

27 April 2010



**DMC MINING LIMITED**

**Update on Takeover Activity** ACN 121 513 620

**TAKE NO ACTION  
Until DMC Directors Give A Recommendation**

Dear Fellow Shareholder

I am writing to you in relation to recent announcements made by the Company with respect to an offer and non-binding proposal by third parties to acquire your shares in DMC Mining Limited (**ASX: DMM**) ("**DMC**" or the "**Company**"). A summary of the offer and non-binding proposal and observations by your Board are set out below.

**Offer by Cape Lambert Resources Limited**

On 23 March 2010, Cape Lambert Resources Limited ("**Cape Lambert**") (**ASX: CFE**) announced that it will make an off market, all-cash takeover offer of A\$0.40 per share for all the shares in DMC ("**Cape Lambert Offer**").

On 23 April 2010, DMC was advised by Cape Lambert that the Bidder's Statement had been sent to DMC Shareholders, and that the Cape Lambert Offer is now open for acceptance. At the same time, Cape Lambert also increased its offer to A\$0.46 per share. A supplementary Bidder's Statement will soon be sent to Shareholders outlining the change in the Cape Lambert Offer.

Your Company, in conjunction with its advisers, is currently preparing a Target's Statement as required by the Corporations Act. The Target's Statement will include a valuation of DMC shares from an independent expert and will outline a Board recommended course of action to Shareholders with respect to the Cape Lambert Offer. The Target's Statement is expected to be posted to Shareholders on 7 May 2010, such that you should receive it early in the week commencing 10 May 2010. It will also be available on DMC's website [www.dmcmining.com.au](http://www.dmcmining.com.au).

Until such time as you receive the Target's Statement, the DMC Board of Director's recommend that you **take no action at this time with respect to the Cape Lambert Offer**.

**Observations of the Cape Lambert Offer**

Whilst your Board will provide a recommendation in the forthcoming Target's Statement, we wish to outline and highlight a number of observations with respect to the Cape Lambert Offer and associated commentary in the financial press.

***Unsolicited offer and opportunistically timed***

The Cape Lambert Offer was not solicited by DMC. The Company considers this offer to be opportunistic and is timed prior to the completion of the current drilling program on the Company's flagship Mayoko Iron Ore Project ("**Mayoko**"). Your Board is very excited about the initial results from this drilling program, which is the first step in corroborating the Company's exploration target size of **0.9 to 1.3 billion tonnes of iron mineralisation at approximately 35 - 45% Fe<sup>1</sup>**. Further details on the progress of the drilling program are provided in Appendix 1 of this letter.

<sup>1</sup> The estimates of exploration target sizes mentioned in this announcement should not be misunderstood or misconstrued as estimates of Mineral Resources. The estimates of exploration target sizes are conceptual in nature and there has been insufficient results received from drilling completed to date to estimate a Mineral Resource compliant with the JORC Code (2004) guidelines. Furthermore, it is uncertain if further exploration will result in the determination of a Mineral Resource.

### ***Perception of Cape Lambert Offer from its Executive Chairman, Tony Sage***

In response to DMC's announcement on 14 April 2010 advising it had received a notification of interest from a third party to make an off-market takeover bid for \$0.46 per share, Tony Sage was quoted in the West Australian newspaper on 15 April 2010 as saying, *"our philosophy is to make profits on deals then move on but...we were looking at a market cap of around \$200 million (for DMC), so it is going to take a little bit to shake us loose (sic)."*

The article added that, *"Mr Sage also said the 46c-a-share approach from an unnamed third party was too cheap..."*.

Clearly, if, according to Mr Sage, an approach at \$0.46 per DMC share from a third party is too cheap, then what does that say about Cape Lambert Offer at \$0.46 per DMC share? Furthermore, your Board notes that should Mr Sage's estimated market capitalisation for DMC of \$200 million come to fruition, this would imply a price of \$2.30 per DMC share<sup>2</sup>.

### ***Acceptance of the Cape Lambert Offer may have potential adverse consequences for you***

You should be aware of the following if you accept the Cape Lambert Offer:

- whilst the Cape Lambert Offer remains conditional, if you accept the Cape Lambert Offer you will lose the ability to accept any rival offer or to sell your DMC shares on market for more than the price offered by Cape Lambert (as at close of trading on 23 April 2010, the DMC share price was \$0.465 per share). If you accept the Cape Lambert Offer, you are only entitled to withdraw your acceptances in very limited circumstances;
- whilst the Cape Lambert Offer remains conditional and you accept the Cape Lambert Offer, you will relinquish control of your DMC shares with no guarantee of payment until one month after you have accepted the Cape Lambert Offer or the Cape Lambert Offer becomes unconditional (whichever is later);
- if the Cape Lambert Offer becomes unconditional, and you accept the Cape Lambert Offer, any acceptance by you will be final and you will lose the ability to accept any rival offer or to potentially sell your shares on market for more than the price offered by Cape Lambert; and
- your Board is working closely with its advisers to solicit a superior transaction to the Cape Lambert Offer from major iron ore producers and traders. To that end a number of such groups are currently conducting due diligence on DMC, subject to confidentiality undertakings<sup>3</sup>.

### **Third party approach, notification to make an off-market takeover of \$0.46 per DMC share**

On 14 April 2010, DMC advised ASX that it had been notified by a third party of an interest in making an off-market takeover bid for your shares in DMC ("**Notification of Interest**").

This Notification of Interest included:

- An all cash takeover offer of \$0.46 per DMC share, with the following pre-conditions:

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<sup>2</sup> Based on 86,867,867 existing shares on issue.

<sup>3</sup> There is no certainty that these discussions and negotiations will lead to a competing transaction, or if there is a competing transaction that it will be on superior terms and conditions to the Cape Lambert Offer or Notification of Interest.

- A requirement that each of the DMC Directors and their respective shareholding entities in DMC enter into pre-bid agreements to sell their shares in DMC, subject to a better cash offer per share;
- The Board of DMC recommending the offer, subject to a better cash offer per share being made by another party;
- A requirement for a pre-bid agreement between DMC and the bidder, and
- The completion of due diligence to the satisfaction of the bidder.
- The offer would then be conditional upon:
  - At the end of the offer period, the bidder having a relevant interest in at least 47,000,000 DMC shares on issue (which represents 50.47% of DMC's shares on issue if all outstanding options are exercised); and
  - A "prescribed event" (being an event listed in section 652C(1)(a) to (h) and section 652C(2)(a) to (e) of the *Corporations Act 2001 (Cth)*<sup>4</sup>.

This Notification of Interest was unsolicited, and the confidential and non-binding proposal is incomplete, subject to conditions and not capable of acceptance in its current form. However, your Board has commenced further discussions and negotiations with the party that provided the Notification of Interest to determine whether there will be a transaction that can be put to Shareholders as a superior alternative to the Cape Lambert Offer<sup>5</sup>.

We will advise you of the outcome of these discussions in due course.

### **Assistance from advisers with respect to takeover activity**

To assist the Board in its deliberations on the Cape Lambert Offer, any other offer that may be received from other parties and the Notification of Interest, DMC has appointed:

- Blakiston & Crabb as legal adviser; and
- Royal Bank of Canada (RBC Capital Markets) as corporate adviser.

Additionally, DMC has appointed an independent expert to determine and advise whether the Cape Lambert Offer is fair and reasonable for DMC Shareholders (not associated with Cape Lambert). BDO Corporate Finance (WA) Pty Ltd ("**BDO**" or the "**Independent Expert**") has been appointed as the independent expert, with Coffey Mining Pty Ltd appointed as the independent technical expert, reporting to BDO.

### **Other developments for DMC**

Reflecting overall increasing market awareness and recognition of DMC, London based broking firm Ambrian Partners Limited ("**Ambrian**") has initiated coverage on DMC and has published a first report. Importantly, Ambrian visited Mayoko after drilling commenced as part of the preparation of its first report.

A copy of the full report can be downloaded from DMC's website: [www.dmcmining.com.au](http://www.dmcmining.com.au).

### **What should DMC Shareholders Do?**

Again, we urge Shareholders to **take no action at this time in relation to the Cape Lambert Offer**.

DMC Shareholders should wait until the DMC Board provides a written recommendation as part of the Target's Statement, which will include the Independent Expert's valuation of DMC. The Target's Statement will be posted to Shareholders no later than Friday 7 May 2010.

<sup>4</sup> This wording is taken directly from the letter received by the Company. We assume the reference should have been to a "prescribed event" **not occurring**.

<sup>5</sup> There is no certainty that these discussions and negotiations will lead to a competing transaction, or if there is a competing transaction that it will be on the terms and conditions contained in the Notification of Interest.

Yours sincerely,

David Sumich  
Managing Director

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## **Appendix 1 - Recent exploration update**

On 9 April 2010, DMC released its first exploration update on the drilling program currently underway at Mayoko.

The Directors are encouraged by the progress and results of the current drilling program. Geological logging to date has corroborated the assumptions used to estimate the Mt Lekoumou segment of the exploration target size. The initially reported exploration target size for Mt Lekoumou, Mt Mipoundi and Mt Lekoumou South was estimated at 0.7 – 0.9 billion tonnes of iron mineralisation at approximately 35% to 45% Fe (refer ASX announcement dated 17 July 2009 for details). **The estimates of exploration target size were increased to 0.9 to 1.3 billion tonnes at approximately 35 - 45% Fe<sup>6</sup>** after the identification and confirmation of 3 new targets to the north and northeast of Mt Mipoundi (refer ASX announcement dated 12 January 2010 for full details).

**Mt Lekoumou has an Inferred Mineral Resource of 33 million tonnes at 56% Fe** of hematite iron cap mineralisation. This Mineral Resource is based on 26 historic diamond drill holes drilled on 200m spaced cross sections to an average depth of 38m and covering a strike length of approximately 1.2km (refer ASX announcement dated 7 May 2008 for full details).

**The current drilling program has intersected banded iron formation (“BIF”) to a vertical depth of 350m (and remains open at depth).** The BIF is overlain by hematite iron cap mineralisation and underlying weathered BIF to depths of 40m and 80m below surface respectively. The initial program will test the main Mt Lekoumou – Mt Mipoundi zone over a strike length of 7km. The first drill traverse, located across Mt Lekoumou, intersected 2 lenses of BIF with estimated true thicknesses of 80 and 120m (refer ASX release dated 9 April 2010 for full details).

The Directors of DMC believe that Mayoko has the potential to be a significant iron ore project, leveraged to existing transport infrastructure in the Republic of Congo. The Company’s immediate work plan involves continued drilling and metallurgical test work to define mineral resources and ore types.

### **Competent Person:**

*The contents of this report relating to exploration results and mineral resources are based on information compiled by Mr K. Bischoff, a Member of the Australasian Institute of Mining and Metallurgy. Mr. Bischoff is a non-executive Director of DMC Mining and has sufficient experience relevant to the styles of mineralisation and the deposit under consideration and to the activity he is undertaking to qualify as a Competent Person, as defined in the 2004 edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr. Bischoff consents to the inclusion in this report of the matters compiled by him in the form and context in which they appear.*

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<sup>6</sup> The estimates of exploration target sizes mentioned in this announcement should not be misunderstood or misconstrued as estimates of Mineral Resources. The estimates of exploration target sizes are conceptual in nature and there has been insufficient results received from drilling completed to date to estimate a Mineral Resource compliant with the JORC Code (2004) guidelines. Furthermore, it is uncertain if further exploration will result in the determination of a Mineral Resource.