to allow time for both DML and Cupric to finalise and agree definitive terms of the potential Transaction.

The Facility will be used to provide support to DML's current operations arising from operating cash-flow shortfalls in November and December 2014, and for working capital purposes.

The Company's existing Project Finance Lenders are supportive of both the potential Transaction and the Facility Agreement.

The total \$5.0m was drawn down under the Facility prior to 31 December 2014.

## **b) Review of Boseto Operation**

On 17 December 2014, the Company announced the results of a comprehensive review of its open-pit copper mining and processing operations.

The review determined that the prevailing high strip ratio open pits result in a high cost operating environment which is not sufficiently cash-flow positive in light of the prevailing copper price.

The Company immediately moved the focus of the Boseto Copper Operation to a "Completion of Current Pits" style operation which is to maximise all available revenues and cash generation available from the Operation, and to minimise all expenditure outlays across all areas of the Company's current expenditures (site operating, corporate, exploration and business development).

The financial modelling supporting the recently completed review indicates that at the end of this period, sufficient revenues and cash funding is expected to have been generated to repay all short term lending, to fund creditor and employee obligations, and to sustain the operations on a "Care and Maintenance" basis, while alternative options are able to be assessed for the Boseto Copper Operation.

The Directors determined the requirement to implement this strategy, irrespective of the outcome of the current discussions with Cupric.

## **c) Kalahari Copper Belt Mineral Resources and Ore Reserves Update**

On 14 October 2014, the Company reported updated Mineral Resources and Ore Reserves estimates for all of its deposits in the Kalahari Copper Belt.

The highlights noted:

- Kalahari Copper Belt Mineral Resources of 175.5 Mt @ 1.3% Cu and 15 g/t Ag;
- Boseto Copper Operation Mineral Resources of 100.6 Mt @ 1.4% Cu and 15 g/t Ag; and
- Boseto Copper Operation Ore Reserves of 15.3 Mt @ 1.3% Cu and 9 g/t Ag.

The independent consultants, QG Australia Pty Limited, Xstract Mining Consultants Pty Ltd and

Runge Pincock Minarco Limited, completed these estimates of Mineral Resources and Ore Reserves in accordance with the principles of the Australia Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 Edition.

## **d) Annual General Meeting**

The Company's Annual General Meeting took place on 27 November 2014.

The Notice of Meeting and Explanatory Memorandum had been issued to all shareholders on 13 October 2014 and each of the five resolutions as proposed, were passed on a show of hands.

Mr Jeremy Read (DML Chairman) delivered a presentation on the Company's corporate highlights for the 2014 financial year and Mr Bob Fulker (DML Chief Executive Officer) delivered a presentation on the Company's operational highlights and achievements for the 2014 financial year.

## **e) Sedgman**

Further to the announcement made on 1 October 2014, the Company advised on 17 December 2014, it had agreed a further revised Deed of Variation (Further Revised Deed) with Sedgman Limited (ASX:SDM) and its wholly owned subsidiaries Sedgman South Africa Pty Ltd and Sedgman Botswana Pty Ltd (collectively Sedgman).

Under the Further Revised Deed, the second instalment of \$500,000 which was due on 31 December 2014 was amended to now be payable in two separate amounts - \$250,000 by 2 February 2015 and the remaining \$250,000 by 28 February 2015.

The final two instalments remain payable on 31 March 2015 and 30 June 2015 and continue to have interest payable on those dates.

All other terms and conditions of the original Deed remain unchanged.

## **f) Organisational Changes**

The Company announced on 16 December 2014, that Mr Russell Luxford had resigned as a Non-Executive Director of the Company.

On 24 December 2014, the Company announced that Mr Ribson Gabonowe had resigned as a Non-Executive Director of the Company.

Mr Robert (Bob) Fulker was appointed as Managing Director of the Company on 24 December 2014.

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## Corporate Directory

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### Stock Exchange Listings

Australian Securities Exchange - ASX Code: DML

Botswana Stock Exchange - BSE Code: DML

### Issued Capital

At 31 December 2014 the issued capital of Discovery Metals Limited was 644,039,581 ordinary shares.

### Directors

Jeremy Read – Non-Executive Chairman

Royston Denysschen – Non-Executive Director

Robert (Bob) Fulker – Managing Director

### Company Secretary

Kerry Parker – Chief Financial Officer

## 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.