

Kimberley Diamonds Limited
ABN 95 150 737 563

Half Year Report – 31 December 2013

Kimberley Diamonds Limited
Chairman's Statement
31 December 2013

Dear Shareholders,

It has been an exciting first half of the financial year for Kimberley Diamonds Limited, as we broke through \$100 million market capitalisation, retired debt, raised capital, paid a maiden dividend and laid the foundations to execute on our strategy to expand our operating portfolio.

After changing the name of the Company from Goodrich Resources to Kimberley Diamonds Limited on the 6th of May 2013, the transformation continued to gather pace.

In 2013, KDL was the second best performing resource share on the ASX. At the start of the financial year (1st July) the stock was trading at 28c and by December 31, 2013 it was at 95 cents.

Two key achievements in the first six months of the financial year marked the first forays outside of Australia for Kimberley Diamonds Limited.

In September 2013, we announced that we had signed a Heads of Agreement to acquire a private UK Company, Mantle Diamonds Limited, which owns the Lerala Diamond Mine in Botswana that is currently on care and maintenance. That acquisition is significant for KDL, as it is expected to add some 400,000 carats in 2015 to the Company's production with further potential to increase production beyond that.

In addition, we also completed the acquisition of eDiamond Belgium BVBA, a marketing office for rough diamonds that uses an independent online trading platform for rough diamond sales.

In Australia, the rare fancy yellow diamonds which are the signature stones of our Ellendale Diamond Project continue to attract premium rough prices thanks to the off-take agreement with high-end global jeweller Tiffany & Co's cutting and polishing arm Laurelton.

The Board declared a maiden dividend of 2 cents per share unfranked to shareholders, which was paid in October. We also raised \$10.8m of capital in a private placing to existing and new investors.

To our loyal shareholders, thank you for your support. We hope that you will continue to enjoy the journey and support the Board and management as we transform to become a multi operation diamond producer.

Yours sincerely,



Alexandre Alexander
Chairman

Kimberley Diamonds Limited ("KDL" or the "Company") is a growing mining and minerals exploration company with the ambition of becoming a multi operation diamond producer.

KDL's flagship asset is the Ellendale Diamond Project ("Ellendale") which it owns and operates through its wholly owned subsidiary, Kimberley Diamond Company ("KDC"). KDL also owns 58.57% of Zodiac Resources Ltd ("Zodiac"). Zodiac has a 75% stake in the Yeoval copper-gold exploration project. The Calarie copper-gold exploration project in NSW is a farm-in agreement in which KDL continues to qualify to earn the acquisition interest of 75% of the tenements. During the period, KDL acquired 100% of eDiamond BVBA, a marketing office for rough diamonds that uses an independent online trading platform for rough diamond sales.

KDC was the sole source of operating revenue for the KDL group for the period and the key points for the six months ending 31 December, 2013 are listed below:

Corporate

- Cash position of \$17.3 million as at 31 December 2013
- Maiden dividend of 2 cents unfranked per share paid in October 2013
- Signed Share Purchase Agreement to acquire Mantle Diamonds Limited ("Mantle"), including wholly-owned Lerala Diamond Mine ("Lerala") in Botswana in December 2013
- Acquired eDiamond Belgium BVBA ("eDiamond") in July 2013
- Completed capital raising of A\$10.8m in December 2013
- Retirement of \$12.2m environmental bond in July 2013
- Early repayment of an existing \$10.7m loan to Gem Diamonds Limited (LSE:GEMD)("Gem")
- KDC settled the dispute with Blina Minerals NL (ASX:BDI).

Operations & Sales

- Following the slip of the ramp wall in the E9 West pit on 26 June, 2013 mining activity in the pit was suspended for safety reasons. Production continued from the above ground Run of Mine ("ROM") stockpiles and lower grade stockpiles
- The E9 West pit wall was successfully buttressed in October, ready for recommencement of mining following the wet season in March 2014
- Treated 2.2 million tonnes of ore during H1/2014, comprising 0.8 million tonnes of high grade ore and 1.4 million tonnes of lower grade stockpiled ore
- Recovered a total of 54,366 carats during H1/2014, at an average grade of 2.47 carats per hundred tonnes ("cpht")
- KDC remained Lost Time Injury ("LTI") free throughout the period
- No significant safety or environmental legal non-compliance incidents
- Sold a total of 57,236 carats for US\$36.0 million, during H1/2014 at an average of US\$628 per carat
- H1/2014 sales revenue of \$39.2 million; EBITDA loss of \$2.0 million, which includes \$0.7 million corporate transaction costs for the Mantle and Argyle Smoke Creek Alluvial Project ("Smoke Creek") acquisitions
- Net cash flow from operating activities of \$4.6 million or \$5.3 million adjusted for corporate transaction and acquisition costs.

Exploration

- A new Mineral Resource estimate for the entire Ellendale Diamond Project, including E9, E4, E4 Satellite and a new E9 Lites Resource of 11.2Mt, compliant to JORC 2012, was announced on 13 November, 2013. Total Resources now amount to 97.2Mt at an overall grade of 3.89 cpht for a total of 3.8m carats
- 17,600 tonne bulk sample from the E4 Satellite pipe recovered 864 carats at a grade of 4.97 cpht, an additional larger sample is being planned
- 45 drill samples comprising 667kg taken from E6 were sent to Canada for micro diamond analysis.

Ellendale Diamond Project (KDL 100%)

The Ellendale Mining Lease M04/372 covers 123km² in the West Kimberley region of Western Australia. It consists of two operations E9 and E4 which are diamond-bearing lamproite pipes and an additional 47 lamproite pipes over the mining lease. Exploration activities are ongoing at E6 and E4 Satellite. Several of the remaining lamproites offer exploration and development potential which KDL is currently evaluating.

Ellendale produces approximately 50% of the annual world supply of rare fancy yellow diamonds. A portion of the fancy yellow diamonds produced by the mine qualify to be sold under a life of mine off-take agreement to Laurelton Diamonds Inc. ("Laurelton") which is the sourcing and manufacturing arm of global premium jeweller Tiffany & Co. Ellendale also produces gem-quality and near-gem quality white diamonds.

KDC continues to produce consistently high value fancy yellow diamonds. In H1/2014, 9.2% of total carats sold were under the off-take agreement with Laurelton. The sale of these high-value fancy yellow diamonds accounted for 75% of revenue in H1/2014. During the period, the remaining rough diamond production (whites and non-qualifying fancy yellows) was sold from our Antwerp marketing offices utilising an online electronic auction platform based in Antwerp, Belgium.

During the six month period under review, mining operations in the E9 Pit were suspended following a slip of the E9 Pit wall following a routine blast in late June 2013. Therefore, the E9 operation processed ore from ROM stockpiles and previously mined lower grade surface ore stockpiles.

No mining was carried out at the E4 pit during the period as the mine and plant remained on care and maintenance. Mining of E4 began in 2006 but was discontinued by its previous owners in late 2008 during the Global Financial Crisis.

In July 2013, KDC was accepted into the Western Australian Department of Mines and Petroleum Mining Rehabilitation Fund, allowing for the immediate retirement of its cash backed \$12.2m environmental bond. Proceeds of the bond's return were applied to repay an existing \$10.7m subsidiary loan previously provided by Gem Diamonds Limited (LSE:GEMD) ("Gem"), thereby settling all outstanding amounts between Gem and the KDL group of companies. The early repayment enables the Company to optimally manage its investment in developmental and rehabilitation activities from operational cash flows.

Mantle Diamonds Acquisition

In September 2013, KDL announced it had executed a binding Heads of Agreement to acquire 100% equity in Mantle Diamonds Limited, including the wholly-owned Lerala Diamond Mine in Botswana.

Lerala is situated in north-east Botswana, 34km north of the Martin's Drift Border Post with South Africa, and comprises five diamondiferous kimberlite pipes totalling 6.66ha in size. The Lerala mine in Botswana is located in one of the most productive diamond provinces in the world and represents the Company's first international acquisition. The Mantle acquisition also comprises interests in two joint venture exploration projects in Canada managed by Diavik Diamond Mines and free carried during the ongoing exploration phase.

On 17 September, 2013 KDL announced to the ASX that Lerala contains Probable Reserves of 8.38 Mt with an average grade of 29.68 cpht. The current life of mine is 6 years at production levels of 400,000 carats per annum (cpa).^{1&2}

The Lerala mine and processing plant was placed on care and maintenance by Mantle after six months of operation in July 2012. KDL intends to recommence production at Lerala in late 2014 after modifications and refurbishment work is carried out to the plant. Lerala will target a production rate of approximately 400,000 cpa in 2015.

Under the terms of the acquisition, the shareholders in Mantle received 13,566,317 new ordinary KDL shares on completion of the transaction on 24 February 2014.

eDiamond Belgium BVBA (KDL 100%)

In July 2013, KDL acquired eDiamond Belgium BVBA, the Belgian subsidiary of online rough diamond network and trading platform, eDiamond International Limited.

KDL now conducts its commercial goods sales through an already established proprietary office in Antwerp, which is traditionally the largest centre for diamond marketing worldwide. This acquisition gives KDL greater control over its distribution channels, with the aim of improving pricing structures and maximising returns for its existing and future production.

As a result of the Mantle acquisition, KDL will grow its marketing footprint into Botswana, where it will present the production from the Lerala mine for sale as part of a multi jurisdiction viewing strategy.

Maiden Dividend

KDL's Board of Directors (the "Board") declared a maiden dividend of 2 cents to shareholders and this was paid on 21 October, 2013. The dividend was unfranked.

¹ Technical details, including a competent person statement supporting this announcement can be found in KDL's ASX Release 17 September 2013

² Probable Reserves are calculated using a diamond price of US\$ 55/ct. An independent valuation performed by WWW International Diamond Consultant Ltd in 2005 returned an average diamond price of US\$ 57/ct for K3, K5 & K6 and US\$ 45/ct for K2 – using a cut-off of +1mm.

Yeoval Copper-gold Project, NSW (Zodiac 75%)

The Yeoval Copper-gold Project is 75% held by Zodiac. No work was undertaken during the period under review.

Calarie Copper-gold Exploration Project, NSW

At the Calarie Copper-gold Project, where KDL is earning a 75% interest, the project includes the historic Lachlan Mine which operated between 1896 and 1906.

In the period under review, KDL drilled the second of two holes targeting an extension to the high-grade lode below the old Lachlan Mine workings. Hole GLM02 tested the lode position down-plunge of the main production stopes at the southern end of the mine. The hole intersected 6.9m (true width 5.6m) of siliceous lode at 203.6 – 210.5m containing two gold-bearing zones: 1.8m at 6.17 g/t Au and 1.85m at 2.58 g/t Au. Further drilling will be required to determine the extent and significance of these zones.

Disposal of Tenement Interests

KDL disposed of several early-stage exploration projects which no longer fit its revised corporate objectives.

Subsequent Events

Negotiations progressed towards the acquisition of Smoke Creek in Western Australia and finalising the Mantle transaction. These negotiations were ultimately successful, and the acquisitions were announced subsequent to the period under review.

On 10 February 2014, the Board resolved to declare an interim dividend of 2 cents per share unfranked to KDL shareholders. The dividend was paid on 3 March 2014.

On 21 February 2014, the Company announced plans to recommence mining at Ellendale's E4 mine during the 2014 calendar year subject to obtaining the necessary approvals.

On 4 March 2014, the Company called a General Meeting to ratify the issue of 625,000 shares to Venus Metals Corporation Limited ("Venus") and to approve the issue of up to 30m shares to professional and sophisticated shareholders. The General Meeting is to be held on 1 April 2014.

On 12 March 2014 the Company announced the appointment of Mr Rupert Baring as an independent non-executive director.

Ellendale Diamond Project, Western Australia

The information in this report that relates to Mineral Resources at Ellendale Diamond Project is extracted from the report titled "Resource update at Ellendale demonstrates increase in total resources", created on 14 November 2013 and available to view on www.asx.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 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.

The information in this report that relates to Exploration Results at Ellendale diamond mine is based on information compiled by Mr Richard Price, a Competent Person who is a Member of the Australian Institute of Mining and Metallurgy. Mr Price is a full-time employee of Kimberley Diamonds Company, a wholly-owned subsidiary of Kimberley Diamonds Limited. Mr Price 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 Price consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Lerala Diamond Mine, Botswana

The information in this report that relates to Mineral Resources and Ore Reserves at Lerala diamond mine is extracted from the report titled "Kimberley Diamonds Limited signs binding Heads of Agreement to acquire Mantle Diamonds Limited", created on 17 September 2013 and available to view on www.asx.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 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.

Calarie Copper-gold Project, NSW, Australia

The information in this report that relates to Exploration Results at the historic Lachlan gold mine is extracted from the report titled "Quarterly Report 30 September 2013", created by Kimberley Diamonds Limited on 31 October 2013 and available to view on www.asx.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 confirms that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not changed materially. 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.

This report includes certain statements with respect to the Company's future operations and performance. Such statements reflect various assumptions made by the Directors of the Company concerning, or which are relevant to, the anticipated operations of the Company. Those assumptions and/or anticipated operations of the Company are and will be subject to uncertainties and contingencies many, if not all, of which are outside the control of the Company. Therefore, those assumptions and/or anticipated returns may or may not prove to be correct or valid.

While the statements and estimates made by the Company and contained in this report genuinely represent the views of the Directors of the Company, they involve subjective judgement and analysis which may or may not be correct. No representations or warranties are (or will be) made, and no responsibility or liability (including in negligence) is (or will be) accepted by the Company or the Directors as to the truth, accuracy or completeness of such statements, assumptions or estimations or projections (and no such representations or warranties should be inferred).

The Directors present their report, together with the financial statements, on Kimberley Diamonds Limited and the entities it controlled (referred to hereafter as the 'Group') for the six months ended 31 December 2013.

Directors

The following persons were Directors of KDL during the whole of the six months ended and up to the date of this report, unless otherwise stated:

Alexandre Alexander - Chairman
Albert Yue-Ling Wong – Deputy Chairman
Lee-Anne de Bruin – Managing Director
Rodney Alan Sainty
Mark Yumin Qiu
Yong Xiao
Rupert Baring (appointed 12 March 2014)

Principal Activities

During the six months the principal continuing activities of the Group consisted of:

- the mining of diamonds
- the exploration for minerals including copper and copper-gold; and
- the acquisition and development of mineral exploration and mining tenements.

Review of Operations

The loss for the Group after providing for income tax and non-controlling interest amounted to \$6.9m (31 December 2012: loss of \$0.9m). EBITDA loss of \$2.0 million, which includes \$0.7 million corporate transaction costs for the Mantle and Smoke Creek acquisitions.

Refer to 'Managing Directors Report' for detailed commentary which precedes this Director's report.

Significant Changes in the State of Affairs

On 19 December 2013, the Company issued 10,166,167 ordinary shares at a price of \$0.90 per new fully paid ordinary share, raising \$9,149,550.

On 24 December 2013, the Company issued 1,833,189 ordinary shares at a price of \$0.90 per new fully paid ordinary share, raising \$1,649,870.

On 24 December 2013, the Company entered into a binding share sale agreement to acquire 100% of the shares of Mantle, for a consideration of 13,566,317 ordinary fully paid shares in the Company. Completion of the acquisition was subject to a number of administrative conditions precedent which have now been satisfied and the transaction was concluded on 24 February 2014 with the issue of the shares to the vendors of Mantle. The fair value of the shares at settlement was \$13,701,980. Mantle operates the Lerala mine located in Botswana. The Lerala mine was formerly a producer of diamonds, but has been on care and maintenance since mid-2012.

There were no other significant changes in the state of affairs of the Group during the period.

Matters Subsequent to the End of the Financial Period

On 10 February 2014, the Board resolved to declare an interim dividend of 2 cents per share unfranked to KDL shareholders. The dividend was paid on 3 March 2014.

On 17 February 2014, the Company acquired Smoke Creek from Venus for a total consideration of \$1,000,000 payable by (i) \$250,000 in cash and (ii) \$750,000 in Company shares. A quarter of the shares will be held in voluntary escrow for 6 months, a further quarter of the shares will be held for 9 months and the remaining 50% of the shares will be held in escrow for 12 months.

On 21 February 2014, the Company announced plans to recommence mining at Ellendale's E4 mine during the 2014 calendar year subject to obtaining the necessary approvals.

As detailed in the significant changes in the state of affairs above, the company settled the acquisition of Mantle Diamonds Limited for a consideration of 13,566,317 ordinary fully paid shares in the Company. The fair value of the shares at settlement was \$13,701,980.

On 4 March 2014, the Company called for a General Meeting to ratify the issue of 625,000 shares to Venus and to approve the issue of up to 30m shares to professional and sophisticated shareholders. The General Meeting is to be held on 1 April 2014.

On 12 March 2014 the Company announced the appointment of Mr Rupert Baring as an independent non-executive director.

No other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Alexandre Alexander
Chairman

12 March 2014
Sydney



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Auditor's Independence Declaration to the Directors of Kimberley Diamonds Limited

In relation to our review of the financial report of Kimberley Diamonds 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

Fiona Drummond
Partner
12 March 2014

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Kimberley Diamonds Limited
Half year consolidated statement of comprehensive income
For the six months ended 31 December 2013

	Note	Half year ended 31 December 2013 \$'000	Half year ended 31 December 2012 \$'000
Revenue		39,245	18
Cost of sales		(31,583)	-
Gross profit		7,662	18
Royalties and selling costs		(2,592)	-
Corporate and site administration expenses		(10,163)	(900)
Share based payment expense	11	(1,251)	-
Foreign exchange gain		131	-
Impairment of exploration assets		(137)	-
Other operating expenses		(1)	(34)
Operating loss		(6,351)	(916)
Finance costs		(538)	-
Loss before income tax expense		(6,889)	(916)
Income tax expense		-	-
Loss after income tax expense for the period		(6,889)	(916)
Other comprehensive income for the period			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences – foreign operations		9	-
Total other comprehensive income for the period		9	-
Total comprehensive loss for the period		(6,880)	(916)
Profit/ (loss) for the period is attributable to:			
- Non-controlling interest		(13)	31
- Owners of Kimberley Diamonds Limited		(6,876)	(947)
		(6,889)	(916)
Total comprehensive loss for the period is attributable to:			
- Non-controlling interest		(13)	31
- Owners of Kimberley Diamonds Limited		(6,867)	(947)
		(6,880)	(916)
		Cents	Cents
Basic loss per share	10	(9.13)	(2.59)
Diluted loss per share	10	(9.13)	(2.59)

The half year consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

Kimberley Diamonds Limited
Half year consolidated statement of financial position
As at 31 December 2013

	Note	31 December 2013 \$'000	30 June 2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	4	17,341	8,830
Trade and other receivables		2,059	16,334
Inventories	6	14,106	18,279
Other current assets		127	-
Total current assets		33,633	43,443
Non-current assets			
Non-current receivables		505	543
Property, plant and equipment	7	23,403	19,935
Total non-current assets		23,908	20,478
Total assets		57,541	63,921
Liabilities			
Current liabilities			
Trade and other payables		11,584	10,636
Current borrowings		-	11,034
Current provisions		1,951	2,197
Total current liabilities		13,535	23,867
Non-current liabilities			
Non-current provisions		28,185	27,371
Total non-current liabilities		28,185	27,371
Total liabilities		41,720	51,238
Net assets		15,821	12,683
Equity			
Issued capital	8	20,031	9,771
Other contributed equity		201	201
Reserves		2,183	923
Retained earnings/ (accumulated losses)		(6,556)	1,813
Equity attributable to the owners of Kimberley Diamonds Limited		15,859	12,708
Non-controlling interest		(38)	(25)
Total equity		15,821	12,683

The half year consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Kimberley Diamonds Limited
Half year consolidated statement of changes in equity
For the six months ended 31 December 2013

	Issued capital \$'000	Other contributed equity \$'000	Reserves \$'000	Foreign currency translation reserve \$'000	(Accumulated losses)/ retained earnings \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2012	3,558	(131)	187	-	(624)	151	3,141
Loss after income tax expense for the period	-	-	-	-	(948)	32	(916)
Other comprehensive income for the period, net of tax	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(948)	32	(916)
<i>Transactions with owners in their capacity as owners:</i>							
Movement in treasury shares	18	332	-	-	-	-	350
Change in non-controlling interest	736	-	(699)	-	-	(38)	(1)
Balance at 31 December 2012	4,312	201	(512)	-	(1,572)	145	2,574
Balance at 1 July 2013	9,771	201	923	-	1,812	(25)	12,682
Loss after income tax expense for the period	-	-	-	-	(6,876)	(13)	(6,889)
Other comprehensive income for the period, net of tax	-	-	-	9	-	-	9
Total comprehensive income for the period	-	-	-	9	(6,876)	(13)	(6,880)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs	10,260	-	-	-	-	-	10,260
Share-based payments	-	-	1,251	-	-	-	1,251
Dividends paid	-	-	-	-	(1,492)	-	(1,492)
Balance at 31 December 2013	20,031	201	2,174	9	(6,556)	(38)	15,821

The half year consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Kimberley Diamonds Limited
Half year consolidated statement of cash flows
For the six months ended 31 December 2013

		Half year ended 31 December 2013 \$'000	Half year ended 31 December 2012 \$'000
	Note		
Cash flows from operating activities			
Receipts from customers		41,931	79
Payments to suppliers and employees (inclusive of GST)		(37,310)	(235)
Proceeds from other income		4	-
Interest received		79	18
Interest paid & other finance cost		(153)	-
Net cash from/ (used in) operating activities		4,551	(138)
Cash flows from investing activities			
Net cash acquired on acquisition of subsidiary	12	20	-
Payments for property, plant and equipment		(1,905)	-
Payments for exploration and evaluation		(4,214)	(522)
Proceeds from / (payment) for security deposits		40	(50)
Payments for investments		-	(66)
Refund of environmental bonds		12,149	-
Net cash from/ (used in) investing activities		6,090	(638)
Cash flows from financing activities			
Proceeds from issue of shares		10,800	-
Share issue transaction costs		(540)	-
Dividends paid		(1,492)	-
Proceeds from borrowings		-	12
Repayment of borrowings		(10,903)	(401)
Payments to related parties		(21)	-
Net cash used in financing activities		(2,156)	(389)
Net increase/ (decrease) in cash and cash equivalents		8,485	(1,165)
Cash and cash equivalents at the beginning of the financial period		8,830	1,799
Effect of exchange rates on cash holdings in foreign currencies		26	-
Cash and cash equivalents at the end of the financial period		17,341	634

The half year consolidated statement of cash flows is to be read in conjunction with the accompanying note.

1. Corporate information

The consolidated financial statements of the Company and its subsidiaries collectively, the "Group" for the half year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 12 March 2014.

KDL is a for-profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange under the ticker symbol of KDL.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Basis of preparation and changes to the Group's accounting policies

The half year financial report is a general purpose condensed financial report and has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full annual financial report. It is recommended that the interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2013 and considered together with any public announcements made by the Company during the six months ended 31 December 2013 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The interim report has been prepared on a historical cost basis.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the half year financial report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2013, except for the adoption of new standards and interpretations effective as of 1 January 2013 detailed below:

- AASB 119 (Revised 2011) *Employee Benefits*;
- AASB 10 *Consolidated Financial Statements*;
- AASB 11 *Joint Arrangements*;
- AASB 12 *Disclosure of Interest in Other Entities*; and
- AASB 13 *Fair Value Measurement*.

The nature and the impact of each new standard/amendment is described below:

AASB 119 (Revised 2011) *Employee Benefits*

The revised standard changes the definition of short term employee benefit. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

The change in distinction between short-term and other long-term employee benefits did not have a significant impact on the Group.

AASB 10 Consolidated Financial Statements

AASB 10 establishes a single control model that applies to all entities including special purpose entities. AASB 10 replaces the parts of previously existing AASB 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and Interpretation 12 *Consolidation – Special Purpose Entities*. AASB 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in AASB 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

AASB 10 had no impact on the consolidation of investments held by the Group.

AASB 11 Joint Arrangements

AASB 11 replaces AASB 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. AASB 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under AASB 11 must be accounted for using the equity method.

AASB 11 had no impact on the Group as the Group has no joint ventures.

AASB 12 Disclosures of Interests in Other Entities

AASB 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for the half year financial report.

AASB 13 Fair Value Measurements

AASB 13 establishes a single source of guidance under AASB for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under AASB when fair value is required or permitted. AASB 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including AASB 7 *Financial Instruments: Disclosures*.

AASB 13 did not have a significant impact as the Group does not have significant assets or liabilities carried at fair value. Additional disclosure requirements are detailed in Note 5 to the financial statements.

AASB Interpretation 20 *Stripping costs in the production phase of a surface mine* was early adopted in the prior financial year.

Kimberley Diamonds Limited
Notes to the half year financial report
For the six months ended 31 December 2013

3. Segment information

	Diamond mining \$'000	Exploration and corporate \$'000	Consolidated \$'000
31 December 2013			
Revenue			
External customers	39,166	-	39,166
Interest revenue	62	17	79
	<u>39,228</u>	<u>17</u>	<u>39,245</u>
Segment result	<u>(4,218)</u>	<u>(2,671)</u>	<u>(6,889)</u>
Share based payment expenses	-	1,251	1,251
Interest paid	43	-	43
Depreciation and amortisation	3,015	3	3,018
Other non-cash items	358	10	368
Assets	<u>44,810</u>	<u>12,731</u>	<u>57,541</u>
Liabilities	<u>40,657</u>	<u>1,063</u>	<u>41,720</u>
Capital expenditure for the period ended 31 December 2013	<u>6,010</u>	<u>105</u>	<u>6,115</u>
31 December 2012			
Revenue			
Interest revenue	-	18	18
Segment result	<u>-</u>	<u>(916)</u>	<u>(916)</u>
Depreciation and amortisation	-	1	1
30 June 2013			
Assets	<u>60,453</u>	<u>3,468</u>	<u>63,921</u>
Liabilities	<u>50,591</u>	<u>647</u>	<u>51,238</u>
Capital expenditure for the period ended 31 December 2012	<u>-</u>	<u>522</u>	<u>522</u>

Kimberley Diamonds Limited
Notes to the half year financial report
For the six months ended 31 December 2013

	31 December 2013 \$'000	30 June 2013 \$'000
4. Cash and cash equivalents		
Cash at bank and on hand	17,341	8,830
	<u>17,341</u>	<u>8,830</u>
5. Financial instruments		
<i>Financial instruments included in the half year consolidated statement of financial position</i>		
Cash and cash equivalents	17,341	8,830
Trade and other receivables	2,059	16,334
Trade and other payables	11,584	10,636
Borrowings	-	11,034
	31 December 2013 \$'000	31 December 2012 \$'000
<i>Amounts recognised on financial instruments in the half year consolidated statement of comprehensive income</i>		
Interest income	79	18
Interest expense	43	-
<p>Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature.</p>		
	31 December 2013 \$'000	30 June 2013 \$'000
6. Inventories		
Ore stockpiles - net realisable value	3,454	8,357
Diamond inventory - net realisable value	5,930	6,790
Stores stock	4,722	3,132
	<u>14,106</u>	<u>18,279</u>
Net realisable value write down (included under cost of sales; 31 December 2012: n/a)	2,676	-

7. Property plant and equipment

During the six months ended 31 December 2013, the Group spent \$1.9m on property plant and equipment and \$4.2m on mine development and exploration at its Ellendale diamond mining operations. In addition, the Group incurred capital expenditure of \$0.1m (six months ended 31 December 2012: \$0.5m) at its other exploration businesses.

Kimberley Diamonds Limited
Notes to the half year financial report
For the six months ended 31 December 2013

	31 December 2013 \$'000	30 June 2013 \$'000
8. Issued capital		
Fully paid ordinary shares - 86,614,598 shares (30 June 2013 : 74,614,742)	20,031	9,771

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance at 31 December 2012		37,307,371		4,312
Issue of shares	15-Jan-13	5,742,511	\$0.15	861
Issue of shares	6-Feb-13	736,667	\$0.15	111
Issue of shares	21-Feb-13	5,666,667	\$0.15	850
Issue of shares	27-Mar-13	6,366,664	\$0.15	955
Issue of shares	8-Apr-13	18,794,862	\$0.15	2,819
Share issue transaction costs and other				(137)
Balance at 30 June 2013		74,614,742		9,771
Issue of shares	19-Dec-13	10,166,667	\$0.90	9,150
Issue of shares	24-Dec-13	1,833,189	\$0.90	1,650
Share issue transaction costs				(540)
Balance at 31 December 2013		86,614,598		20,031

9. Dividends	Half year ended 31 December	
	2013 \$'000	2012 \$'000
Cash dividends to equity holders of Kimberley Diamonds Ltd: Dividends on ordinary shares declared and paid during period: - Final dividend for 2013: 2 cents	1,492	-
Dividends on ordinary shares proposed for approval (not recognised as a liability as at 31 December): - First dividend for 2014: 2 cents	1,805	-
The proposed dividend was approved on 10 February 2014.		

10. Earnings per share		
Profit/ (loss) after income tax	(6,889)	(916)
Non-controlling interest	13	(31)
Profit/ (loss) after income tax attributable to the owners of Kimberley Diamonds Limited	(6,876)	(947)

10. Earnings per share (continued)

	Half year ended 31 December	
	2013 Number	2012 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	75,347,526	36,553,742
Weighted average number of ordinary shares used in calculating diluted earnings per share	75,347,526	36,553,742
	Cents	Cents
Basic earnings per share	(9.13)	(2.59)
Diluted earnings per share	(9.13)	(2.59)

As their inclusion would be anti-dilutive, 23,500,000 (2012: 4,000,000) options over ordinary shares are excluded from the earnings per share calculation.

11. Share-based payments

Summary of options granted during the period:

Grant date	Number of options granted	Exercise price (\$)	Expiry date	Vesting conditions
12-Sep-13	4,000,000	0.75	12-Sep-15	None
29-Nov-13	1,500,000	1.15	29-Nov-15	None

The following inputs were used in the measurement of fair value at the grant date of the above options:

	12-Sep-13 options	29-Nov-13 options
Share price at grant date - \$	0.43	0.90
Expected volatility (%)	95.2	95.2
Expected life (years)	2.0	2.0
Risk-free interest rate (%)	2.6	2.7
Fair value at grant date - \$	0.174	0.433

Amount recognised as an employment expense for the period in respect of share-based payments:

	Half year ended 31 December	
	2013 \$'000	2012 \$'000
12-Sep-13 options	642	-
29-Nov-13 options	609	-
	<u>1,251</u>	<u>-</u>

12. Business combinations

On 22 July 2013 the Group announced that it has entered into an agreement with eDiamond International Limited to acquire 100% of the shares in eDiamond Belgium BVBA ("eDiamond"). The acquisition gives the Group greater control over its distributions and marketing channels and will assist in the success of ongoing production expansion projects. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities of eDiamond as at the date of acquisition were:

	Fair value \$'000
Cash and cash equivalents	89
Other receivables	640
Property plant and equipment	87
Trade payables	(747)
Total identifiable net assets	<u>69</u>
Consideration paid	<u>(69)</u>

The acquisition did not result in any goodwill.

Analysis of cash flows on acquisition:

Fair value of cash consideration paid	(69)
Fair value of cash and cash equivalents acquired	89
Net cash and cash equivalents acquired	<u>20</u>

From the date of acquisition, eDiamond has contributed \$nil to revenue and \$28,000 to the loss before income tax expense of the Group. If the combination had taken place at the beginning of the year, revenue and loss before income tax expense would equal the amounts reported in the statement of comprehensive income.

13. Related party transactions

	Half year ended 31 December	
	2013	2012
<i>Transactions with related parties</i>	\$	\$
Payment for expenses:		
- capital raising fees paid to Summit Equities Limited, a director related entity	540,000	-
	31 December	30 June
	2013	2013
<i>Loans to/from related parties</i>	\$	\$
- Amount due by/ (due to) Summit Equities Limited, a director related entity (interest free)	127,187	(21,406)

14. Contingent liabilities

There has been no significant change to contingent liabilities disclosed in the 30 June 2013 annual financial statements.

15. Events after the reporting period

On 10 February 2014, the Company announced an unfranked interim dividend of \$0.02 per share.

On 17 February 2014, the Company acquired Smoke Creek from Venus for a total consideration of \$1,000,000 payable by (i) \$250,000 in cash and (ii) \$750,000 in Company shares. A quarter of the shares will be held in voluntary escrow for 6 months, a further quarter of the shares will be held for 9 months and the remaining 50% of the shares will be held in escrow for 12 months.

On 21 February 2014, the Company announced plans to recommence mining at Ellendale's E4 mine during the 2014 calendar year subject to obtaining the necessary approvals.

On 24 December 2013, the Company entered into a binding agreement to acquire Mantle, for a consideration of 13,566,317 ordinary fully paid shares in the Company. Completion of the acquisition was subject to a number of administrative conditions precedent which have now been satisfied and the transaction was concluded on 24 February 2014 with the issue of the shares to the vendors of Mantle. Due to the proximity of the transaction to the reporting date, the initial accounting for the business combination is incomplete at the time the Group's financial statements were authorised for issue. Accordingly, details of the effect of the businesses combination have not been disclosed. The Company intends to issue a letter of support to confirm that it will provide the necessary funds for Mantle to continue as a going concern.

On 4 March 2014, the Company called a General Meeting to ratify the issue of 625,000 shares to Venus and to approve the issue of up to 30m shares to professional and sophisticated shareholders. The General Meeting is to be held on 1 April 2014.

On 12 March 2014 the Company announced the appointment of Mr Rupert Baring as an independent non-executive director.

No other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Kimberley Diamonds Limited
Directors' Declaration
31 December 2013

In the Director's opinion:

- the attached half year consolidated financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting';
- the attached half year consolidated financial statements and notes thereto give a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors



Alexandre Alexander
Chairman

12 March 2014
Sydney

To the members of Kimberley Diamonds Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kimberley Diamonds 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 Kimberley Diamonds 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.

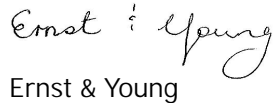
Independence

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 Kimberley Diamonds 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*.



Ernst & Young



Fiona Drummond
Partner
Perth
12 March 2014