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1 BACKGROUND

Kimberley Diamonds Ltd (“KDL”) (ASX: KDL) is the owner of the Lerala Diamond Mine (“Lerala”), located in north-eastern Botswana.

Lerala 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.

Lerala was acquired by KDL in February 2014 when KDL acquired 100% of the issued share capital of Mantle Diamonds Mines Ltd (“Mantle”), the previous owner. Mantle operated the mine between February and July 2012 but a range of technical factors in the processing plant resulted in poor recovery of diamonds. KDL engaged specialist consultants to redesign sections of the plant and is now in the process of re-commissioning the upgraded facilities, and currently intends to re-commence mining in CY2016.

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 retains interests in a number of exploration tenements located in New South Wales. In October 2014, the government of Andalusia, Spain, awarded KDL the exploration tenement covering the former Lomero mine in Andalusia, Spain. KDL has commenced its initial investigations of that deposit to determine the potential for a re-development of mining.

2 CORPORATE

2.1 LERALA DIAMOND MINE PROJECT UPDATE

During Q1, FY2016, KDL has progressed work on the re-commissioning of the Lerala Diamond Mine, with the following key steps undertaken early in the Quarter:

- the Board approving expenditure of AUD\$14.6 million on upfront capital items required to bring the plant and mine to a state of readiness; and
- an agreement executed by KDL’s Botswana subsidiary, Lerala Diamond Mines Limited (**Lerala**) and Consulmet (Pty) Limited (**Consulmet**) (**Consulmet Agreement**) in July 2015 to undertake the modification and refurbishment work at the plant at the Lerala Diamond Mine.

Re-commissioning progress

Since the Consulmet Agreement was executed, significant work has been undertaken at the Lerala Diamond Mine. Particular progress to date includes completion of the refurbishment of the camp at Lerala, completion of new communications systems and the dismantling and removal of obsolete equipment with civils site preparation well underway at the end of the quarter. In addition, all orders for long lead equipment being fabricated in South Africa have been placed and fabrication is progressing well with no scheduling issues identified to date.

As at 30 September, AUD\$5.53M of a total contract value of AUD\$9.83M or 56.3% of the total contract price, had been paid to Consulmet for the work undertaken to date.

To date, all Consulmet refurbishment critical path activities continue to progress on schedule. Significant activity is anticipated in the quarter to 31 December 2015, with the bulk of the new equipment to arrive on site and installation expected to be nearing completion during this time.

Community

In September 2015, Lerala held a blessing ceremony at the Lerala Diamond Mine. The blessing ceremony was held at the request of the local community and was aimed at mobilising the community to provide its support and best wishes for the success of the mine.

Approximately 400 people from the Lerala community attended the blessing ceremony. The ceremony was led by Lerala's Chief Moroka, who was accompanied by his 16 Sub-Chiefs, as well as several Pastors and Chairpersons from the Village Development Community. Several members of KDL's leadership team were also present, including Noel Halgreen, KDL's Managing Director.

The blessing ceremony was an important part of KDL's ongoing relationship with the local community at Lerala, and the high attendance clearly showed the desire from the community to see the mine succeed. The local community is an important stakeholder in the Lerala Diamond Mine, and will benefit from a successful venture, through employment opportunities at the mine as well as increased local expenditures on goods and services.

2.2 VOLUNTARY ADMINISTRATION OF KDC

Kimberley Diamond Company Pty Ltd (**KDC**), KDL's former subsidiary and the holder of the Ellendale mining licence, was placed into voluntary administration by its directors on 1 July 2015 and operations were suspended at KDC's Ellendale Diamond Mine.

It was determined that KDC was unable to continue trading solvently after prices achieved at the auction in Antwerp in June were significantly lower than those forecasted, due to a sharp, unexpected decline in rough diamond prices.

On 5 August 2015, KDC's creditors voted to place KDC into liquidation, rejecting a Deed of Company Arrangement proposal put forward by KDL.

The liquidation of KDC does not apply to KDL or its other subsidiaries which hold the interests in the Lerala Diamond Mine in Botswana or the Lomero-Poyatos project in Spain. However, KDL may have some exposure to the liquidation as there is a risk that the liquidator may attempt to pursue actions to try to require KDL to repay to KDC loans or payments KDC paid to KDL prior to the liquidation. There is also a risk that the liquidators or regulators may attempt to pursue actions against KDL or directors of KDC in relation to KDC and/or its subsidiaries.

2.3 FUNDING UPDATE

Financial Position

As at 30 September 2015, KDL had a cash position of \$4.66 million and debt of \$10 million.

Receipt of diamond proceeds

As at 30 September 2015, KDL had received AUD\$3.64M from the sale of diamonds in June 2015 which were secured for funds lent by KDL to KDC. At the time of publication of KDL's Annual Report on 30 September 2015, KDL had received cleared funds of AUD\$2.24, however a further AUD\$1.4 was cleared that night post publication. KDL has now been repaid in full its secured loan owing from KDC.

Debt finance

As previously reported, KDL has received AUD\$10M by way of a loan agreement (**Loan Agreement**) entered into with a third party lender, Zhejiang Huitong Auction Co Ltd (**Zhejiang**).

The key terms of the Loan Agreement are as follows:

- KDL will pay interest of 5% per annum;
- loan not required to be repaid until mid-2017;
- subject to KDL shareholder approval, Zhejiang may elect for up to AUD3.3 million to be repaid in KDL shares at a 20% discount to the volume weighted average price of KDL's shares for the 20 business days prior to conversion; and
- the loan is secured by a security interest over KDL's shares in Mantle Diamonds Limited (UK).

The funds are being 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 AUD\$3 million in debt finance. The additional funds will be provided under the terms of the Loan Agreement and will bring the total funds to be provided to KDL from Zhejiang to AUD\$13 million. The additional funds are scheduled to be advanced to KDL in two tranches, with the first tranche of AUD\$1 million scheduled to be advanced in November 2015, and the second tranche of AUD\$2 million scheduled to be advanced in February 2016.

Further funds required

As previously disclosed in recent announcements and in our 2015 Annual Report, KDL requires further funding to complete the re-commissioning work and re-open the Lerala Diamond Mine, and for ongoing operational costs. KDL continues discussions with potential investors and will update the market in due course.

2.4 MATTERS SUBSEQUENT TO THE END OF THE QUARTER

2.4.1 EIA APPROVAL

KDL reported on 29 October 2015 that the Botswana Department of Environmental Affairs has approved the Environmental Impact Assessment (**EIA**) for the re-opening of the Lerala Diamond Mine. The EIA was the final regulatory approval required for the re-opening of the Lerala Diamond Mine.

2.4.2 LERALA ALLUVIAL POTENTIAL

KDL reported on 16 October 2015 that its geological team at the Lerala Diamond Mine in Botswana has found evidence for buried alluvial channels immediately adjacent to the diamond-bearing kimberlite pipes that host the Lerala diamond resource. If the alluvial channels are confirmed to exist and found to contain significant quantities of diamonds, the life and overall value of the project may be increased.

This development has caused Lerala to delay the scheduled development of the new tailings dam, which is situated on two of the higher priority target areas for the potential alluvial deposits, while a thorough investigation is undertaken. The delay to development of the tailings dam will impact the timeline for re-commissioning of the Lerala Diamond Mine and re-commencement of mining, although the extent of such impact cannot be determined until the investigation is complete and a decision is made on how to proceed. With the information currently available, management estimates that the delay is unlikely to exceed three months.

KDL will further update the market once the outcome of the investigation is known and the full impact this new development will have on the timeline for the project.

3 EXPLORATION ACTIVITIES

3.1 DIAMONDS

Tilwane Joint Venture

KDL through its wholly owned subsidiary, Lerala Diamond Mines Limited (**Lerala**) has now earned a 50% right in the Tilwane Joint Venture, a greenfields kimberlite exploration project in Botswana some 60km to the east of the large scale Orapa and Letlhakane diamond mines. Since Lerala has held an interest in the Tilwane Joint Venture, approximately AUD\$162,000 has been expended in exploring the property (as at 30 September 2015) particularly focusing on geophysical and geochemical analyses and from this work a number of high value targets have been identified for further attention. From these, 15 high priority

sites were selected for follow-up Percussion drilling in order to detect the possibility of kimberlitic intrusives below the Karoo Basalts.

Lerala now has the opportunity to earn an additional 20% interest in the Joint Venture by spending a further AUD\$1m on project expenditure in the following 18 months to early 2017 and if it does this successfully, it will hold a 70% interest in the Joint Venture. The next phase of exploration at Tilwane will be a drilling program which has been designed to test the identified high value targets and this is expected to be undertaken during 2016, after the focus has shifted from the re-commissioning at Lerala.

Annual review of Mineral Resources and Ore Reserves

On 8 September 2015, KDL released its annual review of Mineral Resources and Ore Reserves as at 30 June 2015. This review included updated mineral resource and where applicable, ore reserve information for:

- Lerala Diamond Mine in Botswana;
- The Lomero gold-silver-copper-zinc project in Spain; and
- Ellendale Diamond Mine and the Smoke Creek diamond project in Western Australia.

The Ellendale Diamond Mine and Smoke Creek diamond project ceased to be assets of KDL from 1 July 2015, when KDC was placed into voluntary administration.

3.2 METALS EXPLORATION ACTIVITIES

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

During Q1 FY2016, KDL progressed the following key activities on the Lomero gold-copper-zinc project through its wholly owned Spanish subsidiary, Alto Minerals S.L:

- A new resource estimation study by Snowden global mining consultants commenced on 25 July and was in progress at the end of the period. The estimation includes a data verification process and the development of a new three-dimensional (3D) block model, a kriging estimation and new resource classification. The results will be reported to the Australian standard JORC 2012.
- A new accurate location survey of all existing drill collars was completed. This survey resolved a number of discrepancies between historic datasets identified in the data verification stage of the resource estimation.
- New multi-element assays were obtained from the 2013 drill core samples. These assays will assist in the data verification process of the resource estimation and include twin datasets to some of the historic drill holes.
- Discussions were held with a number of parties regarding potential metallurgical investigations and treatment pathways for the Lomero massive sulphide.

- Discussions were held with a number of interested local parties regarding potential funding arrangements.
- The Annual Statement of Mineral Resources and Ore Reserves was prepared and released on 4 September. The section on Lomero contains an expanded discussion on the 2012 Mineral Resource estimate by Behre Dolbear International mining consultants, in the light of increased understanding gained with the project.

3.2.2 CALARIE COPPER-GOLD PROJECT, CENTRAL NSW (KDL earning 75%)

No activities were undertaken during the quarter.

On 23 October 2015, subsequent to the end of the quarter, KDL withdrew from the Calarie Copper-Gold project. KDL did not earn any interest in this project during the earn-in period and no longer has any interest in pursuing this project. The decision to withdraw from Calarie was based on KDL's decision to allocate its copper-gold resources to Lomero-Poyatos and Yeoval.

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

No activities were undertaken during the quarter.

4 TENEMENTS

Tenement Interests disposed of by KDL

PROJECT	TENEMENT
Ellendale Diamond Mine WA, Australia	M04/372
Smoke Creek Diamond Project WA, Australia	P80/1712, P80/1713, P80/1714, P80/1715, P80/1716, P80/1717, P80/1718, P80/1719, P80/1720, P80/1721, P80/1722, P80/1723, P80/1724, P80/1725, P80/1734, P80/1735, P80/1736, P80/1737, P80/1738, P80/1739, P80/1740, P80/1741
Trillion Project Ontario, Canada	30136646, 3013647, 3013648, 3013668,

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, 4202624, 4206505, 3013699
Tilwane JV Central District, Botswana	PL267/2013, PL268/2013
Calarie NSW, Australia	EL7023, ML739
Yeoval NSW, Australia	EL6311, ML811

EL7023 & ML739: KDL is earning 75% from TriAusMin Ltd & Tri Origin Mining Pty Ltd. On 23 October 2015, subsequent to the end of the quarter, KDL withdrew from the Calarie Copper-Gold project.

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

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

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APPENDICES

COMPETENT PERSON STATEMENTS

The information in this report that relates to Mineral Resources and Mineral Reserves at the Lerala Diamond Mine is extracted from the report titled "Mineral Resource and Ore Reserve Statement", created on 08 September 2015 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 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 Mineral Resources and Mineral Reserves at Lomero-Poyatos is extracted from the report titled "Mineral Resource and Ore Reserve Statement", created on 08 September 2015 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 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.