

MARKET UPDATE

(ASX:KDL) Kimberley Diamonds Ltd (**KDL**) would like to provide the following market update to shareholders regarding the Lerala Diamond Mine.

The Lerala Diamond Mine (**Lerala Mine**) is located in Botswana and is operated by Lerala Diamond Mines Limited, a wholly owned subsidiary of KDL (**Lerala**). The Lerala Mine comprises five diamond bearing kimberlite pipes and an existing diamond processing plant that has been recommissioned, with Lerala restarting diamond processing operations in April 2016.

PRODUCTION SUMMARY

During November 2016, 46,085 tonnes of ore were fed through the processing plant yielding a total of 9,338 carats at a recovered grade of 20.26 cpht (Table 1). The lower processed ore tonnes in November compared to that achieved in October was the result of significant maintenance being performed on the existing secondary scrubber early in the month. Increased throughput over the remainder of the month partially offset this stoppage.

As announced on 24 October 2016, in-pit mining of the K3 pipe has been temporarily suspended to reduce operational expenses whilst built-up ore stockpiles are depleted. Accordingly, no mining took place during November.

During December 2016, it is forecast that the plant will process 62,500 tonnes of ore and recover approximately 12,500 carats. No in-pit mining will occur during the month.

Table 1: H1 FY2017 Production Summary

H1 FY2017	Unit	Q1	Oct	Nov	Dec (F)	Q2 (F)	FY H1 (F)
Total Mined	BCMs	155,166	26,054	-	-	26,054	181,220
Ore Mined	BCMs	129,537	24,842	-	-	24,842	154,379
Strip Ratio		0.20	0.05	-	-	0.05	0.17
Total Ore Processed	tonnes	138,353	52,408	46,085	62,500	160,993	299,346
Carats Recovered	cts	28,479	10,156	9,338	12,469	31,963	60,442
Recovered Grade	cpht	20.58	19.38	20.26	19.95	19.85	20.19

cpht = carats per hundred tonne (F) = Forecast

RAMP-UP TOWARDS FULL PRODUCTION CAPACITY

On 1 September 2016, KDL outlined a four month Performance Improvement Plan aimed at addressing identified issues with the processing plant at Lerala and subsequently ramping up the head feed throughput to an average of 200 tph by January 2017.

Significant progress towards the implementation of the plan to date has included:

- a substantial upgrade of the Vibrating Grizzly Feeder;
- the installation of a screening solution after the secondary scrubber; and
- the upgrading of the DMS coarse cyclone feed pump.

As demonstrated in Figure 1, these alterations have significantly improved the throughput both of the head feed and the DMS during the 2nd quarter of FY2017.

Whilst throughput has improved during the current quarter, a similar improvement in the Overall Plant Utilisation (OPU), that is, the amount of hours a plant operates versus the amount of hours it is scheduled to operate, has not yet been achieved.

To date, a delay in obtaining the required funding to implement the Performance Improvement Plan and for working capital has limited the extent to which proactive maintenance can be performed – resulting in more frequent downtime than previously forecast – and also limited the build-up of an on-site inventory of spare parts – resulting in longer periods of downtime than previously forecast.

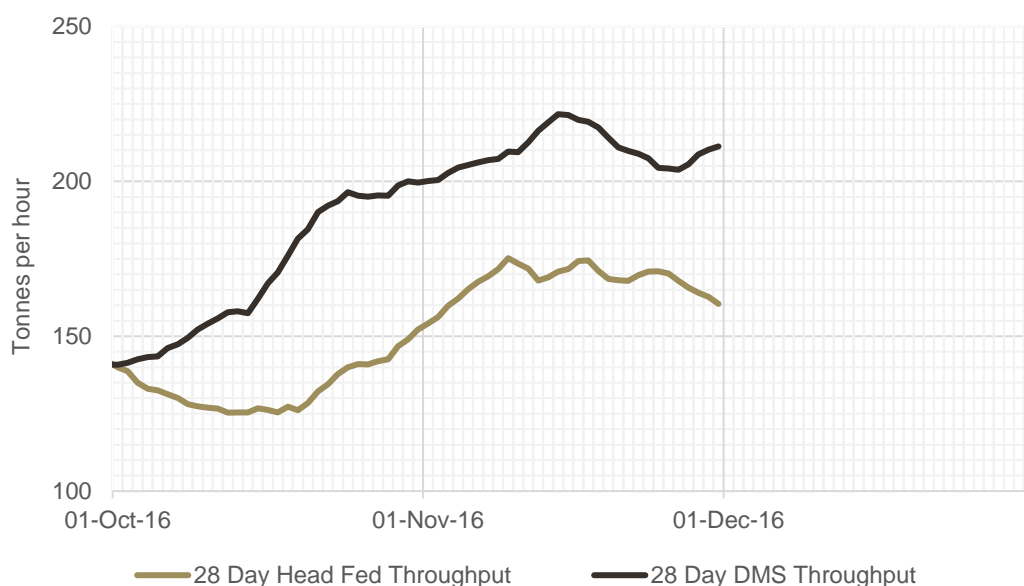


Figure 1: Q2FY17 Throughput and OPU performance trends

The focus over the next two months to end January 2017 will be to consolidate on improvements already made as well as to complete the following major projects during a major maintenance shutdown planned for mid-January:

- remove and re-mount the secondary crusher on vibration damping mounts to reduce excessive vibrations in that structure;
- re-furbish all high wear chutes and transfer points throughout the plant; and
- replenish operating spares stockholding to improve plant reliability.

These activities, and the successful implementation of the Performance Improvement Plan, are dependent upon the availability of funding, and KDL remains in ongoing discussions with investors in relation to the required funding.

PRODUCTION AND FINANCIAL FORECASTS

KDL is currently investigating a number of future production scenarios including the installation of an optical waste sorter into the processing circuit. These scenarios may have a material impact on the forecast production profile and therefore the financial forecast.

Accordingly, KDL would like to withdraw the life of mine target financial model shown on Slide 16 of the 1 September 2016 Investor Presentation. It is intended that an updated model will be provided once the alternate scenarios have been reviewed and fully assessed.

FUNDING UPDATE

Since 1 October 2016, KDL has raised additional debt of A\$ 2.9 million and repaid A\$ 1.0 million debt, and as at 1 December 2016, has a total debt of A\$ 22.6 million.

As highlighted above in our production update, KDL requires further funding to complete our performance improvement plan and for additional working capital. KDL remains in discussions with potential investors for these further funds.

DELISTING APPLICATION

As announced on 15 November 2016, KDL has applied to the ASX for removal from the official list of the ASX. KDL is currently waiting on the ASX's decision on this matter and will update the market once this becomes available.

For further information please contact:

Laila Green

Chief Financial Officer and Company Secretary

laila.green@kdl.com.au