

INTEREST BEARING DEBT REDUCTION OF 59 MILLION UNDER DEBT RE-PROFILE WITH LENDERS

Highlights

- > Discovery Metals Limited and its lenders have agreed to reduce the Company's existing interest bearing debt by US\$59 million (10.5 cents per share) and re-profile repayments of outstanding debt (**Debt Re-Profile**).
- > The Debt Re-Profile has been agreed under a legally binding term sheet (**Term Sheet**), the details of which are set out in **Annexure A**.
- > In summary the Debt Re-Profile involves:
 - o a reduction in gross interest bearing debt (including capitalised interest) from US\$159 million (**Outstanding Balance**) to US\$100 million (**New Balance**);
 - o a waiver of all continuing defaults under the Project Finance Facility and the Revolving Credit Facility (collectively the **Facilities**);
 - o a 12 month standstill on principal and interest payments and together with all covenant testing other than a minimum cash balance;
 - o interest rate to be LIBOR plus 5% with interest capitalised until September 2018;
 - o an extension to the term of the loan, with scheduled repayments commencing in September 2018 and ending in June 2023; and
 - o an incentive payment to the lenders of no more than US\$20 million from 30% of net cash flows after the New Balance is fully repaid.

LEGALLY BINDING TERM SHEET WITH LENDERS

Discovery Metals Limited (ASX/BSE: DML) (**Discovery Metals, DML or the Company**) is pleased to announce that it has executed a legally binding Term Sheet with its lenders for the Debt Re-Profile. The Term Sheet is subject to the parties entering into definitive, long form documents which reflect the terms of the Term Sheet in all material respects by 11 July 2014 (**Condition**). The long form documents will include customary conditions precedent for a financing of this nature and the condition subsequent discussed below (**Further Conditions**).

Discovery Metals' Chairman, Mr Jeremy Read, stated *"The Debt Re-Profile with the Company's lenders brings certainty to Discovery Metals. With the significant reduction in overall debt and an effective 12 month standstill in place, Discovery Metals can now focus exclusively on its operating strategy to transition the Boseto project to underground mining and in doing so supply the processing plant with consistent higher grade, higher recovery sulphide copper ore and commence the Zeta Underground Mine. The Company thanks the lenders for their continued support over the past 18 months, and for their commitment to the future of Discovery Metals."*

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Under the Debt Re-Profile:

- all continuing defaults were waived on execution of the Term Sheet;
- the Revolving Credit Facility will cease to exist and the Project Finance Facility will be amended and restated to reflect the terms and conditions of the Term Sheet (**Amended and Restated Project Finance Facility**);
- the current gross interest bearing debt (including capitalised interest) owing under the Facilities of approximately US\$159 million will be reduced to US\$100 million;
- the New Balance will have a loan term of 9 years (**Loan**), with interest to be capitalised for the first 4 years of its term;
- interest rate to be LIBOR plus 5% with interest capitalised until September 2018;
- scheduled principal repayments will be made commencing in year 5 of the Loan;
- the parties have agreed to a mechanism that will provide for the lenders to be returned incentive payments in addition to repayment of the Loan, up to a maximum aggregate amount of US\$20 million (**Incentive Payments**). The Incentive Payments will only commence after final repayment of the Loan; and
- DML will commence all actions necessary to undertake a 15% placement and subsequent capital raising before the end of this year, with all funds raised to contribute towards the commencement of the first underground stage of development at Boseto and to support working capital requirements. Further information on the capital raising plans is set out below.

These and other key terms of the Term Sheet are set out in **Annexure A** to this announcement.

IMPACT ON SHAREHOLDERS

There is no issue of equity to the lenders as part of the Debt Re-Profile, however as noted above the Company will be undertaking a placement and a rights issue later this year. Discovery Metals' CEO, Mr Bob Fulker, commented *"The commitment shown from the lenders has resulted in a very positive outcome for shareholders. Unlike other investment and structuring proposals, the Debt Re-Profile of itself will not dilute existing shareholders. The debt reduction will secure and stabilise the Company as it looks to secure funding for the Zeta Underground Mine."*

CONDITIONS AND REQUIRED WAIVERS AND APPROVALS

Conditions precedent

As noted above, the Debt Re-Profile is subject to the Condition and it being satisfied by no later than 11 July 2014 (**Due Date**). The documents required include the Amended and Restated Project Finance Facility and ancillary documents to cancel the Revolving Credit Facility and amend the current security arrangements as noted above (collectively the **Transaction Documents**).

There is a risk that the Condition will not be satisfied by the Due Date and if required, that the parties will not agree to an extension of the Due Date. Further, there is a risk that once the Transaction Documents are executed that the Further Conditions are not satisfied.

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If the Condition or Further Conditions are not satisfied, the Debt Re-Profile will not complete and in this case the lenders will be entitled to demand immediate repayment of the Outstanding Balance. If the lenders did this, the Company would be insolvent and unable to continue as a going concern and would be subject to external administration.

Condition subsequent

A condition subsequent to the Debt Re-Profile is that DML's wholly owned subsidiary, Discovery Copper (Botswana) (Proprietary) Limited, is required to deliver a new development and capital expenditure plan, based on updated feasibility studies and mine plans, in a form and substance acceptable to the lenders and a lender appointed independent technical expert, by 31 August 2014. This development plan will detail the proposed underground mining methods and the costs of development including by reference to the then current business plan.

Waivers

As announced on 15 May 2014, the lenders have granted waivers in relation to the principal and interest repayments owing under the Facilities until 30 May 2014 (**Deferral Date**). If the Transaction Documents are not fully executed by the Deferral Date, the Company will be required to request further waivers from the lenders to enable the Company and the lenders time to execute the Transaction Documents.

No shareholder approval required

Given that the Debt Re-Profile is limited to the forgiveness of the difference between the Outstanding Balance and the New Balance together with a repayment re-profile of the New Balance, no shareholder approval is required to complete or execute the Transaction Documents. On this basis, the Company no longer intends to hold a shareholder meeting in July 2014 as previously advised.

FUTURE FUNDRAISING

Placement

The Company intends to make a placement within its 15% capacity.

Entitlement Offer

The Company intends to offer a pro-rata rights issue to shareholders before the end of the year to raise funds to commence the underground development at the Zeta Underground Mine (**Entitlement Offer**). Details of the Entitlement Offer will be released in due course, however the Company currently anticipates that the Entitlement Offer will be made under the 'low doc' regime meaning that an offer booklet and cleansing notice (rather than a prospectus) will be issued in relation to the Entitlement Offer.

The offer booklet for the Entitlement Offer will be sent to shareholders when securities under the Entitlement Offer are offered. The Company expects to make the offer booklet available after completion of the Debt Re-Profile but before the end of this year. All persons should consider the offer booklet in deciding whether to acquire securities under the Entitlement Offer and anyone wanting to acquire securities under the Entitlement Offer will need to complete the application form that will be in or accompany the offer booklet.

ANNEXURE A
SUMMARY OF THE KEY TERMS OF THE DEBT RE-PROFILE AS AGREED UNDER THE TERM SHEET

Parties	
Company	Discovery Metals Limited (DML)
DCB	Discovery Copper (Botswana) (Proprietary) Limited
Guarantors	Each company within the DML group of companies that has given a guarantee in respect of the Project Finance Facility or the Revolving Credit Facility, being DML, Discovery Copper Mauritius Ltd, Discovery Mines (Mauritius) Ltd and Discovery Mines (Proprietary) Ltd.
Lenders	Standard Chartered Bank, The Standard Bank of South Africa Limited, Caterpillar Financial Services (UK) Ltd and Credit Suisse AG.
Facilities	Project Finance Facility and Revolving Credit Facility.
Facilities Agreements	Project Finance Facility: Facilities Agreement for Term and Cost Overrun and Working Capital Facilities for the Development of the Boseto Project dated 5 July 2011 (as amended). Revolving Credit Facility: Single Currency Revolving Facility Agreement for US\$50,000,000 dated 29 October 2012 (as amended).
Debt Re-Profile	
Re-profiled Loan Amount	The current gross interest bearing debt (including capitalised interest) owing under the Facilities of approximately US\$159 million (Outstanding Balance) will be reduced to US\$100 million (New Balance or Loan). Any deficit between the New Balance and the Outstanding Balance will be forgiven and the lenders have agreed to repayment of the New Balance on the terms of the Term Sheet, in full and final satisfaction of the Outstanding Balance and release of all further obligations or liabilities in relation to the Outstanding Balance.
Documentation for the New Balance	The Revolving Credit Facility will be cancelled and the Project Finance Facility will be amended and restated to reflect the terms and conditions of the Term Sheet (Amended and Restated Project Finance Facility) and will otherwise remain in full force and effect.
Security arrangements	All security arrangements under the Project Finance Facility will remain in place subject to amendments to reflect the amendments to the covenants agreed under the Term Sheet (as noted below) and security currently held under the Revolving Credit Facility will be added to secure the Amended and Restated Project Finance Facility.
Loan term	9 years
Interest	LIBOR +5%.
	Interest to be capitalised for the first 4 year term of the Loan.
	Capitalised interest to be repaid from 50% of Net Cash Generated from DCB operations (Net DCB Cash) greater than US\$3 million per quarter and subject to a cumulative positive balance will be applied at 3 monthly intervals against capitalised interest commencing in year 2 of the Loan. Any capitalised interest remaining at the end of the Loan term will be repaid at that time and in addition to the final principal repayment.

Repayments	<p>Anticipated scheduled principal repayments to be made commencing in year 5 are as follows:</p> <table border="1" data-bbox="373 378 703 781"> <thead> <tr> <th>Period Ended</th> <th>Amount (US\$m)</th> </tr> </thead> <tbody> <tr><td>Sep-18</td><td>2.00</td></tr> <tr><td>Dec-18</td><td>2.00</td></tr> <tr><td>Mar-19</td><td>3.00</td></tr> <tr><td>Jun-19</td><td>3.00</td></tr> <tr><td>Sep-19</td><td>4.00</td></tr> <tr><td>Dec-19</td><td>4.00</td></tr> <tr><td>Mar-20</td><td>4.00</td></tr> <tr><td>Jun-20</td><td>4.00</td></tr> <tr><td>Sep-20</td><td>4.00</td></tr> <tr><td>Dec-20</td><td>4.00</td></tr> </tbody> </table> <table border="1" data-bbox="815 378 1139 815"> <thead> <tr> <th>Period Ended</th> <th>Amount (US\$m)</th> </tr> </thead> <tbody> <tr><td>Mar-21</td><td>4.00</td></tr> <tr><td>Jun-21</td><td>4.00</td></tr> <tr><td>Sep-21</td><td>4.00</td></tr> <tr><td>Dec-21</td><td>5.00</td></tr> <tr><td>Mar-22</td><td>5.00</td></tr> <tr><td>Jun-22</td><td>7.00</td></tr> <tr><td>Sep-22</td><td>7.00</td></tr> <tr><td>Dec-22</td><td>10.00</td></tr> <tr><td>Mar-23</td><td>10.00</td></tr> <tr><td>Jun-23</td><td>10.00</td></tr> <tr> <td>Total</td> <td>100.00</td> </tr> </tbody> </table> <p>Final figures are to be agreed between the Company and Lenders in the Transaction Documents.</p> <p>Mandatory principal prepayments to be made from 50% of Net DCB Cash (after repayment in full of any capitalised interest noted above) commencing in year 2 and continuing until the Loan is fully repaid.</p>	Period Ended	Amount (US\$m)	Sep-18	2.00	Dec-18	2.00	Mar-19	3.00	Jun-19	3.00	Sep-19	4.00	Dec-19	4.00	Mar-20	4.00	Jun-20	4.00	Sep-20	4.00	Dec-20	4.00	Period Ended	Amount (US\$m)	Mar-21	4.00	Jun-21	4.00	Sep-21	4.00	Dec-21	5.00	Mar-22	5.00	Jun-22	7.00	Sep-22	7.00	Dec-22	10.00	Mar-23	10.00	Jun-23	10.00	Total	100.00
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DSRA	<p>The Debt Service Reserve Account (DSRA) is to be retained at current levels and with current lender controls, save that there shall be no requirement to increase or maintain the balance on the DSRA from time to time following approved withdrawals.</p>																																														
Covenants No breach/lock-up ratio testing is to be included	<p>Covenants for years 1 – 9 (inclusive) of the Loan – A covenant being an actual average minimum DCB cash balance of US\$3 million (tested on the last working day of each month in relation to the previous ten day period) and a projected average minimum DCB cash balance of US\$3 million for each of the subsequent 3 months. Should this covenant be breached, DML will immediately notify the lenders and DML in consultation with the lenders will have 15 days to remedy that breach.</p> <p>Additional Covenants for years 2 – 9 (inclusive) of the Loan – Project Life Coverage Ratio and Loan Life Coverage Ratio based on the forward copper prices without discounts.</p> <p>Additional Covenants for years 5 – 9 (inclusive) of the Loan - Debt Service Coverage Ratios. All covenants to be tested at default level only. No breach/lock-up ratio testing to be included.</p> <p>Additional Covenant tested yearly for each of the years 2 – 9 (inclusive) of the Loan for Ore reserve Coverage ratio, the test is the following 12 months of scheduled production, as a minimum, to be of JORC compliant reserve category.</p>																																														
Incentive payments	<p>In consideration of the lenders re-profiling the Facilities as outlined above, the Company and DCB have each agreed to provide a mechanism for the lenders to be returned incentive payments in addition to the Loan up to a maximum aggregate amount of US\$20 million.</p> <p>This is to be measured as 30% of Net DCB Cash greater than US\$3 million per quarter, commencing in the quarter immediately following final repayment of the Loan and until US\$20 million is paid.</p> <p>Each of the Guarantors guarantees the payment of the incentive payments as provided in the Term Sheet.</p>																																														

Review of Feasibility Studies and Mine Plans	Lenders shall have the right to engage an independent expert to review Company feasibility studies and mine plans in connection with mineral resources and ore reserves on mining leases PL98/2005, PL99/2005, PL100/2005 and PL101/2005 and any extensions to such mining leases granted by the Botswana Government.
Equity raising	DML has agreed to immediately commence all actions necessary to raise an amount no less than 15% of its current share capital by way of an equity placement and to raise further equity by the end of this year, to finance the commencement of the first underground stage of development and support DCB working capital requirements. All monies raised under the equity raisings (net of corporate overhead requirements) will be approved by the lenders and downstreamed to DCB immediately upon receipt by DML and paid into a specific account.
Conditions subsequent	DCB is required to deliver a new development and capital expenditure plan, based on updated feasibility studies and mine plans, in form and substance acceptable to the lenders and a lender appointed independent technical expert, by 31 August 2014, which development plan shall detail the proposed underground mining methods and the costs of development including by reference to the then current business plan.
Board observer	The lenders shall, at the cost of DCB, the Company and the Guarantors, have a right to appoint an adviser to provide oversight to lenders in relation to operations.
Development controls	In accordance with the continuing terms of the Project Finance Facility, the contract mining agreements would fall within those material arrangements which require lenders approval on terms and counterparty.
Costs	DML, DCB and the Guarantors shall be responsible for all fees and expenses of the lenders in relation to the negotiation and documentation of the Term Sheet and the Transaction Documents.

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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 approximately 26,150 km² in Botswana.

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

www.discoverymetals.com

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