DISCOVERY METALS LIMITED

28 February 2014

MARKET RELEASE

DISCOVERY METALS HALF YEAR FINANCIAL REPORT

Summary

- A consolidated group loss of US$18.9 million for the half year.
- Net assets decreased by US$30.2 million from US$67.8 million to US$37.6 million at 31 December 2013.
- Cash at 31 December 2013 was US$11.8 million. Total interest bearing debt was US$153.9 million.
- The group was in default of its debt facilities at 31 December 2013. As previously announced, the Company, with the support of its lenders, is in active discussions with a number of parties in relation to a recapitalisation of the Company.

Financial Results

The Discovery Metals consolidated group reported a loss of US$18.9 million for the December 2013 half year, up from the US$14.6 million for the corresponding period in 2012.

The reported loss reflects operating revenue and expenses from Boseto (including depreciation) from 1 July 2013, the date from which the Company determined that all key ramp up metrics at Boseto had been achieved except for the delivery of ore. Loan Interest for the period amounted to US$7.5 million including US$3.0 million of previously capitalised borrowing costs expensed.

Included in the reported loss is US$20.3 million from gains on hedge instruments realised during the period. The group had no copper or silver hedging in place at 31 December 2013.

During the half year the company capitalised US$7.1 million of overburden waste removal (stripping) expenses in accordance with AASB Interpretation 20 (Stripping Costs in the Production Phase of a Surface Mine) which was adopted with effect from 1 July 2013.

Detailed Commentary on Financial Results

Items of note in the Half Year Financials & Directors' Report are:

- Assets:
    - The cash and cash equivalents balance at 31 December 2013 was US$11.8 million. Included within this was US$8.0 million of restricted cash held in the Debt Service Reserve Account (DSRA).
    - Trade and other receivables reflect concentrate sales receivable, funds receivable from the settlement of hedging instruments and VAT recoverable in Botswana.

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  - Inventories increased to US$17.8 million reflecting a reduction in spares and supplies inventory offset by increased copper concentrate inventories following achievement of design level operations.
  - Plant and equipment declined to US$173 million reflecting depreciation charged to the income statement following achievement of design level operations.
  - The US$9.4 million exploration asset comprises continued investment in the exploration and feasibility work at Boseto and other parts of the Kalahari Copperbelt.
- Liabilities
  - The reduction in trade and other payables to US$23.4 million reflects ordinary trade creditors and accruals at Boseto.
- Income
  - Other comprehensive income includes US$19.5 million of hedge value, previously quarantined in the hedge reserve, realised during the half year. The Group had US$30.3 million of realised value in the balance sheet hedge reserve at 31 December 2013.
- Costs
  - Salaries and consultants have reduced primarily due to a reduction in consultancy costs following the conclusion of the ramp-up phase of the Boseto Operation.

The Interim Financial Statements have been reviewed by the Company's auditor EY.

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 km^2 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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For further information on this release and Discovery Metals Limited, please contact:

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DISCOVERY METALS LIMITED

ABN 29 104 924 423

HALF YEAR

FINANCIAL REPORT

For the six months ended

31 December 2013

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

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Appendix 4D

Half Year Report

Name of entity

DISCOVERY METALS LIMITED

ABN

29 104 924 423

Half year ended

31 December 2013

Results				**$US'000**
Revenues from ordinary activities	Up	N/A	to	54,451
Loss from ordinary activities after tax attributable to members	Up	29%	to	18,866
Net loss for the period attributable to members	Up	29%	to	18,866

Dividends

The Directors do not propose to recommend the payment of a dividend in respect of the period.

Net Tangible Asset Backing	**As at 31 December 2013**	**As at 31 December 2012**
Net tangible asset backing per ordinary security (US cents per share)	6.7 cents	13.9 cents

Brief explanation of any of the figures reported above:

Refer to accompanying ASX Announcement and the Review of Operations in the Directors' Report.

Independent Review

The Appendix 4D is based on accounts which have been subject to independent review. The auditor's review statement contains an emphasis of matter with respect to going concern and is attached.

Your directors present their report on Discovery Metals Limited and its subsidiaries ("the Group") for the half year ended 31 December 2013.

1. Board of Directors

The names of the directors of Discovery Metals Limited ("Discovery Metals" or "Company") in office at any time during or since the end of the half year are:

Jeremy Read – Non-Executive Chairman (appointed 30 October 2013)

Qualifications:	BSc (Hons), MAusIMM
Experience and expertise:	Jeremy Read has 23 years' domestic and international minerals exploration experience and was previously the Manager of BHP's Australian Exploration Team. He has extensive exploration experience for nickel and copper sulphides and played a critical role in the discovery of Kabanga North Nickel Deposit in Tanzania. Jeremy was the founding managing director of Discovery Metals from its incorporation in May 2003, until his appointment as a non-executive director on 1 February 2008. Mr Read secured the Boseto Copper Project for the Company and was responsible for all Discovery Metals' fund raising activities and for listing Discovery Metals on the Australian Securities Exchange, Botswana Stock Exchange and the Alternative Investment Market in London.
Other current directorships:	Non-Executive Director of Harmattan Gold Limited (since January 2012)
Former directorships in last three years:	Managing Director of Meridian Minerals Limited (September 2008 to December 2011) Managing Director of Avalon Minerals Limited (ASX:AVI) (February 2012 to November 2013)
Committees:	Member of the Audit and Risk Management Committee Member of the Remuneration and Nomination Committee Member of the Technical Committee

Ribson Gabonowe – Non-Executive Director

Qualifications:	BSc (Mining Engineering), MSc (Mineral Economics), MBA
Experience and expertise:	Ribson is a Mining Engineer with over 30 years' experience in the mining industry. For twelve years to December 2006, Ribson was the Director of Mines of Botswana, responsible for administering the legal and fiscal framework governing mineral exploitation. In this role, Ribson was involved in negotiations of mineral agreements for copper, nickel, diamonds, coal and soda ash. Ribson is a director of all Discovery Metals subsidiaries registered in Botswana.
Other current directorships:	Executive Director of Boteti Mining (Pty) Ltd (since December 2010) Non-Executive Director of Gabor Consulting (Pty) Ltd (since August 2007)
Former directorships in last three years:	Non-Executive Director of Coal Wealth Botswana Pty Ltd (November 2010 to April 2011)
Committees:	Chairman of the Remuneration and Nomination Committee Member of the Audit and Risk Management Committee Director of each of the Company's subsidiaries in Botswana

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

Qualifications:	BEng (Hons)
Experience and expertise:	Russell is an engineer with over 30 years' experience in the mining industry working in senior technical and managerial positions for Citadel Resources Group, Ma'aden, WMC, Rio Tinto, RGC and others. Mr Luxford's expertise is principally in project development (including commissioning and ramp-up) and operational effectiveness for mine and processing performance improvement.
Other current directorships:	Non-Executive Director of Celamin NL (ASX:CNL) (since 26 October 2012)

Former directorships in last three years:	n/a
Committees:	Chairman of the Audit and Risk Management Committee Chairman of the Technical Committee Member of the Remuneration and Nomination Committee

Paul Frederiks – Company Secretary / Chief Financial Officer

Qualifications:	B.Bus (Accounting), FCPA, FAICD, FGIA, FCIS
Experience and expertise:	Paul has extensive experience in public company financial and commercial management with more than 29 years' experience in the Australian resources sector. He has an extensive knowledge base in listed public company reporting and compliance, financial modelling and forecasting, treasury management, project financing and corporate governance. Paul has previously held Chief Financial Officer positions at Geodynamics Limited and Ross Mining NL and has been Company Secretary for Billabong International Limited.

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

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

Stuart Bradley Sampson – Managing Director (resigned 2 November 2013)

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

Niall Lenahan – Non-Executive Director (resigned 31 October 2013)

Qualifications:	B.Comm (Hons), FCA (Irl), CA (Aus), MBA (UWA)
Experience and expertise:	Niall is a chartered accountant with extensive experience in the resources sector. He has served as a director and a chief financial officer of ASX and medium sized organisations involved in the mineral resources, construction/engineering and shipping/transport industries in Australia and overseas. He has recently served as a director and CFO of Riversdale Mining Limited, a company involved in mineral production and development in Southern Africa, prior to its takeover by Rio Tinto PLC. Niall has worked in companies involved in energy and mining in Australia, Asia and Africa and has experience in various commodities, including gold, base metals, industrial minerals and coal.

Gregory Seeto – Alternate Company Secretary (resigned 11 October 2013)

2. Principal Activity

The principal activity of the Group during the half year was the operation of its Boseto Copper Project in Botswana. The Group continued its mineral exploration in the vicinity of the Boseto Copper Project and at other exploration zones on the Kalahari Copperbelt.

No significant change in the nature of the consolidated entity's principal activity occurred during the half year.

3. Dividends Paid or Recommended

The directors do not recommend the payment of a dividend for this financial half year. No dividend has been declared or paid by Discovery Metals since the end of the previous financial year.

4. Operating Results

The result of the Group for the half year amounted to a loss of US$18.866 million.
(2012: loss US$14.575 million).

5. Number of Employees

There are 571 full-time employees employed by the Group in Australia and Botswana (2012: 615).

6. After Balance Sheet Date Events

No other matters or circumstances have arisen since the end of the half year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years other than those noted in Note 8 in the Notes to the Interim Financial Statements.

7. Future Developments

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

8. Financial Position

The net asset position of the Group at 31 December 2013 was US$37.637 million.
(30 June 2013: US$67.762 million).

9. Review of Operations

(a) Boseto Copper Operations

In the half year to 31 December 2013, 18.0 million tonnes of material was mined from the Zeta and Plutus open pits, an average of 3.0 million tonnes moved per month. The main areas of focus for mining are to sustainably increase the total material movement rate to approximately 3.5 million tonnes per month and operational improvements in the delivery of ore to the concentrator. Sulphide ore mining commenced from the Plutus pit, with improved copper recovery compared to previously mined transitional ore.

Concentrate production for the half year was 24,495 tonnes containing 9,057 tonnes of copper and 327,062 ounces of silver. During the period operational improvements were implemented in the processing plant with a view to improving copper recovery. The average copper recovery was 72.1% for the period compared the expected recovery of 74.2%.

C1 cash costs per pound of copper produced were US$3.54 for the December 2013 half year.

(b) Exploration

In the half year to 31 December 2013, the Group reported updated Mineral Resources and Ore Reserves estimates for all of its deposits in the Kalahari Copper Belt, comprising Plutus, Zeta, Selene, Zeta NE, Ophion, NE Mango 1 and NE Mango 2. The Zeta and Plutus Deposits are located adjacent to the Boseto

Copper Concentrator in North-west Botswana. The Selene, Zeta NE, Ophion, NE Mango 1 and NE Mango 2 Deposits are located outside the Boseto mining licence but within the Group's prospecting licences in the Kalahari Copper Belt in North-west Botswana.

Also reported in the period were new results from drilling at Zeta NE which confirmed continuity of the high grade mineralisation intersected in drilling during Q4 of 2012.

Extensive soil geochemical sampling and geological mapping was commenced at the Kronus prospect in the Mid Kalahari zone and at the Aphrodite prospect in the South West Kalahari zone. Regional soil geochemical sampling and geological mapping was also undertaken at the Kraaipan Gold prospect in Southern Botswana.

(c) Dikoloti Nickel Project (Discovery Metals 28% and diluting)

The Dikoloti Nickel Project now comprises three prospecting licences covering an area of 273 square kilometres surrounding the nickel operations of BCL Limited in the Selebi-Phikwe region of North-east Botswana.

The Company manages the Joint Exploration Agreement with The Japan Oil, Gas and Metals National Corporation (JOGMEC). JOGMEC previously funded the $3m exploration programme to earn a 60% interest in the project, during the earn-in phase. Additionally, JOGMEC have provided further funding of $2m during the pro-rata funding phase toward the exploration programme with DML not contributing to date in this phase. Therefore Discovery Metals' share of the project has diluted to 28%.

(d) Financing

The Group's debt is comprised of two facilities:

(i) Boseto Project Finance Agreement (PFA), consisting of an amortising $180m Term Loan; and

(ii) The US$50m Single Currency Corporate Revolving Facility (RCF), executed in October 2012 and consisting of two tranches of $25m. The facility matures in April 2014. The conditions precedent for the drawdown of the second tranche have not been met and the second tranche is no longer available.

At 31 December 2013 the PFA was in default with an outstanding balance of $128.9m. The Company has recognised the PFA outstanding balance as current in the statutory accounts. Lenders have reserved all of their rights.

At 31 December 2013 the RCF was in default with an outstanding balance of $25m. The Company has recognised the RCF outstanding balance as current in the statutory accounts. Lenders have reserved all of their rights.

There have been no principal repayments of either the Term Loan or the RCF over the course of the half year ended 31 December 2013. Interest in respect of the quarter ended December 2013 is outstanding at 31 December 2013.

(e) Boseto Hedging

During the December half year 8,291 tonnes of copper hedging expired resulting in a net cash inflow of $12.6m. There was no silver hedging in place during the December half year.

The Group currently has no copper or silver hedging in place. The Group intends to hedge future copper and silver production when an appropriate refinancing is completed.

10. State of Affairs

The Group's future financial results are dependent on the change of control and re-capitalisation process together with continued improvements in the operating performance of Boseto. Further information is provided at Note 4 to the Financial Statements.

11. Further Information

Further details are reported in the latest Quarterly Activity Report released to the ASX and BSE exchanges and available on the Company's website.

www.discoverymetals.com

12. Proceedings on behalf of the Company

No person has applied to the Court for leave to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

13. Non-audit Services

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

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

14. Auditor's Independence Declaration

The lead auditor's independence declaration for the half year ended 31 December 2013 has been received and can be found on page 21 of this combined report.

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

Jeremy Read
Chairman

Brisbane, dated this 28th day of February, 2014

STATEMENT OF COMPREHENSIVE INCOME

For the Half Year Ended 31 December 2013

	Note	31 Dec 2013 US$'000	31 Dec 2012 US$'000
Revenue from continuing operations	2(a)	**54,451**	-
Mine operating costs		**(74,544)**	-
Gross loss from mining operations		**(20,093)**	-
Other revenues	2(a)	**266**	114
Administration expenses	2(a)	**(6,589)**	(12,995)
Share based payments		**(282)**	(260)
Gain / (loss) on foreign exchange		**(1,165)**	186
Net realised gain on derivatives		**20,342**	-
Unrealised gain / (loss) on ineffective derivative financial instrument		**-**	(677)
Interest expense		**(7,469)**	(943)
Loss before income tax expense		**(14,990)**	(14,575)
Income tax benefit/(expense)	2(d)	**(3,876)**	-
Loss after income tax benefit/expense		**(18,866)**	(14,575)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Fair value of cash flow hedges (net of tax) – Unrealised		**-**	(10,717)
Fair value of cash flow hedges (net of tax) – Realised		**(19,472)**	(7,393)
Total Comprehensive (Loss) for the period		**(38,338)**	(32,685)
Basic loss per share (cents per share)		**(3.37)**	(3.03)
Diluted loss per share (cents per share)		**(3.37)**	(3.03)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

For the Half Year Ended 31 December 2013

	Note	31 Dec 2013 US$'000	30 June 2013 US$'000
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents	3	11,828	21,310
Trade & other receivables		8,480	11,286
Other financial assets	2(b)	-	17,621
Inventories		17,794	14,751
Prepaid expenses and deposits		1,132	706
TOTAL CURRENT ASSETS		39,234	65,674
NON-CURRENT ASSETS			
Property, plant and equipment		172,912	179,278
Deferred development		551	-
Exploration and evaluation phases – at cost		9,408	8,384
Intangible assets		1,101	878
TOTAL NON-CURRENT ASSETS		183,972	188,540
TOTAL ASSETS		223,206	254,214
CURRENT LIABILITIES			
Trade & other payables		23,373	27,286
Interest-bearing loans and borrowings	9	153,860	150,851
Other current financial liabilities		1,109	708
Provisions		1,640	1,873
TOTAL CURRENT LIABILITIES		179,982	180,718
NON-CURRENT LIABILITIES			
Other financial liabilities		-	291
Provisions		5,587	5,443
TOTAL NON-CURRENT LIABILITIES		5,587	5,734
TOTAL LIABILITIES		185,569	186,452
NET ASSETS		37,637	67,762
EQUITY			
Issued capital	7	275,180	267,285
Reserves	2(b)	57,792	76,946
Accumulated losses		(295,335)	(276,469)
TOTAL EQUITY		37,637	67,762

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Half Year Ended 31 December 2013

	Issued Share Capital	Accumulated (Losses)	Share Based Payment Reserve	Hedging Reserve	Foreign Currency Translation Reserve	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2012						
Balance at 1 July 2012	215,405	(52,189)	13,471	48,363	13,197	238,247
Currency translation differences	-	7	-	-	-	7
(Loss) for the half year	-	(14,575)	-	-	-	(14,575)
Shares issued during the half year	53,934	-	-	-	-	53,934
Transaction costs for shares issued	(2,054)	-	-	-	-	(2,054)
Hedging Reserves	-	-	-	(18,110)	-	(18,110)
Cost of share based payments	-	-	19	-	-	19
Balance as at 31 December 2012	267,285	(66,757)	13,490	30,253	13,197	257,468
2013						
Balance at 1 July 2013	267,284	(276,469)	13,990	49,760	13,197	67,762
Currency translation differences	-	-	-	-	-	-
(Loss) for the half year	-	(18,866)	-	-	-	(18,866)
Shares issued during the half year	8,242	-	-	-	-	8,242
Transaction costs for shares issued	(346)	-	-	-	-	(346)
Hedging Reserves	-	-	-	(19,472)	-	(19,472)
Cost of share based payments	-	-	317	-	-	317
Balance as at 31 December 2013	275,180	(295,335)	14,307	30,288	13,197	37,637

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
For the Half Year Ended 31 December 2013

	Note	31 Dec 2013 US$'000	31 Dec 2012 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (GST & VAT inclusive)		**56,159**	33,718
Payments to suppliers and employees (GST & VAT inclusive)		**(73,650)**	(25,525)
Interest received		**33**	114
Refunds received		**-**	-
Hedge settlements		**12,617**	7,769
Interest paid		**(2,992)**	(4,690)
Net cash used in operating activities		**(7,833)**	11,386
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration		**(1,069)**	(6,038)
Purchase of plant and equipment and spares		**(1,736)**	(49,562)
Payments for deferred stripping activities		**(7,129)**	-
Purchase of intangibles		**-**	(248)
Proceeds from joint venture partner		**-**	-
Net cash used in investing activities		**(9,934)**	(55,848)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**-**	25,000
Proceeds from issue of shares		**8,242**	53,898
Borrowing costs		**-**	(2,354)
Share issue costs		**(346)**	(2,054)
Project loan repayments		**-**	(42,136)
Net cash provided by financing activities		**7,896**	**32,354**
Net increase in cash & cash equivalents held		**(9,871)**	(12,108)
Cash & cash equivalents at the beginning of the period		**21,310**	60,308
Effect of exchange rates		**389**	186
Cash & cash equivalents at the end of the period		**11,828**	48,386

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Discovery Metals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report apart from the changes in accounting policies noted within Note 1(b).

(a) Basis of preparation of half year financial report

Basis of Accounting

The half year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards including AASB 134 *Interim Financial Reporting*, and other mandatory professional reporting requirements.

For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

(b) New Accounting Standards and Interpretations

New Accounting Standards, Amendments and Interpretations adopted for the first time for the financial year beginning 1 July 2013 are set out below.

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

The Group has identified components of the ore bodies at its open pit mines where the above criteria are met and capitalised $7.1m in the financial half year to 31 December 2013. The stripping activity asset is being amortised using the units of production method over the life of the identified component of the ore body. Amortisation charged in the period under review amounted to $0.7m.

The company has considered the impacts of new Standards effective from the start of the period, e.g. AASB 10, 11, 12 and 13, and determined there to be no material impact on any amounts or disclosures of the group.

Certain new Accounting Standards and Interpretations have been published that are not mandatory for 31 December 2013 reporting periods and have not yet been applied in the financial report. The Directors believe that these new or amended Standards and Interpretations do not have any material financial effect on the financial statements presented.

(c) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current period disclosures.

NOTE 2: LOSS FOR THE PERIOD

(a) Loss from ordinary activities before income tax has been determined after:

	31 Dec 2013 US$'000	31 Dec 2012 US$'000
Copper sales	**48,652**	-
Silver sales	**5,799**	-
Revenue from continuing operations	**54,451**	-
Other revenue	**266**	114
Total income	**54,717**	114
Amortisation of mine properties	**(164)**	-
Depreciation of mining plant and equipment	**(9,547)**	-
Mining depreciation and amortisation	**(9,711)**	-
Salaries and consultants	**(4,224)**	(6,039)
Consultants - takeover response	**-**	(3,665)
Professional fees	**(1,158)**	(1,906)
Rent	**(230)**	(110)
Travel expenses	**(208)**	(586)
Other expenses	**(769)**	(689)
Administrative expenses	**(6,589)**	(12,995)

(b) Derivative financial instruments and hedge accounting

During the December half year 8,291 tonnes of copper hedging expired resulting in a net cash inflow of $12.6m. There was no silver hedging in place during the December half year.

The Group has no copper or silver hedging in place at 31 December 2013. The Company intends to hedge future copper and silver production when an appropriate refinancing is completed.

Hedge reserve movement released to other comprehensive income for the half year ended 31 December 2013 totalled $19.5m. In accordance with AASB139 gains on the hedge instruments have been quarantined in the hedging reserve until the original hedged transaction occurs.

(c) Operating revenue and expenses

At 1 July 2013 the Directors determined that the project had reached the stage of operating at the design level. The effect of this change on the half year financial statements has been to recognise in the Statement of Comprehensive Income, sales revenues, hedge settlements and certain other costs which in prior periods would have been debited/credited against property plant and equipment whilst the project was in the ramp up and testing phase. In addition, the Group has commenced charging depreciation on project assets to the Statement of Comprehensive Income.

During the period, sales revenues from the project of $54.5m were recognised along with $14.6m from hedge settlements. Borrowing costs of $7.5m were recognised together with $9.5m of depreciation on project assets.

(d) Income Tax

The Group calculates the period income tax expense using the tax rate that would be applicable to expected total annual earnings, ie, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The major components of income tax expense in the interim statement of comprehensive income are:

	31 Dec 2013 US$'000	31 Dec 2012 US$'000
Current income tax expense	**-**	-
Deferred income tax expense related to origination and reversal of deferred taxes	**(3,876)**	-
Income tax expense recognised in the statement of comprehensive income	**(3,876)**	-

At 31 December 2013 the Group had the following estimated tax assets and liabilities:

	31 Dec 2013 US$'000		30 Jun 2013 US$'000	
	Australia	**Botswana**	**Australia**	**Botswana**
Tax losses	**(32,658)**	**(390,342)**	(32,658)	(393,122)
Deferred tax asset	**9,916**	**85,466**	9,992	87,893
Deferred tax liability	**-**	**(30,073)**	-	(38,276)
Net tax asset	**9,916**	**55,393**	9,992	49,617
Recognised	**-**	-	-	-
Net tax asset recognised	**-**	-	-	-

The benefit of tax losses will only be realised if:

- The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and
- The Group continues to comply with the conditions and deductability imposed by tax legislations; and
- There are no changes in the tax legislation that adversely affect the company in realising the benefit.

NOTE 3: CASH & CASH EQUIVALENTS

	31 Dec 2013 US$'000	30 Jun 2013 US$'000
Cash on hand and at bank	**3,615**	13,408
Secured cash on hand & deposits at call	**213**	206
Restricted Cash[1]	**8,000**	7,696
	11,828	21,310

[1] Restricted Cash is required by the Project Finance Facility Agreement for the payment of future debt service commitments, for additional information on the Project Finance Facility refer to Note 9.

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

NOTE 4: GOING CONCERN

At 31 December 2013 the Group was in default of its loan facilities comprising a Project Finance Facility Agreement (PFA) of $128.86m and a Corporate Revolving Facility (RCF) of $25m. The Company has recognised the whole outstanding balances as current in the statutory accounts and lenders have reserved all of their rights.

In May 2013 and with the approval of the lenders, the Company commenced a formal process of engaging with interested parties to evaluate whether a change of control transaction or some other form of recapitalisation could be secured on terms that the Board would recommend to shareholders.

In September 2013 the Company announced it entered into a binding Term Sheet for a US$108 million recapitalisation proposal with Blumont Group Limited (Blumont), including $8m in equity and $100m of convertible notes. Conditions precedent were not satisfied by the sunset date and subsequent negotiations with Blumont did not present a satisfactory outcome for the Company.

The Company now continues to seek a change of control or recapitalisation transaction and at the time of writing there remain a number of parties completing due diligence on the Company, some well advanced.

The Company has prepared the 31 December 2013 financial report on a going concern basis. The Company believes that although the PFA and RCF are in default, the financial forecasts of the Project together with the ongoing change of control, equity raise & refinance process and ongoing support from the lending syndicate, is enough to ensure that the Company will operate as a going concern for the next 12 months.

If the Group was not able to repay the loan funds due, achieve a profitable operating position for the Boseto Operation and an additional working capital facility, it may not be able to continue as a going concern and realise assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the financial report. Cognisant of the above matters, management has been working closely with lenders to seek relief and relevant modifications to current facility agreements as required. Most recently, as announced on 17 February 2014, lenders have extended the waiver of the outstanding December 2013 PFA repayment to 31 March 2014. As further announced on 28 February 2014, lenders have extended the waiver of all interest owing up until 28 February 2014 on the PFA facility and the RCF, until 15 March 2014.

The Directors have expectations that progress with the change of control transaction or some other form of recapitalisation in conjunction with Banking syndicate support will be successful. If a change of control transaction is not successful, the Company will need to rely on the support of its lenders to reprofile the existing debt and provide working capital resources. Should the lenders not agree to this the company will be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that might be necessary should the Group not continue as a going concern.

NOTE 5: SEGMENT REPORTING

The consolidated entity operates in one business segment being the mining industry, in two geographical locations, being Australia and Botswana.

For the half year ended 31 December 2013	Boseto Copper	Exploration	Corporate	Consolidated Group
	US$'000	US$'000	US$'000	US$'000
Revenue from external customers, Inter-segment revenue, interest & derivative income	**74,809**	**1,995**	**812**	**77,616**
Expenses	**(78,403)**	**(9)**	**(14,194)**	**(92,606)**
(Loss) / income before elimination	**(3,594)**	**1,986**	**(13,382)**	**(14,990)**
Less: Elimination	**(2,239)**	**(1,757)**	**3,996**	**-**
Add: income tax benefit/(expense)	**(3,876)**	**-**	**-**	**(3,876)**
(Loss)/ income after income tax	**(9,709)**	**229**	**(9,386)**	**(18,866)**
Reportable segment assets	**211,306**	**8,592**	**3,308**	**223,206**
Reportable segment liabilities	**(157,770)**	**(132)**	**(27,667)**	**(185,569)**

For the half year ended 31 December 2012	Boseto Copper	Exploration	Corporate	Consolidated Group
	US$'000	US$'000	US$'000	US$'000
Inter-segment revenue, Interest & Refunds	1,753	8	3,002	4,763
Expenses	(3,061)	(132)	(11,494)	(14,687)
(Loss) / income before elimination	(1,308)	(124)	(8,492)	(9,924)
Less: Elimination	(1,670)	-	(2,981)	(4,651)
Add: income tax benefit	-	-	-	-
(Loss)/ income after income tax	(2,978)	(124)	(11,473)	(14,575)
Reportable segment assets	474,209	1,632	18,188	494,029
Reportable segment liabilities	(181,334)	(53)	(55,174)	(236,561)

The estimated recoverable amount of the assets disclosed above is equal to the recorded value of those assets. Any matters which would cause a decline in the recoverable value will result in impairment.

Under the off-take agreement 100% of the concentrate produced from the Boseto Mine is sold to Transamine, an independent commodities trading house.

NOTE 6: CAPITAL COMMITMENTS

Capital expenditure commitments	As at 31 December 2013	As at 30 June 2013
	US$'000	US$'000
Payable – not later than one year	112	233

NOTE 7: ISSUED CAPITAL

	31 Dec 2013 US$'000	30 Jun 2013 US$'000	31 Dec 2013 Shares	30 Jun 2013 Shares
Fully paid ordinary shares at reporting date	**275,180**	267,285	**560,034,418**	486,986,451
(a) Ordinary Shares				
At beginning of reporting period	**267,284**	215,405	**486,986,451**	442,128,231
Shares issued during the period:				
Issued at A$0.12 each	**8,242**	-	**73,047,967**	-
Issued at A$0.375 each	**-**	36	**-**	100,000
Issued at A$1.20 each	**-**	53,898	**-**	42,643,710
Issued at A$nil each	**-**	-	**-**	2,114,510
Transaction costs relating to share issues	**(346)**	(2,054)		
At reporting date	**275,180**	267,285	**560,034,418**	486,986,451
* Shares on issue to parties external to Group			**555,627,791**	479,051,552

NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE

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

- On 7 January 2014, notice of change of interests of substantial holder – Genesis Asset Managers;
- On 14 January 2014, the Company announced restructuring at the Boseto Operation;
- On 15 January 2014, the Company announced a revised principal repayment schedule for its Boseto Project Finance (PFA) facility as agreed with its lenders;
- On 16 January 2014, the Company released the December Quarterly Activities Report;
- On 16 January 2014, notice of change of interests of substantial holder – UBS AG;
- On 7 February 2014, the Company announced new drilling results from the Zeta NE deposit;
- On 17 February 2014, the Company announced a revised principal repayment schedule for its Boseto Project Finance (PFA) facility as agreed with its lenders. A principal repayment of $17.5 million was due and payable on 31 December 2013. This principal repayment has been deferred to 31 March 2014;
- On 18 February 2014, the Company announced that it had reached an agreement with Sedgman Limited, the main construction contractor on the Boseto Copper Project, in relation to the full and final settlement of all claims arising from the contract dispute (EPC Dispute) between the parties. The Company agreed to pay Sedgman $3.2m in full and final satisfaction of the EPC Dispute, subject to receiving funds in connection with the recapitalisation of the Company and refinancing of debt under the Project Finance Facility and the Single Currency Revolving Credit Facility Agreement in the amount of at least US$30m by 30 April 2014. The parties have agreed not to progress the EPC Dispute to international arbitration, as they were entitled to do or take other action prior to 30 April 2014. The full amount of the liability has been recorded in trade & other payables balance at 31 December 2013;
- On 28 February 2014, the Company announced that the Company's lenders had granted a further waiver such that all interest owing up until 28 February 2014 on the PFA facility and the Corporate Revolving Facility (RCF) has been deferred until 15 March 2014 while discussions between the Company and various external parties to a large-scale recapitalisation of the Company continue.

NOTE 9: INTEREST BEARING LIABILITIES

At 31 December 2013 the Group had used/available the following facilities:

Facility	Used US$'000	Available US$'000	Total US$'000	Current	Used US$'000 Non-Current
Project Financing	**128,860**	-	**128,860**	**128,860**	-
Revolver	**25,000**	-	**25,000**	**25,000**	-
Total Interest bearing liabilities	**153,860**	-	**153,860**	**153,860**	

The Boseto debt syndicate project finance documents (**PFA**) were executed with the first drawdown of project debt in July 2011. The borrowing entity was Discovery Copper Botswana Proprietary Limited (**DCB**) a 100% owned subsidiary of Discovery Metals Limited (**DML**), with Discovery Copper Mauritius Pty Ltd (**DCM**) and DML as guarantors to the facility. The initial PFA included an amortising $180m Term Loan and a $25m revolving Cost Overrun & Working Capital Loan (**COF**).

The PFA was secured against the Boseto Copper Project assets as follows:

1. First ranking charges over the assets and undertakings of DCB held via a Special Purpose Vehicle for the benefit of the lending syndicate;
2. First ranking security over DCM shareholding in the DCB and intercompany loans from DCM to DCB;
3. First ranking security over DML shares in DCM and intercompany loans from DML or any related entity to DCM or DCB;
4. First ranking charge over the Proceeds Account, the Debt Service Reserve Account (DSRA) and all other Project accounts of the Borrower;
5. Security of all material agreements, concessions and permits required to operate the Boseto Copper Project, including the proceeds of all insurance policies;
6. Direct agreements with counterparties to Material Contracts for the purposes of ensuring cure and step-in rights for the benefit of the Lenders;
7. Guarantees by DCM and DML of the obligations of the Borrower under the Facilities. The Guarantors will be released once Boseto Project Financial Completion is achieved; and
8. Cession and subordination of intercompany loans granted to DCB by DML and DCM.

As at 31 December 2013, the PFA was in default with an outstanding balance of $128.9m. The COF had been fully repaid and the facility cancelled, while the DSRA had a credit balance $8.0m. The Company has recognised the PFA outstanding balance as current in the statutory accounts. Lenders have reserved all of their rights.

Corporate Revolving Credit Facility

On 29 October 2012, DML agreed and entered into a US$50m single currency facility agreement, Corporate Revolving Facility (**RCF**). The loan was split into two tranches of $25m, one available immediately and the second available once the Project commissioning and ramp-up process had been successfully achieved. Both tranches had maturity dates of April 2014.

The facility was secured by guarantees from DML, Discovery Mines Mauritius Ltd and Discovery Mines Proprietary Ltd.

At 31 December 2013 the RCF was in default with an outstanding balance of $25.0m. The Company has recognised the RCF outstanding balance as current in the statutory accounts. Lenders have reserved all of their rights.

There have been no principal repayments of either the Term Loan or the RCF over the course of the half year ended 31 December 2013. Interest in respect of the quarter ended December 2013 is outstanding at 31 December 2013.

During the half year ended 31 December 2013 the following material changes occurred to the terms and conditions of all three debt facilities (PFA, COF, RCF).

Date	Facility	Reference	Key Changes
2 September 2013	Term Loan	Consent letter	The definition of "Minimum DSRA Balance" be amended to $8.0m for the period up to and including 31 December 2013 and the default requirement of the Board to make a change of control recommendation to lenders be deferred until 16 September 2013.
16 September 2013	Term Loan	Consent letter	The default requirement of the Board to make a change of control recommendation to lenders be deferred until 30 September 2013.

19 September 2013	Term Loan & RCF	Blumont Group Limited re-capitalisation proposal	On 19 September 2013 the Company announced a US$108m re-capitalisation proposal with Blumont Group Limited including a 15% share placement at A$0.12 per share to raise A$8.75m and US$100m in Convertible Bonds convertible to ordinary shares at A$0.15 per share. The recapitalisation proposal took the form of a binding Term Sheet, subject to certain approvals, conditions precedent and contained a sunset date of 19 December 2013. In concert with a proposed A$10m share purchase plan to existing shareholders at the A$0.12 per share placement price, and subject to shareholder approval, the proceeds of the recapitalisation were to be used to:
			• Repay the US$25m Revolving Credit Facility in full; and
			• Restructure the Term Loan pay, including:
			  • US$25m principal repayment;
			  • US$104m balance payable in eight equal instalments between 31 March 2016 and 31 December 2017 with interested capitalised until 31 December 2015; and
			  • A waiver of all past and existing defaults under current facilities.

19 December 2013	Term Loan & RCF	Blumont Group Limited re-capitalisation proposal	On 19 December 2013 the Company announced that the conditions precedent to the US$108m recapitalisation proposal with Blumont Group Limited, had not been satisfied by the sunset date and as a result of this the terms sheet had lapsed.
31 December 2013	Term Loan & RCF	Consent letter	On 31 December 2013 the Company announced that the Term Loan US$17.5m principal repayment and the interest payments for both the term Loan and the RCF in respect of the December 2013 quarter, were waived until 15 January 2014.

Refer to Note 8 for subsequent events and further changes to the debt facilities.

NOTE 10: ASSETS HELD FOR SALE

As at 31 December 2013 management were actively seeking additional investment, buyers for current operations and/or a reprofiling of the Group's debt obligations. If a transaction was to result which saw the Group's interest in the Boseto Copper Project sold, the operation would become a discontinued operation and all balances associated with the sold operations would not continue to be present in future periods.

DIRECTORS' DECLARATION

The directors of Discovery Metals Limited declare that:

1. The financial statements and notes, as set out on pages 13 to 20 hereof:
   (a) comply with Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations; and
   (b) give a true and fair view of the economic entity's financial position as at 31 December 2013 and of the performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable taking into account matters disclosed in Note 4 to the financial statements.

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

Jeremy Read
Chairman

Brisbane, dated this 28th day of February, 2014

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

In relation to our review of the financial report of Discovery Metals Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Bradly Tozer

Brad Tozer
Partner
28 February 2014

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To the members of Discovery Metals Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Discovery Metals Limited, which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Discovery Metals Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Discovery Metals Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

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

Ernst & Young

Ernst & Young

Bradly Tozer

Brad Tozer
Partner
Brisbane
28 February 2014