



52-wk Range: £0.12-0.57      Market Cap (M): £100.8  
 12 month target £0.78      EV (M): £90.1

Mining

## Boseto project capacity upgraded to 3Mt pa

### Summary

Australia headquartered Discovery Metals is focusing on developing its core asset, the Boseto copper project in Botswana, which it aims to take through BFS in the next 3 months



### Key Metrics

Shares Outstanding (M): 230.3  
 Current Price (GBP): £0.44  
 Fully Diluted Shares (M): 273.3

### Event

Discovery Metals has announced that the Boseto Project has been upgraded from a proposed 2Mt pa operation to a 3Mt pa project. The delivery of the Bankable Feasibility Study has been delayed until July 2010, but the project schedule is unchanged with first production being targeted for December 2011.

### Comment

It comes as no surprise that the project has been upgraded from 2 to 3Mt pa. The recent announcements relating to the underground potential at Zeta and the recently increased open pit resources at Plutus/Petra being the main drivers.

We have amended the model, as per the release. This involved increasing the capital expenditure, both initially for the larger mill and inserting a further \$10M for the underground. We have then scheduled in underground production starting early in 2014. At the same time we have reduced the milling costs a little to reflect economies of scale associated with the increase in mill capacity and extended the mine life to 15 years.

The delay in the Bankable Feasibility Study is due to the increase in capacity which requires further optimization of the mine plans and changes to the current engineering design of the concentrator, but it will remain focused only on the open pit. At the end of March the company had cash of \$34M and with recent inflows from the conversion of options it is well funded to progress the project and place deposits on long lead time items.

Work on the Zeta underground mine will be accelerated and a drill out programme of the underground resource is due to commence within the current June quarter. This will form part of a definitive feasibility study for the Zeta underground which is expected to be completed by mid 2011. Discovery also intends to undertake a limited exploration programme for underground targets in the Plutus area over the next 6 months, with the results to be included in the long term planning. This does not surprise Fox-Davies as we mentioned in a note earlier in 2010 that we thought that there was potential for underground mines at both Plutus and Petra.

### Recommendation

We retain the Buy recommendation with an increased target price of £0.78/share., previously £0.65/share. The increase in the target price would have been higher but we changed the A\$:£ exchange rate used to determine the target price from 1.65 to 1.74 to reflect the current exchange rate.

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FYE Jun	2008	2009	2010E	2011E	2012E
Revenue (A\$M):	0.26	0.0	0.0	0.0	171.7
EBITDA (A\$M):	-5.3	-3.1	-0.6	-2.6	112.8
NPAT (inc significant items):	-4.8	-2.0	-0.4	-3.1	100.2
EPS (AUc):	-3.5	-1.0	-0.2	-1.0	33.1
Cash Flow/Share (AUc):	-3.8	-0.7	0.2	-0.8	37.2
Copper Price (USc/lb):	352.5	223.2	308.4	340.0	322.5
Nickel Price (USc/lb):	1300.8	603.3	824.4	762.5	787.5

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### Peter Rose

Peter Rose has 20 years experience in equities as a resources analyst, most recently having spent 11 years with Deutsche Bank in Australia. Prior to this he spent three years with Prudential Bache and five years with James Capel. Peter's industry experience includes 16 years as a metallurgist, three years with De Beers in South Africa and eight years in the uranium industry, five of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Mining & Metallurgy and a chartered engineer.

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Research disclosure as of 24 May 2010

Company Name	Disclosure
Discovery Metals (DME)	7

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Company	Ticker	Recommendation	Date	Target Price	Last Price
Mining					
African Barrick Gold	ABG LN Equity	SELL	27.04.10	£4.26	£5.35
Angel Mining	ANGM LN Equity	BUY	03.03.10	£0.16	£0.06
Antofagasta	ANTO LN Equity	HOLD	06.05.10	£9.90	£8.46
Atlantic Coal	ATC LN equity	BUY	21.01.10	£0.025	£0.006
Discovery Metals	DME LN Equity	BUY	24.05.10	£0.78	£0.44
EMED Mining	EMED LN Equity	BUY	12.04.10	£0.62	£0.09
Exco Resources	EXS AU Equity	BUY	09.04.10	A\$0.67	A\$0.24
Gippsland Limited	GIP LN Equity	BUY	06.10.09	£0.02	NA
Hambledon Mining	HMB LN Equity	HOLD	20.05.10	£0.13	£0.05
Highland Gold	HGM LN Equity	BUY	20.05.10	£1.46	£1.32
Hochschild Mining	HOC LN Equity	HOLD	21.04.10	£3.11	£2.55
KEFI Minerals	KEFI LN Equity	Spec. BUY	06.10.09	NA	£0.01
Kryso Resources	KYS LN Equity	BUY	21.04.10	£0.14	£0.11
Lydian International	LYD CN Equity	BUY	18.03.10	C\$1.22	C\$0.98
Minera IRL	MIRL LN Equity	BUY	14.05.10	£0.94	£0.66
Oxus Gold	OXS LN Equity	BUY	21.04.10	£0.30	£0.07
Stratex International	STI LN Equity	BUY	03.03.10	£0.07	£0.04

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