

Kimberley Diamonds Ltd

ACN 150 737 563

Level 39 Australia Square Tower

264-278 George Street

Sydney NSW 2000

ASX:KDL

T: 61 2 8243 7500

F: 61 2 8243 7599

www.kdl.com.au

1 BACKGROUND

Kimberley Diamonds Ltd (**KDL**) (ASX: KDL) is the owner of the Lerala Diamond Mine (**Lerala Diamond Mine** or **Lerala**), located in north-eastern Botswana. Lerala was acquired by KDL in February 2014 when KDL acquired 100% of the issued share capital of Mantle Diamonds Mines Ltd (**Mantle**).

The Lerala Diamond Mine comprises a cluster of five diamond-bearing kimberlite volcanic pipes, designated K2 to K6, and a processing plant with a nominal capacity of 200 tonnes per hour (tph). The project area is covered by a 15 year fully permitted mining lease with an area of 21.86km².

Mantle operated the Lerala Diamond Mine between February and July 2012 but a range of technical factors in the processing plant resulted in poor recovery of diamonds and Mantle ceased operations. Following its acquisition of the Lerala Diamond Mine, KDL engaged Consulmet, a leading South African process engineering company with extensive diamond plant experience, to redesign sections of the processing plant to facilitate dramatically improved diamond recovery and throughput reliability.

KDL recommenced mining at the Lerala Diamond Mine in early April 2016, and is in the process of re-commissioning the plant as Consulmet nears completion of the plant upgrade. Production is due to commence by the beginning of May, and the first sale of diamonds is scheduled for June 2016.

Elsewhere in Botswana, KDL holds a 50% interest in two exploration tenements through a Joint Venture with Tilwane Services (Pty) Limited in which it holds a right to earn an additional 20% interest. KDL also holds interests in diamond tenements in Canada.

In gold and copper-gold, KDL was awarded the Investigation Permit covering the former Lomero mine in Andalucia, Spain in October 2014 and has commenced its initial investigations of that mineral deposit to determine the potential for a re-development of mining. In addition, KDL's unlisted subsidiary Zodiac Resources holds a 75% interest in the Yeoval intrusive-related copper-gold deposit located in central New South Wales.

2 LERALA DIAMOND MINE PROJECT UPDATE

Mining contractor appointed

On 11 February 2016, KDL announced that its Botswana subsidiary, Lerala Diamond Mines Limited (**Lerala**), entered into a contract for the open pit mining operations.

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The mining contract was awarded to Basil Read Botswana (Pty) Limited (Basil Read) following a two-stage competitive tender process in which eight qualified companies competed for selection into a shortlist of three selected companies, from which BRMB was ultimately selected.

Key contract outcomes include:

- the contract covers the initial five years of mining and may be extended further;
- competitive rates for drilling, blasting, loading and hauling of ore and waste; and
- anticipated total value of the contract is around \$A47 million at current exchange rates.

Basil Read mobilised staff and equipment to the Lerala Diamond Mine during the months of February and March 2016. Mining then commenced early in April 2016.

Project update

Q3 2016 represented a major period of construction activity at Lerala. Good progress was made by Consulmet in the plant refurbishment despite delays due to heavier than usual rainfall late in the quarter. The quarter concluded with the plant being close to ready for the start of the commissioning phase.

The primary scrubber, secondary crusher, 400 tonne DMS storage bin and the new recovery module were all structurally complete, with mechanical, electrical and instrumentation work well advanced.

Refurbishment of the Dense Media Separation (DMS) module area by LDM personnel was completed during the quarter and this module was successfully re-commissioned and operated during March 2016.

The pump station and pipeline from the Seleka Dam, located some 34 km from site, was successfully refurbished and re-commissioned during the quarter and water pumping commenced to fill the process water dams on site.

Construction of the tailings dam extension commenced in March 2016 and is progressing on schedule to accept tailings late in April 2016. In addition, construction of the new dry tailings conveyor system also commenced in March 2016.

Progressive commissioning activities of the newly completed modules are anticipated to commence during the latter part of April 2016, leading to the first ore processing and subsequent diamond recoveries.

3 CORPORATE

3.1 MINERAL RESOURCE AND ORE RESERVE UPDATE

On 11 January 2016, KDL released its *“Statement of Mineral Resources and Ore Reserves as at 31 December 2015”*, which presented a revised estimate of Mineral Resources and Ore Reserves for the

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Lerala Diamond Mine in Botswana and an initial JORC 2012 compliant estimate of Mineral Resources at the Lomero polymetallic deposit in Andalusia, Spain.

A summary of the Lerala Ore Reserves and Mineral Resources as at 31 December 2015 appears below. The table demonstrates the upgrade in Ore Reserves and Mineral Resources over those reported at 30 June 2015.

Category	As at 31 Dec 2015				As at 30 Jun 2015			
	Mt	cpht	Mct	USD/ct	Mt	cpht	Mct	USD/ct
Total Probable Reserves	11.7	25.8	3.01	\$75	5.0	31.0	1.54	\$76
Indicated Resources	15.0	25.6	3.85	\$73	8.5	32.8	2.80	\$74
Inferred Resources	5.1	20.2	1.01	\$76	1.8	25.4	0.45	\$78
Total Resources (inc. Reserves)	20.1	24.2	4.86	\$74	10.3	31.5	3.25	\$74

The information pertaining to the Lerala Diamond Mine Reserves and Resources is extracted from the report titled “*Statement of Mineral Resources and Ore Reserves as at 31 December 2015*”, created on 11 January 2016 and available to view online at www.asx.com.au and www.kdl.com.au. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, confirms that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

3.2 LERALA DIAMOND MINE VALUED AT A\$105 MILLION IN INDEPENDENT VALUATION

KDL announced on 24 February 2016 that it has received the first independent valuation of its 100% owned Lerala Diamond Mine in Botswana. The valuation was prepared by global mineral resource consultancy Venmyn Deloitte (Proprietary) Limited (**Venmyn Deloitte**).

Venmyn Deloitte has valued the Lerala Diamond Mine at \$A105 million. This valuation is an increase of 24% over KDL’s previously-announced in-house valuation of A\$85 million.

Venmyn Deloitte made the following key findings:

- The Diamond Resources and Ore Reserves for Lerala Diamond Mine (announced on 11 January 2016) were assessed as reasonable, based on the information available and assumptions used, and provide a suitable basis for a mineral asset valuation.
- The preferred mineral asset valuation for the Lerala Diamond Mine is A\$105.0 million, within a valuation range of A\$55.86 million to A\$128.73 million.
- The planned Life of Mine (**LOM**) was extended from 7 years to 9 years.
- Venmyn noted that the process plant is one of the greatest areas of risk in relation to the success of the project but stated that theoretical performance of the modifications being undertaken appear to address previous production and recovery issues.

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The increased valuation is driven largely by the upgrade to the Lerala Mineral Resource and Ore Reserve that was announced by KDL on 11 January 2016, along with decreased costs negotiated within the mining contract signed with Basil Read Botswana (Pty) Ltd, a weaker Australian dollar assumed over the the life of the project and Venmyn Deloitte's decision to place a value on Inferred Resources that currently fall outside the LOM plan.

3.3 FUNDING

Financial Position

KDL had at 31 March 2016 a cash position of AU\$0.944M and debt of AU\$12.730M. This total debt amount includes the AU\$1.045M (USD\$0.755M) pre-payment received for diamonds to be supplied to Restwell Investments Pty Ltd (**Restwell**) after production and diamond sales commence (see below for further information).

KDL has undertaken a number of steps during Q3 2016 to raise the additional funds required to complete the re-commissioning and re-open the Lerala Diamond Mine. These are set out in detail below.

Entry into Diamond Sales Agreement with Restwell

KDL announced on 4 February 2016 that Lerala has entered into a diamond sales agreement (**Restwell Agreement**) with a third party, Restwell Investments Pty Ltd (**Restwell**).

Under the terms of the Restwell Agreement, Restwell has agreed to acquire USD\$6 million of diamonds produced at the Lerala Diamond Mine after production commences, on a timetable and at a price agreed between the parties. Restwell has agreed to pre-pay USD\$1 million to Lerala, which will be applied to pre-production costs. We received USD\$0.755M in February 2016, with the balance expected to be received in May 2016.

The USD\$1 million will be repayable by the supply of diamonds from Lerala to Restwell under the terms of the Restwell Agreement.

USD\$2.8 million working capital facility

KDL announced on 26 February 2016 that it has secured a USD2.8 million working capital loan facility for the Lerala Diamond Mine. KDL and its Botswana subsidiary, Lerala, entered into a sales and marketing agreement (**Sales Agreement**) and an off-take agreement (**Offtake Agreement**) with DDA Trading BVBA (**DDA**), a Belgian based diamond auction house which specialises in the sales and marketing of rough diamonds for the international diamond trade.

Under the terms of the Sales Agreement, the working capital loan facility will be provided in April-September 2016. DDA will make available USD\$2.8 million in aggregate, to be provided and repaid in monthly tranches, with interest of 10% per annum on the outstanding amount from time to time and secured by collateral of diamonds produced at the Lerala Diamond Mine. DDA is to be appointed as the exclusive sales and marketing agent for the diamonds produced from the Lerala Diamond Mine for a

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period of 3 years (which may be extended by a further 2 years by agreement between the parties). KDL will issue 5,000,000 KDL options to DDA or its nominees, with an exercise price of \$0.20, expiring 3 years from the date of issue. Under the terms of the Offtake Agreement, which is interconditional with the Sales Agreement, Lerala will also supply to DDA run of mine rough diamonds to the total value of at least USD\$5 million at an agreed discount to valuation.

Shareholder approval was obtained for the Sales Agreement and the Offtake Agreement at the Extraordinary General Meeting held on 27 April 2016, subsequent to the end of the quarter.

Rights Issue

During Q3 2016, KDL undertook a 1 for 3 non-renounceable rights issue offer at \$0.10 per new ordinary share to raise approximately \$4,024,678. The rights issue closed at 5pm (Sydney time) on 24 March 2016, with \$1,838,923 received to date in both entitlements and shortfall. A total of 4,517,335 fully paid ordinary shares were issued as part of the entitlements issue in Q3 FY 2016, with 5,519,438 ordinary fully paid shares issued as shortfall. In Q4 FY2016, 8,282,528 ordinary fully paid shortfall shares have been issued to date.

There is currently an outstanding shortfall of \$2,185,755. The Directors are looking to place the remainder of the shortfall within the permitted 3 month timeframe to secure full funding required to bring Lerala into production.

Debt finance

As previously reported, KDL entered into a loan agreement (**Loan Agreement**) with a third party lender, Zhejiang Huitong Auction Co Ltd (**Zhejiang**) for the provision of \$10 million debt finance. The funds were applied to the refurbishment and re-commissioning of the plant at KDL's Lerala Diamond Mine in Botswana, as well as to ongoing operational costs.

On 12 October 2015, KDL announced that Zhejiang has agreed to provide KDL with a further \$3 million in debt finance under the terms of the Loan Agreement. At 31 March 2016, \$2.95 million of the additional funds had been advanced to KDL.

On 29 January 2016, Zhejiang agreed to convert \$1.5 million of KDL's debt to 15 million KDL shares at a share price of \$0.10 per share. Zhejiang agreed for these shares to be escrowed for a period of 12 months from the date of their issue. The shares were issued under KDL's 15% capacity under ASX Listing Rule 7.1.

As at 31 March 2016, KDL owes Zhejiang \$11.685M. This debt will mature in May 2017.

3.4 APPOINTMENT OF AUDITOR

On 21 January 2016, Gareth Few of BDO East Coast Partnership (**BDO**) was appointed by ASIC under section 327E of the Corporations Act 2001 (Cth) (**Corporations Act**). The appointment was required to be made by ASIC after the resolution to appoint a new auditor under section 327D of the Corporations Act

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at KDL's AGM on 25 November 2015 did not achieve the required 75% vote in favour, following the removal of Ernst & Young.

3.5 MATTERS SUBSEQUENT TO THE END OF THE QUARTER

Mining commences at Lerala Diamond Mine

Open pit mining operations commenced at the Lerala Diamond Mine in Botswana in early April 2016. Basil Read mobilised staff and equipment to the Lerala Diamond Mine during the months of February and March. Mining commenced early in April from the K3 kimberlite pipe and operations will continue to develop a buffer stockpile of fresh kimberlite ore. Mining will ramp up in line with the current production schedule to provide a consistent feed to the processing plant once processing commences.

Project construction activities continued at a frenetic pace at the end of the quarter and into April with commissioning activities progressing rapidly through the plant flowsheet during late April. Commissioning is expected to be complete by the end of April and production will commence immediately thereafter and will continue to ramp up during May and is expected to reach nameplate capacity of 200 tph by June 2016.

Further Funding

On 25 April 2016, Lerala entered into an agreement with DDA under which DDA advanced a short term loan of USD\$800,000, repayable on 31 May 2016. Lerala agreed to pay DDA a fee of USD\$80,000 for this loan, payable on 31 May 2016.

On 28 April 2016, Lerala entered into a loan agreement with an unrelated third party, Eternal Diamonds BVBA (**Eternal**), under the terms of which Eternal agreed to provide a loan of USD\$1 million on 28 April 2016, repayable on 26 July 2016. Lerala agreed to pay Eternal a fee of USD\$100,000 for this loan, payable on 26 July 2016. This loan is secured by diamonds where such diamonds are available to be used as security and unsecured where no diamonds are available.

4 EXPLORATION ACTIVITIES

4.1 DIAMONDS

Tilwane Joint Venture

KDL, through its wholly owned subsidiary, Lerala Diamond Mines Limited, has now earned a 50% right in the Tilwane Joint Venture, a greenfields kimberlite exploration project in Botswana located some 60km to the east of the large scale Orapa and Letlhakane diamond mines. At 31 December 2015, approximately A\$162,000 has been expended in exploring the property since KDL has held an interest in the Tilwane Joint Venture. Exploration has focused on geophysical surveys and geochemical analyses, and has identified a number of significant targets deserving of further attention.

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KDL now has the opportunity to earn an additional 20% interest in the Joint Venture by spending a further A\$1 million on project expenditure in the period to early 2017. If it completes this expenditure, it will hold a 70% interest in the Joint Venture. The next phase of exploration at Tilwane is logically a drilling program designed to test the identified targets. The drilling is expected to be undertaken during calendar 2016, after the focus has shifted from the re-commissioning at Lerala.

Until there is an opportunity to re-focus on the Tilwane greenfields exploration project, our local joint venture partner in this project has been engaged on a short term basis to assist with the geology and grade control activities at Lerala.

4.2 METALS EXPLORATION ACTIVITIES

4.2.1 LOMERO-POYATOS GOLD-COPPER-ZINC PROJECT, SPAIN

The Lomero-Poyatos gold-silver-copper-zinc project (Lomero) is located 80km north of the deep-water port of Huelva in Andalusia, Spain, within Spain's premier mineral district, the Iberian Pyrite Belt. Lomero is a 1km-long tabular volcanogenic massive sulphide (VMS) deposit with elevated gold content. Previous mining operations extracted at least 2.6 million tonnes of massive sulphide ore containing an average grade of 5 g/t gold and 1.2% copper. KDL is evaluating the potential for a profitable re-development of Lomero through its wholly owned Spanish subsidiary, Alto Minerals S.L.

During the quarter, KDL examined various aspects of the independent resource estimation completed by Snowden in December 2015 and announced on 7 January. As stated then, an audit review of the estimation is required to identify the source of the discrepancy in grade obtained compared to the previous estimation completed in 2012. Commencement of a formal review is subject to available funding and will await diamond sales from Lerala. A Sydney-based resource consultancy has already quoted for this work.

One study conducted during the quarter examined data from 60 underground diamond drill holes completed in 1984 by Billiton. A weighted average calculation of the 60 massive sulphide intercepts provided encouraging results. SRK utilised the underground drilling in its 2002 resource estimation. However, the version of the dataset in our possession lacks the laboratory documentation needed to verify the data values and a search for the documentation will be undertaken.

Other activities undertaken during the quarter in relation to Lomero included:

- Discussions progressed with an interested local party regarding a funding arrangement.
- Discussions were held with the government of Andalusia in which the officials confirmed that they are now taking the final administrative steps towards formal granting of the Investigation Permit, expected to take place in the first week of May. Pegging out was completed on 13 April.

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4.2.2 CALARIE COPPER-GOLD PROJECT, CENTRAL NSW

On 23 October 2015, KDL advised the holder of EL7023 and ML739, TriAusMin, that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination was still in progress at the end of Q3, 2016.

4.2.3 YEOVAL COPPER-GOLD PROJECT, CENTRAL NSW (Zodiac, 75%)

No activities were undertaken during the quarter.

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5 TENEMENTS

Tenement Interests disposed of by KDL

PROJECT	TENEMENT
Trillion Project Ontario, Canada	4206505, 3013699

Tenement Interests retained by KDL

PROJECT	TENEMENT
Lerala Diamond Mine Central District, Botswana	2006/29L
Tenby Property North West Territories, Canada	3768, 3769, 4138, 4139, 4140, 4142, 4141, 4143, 3760, 3761, 3762, 4097, 4098, 4099, 4100, 4101, 4102, 4103, 4174, 4175, 4176, 4181, 4182, 4183, 4184, 4185, 4186, 4187, 4270, 4269, 4271, 4104, 4105, 4106, 4107, 4108, 4109, 4110, 4432, 4433, 4434, 4234, 4235
Commonwealth Property North West Territories, Canada	3763, 3764, 3765, 3766, 4144, 4145, 4111, 4112, 4113, 3770, 3719, 3771, 4114, 3772, 4115, 3773, 4116, 4117, 4118, 4119, 4120, 4121, 4122, 4123, 4124, 4125, 4126, 4127, 4128, 4129, 4130, 4437, 4438, 4439, 4435, 4272, 4177, 4440, 4436, 4441, 4178, 4328, 4442, 4266, 4325, 4267, 4326, 4327, 4268
Trillion Project Ontario, Canada	3013665, 3013666
Tilwane JV Central District, Botswana	PL267/2013, PL268/2013
Yeoval NSW, Australia	EL6311, ML811
Lomero Andalucía, Spain	IP14977, IP14978, IP14989

EL6311 & ML811: Zodiac Resources Pty Ltd, a subsidiary of KDL, holds a 75% interest in the project. Augur Resources Ltd holds the remaining 25%.

PL 267/2013 & PL 268/2013: KDL, via its wholly owned subsidiary Lerala Diamond Mines Limited, has the exclusive right to earn up to 70% in the project from Tilwane Services (Pty) Limited.

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Tenby Property: Mantle Diamonds Limited, a wholly owned subsidiary of KDL, will acquire a 20% interest in the tenements upon a production decision by the registered owner, Diavik Diamond Mines Incorporated.

Commonwealth Property: Mantle Diamonds Limited, a wholly owned subsidiary of KDL, will acquire a 10% interest in the tenements upon a production decision by the registered owner, Diavik Diamond Mines Incorporated.

Lomero: IP 14977 was awarded on 7 October 2014; granting is currently approaching completion. IP 14978 and IP 14989 are applications with priority assigned to KDL.

For further information please contact:

Noel Halgreen

Managing Director

T: +61 2 8243 7500

E: noel.halgreen@kdl.com.au

Holly Taylor

Corporate Communications

T: +61 2 8243 7521

E: holly.taylor@kdl.com.au

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APPENDICES

COMPETENT PERSON STATEMENTS

The information in this report that relates to Mineral Resources and Ore Reserves at the Lerala Diamond Mine is extracted from the report titled "Statement of Mineral Resources and Ore Reserves as at 31 December 2015", created on 11 January 2016 and available to view on www.asx.com.au and www.kdl.com.au. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information in this announcement that relates to Exploration Results at Lomero, Spain is based on information compiled by Mr Rod Sainty, a Competent Person who is a member of the Australian Institute of Geoscientists. Mr Sainty is a full-time employee of Kimberley Diamonds Ltd. Mr Sainty has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Sainty consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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