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Kimberley Diamonds Ltd

# Annual Report 2014

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## 2. Report from Chairman and Managing Director

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Dear Shareholders

For Kimberley Diamonds Ltd (“KDL” or the “Company”), the 2014 financial year (“FY2014”) has been a formative year, which has been both challenging and rewarding. FY2014 has resulted in a new direction for the Company, together with its controlled entities (“the Group”) as our focus moves from our Ellendale Diamond Mine in Western Australia, to our Lerala Diamond Mine in Botswana.

### **Mantle Acquisition**

The highlight of FY2014, and a major milestone in the history of KDL, was our acquisition of Mantle Diamonds Limited (“Mantle”) and its controlled entities, which includes Lerala Diamond Mines Limited (“Lerala”), the owner of the Lerala Diamond Mine in Botswana, as well as interests in diamond tenements in Canada. Lerala is the jewel in the Mantle crown and represents the future for KDL as KDL’s flagship Ellendale Diamond Mine comes to the end of its mine life. Lerala has become KDL’s new focus, and in the medium to long term, it is anticipated that it will become KDL’s key source of revenue. The acquisition price for Mantle comprised the issue of 13,566,317 new ordinary KDL shares to the shareholders of Mantle.

Lerala has been on care and maintenance since July 2012, but was successfully operated by its previous owners prior to this time. The previous owners invested approximately USD31 million in infrastructure which KDL is now looking to improve upon with design modifications to allow the plant to reliably treat 200 tonnes per hour. The KDL Board has approved expenditure of AUD14.7 million on re-commissioning Lerala, which will be funded by cashflow, with any shortfall to be funded by an equity or debt raising. KDL aims to re-commence mining at Lerala in Quarter 4 of the 2015 financial year (“FY2015”) following the approval by the Botswana Government of an environmental impact assessment and once work to re-commission the plant has completed. Once in production, Lerala has a forecasted mine life of 7 years, producing an average forecasted 357,000 carats per year, and expected net revenue of \$254 million over the 7 year life of the mine.

With our acquisition of Mantle, we have begun shifting our focus for future operations from Australia to Botswana. Our entry into a joint arrangement with Botswana based Tilwane Services (Pty) Limited in July 2014 (subsequent to the end of FY2014) also highlights our shift to focus on Botswana. Botswana is the largest diamond producer in the world, and represents a logical investment for KDL with its experience and expertise in the diamond industry.

### **Australia**

In Australia, the Ellendale Diamond Mine (“Ellendale”) is our flagship diamond project in Western Australia. Ellendale is renowned for its production of rare fancy yellow diamonds, and produces approximately 50% of the world’s supply of such diamonds. Ellendale has to date been our sole source of revenue, driven primarily by our fancy yellow diamonds which are sold under a life of mine off-take agreement. Sales under this off-take agreement accounted for 74% of KDL’s total revenue for FY2014. In FY2014, KDL mined 4.2 million tonnes of ore, recovering 109 thousand carats of diamonds at an average grade of 2.59 carats per hundred tonnes (“cpht”) at its Ellendale Diamond Mine. Ellendale also produces commercial quality diamonds, which we sell quarterly by auction on our eDiamond auction platform in Antwerp. KDL has recently ceased mining at its E9 mine at Ellendale, and is now processing stockpiles until the end of Q2 FY2015. KDL is also assessing options for reopening the E4 mine in the short to medium term.

KDL acquired the Smoke Creek Alluvial Diamond Project (“Smoke Creek”) in Western Australia from Venus Metals Corporation Limited in February this year. Smoke Creek comprises 22 Prospecting Licences and one Mining Lease application covering 11 kilometres of diamond bearing gravels located within the downstream portion of Smoke Creek, a tributary leading from Rio Tinto’s Argyle Diamond Mine, the world’s leading source

of rare and highly valuable pink diamonds. KDL is currently seeking required approvals to commence production at Smoke Creek and is aiming to have the mine in production on 2016.

### ***Diamond Market***

We remain very positive about the medium to long-term outlook for diamond prices. With diminishing supply from mature mines, and no major new mines in the pipeline, industry participants and observers are forecasting that output will start declining, with a growing gap between supply and demand. This is highlighted by Bain and Company in their most recent report, who have forecasted that demand will outpace supply in the next decade, supporting the potential for a long-term price increase.

### ***Exploration and Joint Arrangements***

On the exploration side of our business, KDL continues to evaluate highly prospective diamond, copper and gold targets including both old or existing operations and greenfield opportunities. KDL also has existing joint arrangements in Australia, Botswana and Canada, where it is engaging in exploration with local partners.

### ***Management***

The Group has appointed a new management team to lead it into its expansion in Botswana, following the departure of some of the team during FY2014. The Group is now lead by Managing Director Noel Halgreen, Chief Financial Officer Laila Green, Chief Technical Officer Neil Kaner, Ellendale General Manager Carmen Letton and Project Manager Deon Vermeulen. Each of these individuals is highly experienced in their fields, with exceptional business and operational acumen, and are committed to leading the Group into its next phase of development.

The KDL Board and senior management are focused on progressing the Company as it moves its focus to Botswana, in order to deliver growth and positive results for shareholders, as well as continuing to investigate ways to extend the mine life at Ellendale. The Group also continues to seek exploration and production acquisition opportunities which may present long term sustainable value for shareholders.

### ***Financial Performance***

The sales of our diamonds, both of our fancy yellow diamonds under an exclusive life of mine off-take agreement and our commercial quality diamonds at auction, generated a total of 105,977 carats in FY2014 for a total sales value of USD70.256 million. Our total sales revenue in FY 2014 was AUD76.196 million, cash from our operating activities was AUD7.258 million and loss before tax amounting to AUD19.228 million. The loss before tax includes AUD11.916 million depreciation and AUD147,000 impairment of exploration asset.

Finally, we would like to extend the Board's appreciation of the hard work and commitment from our staff and management and the support of our shareholders over the last year. We look forward to continuing to work with you in FY2015 and beyond as we transform KDL from an Australian based mining and exploration company to a diversified diamond producer with international reach.



Alex Alexander  
**Non-Executive Chairman**



Noel Halgreen  
**Managing Director**

### 3. Business Review

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#### 3.1 Operations

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##### 3.1.1 Ellendale Diamond Project

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Mining operations were halted just before the start of the financial year due to a slip in the west pit rendering the haul road unsafe until remedial action could be taken. After extensive consultation with geotechnical engineers, a buttress of waste rock was placed over the affected slip area to support it and no further movement was recorded. After completion of the buttress, the decision was taken to continue treating the stockpiled material as opposed to re-starting the mining operations for a short period just prior to the wet season.

Consequently, pit operations only re-started in earnest in the middle of April 2014, focussing on the west and far east pits only. These two areas were mined until the end of August, after which mining operations ceased, as these areas cannot currently be mined economically.

A total of 4.2 million tons of ore was treated yielding 109,088 carats at an average grade of 2.59 cpht for the year. The ore split was 7% from the east pit, 29% from the west pit and 64% from the low grade ("LG") stockpiles. The LG was made of both east and west pit ore which had been stockpiled since the beginning of the pit operation.

The plant performed well during the year with the availability and utilisation targets being met. The average availability over FY2014 was 90% and average utilisation 90%, giving an overall utilisation figure of 81%. Plant efficiencies were measured on a regular basis and were kept to within acceptable tolerances.

##### 3.1.2 Lerala Diamond Mine

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The Lerala Diamond Mine, acquired in February 2014, consists of five diamondiferous kimberlite pipes (K2-K6) with a total surface area of 6.22ha and a processing plant with a capacity of 200 tonnes per hour (tph). It has a 15 year fully permitted mining lease which covers an area of 21.86 km<sup>2</sup>. 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 carats cpht.

**Project Progress;** Following the Board's decision to contract mine at Lerala, an Expression of Interest notice for the mining contract for Lerala was published in the Botswana press in June.

A lump sum turnkey contract for the refurbishment and modifications is being negotiated with Consulmet, a South African engineering company with extensive diamond plant experience. Completion of the project is currently estimated to occur during Quarter 4, FY2015. Upgrade of the camp and the provision of a bus which will remain at Lerala are also included in the Consulmet quotation.

The Company engaged Loci Environmental, a Botswana based company project managed by Envirobility Loci cc for an Environmental Impact Assessment ("EIA") review. This will be done in parallel with the plant refurbishment. Orders have been placed on both companies and work commenced in July 2014, subsequent to the financial year.

Consultants have also been engaged to carry out hydrogeological and water supply studies for completion in August 2014.

### 3.1.3 Smoke Creek Project

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The Smoke Creek Project, acquired in February 2014, consists of 22 prospecting licenses, 12 of which are also part of a mine lease application. The Smoke Creek tenements contain an inferred resource of 21.5 Mt at an average grade of 28 cpht, using a cut-off of 10 cpht.

**Project Progress;** A scoping study was carried out to ascertain the work required to complete the mine lease application and the mining approval process. The scoping study, which was completed in June 2014, outlined a number of baseline environmental studies that will need to be carried out in order to proceed with the mining approval process. These include flora, fauna, hydrology, hydrogeology, and waste characterisation studies, which are being planned for 2015.

In order to complete the mine lease application, a Native Title agreement must be reached with the Miriwung Gajerrong people, for which negotiations will be undertaken and can occur in tandem with the baseline studies. Local stakeholder engagement has already begun as part of the mining approval and Native Title processes.

Targeted geophysics is also planned as part of the 2015 program in order to improve the accuracy of the current resource definition and thus aid in the mine planning as part of the approval process. The Smoke Creek project represents a significant part of the future of the Group and has the potential to provide substantial revenues once operational.

### 3.1.4 Sales and Marketing

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The Company recovers and sells qualifying fancy yellow diamonds from Ellendale directly under an exclusive life of mine off-take agreement ("Off-Take Agreement").

The remainder of Ellendale's commercial production during FY2014, being the commercial quality diamonds which do not qualify for sale to Laurelton under the Off-Take Agreement was sold through auction by eDiamond Belgium. eDiamond International's independent online trading platform for rough diamonds provides diamond producers with branded, stand-alone e-sales solutions, marketing support and fully managed e-sales and distribution capabilities. In July 2013 KDL acquired the eDiamond Belgium BVBA branch of the operation. The acquisition of this business provides the Group with a marketing presence in Antwerp, Belgium (the traditional centre for diamond marketing throughout the world) as well as greater control over its distribution channels.

The Belgian subsidiary integrates eDiamond's established sales and marketing platform and capabilities into the Group's processes.

### 3.1.5 Copper-Gold Strategy

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As previously advised, KDL has actively sought a flagship copper-gold project to complement the Company's rationalised portfolio of copper-gold assets. Over the course of the financial year, KDL entered into advanced discussions with a number of parties and is now reasonably confident of acquiring a new project in the coming months.

If successful with such an acquisition, KDL is currently considering placing the newly acquired assets and the two existing copper-gold projects into a new company and list the company on the ASX. The Company believes this is the best strategy to realise the value of its current copper-gold assets whilst providing KDL shareholders with the opportunity to gain exposure to a promising new project and to copper and gold markets in general.



As of 30 June 2014, KDL held interests in two copper-gold projects, both of which contain JORC Resources.

The Calarie Project (KDL earning-in) covers an area of 34 km<sup>2</sup> located approximately 3 km north of Forbes in central west New South Wales. The project comprises Exploration Licence 7023 and Mining Lease 739, which contains the Lachlan gold mine and an associated shallow Inferred Resources of 0.5 Mt at 2.2 g/t Au.

During the year, KDL drilled two core holes with the objective of intersecting the mineralised lode in proximity to the historic mine workings but beneath the current outline of the Resource. Drill hole GLM02 intersected 6.9 m of siliceous lode down-plunge of the old mine stopes. The intersection contained two gold-bearing zones of 1.8 m at 6.17 g/t Au and 1.85 at 2.58 g/t Au, thus confirming the high-grade tenor of the gold lode and providing further encouragement to test for deeper extensions of the lode.

The Yeoval Project (KDL 75%) covers an area of 141 km<sup>2</sup> located approximately 50 km south of Dubbo in central New South Wales. The project comprises Exploration Licence 6311, which contains an Inferred Resource of 12.9Mt @ 0.38% Cu, and Mining Lease 811 which contains the historic Goodrich Mine. No exploration was undertaken on the Yeoval Project during the period.

### 3.1.6 Canadian Joint Arrangements

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The Company's wholly owned Canadian subsidiary, Mantle Diamonds Canada Inc. ("Mantle Canada") holds interests in joint arrangements in projects in Canada through its own wholly owned subsidiary Tenby Resources Inc. ("Tenby"). Tenby holds interests in the Tenby and Commonwealth exploration projects in known diamond producing areas in Canada's Northwest Territories. The licences in these two projects are managed by Diavik Diamond Mines under joint arrangement agreements and Tenby's interest in these projects is currently free carried during the exploration phase which is ongoing.

## 3.2 Annual Review of Mineral Resources and Ore Reserves

### 3.2.1 Mineral Resources

**Table 1: Kimberley Diamonds Resource Summary as at June 30<sup>th</sup> 2014**

			2014 RESOURCE STATEMENT				2013 RESOURCE STATEMENT			
SOURCE	ZONE	RESOURCE CLASS	TONNAGE (Mt)	GRADE (cpht)	CARATS (k cts)	VALUE (USD/ct)	TONNAGE (Mt)	GRADE (cpht)	CARATS (k cts)	VALUE (USD/ct)
Ellendale	E4	Indicated	4.0	6.7	265	\$185	5.0	6.0	298	\$166
	E9		5.1	3.7	186	\$746	7.0	3.4	238	\$719
	ROM Stockpiles		1.8	6.8	120	\$242	2.0	6.9	141	\$323
	TOTAL INDICATED ELLENDALE		10.8	5.3	571	\$379	14.0	4.8	677	\$393
	E4	Inferred	10.3	6.1	632	\$185	48.4	3.9	1,910	\$166
	E9		1.4	3.5	47	\$730	2.6	3.1	81	\$708
	E4 Satellite		13.1	5.5	725	\$210	15.3	5.6	856	\$210
	Low Grade Stockpiles		2.9	2.8	80	\$436	5.6	2.5	140	\$722
	Lights Stockpiles		11.2	1.1	118	\$945	9.6	1.1	101	\$926
	TOTAL INFERRED ELLENDALE		38.8	4.1	1,602	\$281	81.5	3.8	3,089	\$219
	TOTAL ELLENDALE		49.6	4.4	2,173	\$307	95.5	3.9	3,765	\$251
Lerala	All Pipes	Indicated	8.5	32.8	2,799	\$74	Acquired by KDL in 2014			
	All Pipes	Inferred	1.8	25.4	454	\$78				
	TOTAL LERALA		10.3	31.5	3,253	\$74				
Smoke Creek	Smoke Creek	Inferred	22.2	28.0	6,000	\$30				
	TOTAL SMOKE CREEK		22.2	28.0	6,000	\$30				
TOTAL KDL INDICATED RESOURCE			19.3	17.5	3,370	\$126	14.0	4.8	677	\$393
TOTAL KDL INFERRED RESOURCE			62.8	12.8	8,056	\$83	81.5	3.8	3,089	\$219
TOTAL KDL RESOURCE			82.1	13.9	11,426	\$95	95.5	3.9	3,765	\$251

\* Rounding of tonnage to the nearest 1,000,000 tonnes and carats to the nearest 1,000 carats may result in computational discrepancies

**Notes:**

- As at 30 June 2014 the Mineral Resources of the Company totalled 82.1 million tonnes (Mt) at 13.9 carats per hundred tonnes (cpht) containing 11.4 million carats, compared to 95.5 Mt at 3.9 cpht for 3.8 million carats at 30<sup>th</sup> June 2013.
- The E9 resource is calculated to a 1.50mm bottom cut-off size. All other resources are calculated to a 1.0mm bottom cut-off size.

- E4 Indicated and Inferred Resources have reduced due to re-assessment of “reasonable prospects for eventual economic extraction” which is now based on a pit optimisation study.
- E9 Indicated and Inferred Resources have reduced due to mining depletion.
- E4 Satellite Inferred Resources have reduced due to reassessment of “reasonable prospects for eventual economic extraction” which is now based on a pit optimisation study.
- ROM and Low Grade stockpiles have been reduced due to mining depletion.
- Lerala Indicated and Inferred Resources have been added to the resource following completion of the acquisition.
- The Smoke Creek inferred resources have been added to the resource following completion of the acquisition.
- Minerals Resources are reported inclusive of Ore Reserves
- Further details have been reported in the Resources and Reserves Statement dated 30 September 2014 which is available on [www.kdl.com.au](http://www.kdl.com.au).

### 3.2.2 Ore Reserves

**Table 2: Kimberley Diamonds Reserve Summary as at June 30th 2014**

			2014 RESERVE STATEMENT				2013 RESERVE STATEMENT			
SOURCE	ZONE	RESERVE CLASS	TONNAGE (Mt)	GRADE (cpht)	CARATS (k cts)	VALUE (USD/ct)	TONNAGE (Mt)	GRADE (cpht)	CARATS (k cts)	VALUE (USD/ct)
Ellendale	E9 Pipe	Probable	0.6	3.3	20	\$674	1.9	3.4	64	\$697
	E9 Stockpiles		0.6	1.6	10	\$921	0.9	3.5	30	\$891
	E4 Stockpiles		1.2	9.4	111	\$185	1.2	9.4	111	\$166
	PROBABLE RESERVES ELLENDALE		2.4	5.9	140	\$446	3.9	3.9	5.2	205
Lerala	K2	Probable	0.8	35.3	286	\$61	Acquired by KDL in 2014			
	K3		2.7	32.3	865	\$79				
	K4		0.6	32.2	197	\$79				
	K5		0.7	20.0	134	\$79				
	K6		0.2	29.9	59	\$79				
	PROBABLE RESERVES LERALA		5.0	31.0	1,541	\$73				
TOTAL PROBABLE RESERVES KDL			7.3	22.9	1,681	\$102	3.9	5.2	205	\$290

\* Rounding of tonnage to the nearest 1,000,000 tonnes and carats to the nearest 1,000 carats may result in computational discrepancies

**Notes:**

- As at 30 June 2014 the Ore Reserves of the Company totaled 7.3 million tonnes (Mt) at 22.9 carats per hundred tonnes (cpht) containing 1.7 million carats. All reserves are in the Probable category.
- This compares to the Ore Reserve at 30 June 2013 of 3.9 Mt at 5.2 cpht containing 0.2 million carats. This represents an increase of 3.4 Mt and 1.5 million carats.



- The Ore Reserves are located at the Ellendale E9 and E4 operations in Australia and the Lerala Mine in Botswana.
- There were no acquisitions that added to the Ore Reserves during the year.
- The stated Reserve grades are head feed grades.
- The Ore Reserves for the Ellendale operation are based on the open pit mining of the E9 pipe and treatment of the E9 high grade stockpiles and E4 high grade stockpiles.
- The E9 pipe Ore Reserve was depleted by a combination of mining and design changes with the latter mainly as a result of a slope failure in June 2013.
- There was a net depletion of the E9 high grade stockpiles as mining of the E9 open pit approaches the end of its life.
- The Lerala Ore Reserve as at 30 June 2014 is the first to be generated by KDL and is based on the open pit mining of the K2, K3, K4, K5 and K6 pipes at Lerala.
- No depletion of the Lerala Ore Reserve took place by mining activity as the operations were under care and maintenance throughout the year.
- The reduction in the Lerala Ore Reserve compared to the 8.4 million tonnes at 29.7 cpht containing 2.5 million carats derived by the previous owners and contained in the report titled “Kimberley Diamonds Ltd signs binding Heads of Agreement to acquire Mantle Diamonds Ltd”, created on 17 September 2013 and available to view on [www.asx.com.au](http://www.asx.com.au) and subsequent reports, is due mainly to higher estimates of operating costs in the derivation of the mine plan.
- Further details have been reported in the Resource and Reserves Statement dated 30 September 2014 which is available on [www.kdl.com.au](http://www.kdl.com.au).

## Competent Persons Statement

### Statement of Compliance

*The Mineral Resources as at 30 June 2014 is based on information compiled or reviewed by Mineral Resource Manager Mr Richard Price B.Sc. Mr Price is a member of the Australian Institute of Mining and Metallurgy and a full time employee of Kimberley Diamond Company. Mr Price has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking 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 the report of the matters based on his information in the form and context in which it appears.*

*The Ore Reserves as at 30 June 2014 have been estimated and compiled under the direction of Mr Neil Kaner. Mr Kaner is a Member of the Australian Institute of Mining and Metallurgy and is a full time employee of Kimberley Diamond Company. Mr Kaner has sufficient experience relevant to the style of mineralisation, type of deposit under consideration and for the activity being undertaken to qualify as a Competent Person as defined by the 2012 edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr Kaner consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

### 3.3 Financial Performance (Non IFRS information)

	Unit	Year to 30 June 2014
Diamond sales	\$'000	76,196
Cost of sales (excluding depreciation)	\$'000	65,697
Royalty and selling costs	\$'000	5,156
Loss before income tax	\$'000	19,228
<b>Physicals</b>		
Ore treated	'000 tonnes	4,206
Ore mined	'000 tonnes	1,095
Waste mined	'000 tonnes	602
Carats recovered	carats	109,088
Carats sold	carats	105,977
<b>Per unit</b>		
Average price per carat (rough)	\$/carat	\$718
Average exchange rate	\$	\$0.92
Direct cash cost (including waste) per tonne treated	\$/tonne	\$14.39
Direct cash cost (excluding waste) per tonne treated	\$/tonne	\$14.39
Operating cost per tonne treated	\$/tonne	\$15.57
<b>Other operating information</b>		
Waste amortised	\$'000	\$2,970
Depreciation and mining asset amortised	\$'000	\$8,946
Capital expenditure	\$'000	\$27,181

\* The above unaudited non-IFRS information was included as management believes the information provides additional insights into the underlying performance for the period.

Cost management has and will continue to be a key focus for KDL. Costs initiatives have been developed and adopted in order to ensure that the operation is able to preserve its operating margins. KDC's overall results are exposed to foreign currency movements against the US Dollar which impacts revenue.

#### Financial performance

The Group's loss before tax for the year amounted to \$19.228 million which includes the following significant non-cash items recognised in the consolidated statement of comprehensive income:

- Non-cash share option charges of \$1.05 million were incurred on the issue of 5.5 million options to directors and officers of the Group. The expense is based on the fair value of the options at the grant date, calculated using the Black Scholes pricing model.

#### Financial position

The Group finished the year in a strong financial position with \$13.417 million of cash in the bank.

During the year, KDC invested \$3.2 million in repairing the wall failure which was capitalised and subsequently expensed over the period of mining, consistent with the Group's accounting policies (see note 2 to the financial statements).

#### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance

and position are set out in the Business review. The financial position of the Group, its cash flows and liquidity position are described in the Group Financial review.

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

The Group experienced net cash inflows from operating activities of \$7,258,000 and net cash outflows for financing activities of \$3,263,000. At 30 June 2014, the cash and cash equivalents balance was \$13,417,000 and incurring a net loss after tax for the year ended 30 June 2014 of \$19,241,000

Subsequent to year end, the Group ceased mining at its E9 mine at Ellendale, and is now processing stockpiles until the end of Q2 FY 2015, at which time the mine will be placed on care and maintenance until diamond prices improve.

During the current financial year, the Group acquired Mantle Diamonds Limited, which includes the Lerala Diamond Mine in Botswana. In addition, the Group acquired the Smoke Creek Alluvial Diamond Project. Both of these acquisitions will require significant capital outlay in order to bring these assets into production and realise the full potential of these assets.

As announced by the Company on the 2 June 2014, the Board has approved expenditure of a total of \$14,700,000 to fund the re-commissioning of its Lerala Diamond Mine in Botswana. The capital expenditure will be funded partly from additional capital to be raised by the Company.

KDL has recently announced a non-renounceable rights issue to raise \$9,916,672, which is due to close on 24 October 2014. The directors recognize the need to raise further additional funds via equity raisings or borrowing facilities in order to fund the future capital expenditure over the short to medium term.

Should the Group not achieve the funding outcomes set out above, there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

#### **Dividends**

The Company's maiden dividend of \$0.02 per fully paid share (unfranked) was paid on 21 October 2013. An interim dividend of \$0.02 per fully paid share (unfranked) was paid on 3 March 2014.

### **3.4 Health, Safety and Environment Report**

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In July 2014, the mine achieved a second consecutive Lost Time Injury ("LTI") free year, with no working hours lost through injury. With all the safety objectives set for 2013 achieved, the main areas of focus for 2014 will be to:

- review and improve the risks identified in the Risk Register;
- review and improve the hazard awareness training;
- implement and expand first aid training into all areas; and,
- improve the Emergency Response Team (ERT) training and participation.



### 3.4.1 Environment

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The Group is committed to conducting its operations in a sustainable and responsible manner. Ellendale has recorded zero major environmental incidents and continues to strive to minimise operational impacts on the surrounding environment and maintain regulatory compliance through implementing best environmental practises, including the following:

- land disturbance is minimised to protect surrounding native vegetation including rare, endangered or priority plant species through the 'Permit to Clear' system;
- performance monitoring of surface and groundwater quality and impacts of groundwater abstraction;
- ongoing progressive rehabilitation is completed as agreed by the Strategic Rehabilitation committee which meets quarterly;
- continually promoting and improving efficiencies throughout the organisation by challenging how things are done, including energy and water use;
- ongoing protection and preservation of indigenous heritage sites;
- continuing waste management as outlined in the Waste Management Plan;
- keeping the organisation up to date with relevant legislation amendments, prosecutions and fines in industry through the subscribed 'Enviro Essentials';
- ongoing management of exotic species to minimise non-native or destructive fauna and flora including weeds and feral cats; and
- promoting environmental awareness throughout the workforce.

### 3.4.2 Progressive Rehabilitation Planning

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The development of the Mine Closure Guidelines by the Western Australian State Government in 2011 and the subsequent requirement to submit a Mine Closure Plan ('MCP') for Ellendale under tenement conditions associated with the *Mining Act 1978 (WA)* has increased focus on the medium to long-term strategic rehabilitation planning. Since the first MCP was submitted in 2012, KDL has undertaken further specialist assessments, investigations, trials, and continued consultation which have contributed to significant improvements in the closure knowledge base and refinement of closure objectives and strategies. The key focus in the later part of FY2014 has been the refinement of closure methodologies for Ellendale's Tailings Storage Facilities and development of strategies for closure stakeholder engagement and the monitoring of rehabilitation performance. The updated MCP was submitted in July 2014, subsequent to the end of FY2014.

### 3.4.3 Strategic Rehabilitation

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Mine waste at Ellendale is stored as landforms of waste rock or tailings. Rehabilitation activities are focused on reducing the rehabilitation liability by undergoing progressive rehabilitation planning and earthworks of these landforms. The Strategic Rehabilitation Committee was formed in 2012 to ensure rehabilitation planning and subsequent works are completed in line with MCP commitments, current operations and future mine developments. As part of optimising expenditure, planned and unplanned closure provision quantum has been developed externally, ensuring KDL's financial provision is robust, auditable and adequate for budgeting purposes.

A total of 137 hectares of disturbed land is currently under rehabilitation or trials within the Ellendale Mine lease. Topsoil trials were established in 2012 to determine native vegetation success on tailings dam surfaces with various topsoil depths, and compare additional treatments such as seed and fertilisers. Two years into the trial, results indicate optimal topsoil placement increases native grasses, therefore reducing weed impacts. Other trial areas have also been established, primarily focused on assessing growth medium and stability

issues. Trials also commenced in 2013 determine if seed inoculation with soil microbes can reduce reliance on fertiliser and establishment of weeds in rehabilitated areas. Information obtained as a result of these trials will be incorporated into future rehabilitation to ensure cost effective, successful rehabilitation.

#### 3.4.4 Tailings Management

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During the year KDL introduced a new integrated method of construction and operation at TSF1D, which uses staged wall lifts using in situ tailings. This strategy ensures greater control of tailings deposition and will improve closure outcomes.

#### 3.4.5 Water

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Water for ore processing plant and drinking at Ellendale is sourced from local aquifers. KDL is committed to protecting this resource. Groundwater investigations have been completed to develop an understanding of the hydrogeology and the impacts of the Company's activities, and an extensive monitoring bore and spring monitoring network is utilised to monitor the quality and quantity of groundwater in the Ellendale area. Over the 12 years of the operation of the Ellendale mine, groundwater monitoring has indicated no adverse effects on local aquifers.

#### 3.4.6 Compliance | Performance

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KDL recognises that environmental compliance is integral to its business and has policies and risk management systems in place to ensure operations meet compliance requirements. As a result there have been zero significant non-compliances reported during operations. To ensure continual improvement, risk management systems are audited biennially and compliance audits are conducted every other year. Regulators including the Department of Mines and Petroleum ("DMP"), Department of Environment Regulation (DER) and the Department of Water ("DoW") also inspect the site regularly. Performance reports are submitted to the DMP, DER and DoW each year. KDL also reports greenhouse gas emissions and energy use to the Government for the National Pollutant Inventory and the National Greenhouse and Energy Reporting Act 2007.

### 3.5 Corporate Social Responsibility Report

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KDL recognises that its social licence to operate is critical towards continuing as a successful, responsible and sustainable business. The Ellendale mining lease is on the traditional country of the Bunuba people. In December 2013, KDL signed an Indigenous Land Use Agreement ("ILUA") with the Bunuba people to recognise this. Establishing the agreement is an important step towards protecting the cultural and environmental interests of the Bunuba throughout the life of the mine. Committed to creating a positive legacy for the community around its operations and to developing and maintaining relationships of mutual understanding and respect with all project affected communities, KDL runs the programs and sponsorships set out in sections 4.4.1 – 4.4.5.

#### 3.5.1 Health and Wellbeing

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In 2012, KDL and Variety - the Children's Charity made a ground-breaking commitment to support the Marulu Strategy and the fight against Foetal Alcohol Spectrum Disorders (FASD) amongst indigenous children living the Fitzroy Valley. This ongoing community driven strategy aims at eradicating FASD in the Fitzroy Valley through education, early intervention therapy and support for carers and families.

KDL has continued to host the Kimberley Diamond Company Diamond Dinner to raise funds for the Variety Children's Charity of Western Australia. KDL donates handcrafted diamond jewellery for the auction held during this annual event, with all proceeds supporting the Marulu Foundation.

Funds generated from steel recycled from Ellendale are donated to Ruggies Recycling to assist with implementing Telehealth services around Derby. Telehealth provides financial incentives to eligible health professionals and aged care services to enable patients to undertake video consultation with a specialist, consultant physician or consultant psychiatrist.

### 3.5.2 Education and Training

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KDL also sponsors the Yiramalay/Wesley Studio School located 50km from Ellendale. The school, a partnership between the Bunuba people and the community of Wesley College Melbourne, was established to bring about positive change through education. It offers programs designed to facilitate the building of relationships across cultures in a residential setting. Operational since August 2010, the school achieves near perfect attendance and high student retention, and produces an improvement in student health compared to other schools in the region.

### 3.5.3 Local and Indigenous Workforce

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KDL continuously works to develop ways to increase indigenous employment, including actively encouraging our key contracting service providers to increase their efforts in respect to both local and indigenous employment. KDL also operates an Indigenous Training and Employment Program at Ellendale. Candidates commence the program as an entry level processing plant operator and progress through another four levels through the program.

Local employees are those who reside within the Shires of Derby-West Kimberley and Broome. During the 2013-2014 financial year the Ellendale operation employed an average of 160 permanent and contractor personnel, of which 28.7% are from the local community.<sup>1</sup>

Traditional Owner businesses also carry out various activities on the mine lease including weed spraying and seed collection.

### 3.5.4 Corporate Social Investment

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KDL has continued to contribute funds to health and wellbeing, education and training, sport and recreation, and other projects throughout the local community during the year, focussing on organisations based in the West Kimberley.

### 3.5.5 Jandamarra – Sing for the Country

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In 2014 KDL proudly supported "Jandamarra – Sing for the Country", a music production of the Jandamarra story – a story of extreme importance to the Bunuba people - which unites two cultures by combining western classical music with indigenous culture. The production is a collaboration between the Sydney Symphony Orchestra (SSO), Bunuba Cultural Enterprises (BCE) and Gondwana Choirs.

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<sup>1</sup> Directly employed by the Group only



### 3.6 Principal Risks

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The Group's principal business risks are outlined below. These are significant risks that may adversely affect the Group's business strategy, financial position or future performance. It is not possible to identify every risk that could affect the Group's business and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise.

#### **Economic and Market Risks**

The general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors which may contribute to the general economic climate include the level of direct and indirect competition facing the Company, the performance of the diamond market, industrial disruption, the rate of global growth, interest rates and the rates of inflation.

Future earnings are likely to be closely related to the price of diamonds and the terms of any sale agreements which the Company or its subsidiaries enters into.

Diamond prices may fluctuate and are affected by numerous factors beyond the control of the Company. These factors include world demand, forward selling by producers, production cost levels in other producing regions and global conflict. Diamond prices are also affected by macroeconomic factors such as expectations regarding inflation, interest rates, currency and exchange rate fluctuations, and global and regional demand for, and supply of, diamonds as well as general global economic conditions. The downturn in the diamond market in late 2011 highlights the volatility and uncertainty characteristic of economic recovery periods. Diamond prices remain volatile and sensitive to market uncertainties, directly impacting cash flows. These factors may have an adverse effect on the Company's exploration, development and production activities.

**Mitigation:** Although the Group cannot materially influence the market, market conditions are continually monitored to identify current trends that may either pose a threat or create an opportunity for the Group. The Group has flexibility to reassess its capital projects and sales cycles to preserve cash balances on its balance sheet.

#### **Operation and development risks**

The success of the business of a diamond exploration and mining company depends on the successful exploration and/or acquisition of recoverable and economic reserves, design and construction of efficient processing facilities, competent operation and proficient marketing of the product. There are many risks inherent in this process.

Whether or not income will result from the exploration, development and production of KDL's assets in Botswana, Australia and Canada depends on the successful establishment of exploration and mining operations and project development. Factors including costs, equipment availability and resource prices affect successful operations and project development, as does the design and construction of efficient exploration facilities, prudent financial administration and skilled management and employees, including the availability and reliability of appropriately skilled and experienced consultants.

The Lerala Diamond Mine has been on care and maintenance since July 2012 and has not been operated since this time. The Company intends to re-commission the Lerala Diamond Mine. As a result, the Company will be subject to all the risks inherent in the establishment of new operations. No assurances can be given as to the level of viability that the operations of Lerala Diamond Mine may achieve.

The operations of KDL may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including diamond theft, environmental hazards, industrial accidents, technical failures, labour disputes, unusual or unexpected rock formations, formation damage, flooding and extended interruptions due to inclement or hazardous weather conditions, fire and explosions. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. While the Company currently intends to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

**Mitigation:** The Group has engaged experienced professionals to manage and operate its business in Australia and Botswana. The Group regularly undertakes risk assessment and financial modelling to assess its current and anticipated future performance and respond to operational and development risks.

### **Health, safety, social and environmental related risks**

The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining and exploration operations.

The Company's activities are subject to laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mining and exploration projects, a variety of environmental impacts exist. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with applicable laws in each country in which it has operations.

**Mitigation:** The Group has formal procedures and published policies in this regard as well as dedicated significant resources to continuously improve, review, recommend, implement and monitor compliance throughout the operations and departments within the Group. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place.

### **Mineral resource risk**

The Group's ability to operate profitably in the medium to long-term depends significantly on the Group's mineral resource, which influences the operational mine plans and the generation of sufficient cash flows and margins.

**Mitigation:** Various bulk sampling programs combined with geological mapping and modeling methods significantly improve the Group's understanding of its mineral resources and further assist in mining the resource optimally.

### **Exploration and development**

The Group has acquired both exploration and mining projects during FY2014, including Smoke Creek in Western Australia and Lerala in Botswana. There is a risk that the actual mineralisation may be different to the expected results from exploration. Adverse results may impact on the financial viability of the relevant projects.

**Mitigation:** The Group conducted technical due diligence prior to acquiring these projects and continues to conduct preliminary work on these projects prior to developing them further in the case of Smoke Creek) or re-commissioning them (in the case of Lerala).

**Title**

The future viability and profitability of the Group will depend upon maintaining, and where relevant, obtaining the renewal of the tenements held by the Group in Australia, Botswana and Canada. Such renewal is at the discretion of the relevant government departments in those jurisdictions. Tenements held by the Group have conditions which must be complied with. Failure by the Group to comply with these conditions may mean forfeiture of the relevant tenements.

**Mitigation:** The Group regularly reviews and assesses its compliance with the conditions of its tenements.

**Native Title and Land Access**

The activities of KDL in Australia are subject to the *Native Title Act 1993* (Cth). Native title and Aboriginal land rights may affect the Company's ability to gain access to prospective exploration areas on the Australian tenements, and to explore and develop these tenements. Compensatory obligations may be necessary in relation to settling native title claims lodged over any undeveloped area in the Australian tenements. KDL may also be subject to native title laws in other jurisdictions in which it operates, which may also affect the Company's ability to access explore and develop its tenements in such jurisdictions.

Within Australia, Commonwealth and State legislation also allows for the protection of sites of significance to Aboriginal custom and tradition. The Company is aware of its obligations in this respect and will carry out surveys prior to conducting any exploration work on its Australian tenements that would disturb the surface of the land.

**Mitigation:** The Group regularly reviews and assesses its compliance with native title laws.

**Diamond theft**

Theft is an inherent risk factor in the diamond industry.

**Mitigation:** Precautionary measures have been implemented to minimise this risk. Furthermore, the Group has a diamond specie policy in place with reputable brokers and underwriters.

**Exchange rates**

The Group operates internationally and is exposed to foreign exchange risk arising from currency movements. The Group currently earns revenue in US dollars while its cost base is in Australian dollars, Botswana Pula and South African Rand. Any weakening or strengthening of the US dollar relative to the Australian dollar, Botswana Pula and/or the South African Rand and the volatility of the trading against the US dollar will impact the Group's cash flows and profitability.

**Mitigation:** The impact of the exchange rates and fluctuations are closely monitored. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect cash flows in the short to medium term.

**Inability to achieve profitability and positive cash flow in medium to long term**

The financial impact of the risks that may affect the Group may individually, or in a combination, affect the ability of the Group to operate profitably and generate positive cash flow in the medium to long-term.

**Mitigation:** The various risk management processes described above provide a substantial base from which to assess, monitor and mitigate this risk.

#### **Growth Plans – Inability to achieve planned growth**

The Group's growth strategy is based on various studies, cost indications and future market assumptions. Although due process in assessing the viability, costs and implementation of these projects is undertaken, risks with regards to cost overruns and/or delays may impact the effective implementation thereof. The funding of these growth plans could also be adversely affected by negative market conditions.

**Mitigation:** Project governance structures have been implemented to ensure that projects are monitored and risks managed at an appropriate level. Strict treasury management procedures are also in place to monitor this risk.

#### **Future Capital Requirements**

The Group may require debt or equity funding in the future to continue its operations. There is no certainty that the Group will have access to available financial resources sufficient to fund its obligations and operations in the future.

**Mitigation:** The Group regularly assesses its cash flow and expenditure need and is in ongoing discussions with possible financiers, both debt and equity.

#### **Reliance on key customer**

The Group currently relies on a single customer for a significant portion of its revenue.

**Mitigation:** The Group maintains its relationship with the key customer at the required level. An existing supply agreement is in place, which provides certainty and price stability for the life of the Ellendale Mine. This key customer is one of the largest and oldest jewellery and speciality retail brands and integrated groups in the luxury sector and is listed on the New York Stock Exchange.

#### **Regulatory and sovereign**

The Group operates in Australia, Botswana, the United Kingdom and Canada and deals with local regulatory authorities in relation to the operation of its business and the development of its properties. There may be adverse changes in the regulatory environment in future periods which may impact mining tenure, mine regulation, export regulation, taxation and other regulated activities which may impact the financial viability of the Group.

**Mitigation:** The Group monitors all regulatory changes and where necessary will seek legal advice on ways to mitigate any impacts arising from such changes

## 4. Directors' Report

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Your directors submit their report for the year ended 30 June 2014.

### 4.1 Directors

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The following persons were directors of Kimberley Diamonds Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

**Alexandre Alexander**, *Double Master's Degree in Engineering/Economics, Graduate Diploma in Accounting and a Graduate Diploma in Applied Finance and Investments*  
**(Non-Executive Chairman- Appointed 22 May 2014)**

Alexandre is a founder and Managing Director of Summit Capital Ltd ('Summit Capital'), a boutique financial advisory firm with particular focus on resources and commodities. Prior to founding Summit Capital, Alexandre was a stockbroker with Deutsche Bank Stockbroking and ABN AMRO Bank Stockbroking. Since founding Summit Capital in 2005, he has had a lead role in a number of capital raisings and corporate transactions in resources and real estate sectors and built a highly successful business between Australia and China. Alexandre held the Executive Chairman and Chief Executive Officer positions up to 22 May 2014 before becoming the Non-Executive Chairman.

Alexandre is a Non-Executive Director of Winmar Resources Limited (ASX: WFE). During the past three years he has also served as a director of Freshtel Holdings Limited (ASX: FRE).

**Noel Halgreen**, *Bsc. Eng (Mining Engineering), Bsc. Eng (Hons), Masters of Engineering (Industrial Engineering)*  
**(Managing Director – Appointed 22 May 2014)**

Noel is a mining engineer with over 30 years diverse industry experience. During his career, Noel's experience has included appointments as Vice President and Executive Director of BHP Billiton Coal, Executive Director of Trans Natal Coal Corporation and Chief Operating Officer of Sasol Coal.

Noel is a Non-Executive Director of International Coal Limited (ASX: ICX) and a Non-Executive Director of Winmar Resources Limited (ASX: WFE). During the past three years he has also served as a director of Bligh Resources Limited (ASX: BGH).

**Rodney Alan Sainty**, *B.Sc (Hons) (Syd) majoring in Geology and Geophysics, Graduate Diploma of Management (UCQ)*  
**(Executive Director)**

Rodney is a minerals exploration geologist with 26 years' experience in the mining industry. Based for much of his career at operating mines throughout Australia, his experience has focused on mine-district exploration for gold and base metal ore deposits in several of Australia's most productive minerals domains. He has worked with successful exploration teams from Electrolytic Zinc, Pancontinental Mining, Plutonic Resources, Outokumpu, Jabiru Metals, and, latterly, in consulting roles for several junior explorers. This broad experience includes advanced field-based skills in unravelling the complexities of volcanic-intrusive terrains and hydrothermal systems. Rodney has, to date, performed key roles in the discovery of three ore deposits: a gold deposit near Kalgoorlie, a copper-zinc lens near the Thalanga mine in Queensland and, most recently, the Bentley copper-zinc orebody at Teutonic Bore, WA.

During the past three years Rodney has not served as a director of any other listed company.



**Mark Yumin Qiu, PhD in Economic Geology (UWA)**  
**(Non-Executive Director)**

Mark received his PhD degree in Economic Geology at the University of Western Australia, with publications in Australia, China, France, Japan, The Netherlands, UK and USA. Dr Qiu has more than 25 years' experience in the gold and iron ore mining industry, in addition to holding a number of senior management roles in Australia and abroad, including serving as Group Executive for Sino Gold Mining Limited (ASX: SGX) and Eldorado Gold Corporation (TSX: ELD; NYSE: EGO). His extensive experience includes directorships and general managers for several joint ventures for Sino Gold/Eldorado Gold and Sino Gold-Gold Fields JVC.

Mark is currently Managing Director and CEO of Hanking Gold Mining Pty Ltd, Managing Director of Hanking Australia Pty Ltd, Executive Director of China Hanking Holdings Limited (HKSE:03788) and non-executive director of Primary Gold Limited (ASX: PGO).

**Yong Xiao, Finance Degree and Postgraduate Degree in Economic Management from the Southwestern University of Finance and Economics in China**  
**(Non-Executive Director)**

Yong is currently an Executive with Beijing Casin Investment Holding Co., Ltd. He has built a highly successful business for Beijing Casin Investment Holding Co. Limited and led numerous investment transactions and projects for the company. Yong is a director of Australia Casin Resources Co.

During the past three years, he has not served as a director of any other listed company.

**Rupert Baring**  
**(Independent Non-Executive Director – appointed 12 March 2014)**

Rupert is co-founder and director of Mantle Diamonds Ltd, which was acquired by the Company in February 2014. Rupert successfully raised capital for the purchase and development of the Lerela Diamond Mine in Botswana and was instrumental in developing government relations in that country. Rupert has more than 20 years' experience in the diamond industry, including extensive experience as a diamond broker with De Beers and I Hennig & Co. He has in-depth knowledge of the diamond markets in Belgium, Israel and India and has negotiated mineral licences in more than a dozen African countries including Botswana, Sierra Leone, Angola, South Africa and Lesotho.

During the past three years, he has not served as a director of any other listed company.

**Lee-Anne de Bruin, B.Comm, B.Acc, CA (SA)**  
**(Managing Director – Resigned 22 May 2014)**

Lee-Anne served as Chief Financial Officer of Kimberley Diamond Company NL from April 2009 to November 2011 and then Chief Executive Officer until its acquisition by Kimberley Diamonds Ltd on 31 January 2013. She was appointed as Managing Director of KDL in April 2013. Lee-Anne has over 13 years' financial experience, including 6 years in the diamond industry.

Lee-Anne does not serve as a director of any other listed company. During the past three years, she has also served as a director of Blina Minerals NL (ASX: BDI).

**Albert Yue-Ling Wong, B.Comm (UNSW), F Fin, MSDIA, FAICD**  
**(Deputy Chairman – Resigned 22 May 2014)**

Albert is an investment banker with over 29 years' experience in the finance industry. He was admitted as a Member of the Australian Stock Exchange in 1988 and was the principal of Intersuisse Limited until 1995 when he established and listed on ASX the Barton Capital group of companies, including eStar Online. Albert was also a founding Director of both Pluton Resources Limited and Gujarat NRE Resources NL.

Albert is Chairman of Cabral Resources Limited (ASX: CBS) and Deputy Chairman of Prima Biomed Limited (ASX: PRR). During the past three years he has also served as a director of Winmar Resources Limited (ASX: WFE).

**Company Secretary**

Warwick Pearce was appointed Company Secretary of Kimberley Diamonds Ltd on 15 March 2012 and resigned on 1 April 2014. Warwick is a solicitor of the Supreme Court of New South Wales.

Emma Lawler was appointed Company Secretary of Kimberley Diamonds Ltd on 2 April 2014 and resigned on 1 July 2014. Emma has over 15 years' experience as a company secretary to both listed and unlisted companies. Emma holds a Business Degree and a Graduate Diploma of Applied Corporate Governance and is a Fellow of the Governance Institute of Australia.

Subsequent to the end of the financial year, Mrs Laila Green was appointed as Chief Financial Officer and Company Secretary, effective from 1 July 2014.

## 4.2 Incorporation

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The Company was incorporated on 5 May 2011.

## 4.3 Principal activities

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During the financial year the principal continuing activities of the Group consisted of:

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

## 4.4 Dividends

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The Company's maiden dividend of \$0.02 per fully paid share (unfranked) was paid on 21 October 2013. An interim dividend of \$0.02 per fully paid share (unfranked) was paid on 3 March 2014.

## 4.5 Operating and financial review

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The Group's loss attributable to owners of the Company after providing for income tax and non-controlling interest amounted to \$19.224 million compared to the prior period profit of \$2.420 million.

The Group's detailed financial and operating results are covered in the preceding report of the Chairman and Managing Director and in the Business Review.

#### 4.6 Significant changes in the state of affairs

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On 12 July 2013, the Company was accepted into the Western Australian Department of Mines and Petroleum's Mining Rehabilitation Fund, and the Company's \$12.1 million environmental bond was refunded to the company.

On 18 July 2013, the Company acquired 100% of the shares in eDiamond Belgium BVBA from eDiamond International Limited. The shares were acquired for a zero consideration and the estimated fair value of the business' net assets at the acquisition date is AUD69,000. The acquisition gives the Group greater control over its distributions and marketing channels and will assist in the successful and continued marketing of ongoing production expansion projects.

On 19 July 2013, the Company repaid in full a debt of \$11.2 million owing to GEM Diamonds Limited (LSE:GEM). This loan had been provided by GEM to KDL as part of KDL's acquisition of Kimberley Diamond Company NL in January 2013.

On 28 August 2013, a settlement deed was signed terminating a Joint Arrangement agreement ("Blina JV Agreement") between Blina Minerals and KDC. Under the Blina JV Agreement Blina held the right to mine certain alluvial deposits on the KDC mining lease M04/372. The terms of settlement were reached on commercial terms acceptable to both parties.

On 12 September 2013, 4,000,000 share options in the Company with an exercise price of \$0.75 were issued to certain senior executives of the Group, being Stephen Wetherall, Nick Selby, Neil Kaner and Gideon Scheepers. There are no vesting conditions and the options expire on 12 September 2015.

On 17 September 2013, the Company signed a binding Heads of Agreement to acquire 100% of the equity in Mantle Diamonds Limited (Mantle), including Mantle's wholly-owned Lerala Diamond Mine in Botswana, subject to satisfactory due diligence and Mantle undertaking a capital restructuring. The Lerala Diamond Mine [contains Probable Reserves of 8.38 Mt with an average grade of 29.68 cpht]. On 24 February 2014, the Company completed the acquisition of Mantle Diamonds Limited. See below for further details.

On 23 September 2013 the Company announced that the Board declared a maiden dividend of 2 cents. This dividend was unfranked and was paid to shareholders who held KDL shares as at the record date of 11 October 2013 and was paid on 21 October 2013.

On 14 November 2013, the Company announced an update of its existing JORC resource at Ellendale, demonstrating an increase in total resource tonnes to 97.2 Mt at an overall grade of 3.89 carats per hundred tonnes.

On 29 November 2013, 1,500,000 share options in the Company with an exercise price of \$1.15 were issued to a senior executive, Lee-Anne de Bruin. There are no vesting conditions and the options expire on 29 November 2015.

On 18 December 2013, the Company announced the completion of a private placement, raising \$10,800,000. A total of 11,999,856 new ordinary shares were issued under Listing Rule 7.1 and 7.1A. These share issues were ratified by shareholders under Listing Rule 7.4 at the Extraordinary General Meeting held on 10 February 2014.

On 10 February 2014, the Company announced that mining was to re-start at the E9 West Pit following the suspension of mining on 26 June 2013 after the slippage of the E9 Pit wall which required the construction of a

buttress to allow safe access to the pit. Production continued from above ground run of mine stockpiles and lower grade stockpiles. Mining at E9 re-commenced in April 2014.

On 10 February 2014, the Company announced that the Board declared an unfranked interim dividend of 2 cents. This dividend was paid to shareholders who held KDL shares as at the record date of 19 February 2014 and was paid on 3 March 2014.

On 11 February 2014, the Company issued 1,000,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 12 February 2014, the Company issued 2,000,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 17 February 2014, the Company acquired the Smoke Creek Alluvial Diamond Project ("Smoke Creek") from Venus Metals Corporation Limited. Smoke Creek comprises 22 Prospecting Licences and one Mining Lease application covering 11 kilometres of unmined diamond bearing gravels located within the downstream portion of Smoke Creek, a tributary leading from Rio Tinto's Argyle Diamond Mine in Western Australia. Smoke Creek has an Inferred Resource of 21.5Mt at an average grade of 28 carats per hundred tonnes for 6,000,000 carats, using a cut off of 10 cpht. The Company paid \$250,000 cash and issued 625,000 new ordinary shares in KDL as consideration for Smoke Creek. This share issue was ratified by shareholders in the Extraordinary General Meeting held on 1 April 2014.

On 24 February 2014, the Company completed the acquisition of Mantle Diamonds Limited. The Company issued 13,566,317 new ordinary KDL shares as consideration for 100% of the total issued share capital of Mantle. This share issue was approved by shareholders in the Extraordinary General Meeting held on 10 February 2014. Mantle has assets in Botswana (the Lerala Diamond Mine) and Canada (interests in the Tenby and Commonwealth projects in Canada's Northwest Territories) and an office in London, United Kingdom.

On 24 February 2014, the Company issued 38,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 12 March 2014, the Company issued 40,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

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

On 18 March 2014, the Company issued 70,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 2 April 2014, the Company announced the appointment of Mrs Emma Lawler as Company Secretary, following the departure of Mr Warwick Pearce.

On 1 May 2014, the Company issued 100,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 9 May 2014, the Company issued 100,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 16 May 2014, the Company issued 50,000 new ordinary shares pursuant to the exercise of options at an exercise price of \$0.30 per share.

On 22 May 2014, Mr Noel Halgreen replaced Mrs Lee-Anne de Bruin as Managing Director of the Company. Mrs de Bruin remained on the Board of the Company as a non-executive Director until she resigned on 25 June 2014.

On 22 May 2014, Mr Albert Wong resigned from the Board of the Company.

On 22 May 2014, Mr Alex Alexander, resigned as Executive Chairman and Chief Executive Officer. Mr Alexander is now non-executive Chairman of the Company.

On 27 May 2014, the Company announced the resignation of Mr Stephen Wetherall as Chief Financial Officer.

On 2 June 2014, the Company announced that the Board had approved \$14.7 million to fund the restarting of the Lerala Diamond Mine in Botswana, which had been placed on care and maintenance by its former owners in July 2012. It is intended that this capital expenditure and working capital will be funded by cash flow from on-going operations. Any shortfall in funding will be funded from either an equity or a debt raising.

On 30 June 2014, 602,000 unlisted options with an exercise price of \$0.30 per option expired.

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

#### 4.7 Matters subsequent to the end of the financial year

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Subsequent to year end, on 22 August 2014, the Company announced that it was undertaking a non-renounceable pro-rata rights issue offer of new KDL ordinary shares at an issue price of \$0.19 per new share to raise up to approximately \$9,912,672 (Offer). The funds raised by the Offer will be used to fund the re-commissioning of Kimberley's Lerala Diamond Mine in Botswana and for general working capital requirements. The Offer opened on 4 September 2014 and closes at 5pm on 24 October 2014 (as extended on 23 September 2014). Shareholders holding shares at 7pm on 1 September 2014 were eligible to participate.

The Company received an interest free loan of \$1,085,000 from the Chairman, Mr Alex Alexander in August 2014 for short term working capital. This loan was repaid in full in September 2014.

On 31 July 2014, the Company issued 140,000 new ordinary shares to Rivonia Pty Limited as non-cash consideration for consultancy services provided to the Company in relation to its acquisition of Mantle Diamonds Limited.

On 2 July 2014, the Company's wholly owned subsidiary, Lerala Diamond Mines Limited, entered into a Farm-In and Joint Arrangement Agreement with Tilwane Services (Pty) Limited, a Botswana based exploration company. The Joint Arrangement covers two prospecting licences, Prospecting Licence 267/2013 and Prospecting Licence 268/2013, located in north-eastern Botswana, close to the Orapa Diamond Mine. Under the terms of the Joint Arrangement Agreement, Lerala has the exclusive right to earn up to a 70% interest in the Joint Arrangement by spending a total of AUD1.1 million on project expenditure for the Joint Arrangement over the next 2.5 years, plus payment of an additional AUD20,000 to Tilwane. If Lerala spends AUD100,000 on project expenditure in the first 12 months of the Joint Arrangement, it will earn a 50% interest in the Joint Arrangement. It will then have the opportunity to earn a further 20% interest by spending a further AUD1.0 million on project expenditure in the following 18 months.

On 1 July 2014, the Company announced the appointment of Mrs Laila Green (interim CFO) as Chief Financial Officer and Company Secretary.



#### 4.7.1 Likely developments and expected results of operations

The Company has ceased mining at its Ellendale E9 mine and is processing stockpiles until June 2015. The Company is currently considering options which may enable the Ellendale mine to continue to operate on an economically viable basis after December 2014.

The Group will need additional capital to complete the re-commissioning of the Lerala Diamond Mine.

There are no other likely developments of which the directors are aware which could be expected to significantly affect the results of the Group's operations in subsequent financial years other than those disclosed in the Principal Activities and Operating and financial review, the announcements to the Australian Stock Exchange or the Matters subsequent to the end of the financial year.

#### 4.8 Environmental regulation

The Group strives to comply with environmental regulation applicable to its mining and exploration activities. The Directors are not aware of any non-compliances with environmental legislation. As required, any non-compliances revealed will be reported to the relevant authorities and appropriate actions taken.

#### 4.9 Meetings of Directors

The number of meetings of the Company's Board of Directors held during the period ended 30 June 2014, and the number of meetings attended by each Director were:

2014	Board Meetings		Circular Resolutions	
	Attended	Held <sup>1</sup>	Signed <sup>2</sup>	Total <sup>3</sup>
<b>Alexandre Alexander</b>	14	14	10	11
<b>Noel Halgreen<sup>4</sup></b>	3	3	-	-
<b>Rupert Baring<sup>5</sup></b>	5	5	2	3
<b>Mark Yumin Qiu</b>	14	14	9	10
<b>Yong Xiao</b>	13	14	9	10
<b>Rodney Alan Sainty</b>	14	14	11	11
<b>Lee-Anne de Bruin<sup>6</sup></b>	12	12	11	11
<b>Albert Yue-Ling Wong<sup>7</sup></b>	11	11	10	11

<sup>1</sup>The number of meetings held during the period that the Director held office.

<sup>2</sup>The number of circular resolutions passed by the Director during the period that the Director held office. Under the Company's Constitution, a circular resolution is passed when it is signed by a majority of the Directors being entitled to vote in relation to the resolution.

<sup>3</sup>The number of circular resolutions circulated during the period that the Director held office. This excludes circular resolutions for certain Directors who abstained from voting because of a material personal interest.

<sup>4</sup>Mr Halgreen was appointed as Managing Director on 22 May 2014.

<sup>5</sup>Mr Baring was appointed as Non-Executive Director on 12 March 2014.

<sup>6</sup>Mrs de Bruin resigned as Managing Director on 22 May 2014 and resigned as Non-Executive Director on 25 June 2014.

<sup>7</sup>Mr Wong resigned as Non-Executive Director on 22 May 2014.

Circular resolutions were used instead of physical meetings where necessary, as detailed above. There were no separate board committee meetings.

#### 4.10 Remuneration Report

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The remuneration report, which has been audited, outlines the director and senior executive remuneration arrangements for the Group and the Company, in accordance with the requirements of the Corporations Act 2001 and its regulations.

The remuneration report is set out under the following main headings:

A	Principles used to determine the nature and amount of remuneration
B	Details of remuneration
C	Service agreements
D	Share-based compensation

##### **A Principles used to determine the nature and amount of remuneration**

The objective of the Group's and Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures executive reward arrangements satisfy the following key reward governance criteria:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and its most senior executives. The performance of the Group and Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that it considers to be market competitive and complementary to the reward strategy of the Group and Company.

The Board believes that the remuneration framework aligns to shareholders' interests as it:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives

The Board believes that the remuneration framework also aligns to the interests of its directors and senior executives as it:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure remuneration for non-executive directors and executive directors are different.

#### ***Non-executive directors' remuneration***

The ASX listing rules require that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The sum of the remuneration of non-executive directors' is currently capped at \$350,000 per annum, which was passed by the shareholders of the Company on 26 April 2013.

#### ***Executive remuneration***

The Group and Company aims to reward executives at a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually, based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and adds additional value to the executive.

#### ***Use of remuneration consultants***

During the financial year ended 30 June 2014, the Company has not engaged remuneration consultants.

#### ***Company performance and shareholder returns***

	2014	2013	2012*
Basic earnings / (loss) per share (cents)	(22.08)	5.07	(3.68)
Profit / (loss) after tax (\$'000)	(19,224)	2,420	(624)
Share price (cents)	14	24	18
Dividend per share (cents)	2	2	-

\* Financial performance for the period from incorporation on 5 May 2011 to 30 June 2012.

## B Details of remuneration

### Amounts of remuneration

Details of the remuneration of the directors and other key management personnel are set out in the following tables, from the time they were appointed in office. Key management personnel are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the Group.

The key management personnel of the Group consisted of the directors of Kimberley Diamonds Ltd and the following executives:

- Stephen Wetherall – Chief Financial Officer (appointed 5 August 2013 and resigned 25 June 2014)
- Neil Kaner – Chief Technical Officer (appointed 1 December 2008)
- Gideon Scheepers – (appointed 2 May 2013 and resigned 30 June 2014)
- Nicholas Selby – (appointed 1 May 2013 and resigned on 12 September 2014)
- Warwick Pearce – (resigned on 4 April 2014)

30 June 2014	Short-term benefits		Termination Benefits	Post-employment benefits Superannuation	Long-term benefits Long service leave	Share based payments Equity-settled	Total
	Cash salary and fees	Bonus					
<b>Non-Executive Directors</b>							
Dr M Qui	40,000	-	-	3,700	-	-	43,700
Y Xiao	40,000	-	-	3,700	-	-	43,700
A Wong <sup>4</sup>	64,167	-	-	-	-	-	64,167
R Baring <sup>2</sup>	37,303	-	-	-	-	-	37,303
A Alexander <sup>10</sup>	275,000	-	106,000	25,438	-	-	406,438
<b>Executive Directors</b>							
R Sainty	190,000	-	-	17,575	-	-	207,575
N Halgreen <sup>1</sup>	220,000	-	-	-	-	-	220,000
L de Bruin <sup>3</sup>	430,221	-	444,475 *	16,896	-	584,651	1,476,243
<b>Executives</b>							
N Kaner <sup>8</sup>	330,172	-	-	30,541	-	155,906	516,619
N Selby <sup>9</sup>	374,999	45,767	-	38,921	-	155,906	615,593
S Wetherall <sup>5</sup>	302,975	-	53,394	28,024	-	155,906	540,299
G Scheepers <sup>7</sup>	321,099	50,000	-	28,899	-	155,906	555,904
W Pearce <sup>6</sup>	143,489	-	33,846	12,352	-	-	189,687
<b>Total</b>	<b>2,769,425</b>	<b>95,767</b>	<b>637,715</b>	<b>206,046</b>	<b>-</b>	<b>1,208,275</b>	<b>4,917,228</b>

<sup>1</sup> Mr Halgreen was appointed as Managing Director on 22 May 2014.

<sup>2</sup> Mr Baring was appointed as Non-Executive Director on 12 March 2014.

<sup>3</sup> Mrs de Bruin resigned as Managing Director on 22 May 2014 and resigned as Non-Executive Director on 25 June 2014.

<sup>4</sup> Mr Wong resigned as Non-Executive Director on 22 May 2014.

<sup>5</sup> Mr Wetherall was appointed as Chief Financial Officer on the 15 August 2013 and resigned his position on 25 June 2014.

<sup>6</sup> Mr Pearce resigned on 4 April 2014.

<sup>7</sup> Mr Scheepers was appointed on the 2 May 2013, became a KMP on 1 July 2013 and resigned on 30 June 2014. The bonus was paid at the Board's discretion in relation to the 2014 financial year. No further amount will be paid in respect to the 2014 financial year.

<sup>8</sup> Mr Kaner became a KMP on 1 July 2013.

<sup>9</sup> Mr Selby became a KMP on 1 July 2013. The bonus was paid at the Board's discretion in relation to the 2014 financial year. No further amount will be paid in respect to the 2014 financial year.

<sup>10</sup> Mr Alexander was paid a termination amount when he resigned as Chief Executive Officer on 22 May 2014.

\* \$333,356 of the \$444,475 was paid subsequent to year end.

<b>30 June 2013</b>	<b>Short-term benefits</b>		<b>Termination</b>	<b>Post-employment benefits</b>	<b>Long-term benefits</b>	<b>Share based payments</b>	<b>Total</b>
	<b>Cash salary and fees</b>	<b>Bonus</b>		<b>Superannuation</b>	<b>Long service leave</b>	<b>Equity-settled</b>	
<b>Non-Executive Directors</b>							
Dr M Qui	40,000	-	-	3,600	-	-	43,600
Y Xiao	40,000	-	-	-	-	-	40,000
A Wong	45,000	-	-	4,050	-	-	49,050
<b>Executive Directors</b>							
A Alexander	100,000	-	-	9,000	-	1,169,450	1,278,450
R Sainty	190,000	-	-	17,100	-	-	207,100
L de Bruin <sup>1</sup>	207,104	100,000	-	10,019	11,620	-	328,743
<b>Executives</b>							
N Halgreen	105,000	-	-	-	-	265,244	370,244
L Humphreys <sup>2</sup>	58,333	-	-	5,250	-	-	63,583
W Pearce	66,667	18,200	-	7,800	-	-	92,667
<b>Total</b>	<b>852,104</b>	<b>118,200</b>	<b>-</b>	<b>56,819</b>	<b>11,620</b>	<b>1,434,694</b>	<b>2,473,437</b>

<sup>1</sup> Mrs de Bruin appointed as Managing Director on 17 April 2013. Remuneration included for period 1 February 2013 to 30 June 2013.

<sup>2</sup> Mr Humphreys resigned on 31 January 2013.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

<b>30 June 2014</b>	<b>Fixed remuneration</b>	<b>At risk – STI<sup>^</sup></b>	<b>At risk – LTI<sup>**</sup></b>
<b>Non-Executive Directors</b>			
Dr M Qui	100%	0%	0%
Y Xiao	100%	0%	0%
A Wong <sup>4</sup>	100%	0%	0%
R Baring <sup>2</sup>	100%	0%	0%
A Alexander <sup>10</sup>	100%	0%	0%
<b>Executive Directors</b>			
R Sainty	100%	0%	0%
N Halgreen <sup>1</sup>	100%	0%	0%
L de Bruin <sup>3</sup>	61%	0%	39%
<b>Executives</b>			
N Halgreen	100%	0%	0%
N Kaner <sup>8</sup>	70%	0%	30%
N Selby <sup>9</sup>	62%	13%	25%
S Wetherall <sup>5</sup>	71%	0%	29%
G Sheepers <sup>7</sup>	63%	9%	28%
W Pearce <sup>6</sup>	100%	0%	0%

<sup>1</sup> Mr Halgreen was appointed as Managing Director on 22 May 2014.

<sup>2</sup> Mr Baring was appointed as Non-Executive Director on 12 March 2014.

<sup>3</sup> Mrs de Bruin resigned as Managing Director on 22 May 2014 and resigned as Non-Executive Director on 25 June 2014.

<sup>4</sup> Mr Wong resigned as Non-Executive Director on 22 May 2014.

<sup>5</sup> Mr Wetherall was appointed as Chief Financial Officer on the 15 August 2013 and resigned his position on 25 June 2014.

<sup>6</sup> Mr Pearce resigned on 4 April 2014.

<sup>7</sup> Mr Scheepers was appointed on the 2 May 2013, became a KMP on 1 July and resigned on 30 June 2014.

<sup>8</sup> Mr Kaner became a KMP on 1 July 2013.

<sup>9</sup> Mr Selby became a KMP on 1 July 2013.

<sup>10</sup> Mr Alexander resigned as Chief Executive Officer on 22 May 2014.



<b>30 June 2013</b>	<b>Fixed remuneration</b>	<b>At risk – STI<sup>^</sup></b>	<b>At risk – LTI<sup>**</sup></b>
<b>Non-Executive Directors</b>			
Dr M Qui	100%	0%	0%
Y Xiao	100%	0%	0%
A Wong	100%	0%	0%
<b>Executive Directors</b>			
A Alexander	9%	0%	91%
R Sainty	100%	0%	0%
L de Bruin *	66%	30%	4%
<b>Executives</b>			
N Halgreen	28%	0%	72%
L Humphreys	100%	0%	0%
W Pearce	80%	20%	0%

\* Based on remuneration for the period 1 February 2013 to 30 June 2013

<sup>^</sup> This relates to bonuses paid in 2013 at the Boards discretion. No further amounts will be paid in respect to the year ended 30 June 2013.

<sup>\*\*</sup> This relates to options issued to KMP's as discussed below.

## C Service agreements

No directors or key management have a service agreement other than Mr Noel Halgreen. The service agreement under which Noel Halgreen provided his services to KDL and its controlled entities up to and including 22 May 2013, was executed on 2 April 2013 and has a term of two years. It provides for a monthly fee of \$20,000 (exclusive of GST). The directors and key management, other than Noel Halgreen, are subject to the Fair Work Act (2009). Key management personnel have no entitlement to termination payments in the event of removal for misconduct. This agreement was terminated on 22 May 2013, following Mr Halgreen's appointment as Managing Director.

## D Share-based compensation

### Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the period ended 30 June 2014 (2013: nil).

### Options

The terms and conditions of each grant of options affecting remuneration of directors and other key management personnel in this financial period or future reporting years include the following:

- The implementation and administration of the scheme is the Board's responsibility,
- The only persons eligible to receive options under the scheme are directors and employees of the Company and other persons determined by the Board,
- Options offered to eligible persons are made in their personal capacity and cannot, without the Board's prior written consent:
  - be exercised by another person
  - be disposed or dealt with in any way including the granting of security interest over the options
- Options granted but unexercised are adjusted for changes in circumstances including bonus and pro-rata share issues and reorganisation of capital,

- Options granted carry no dividend or voting rights

The following options were issued during the year:

<i>Grant Date</i>	<i>Vesting date and exercisable date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<i>Fair value per option at grant date</i>
29 November 2013	29 November 2013	29 November 2015	\$1.15	\$0.3898
12 September 2013	12 September 2013	12 September 2015	\$0.75	\$0.1559

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the period are set out below. After deliberation by the Board it was decided to issue the options to the executive team, partially in recognition of past performance, but mostly as an incentive to support future focus and performance of the executive team. At the time they were issued (and vested) the options were visibly out of the money, and would have required sustained performance of the management team to create values within the options.

**Option holding of key management personnel (including options held directly, indirectly and beneficially by KMP)**

	No. Options at beginning of year	Options awarded during the year							Remuneration consisting of options %
		No. options granted	Option award date	Fair value per option at award date	Value of options granted	Vesting date	Exercise price	Expiry date	
<b>Non-Executive Directors</b>									
Dr M Qui									
Y Xiao									
A Wong <sup>4</sup>	2,000,000								
R Baring <sup>2</sup>									
A Alexander <sup>10</sup>	6,000,000								
<b>Executive Directors</b>									
R Sainty									
N Halgreen <sup>1</sup>	4,000,000								
L de Bruin <sup>3</sup>		1,500,000	29 Nov 2014	0.3898	584,651	29 Nov 2014	\$1.15	29 Nov 2015	39%
<b>Executives</b>									
N Kaner <sup>8</sup>		1,000,000	12 Sep 2014	0.1559	155,906	12 Sep 2014	\$0.75	12 Sep 2014	30%
N Selby <sup>9</sup>		1,000,000	12 Sep 2014	0.1559	155,906	12 Sep 2014	\$0.75	12 Sep 2014	25%
S Wetherall <sup>5</sup>		1,000,000	12 Sep 2014	0.1559	155,906	12 Sep 2014	\$0.75	12 Sep 2014	29%
G Scheepers <sup>7</sup>		1,000,000	12 Sep 2014	0.1559	155,906	12 Sep 2014	\$0.75	12 Sep 2014	28%
W Pearce <sup>6</sup>									
	<b>12,000,000</b>	<b>5,500,000</b>			<b>1,208,275</b>				

**Option holding of key management personnel (including options held directly, indirectly and beneficially by KMP) (Continued)**

	Value of options exercised	Movement during year			No. Options at year end	No. Options vested at year end
		No. vested during the year	No. Lapsed during the year	No. Exercised during the year		
<b>Non-Executive Directors</b>						
Dr M Qui						
Y Xiao						
A Wong <sup>4</sup>	1,720,000			(2,000,000)	-	-
R Baring <sup>2</sup>					-	-
A Alexander <sup>10</sup>	800,000			(1,000,000)	5,000,000	5,000,000
<b>Executive Directors</b>						
R Sainty					-	-
N Halgreen <sup>1</sup>					4,000,000	4,000,000
L de Bruin <sup>3</sup>		1,500,000			1,500,000	1,500,000
<b>Executives</b>						
N Kaner <sup>8</sup>		1,000,000			1,000,000	1,000,000
N Selby <sup>9</sup>		1,000,000			1,000,000	1,000,000
S Wetherall <sup>5</sup>		1,000,000			1,000,000	1,000,000
G Scheepers <sup>7</sup>		1,000,000			1,000,000	1,000,000
W Pearce <sup>6</sup>					-	-
	<b>2,520,000</b>	<b>5,500,000</b>	<b>-</b>	<b>(3,000,000)</b>	<b>14,500,000</b>	<b>14,500,000</b>

<sup>1</sup> Mr Halgreen was appointed as Managing Director on 22 May 2014.

<sup>2</sup> Mr Baring was appointed as Non-Executive Director on 12 March 2014.

<sup>3</sup> Mrs de Bruin resigned as Managing Director on 22 May 2014 and resigned as Non-Executive Director on 25 June 2014.

<sup>4</sup> Mr Wong resigned as Non-Executive Director on 22 May 2014.

<sup>5</sup> Mr Wetherall was appointed as Chief Financial Officer on the 15 August 2013 and resigned his position on 25 June 2014.

<sup>6</sup> Mr Pearce resigned on 4 April 2014.

<sup>7</sup> Mr Scheepers was appointed on the 2 May 2013, became a KMP on 1 July and resigned on 30 June 2014.

<sup>8</sup> Mr Kaner became a KMP on 1 July 2013.

<sup>9</sup> Mr Selby became a KMP on 1 July 2013.

<sup>10</sup> Mr Alexander resigned as Chief Executive Officer on 22 May 2014.

**Shareholding of key management personnel (including shares held directly, indirectly and beneficially by KMP)**

<b>30 June 2014</b>	<b>Fully Paid Ordinary Shares (KDL)</b>				
	<b>Balance at 1 Jul 2013</b>	<b>Granted as remuneration</b>	<b>On exercise of options</b>	<b>Net change Other *</b>	<b>Balance at 30 Jun 2014</b>
<b>Non-Executive Directors</b>					
Dr M Qui	5,000,000	-	-	4,054,400	9,054,400
Y Xiao	-	-	-	-	-
A Wong <sup>2</sup>	1,540,000	-	2,000,000	(3,540,000)	-
R Baring <sup>3</sup>	-	-	-	19,904	19,904
A Alexander	11,953,334	-	1,000,000	95,000	13,048,334
<b>Executive Directors</b>					
R Sainty	10,000	-	-	-	10,000
N Halgreen	-	-	-	200,000	200,000
L de Bruin <sup>1</sup>	20,000	-	-	(20,000)	-
<b>Executives</b>					
N Kaner	-	-	-	50,000	50,000
N Selby	-	-	-	-	-
S Wetherall	-	-	-	-	-
G Scheepers	-	-	-	-	-
L Humphreys	-	-	-	-	-
W Pearce	-	-	-	-	-
<b>Total</b>	<b>18,523,334</b>	<b>-</b>	<b>3,000,000</b>	<b>1,045,304</b>	<b>22,382,638</b>

<sup>1</sup> Mrs de Bruin resigned as Managing Director on 22 May 2014 and resigned as Non-Executive Director on 25 June 2014. Other represents shareholding at time of resignation.

<sup>2</sup> Mr Wong resigned as Non-Executive Director on 22 May 2014. Other represents shareholding at time of resignation.

<sup>3</sup> Mr Baring was appointed as Non-Executive Director on 12 March 2014.

\* All equity transactions with KMP other than those arising from the exercise of remuneration options have been entered into under terms and condition no more favourable than those the Group would have adopted if dealing at arm's length.

**Loans to key management personnel of the Company and the Group**

(i) Details of the aggregate loans to key management personnel are as follows:

	<b>Balance at beginning of period \$'000</b>	<b>New loans \$'000</b>	<b>Interest charged \$'000</b>	<b>Interest not charged \$'000</b>	<b>Balance at end of period \$'000</b>	<b>Number in group #</b>
<b>2014</b>						
G Scheepers	-	120	-	-	84	1

**This concludes the remuneration report, which has been audited.**

Unissued ordinary shares of Kimberley Diamonds Ltd under option at the date of this report are as follows:

<i>Grant Date</i>	<i>Vesting date and exercisable date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<i>Number under option</i>
29 November 2013	29 November 2013	29 November 2015	\$1.15	1,500,000
12 September 2013	12 September 2013	12 September 2015	\$0.75	4,000,000
26 April 2013	26 April 2013	30 June 2015	\$0.30	10,000,000
8 March 2013	8 March 2013	30 June 2015	\$0.30	4,000,000
				<b>19,500,000</b>

No person entitled to exercise the options had or has any right by virtue of the options to participate in any share issue of the Company or of any other body corporate.

#### **Directors' interest in shares and options at the date of the report**

Directors' interest in shares and options of KDL at the date of this report is as follows:

<i>Grant Date</i>	<i>Ordinary shares</i>	<i>Options over ordinary shares</i>
<b><i>Non-Executive Directors</i></b>		
Dr M Qui	9,054,400	-
Y Xiao	-	-
A Alexander	13,048,334	5,000,000
<b><i>Executive Directors</i></b>		
R Sainty	10,000	-
N Halgreen	200,000	4,000,000

#### ***Indemnity and insurance of officers***

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith. The Company indemnifies directors and executives against any payment they shall become legally obligated to make (excluding fines, penalties or exemplary damages), legal costs and expenses arising out of claims made against them jointly or severally by reason of wrongful acts including breach of duty or trust, neglect, error, mis-statement or misleading statement, omission, breach of warranty of authority or other act done or wrongly attempted whilst acting in their capacity as a director or officer of the Company.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act (Cth) 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

#### ***Indemnity of auditor***

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

#### ***Proceedings on behalf of the Company***

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

#### ***Officers of the Company who are former audit partners of Ernst & Young***

There are no officers of the Company who are former audit partners of Ernst & Young.



***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.

***Auditor***

Ernst & Young was appointed during the 2012-2013 financial year and continues in office in accordance with section 327 of the Corporations Act 2001.

***Rounding***

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) and where noted (\$'000) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the class order applies.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



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Alexandre Alexander  
**Non-Executive Chairman**

30 September 2014  
Sydney

## 5. Independent Auditor's Declaration

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Ernst & Young  
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Perth WA 6000 Australia  
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### Auditor's Independence Declaration to the Directors of Kimberley Diamonds Limited

In relation to our audit of the financial report of Kimberley Diamonds Limited and its controlled entities for the financial year ended 30 June 2014, 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

F Drummond  
Partner  
Perth  
30 September 2014

## 6. Corporate Governance Statement

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The Board of Directors of Kimberley Diamonds Limited ("the Board") is responsible for the overall corporate governance of the organisation. The Board has developed a corporate governance framework for the Company to act in the interests of shareholders, the Company's employees and stakeholders.

All charters and policies referred to within this Corporate Governance Statement are available on KDL's website ([www.kdl.com.au](http://www.kdl.com.au)) under "Corporate" then "Corporate Governance".

This Corporate Governance Statement reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) ("ASX Principles"). The Board considers and applies the ASX Principles to the extent there is sound reason to do so given the circumstances of the Company. The Board will review its practices and in some cases update these to comply with the 3rd edition of the ASX Principles (released on 27 June 2014) for the financial year ended 30 June 2015.

### 6.1 Principle 1 – Lay solid foundations for management and oversight

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#### **1.1 Disclose the respective roles and responsibilities of the Board and management and those matters expressly reserved to the Board and those delegated to Management.**

The Board is responsible for the overall strategic direction of the Company with oversight and review of the management, administration and overall governance of the Company.

It is the role of Senior Management to manage the Company in accordance with the direction and delegation of the Board and the responsibility of the Board to oversee the activities of Management in carrying out these delegated duties.

The respective roles and responsibilities of the Board and Senior Management are set out in the Company's Board Charter which is available on KDL's website.

#### **1.2 Disclose the process for evaluating the performance of senior executives.**

The Board is responsible for establishing the criteria and monitoring performance of Senior Executives. In particular, the Board is responsible for evaluating the performance of the Managing Director.

Senior Executives are required to prepare their strategic objectives for review and approval by the Managing Director. Senior Executives are expected to meet these objectives as part of their key performance targets. On an annual basis, the Managing Director reviews Senior Executives' performance against their own and the Company's objectives. The Board reviews the performance of the Managing Director on an annual basis.

#### **1.3 Provide the information indicated in Guide to reporting on Principle 1.**

During 2013/14, a performance evaluation of Senior Executives was not undertaken due to the recent appointments of the Managing Director and Chief Financial Officer/Company Secretary. A performance evaluation is scheduled to be conducted in 2014/15 and to be accordance with the process disclosed under Recommendation 1.2.

## 6.2 Principle 2 – Structure the Board to add value

### 2.1 A majority of the Board should be independent directors.

Between 1 July 2013 and 30 June 2014 (**reporting period**) there were various changes to the Board. The following table outlines the Directors of the Company during the reporting period, including their term of office and non-executive and independent status.

Name	Appointment Date	Cessation Date	Non-Executive Status	Independent Status
Alexandre Alexander	5 May 2011	-	Yes; Mr Alexander ceased as Chief Executive Officer on 22 May 2014	No; Mr Alexander is a substantial shareholder
Noel Halgreen	22 May 2014	-	No	No
Rodney Sainty	28 February 2012	-	No	No
Rupert Baring	12 March 2014	-	Yes	Yes
Mark Yumin Qiu	28 February 2012	-	Yes	No; Mr Qiu is a substantial shareholder
Yong Xiao	6 March 2012	-	Yes	Yes; Mr Xiao ceased as a substantial shareholder on 20 March 2014
Lee-Anne de Bruin	17 April 2013	25 June 2014	Yes; Mrs de Bruin ceased as Managing Director on 22 May 2014	No
Albert Yue-Ling Wong	18 Aug 2011	22 May 2014	Yes	Yes

The Board has six Directors comprising two Executive Directors and four Non-Executive Directors, one of which is independent. The current members of the Board are:

- Alexandre Alexander – Non-Executive Chairman;
- Noel Halgreen – Managing Director;
- Rodney Sainty – Executive Director;
- Rupert Baring – Independent Non-Executive Director;
- Mark Yumin Qiu – Non-Executive Director; and
- Yong Xiao – Independent Non-Executive Director.

The Board size, diversity and composition is periodically determined and reviewed by the Board as a whole. In relation to the composition, the Board will consider and regularly review the number and balance of Directors with non-executive and independent status.

**2.2 The Chair should be an independent director.**

The Chairman, Alexandre Alexander, is not an independent Non-Executive Director because he is a substantial shareholder of the Company. On 22 May 2014, Mr Alexander transitioned from executive to non-executive status as a Director when he ceased as Chief Executive Officer. The Board believes that Mr Alexander is appropriately qualified of all incumbent Directors to be charged with the responsibility as Chairman.

**2.3 The roles of chair and Chief Executive Officer should not be exercised by the same individual.**

Between 1 July 2013 and 22 May 2014, Mr Alexander held the role of Chairman and Chief Executive Officer. Currently, Mr Alexander is a Non-Executive Chairman of the Company and the Chief Executive Officer function is carried out by Noel Halgreen, Managing Director.

**2.4 The Board should establish a Nomination Committee.**

The Board has not established a Nomination Committee and accordingly has not adopted Recommendation 2.4 due to the size and nature of the current operations of the Company. The Board will review its requirement for a Nomination Committee when the Company has reached a certain stage in size and operations.

The Board as a whole fulfils all nomination functions, such as:

- the selection and nomination of Director candidates;
- reviewing the composition of the Board and assess the necessary and desirable competencies of Directors;
- overseeing the Directors' induction program and ensure Directors have access to appropriate education;
- succession planning; and
- evaluating the performance of the Board, individual Directors and Senior Executives.

The nomination-related functions of the Board are set out in the Company's Board Charter which is available on KDL's website.

**2.5 Disclose the process for evaluating the performance of the Board, its committees and individual directors.**

The Board has not undertaken an evaluation of its performance during 2013/14. The Board will consider the need for a performance evaluation as the Company grows in development and size.

**2.6 Provide the information indicated in the Guide to reporting on Principle 2.**

- Details of the current Directors, their qualifications, skills and experience are set out in section 4 commencing page 20 of the Annual Report.
- Refer to disclosure under Recommendation 2.1 of the names of Directors who are considered by the Board to be independent and non-independent. The Company's Board Charter contains the Board's independence materiality thresholds for Directors.
- Any Director may take such independent legal, financial or other advice as they consider necessary at the reasonable expense of the Company on any matter which is connected with the discharge of his or her responsibilities. If a Director seeks independent advice, they must first discuss the request with the Chairman who will then facilitate the obtaining of the advice. The Chairman may determine that any advice received by a Director be circulated to the Board.
- Each Director has the right to request and receive such additional information as they consider necessary to support informed decision-making. Any Director has the authority to seek any information

he/she requires from any employee or contractor (**employee**) of the Company and all employees must comply with such requests.

- All Directors have direct access to the Company Secretary who is responsible to the Board through the Chairman on all matters relating to the conduct and functions of the Board.
- The Board's policy for membership of the Board is to ensure that each Director possesses an appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively.
- Refer to disclosure under Recommendation 2.4 that the Board has not established a Nomination Committee and that the Board carries out all nomination-related functions.
- During 2013/14, a performance evaluation of the Board and individual Directors was not undertaken. The Board will consider the need for a performance evaluation as the Company grows in development and size.

### 6.3 Principle 3 – Promote ethical and responsible decision making

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#### 3.1 Establish a Code of Conduct and disclose the Code or a summary of the Code.

##### ***Code of Conduct***

The Board has adopted a Code of Conduct that governs the Company's commercial operations and the conduct of Directors, employees, contractors, consultants and all other people that represent the Company (**personnel**).

The Code reinforces the need for personnel to always act in good faith, in the Company's best interests and in accordance with all applicable policies, laws and regulations relevant to the regions in which the Company operates.

Personnel are encouraged if they consider a breach has occurred to the Code, to immediately report to the Company Secretary, Managing Director or the Chairman. The Code protects individuals who, in good faith, report conduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

The Company's Code of Conduct is available on KDL's website.

##### ***Securities Trading Policy***

The Board has adopted a Securities Trading Policy that applies to all Directors, employees, contractors and consultants of the Company and its subsidiaries (**personnel**). The Policy prohibits personnel from dealing in KDL securities while in possession of price-sensitive or inside information.

In addition, Directors and Senior Executives (being direct reports to the Managing Directors and those persons' direct reports) of the Company and its subsidiaries (**Designated Persons**) and any family member or associate over whom a Designated Person has influence (**relevant persons**), may deal in KDL securities by following the 'notice of intend to deal' procedures, but are prohibited from dealing in KDL securities (subject to exception circumstances) during certain blackout periods.

Designated Persons and relevant persons are prohibited from entering into any margin lending or hedging arrangements or otherwise permitting a grant of a charge over KDL's securities (subject to certain circumstances).

The Company's Securities Trading Policy is available on KDL's website.

**3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.**

The Board has adopted a Diversity Policy which sets out the Company's commitment to diversity and inclusion in the workplace.

The Board is responsible for developing strategies with a view to progressing towards achieving gender diversity (**Measurable Objectives**) and for monitoring the progress of the Measurable Objectives through appropriate evaluation and reporting structures within the organisation.

The Company's Diversity Policy is available on KDL's website.

**3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.**

The Company has not established measurable objectives for achieving gender diversity at this time. The Company believes this is appropriate given the size of the Company and its stage of development.

**3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.**

- |  |       |
|--|-------|
| • The proportion of women within the organisation: | 23.7% |
| • Women in Senior Executive positions:             | 33.3% |
| • Women on the Board:                              | 00.0% |

The above is at 30 June 2014. Senior Executives includes all members of the senior management team reporting directly to the Managing Director.

**3.5 Provide the information indicated in Guide to reporting on Principle 3.**

The Company's Code of Conduct, Securities Trading Policy and Diversity Policy are available on KDL's website.

## 6.4 Principle 4 – Safeguard integrity in financial reporting

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**4.1 The Board should establish an Audit Committee.**

The Board established an Audit and Risk Management Committee in July 2014 with the membership of two Directors.

**4.2 The Audit Committee should be structured so that it consists of only non-executive directors, a majority of independent directors, is chaired by an independent chair who is not chair of the Board and have at least three members.**

The Board has adopted an Audit and Risk Management Committee Charter. Under the Charter, the Committee will comprise of at least three Non-Executive Directors, with the intention that a majority be independent where the Board composition allows. The Chairman of the Committee is to be appointed by the Board.



The current Audit and Risk Management Committee comprises two Directors. The Chairman is a member of the Committee due to his financial skills and independent non-executive Director Rupert Baring is a Committee member and chairman of the Committee.

#### **4.3 The Audit Committee should have a formal charter.**

The Board has adopted an Audit and Risk Management Committee Charter which is available on KDL's website.

#### **4.4 Provide the information indicated in Guide to reporting on Principle 4.**

- Refer to disclosure under Recommendation 4.1 that the Board has established an Audit Committee.
- Details of the members of the Audit and Risk Management Committee, their qualifications, skills and experience are set out commencing page 20 of the Annual Report.
- The Audit and Risk Management Committee held 0 meetings during FY2014 as it was formed subsequent to the end of this financial year.
- The Board is responsible for the appointment, removal or replacement of the external auditor and the managing partner of the external auditor, the terms of appointment, any re-appointment and fees. The Board is responsible for setting procedures for the rotation of external audit engagement partners and annually reviewing the external auditor's performance and independence.

### **6.5 Principle 5 – Make timely and balanced disclosure**

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#### **5.1 Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.**

The Board has adopted a Continuous Disclosure Policy to ensure the Company's compliance with its disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules. The Policy outlines the procedures that apply to the central collection, control, assessment and if required, release to ASX, of material information.

The Managing Director is designated as the person responsible for communication with ASX in relation to ASX Listing Rule matters and is authorised to speak to ASX or externally in relation to the Company's affairs.

The Company's Continuous Disclosure Policy is available on KDL's website.

#### **5.2 Provide the information indicated in the Guide to reporting on Principle 5.**

The Company's Continuous Disclosure Policy is available on KDL's website.

### **6.6 Principle 6 – Respect the rights of shareholders**

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#### **6.1 Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.**

The contact details of the Company and its Share Registry (see below under "Electronic Communications") are available to shareholders to address and facilitate any shareholder-related enquiries.

The Company's primary communications tool is its website, and all announcements are posted on the Company website, immediately following release to ASX. The website also contains reports and presentations made by

the Company, share price information and news articles of the Company. Shareholders can also subscribe to the Company's newsletter by providing their email address.

To encourage shareholder engagement and participation at each Annual General Meeting (**AGM**), shareholders have the opportunity to attend the AGM, ask questions on the floor, participate in voting and meet the Board and Senior Management in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the Notice of Meeting. Shareholders have the opportunity to submit written questions to the Company and external auditor, or make comments on the management of the Company. The Company will publish results of the meeting to the ASX and on its website following the conclusion of the AGM.

The Auditor will also attend the AGM to answer shareholders' questions on:

- the conduct of the audit;
- the preparation and conduct of the Auditor's Report;
- the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the Auditor in relation to the conduct of the audit.

## **6.2 Provide the information indicated in the Guide to reporting on Principle 6.**

Refer to disclosure under Recommendation 6.1 outlining the Company's policy for communicating to shareholders and encouraging their participation at general meetings.

## **6.7 Principle 7 – Recognise and manage risk**

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### **7.1 Establish policies for the oversight and management of material business risks and disclose a summary of these policies.**

The Board is ultimately responsible for overseeing the risk management activities of the Company and the implementation of risk management controls and assessing their effectiveness. The Company's Risk Management Policy sets out the requirements, roles and responsibilities for managing risks across the organisation within areas such as:

- occupational health and safety;
- the environment;
- asset protection (insurances);
- continuous disclosure;
- securities trading policies applicable to directors, employees and key contractors; and
- codes of conduct.

The objective of this Policy is to:

- encourage appropriate tolerance of risks across the organisation;
- establish procedures to analyse risks within agreed parameters across the organisation;
- establish appropriate risk delegations and corresponding frameworks across the organisation; and
- ensure the Company has in place a risk framework which can measurably react should the risk profile of the Group.

The approach to the Board's risk management shall be guided by the following criteria:

- identification of all risks;
- analysis of identified events within the organisation that could adversely impact on the risk profile of the organisation; and
- assessment of effectiveness of risk management framework.

The Company's Risk Management Policy is available on KDL's website.

**7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

The Board has required Management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. Management is responsible for identifying and evaluating risks within their area of responsibility, implementing agreed actions to manage risk, as well as monitoring any activity or circumstance that may give rise to new or changed risks.

Management has reported to the Board as to the effectiveness of the Company's management of its material business risk.

**7.3 The Board should disclose whether it has received assurance from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.**

The Board received assurance from the Managing Director and the Chief Financial Officer in respect of the financial statements and notes for the financial year that the declaration provided in accordance with section 295A of the Corporations Act 2001 (Cth) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

**7.4 Provide the information indicated in Guide to reporting on Principle 7.**

The Board has received the report from Management under Recommendation 7.2 and the assurance from the Managing Director and the Chief Financial Officer under Recommendation 7.3.

## 6.8 Principle 8 – Remunerate fairly and responsibly

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**8.1 The Board should establish a Remuneration Committee.**

The Board has not established a Remuneration Committee and accordingly not adopted Recommendation 8.1 due to the size and nature of the current operations of the Company. The Board will review its requirement for a Remuneration Committee when the Company has reached a certain stage in size and operations.

The Board as a whole manages all remuneration-related matters of the Company, such as:

- the remuneration framework for Directors;
- Senior Executive remuneration (short-term and long-term incentives), recruitment, retention, termination policies and procedures.

**8.2 The Remuneration Committee should be structured so that it consists a majority of independent directors, is chaired by an independent chair and has at least three members.**

The Board has not established a Remuneration Committee and therefore has not adopted guidelines for Committee membership.

**8.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.**

In relation to remuneration issues, the Board ensures that it remunerates fairly and responsibly. The remuneration framework is designed to ensure that the level and composition of remuneration to Senior Executives and Directors is competitive, reasonable and appropriate for the results delivered. The Remuneration Report and details about the Company's Remuneration Framework are set out commencing page 27.

As detailed in the Remuneration Report, Non-Executive Directors are paid fixed fees from an aggregate sum approved by shareholders of the Company. There no retirement schemes for Non-Executive Directors, other than superannuation. Non-Executive Directors are also entitled to receive options subject to shareholder approval.

Senior Executives remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave entitlements.

Senior Executive remuneration is reviewed annually by the Board.

**8.4 Provide the information indicated in the Guide to reporting on Principle 8.**

Refer to disclosure under Recommendation 8.1 that the Board has not established a Remuneration Committee and that the Board carries out all remuneration-related functions.

Refer to disclosure under Recommendation 8.2 that the Board has not established a Remuneration Committee and therefore has not adopted guidelines for Committee membership.

Directors and Senior Executives are not permitted to enter into transactions with securities (or any derivative thereof) in associated products which limit the economic risk of any unvested entitlements awarded under any equity-based remuneration scheme currently in operation or which will be offered by the Company in the future. The Company's Securities Trading Policy is available on KDL's website.

## 7. Directors' Declaration

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In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial period ended on that date; and
- Subject to the achievement of matters set out in note 2 of the financial report there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001. Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



---

Alexandre Alexander  
**Non-Executive Chairman**  
30 September 2014  
Sydney

## 8. Financial Report

### 8.1 Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014	Note	2014 \$'000	2013 \$'000
<b>Continuing operations</b>			
Revenue	5	77,559	48,306
Cost of sales		(77,613)	(37,444)
		<b>(54)</b>	<b>10,862</b>
Royalties and selling costs		(5,156)	(3,007)
Administration expenses		(10,939)	(6,409)
Share based payments expense	6	(1,050)	(1,435)
Release of mine rehabilitation	14	-	2,648
Impairment of exploration asset	6	(147)	(831)
Other expenses		(813)	(552)
Finance costs		(1,069)	(533)
Gain on acquisition of business		-	1,539
<b>(Loss) / profit before income tax</b>		<b>(19,228)</b>	<b>2,282</b>
Income tax expense	8	(13)	-
<b>(Loss) / profit after income tax for the period</b>		<b>(19,241)</b>	<b>2,282</b>
<b>Other comprehensive income amounts that may be reclassified to profit or loss in subsequent periods</b>			
Exchange difference on translation of foreign operations		(245)	-
<b>Total comprehensive (loss) / income for the year</b>		<b>(19,486)</b>	<b>2,282</b>
<b>Profit attributable to:</b>			
Non-controlling interest		(17)	(138)
Members of the parent		(19,224)	2,420
		<b>(19,241)</b>	<b>2,282</b>
<b>Total comprehensive income attributable to:</b>			
Non-controlling interest		(17)	(138)
Members of the parent		(19,469)	2,420
		<b>(19,486)</b>	<b>2,282</b>
		<b>Cents</b>	<b>Cents</b>
(Loss) / Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic (loss) / earnings per share	27	(22.08)	5.07
Diluted (loss) / earnings per share	27	(22.08)	5.07

## 8.2 Consolidated Statement of Financial Position

As at 30 June 2014	Note	2014 \$'000	2013 \$'000
<b>Current assets</b>			
Cash and cash equivalents	24	13,417	8,830
Trade and other receivables	9	2,731	16,334
Inventories	10	15,100	18,279
<b>Total current assets</b>		<b>31,248</b>	<b>43,443</b>
<b>Non-current assets</b>			
Trade and other receivables	9	65	543
Property, plant and equipment	11a	31,777	18,269
Exploration and evaluation assets	11b	2,999	1,666
<b>Total non-current assets</b>		<b>34,841</b>	<b>20,478</b>
<b>TOTAL ASSETS</b>		<b>66,089</b>	<b>63,921</b>
<b>Current liabilities</b>			
Trade and other payables	12	16,274	10,636
Interest bearing loans and borrowings	13	1,080	11,034
Income tax payable	8	7	-
Provisions	14	2,102	2,197
<b>Total current liabilities</b>		<b>19,463</b>	<b>23,867</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	13	283	-
Provisions	14	29,508	27,371
<b>Total non-current liabilities</b>		<b>29,791</b>	<b>27,371</b>
<b>TOTAL LIABILITIES</b>		<b>49,254</b>	<b>51,238</b>
<b>NET ASSETS</b>		<b>16,835</b>	<b>12,683</b>
<b>Equity</b>			
Contributed equity	15	35,862	9,972
Reserves	16	4,871	923
Accumulated (losses) / retained earnings	17	(23,856)	1,813
<b>Parent interests</b>		<b>16,877</b>	<b>12,708</b>
Non-controlling interest		(42)	(25)
<b>TOTAL EQUITY</b>		<b>16,835</b>	<b>12,683</b>



## 8.3 Consolidated Statement of Changes in Equity

	Issued capital \$'000	Other contributed equity \$'000	Other reserves \$'000	Profit reserves \$'000	Accumulated losses \$'000	Minority interests \$'000	Total \$'000
<b>Consolidated</b>							
<b>Balance as at 1 July 2013</b>	<b>9,771</b>	<b>201</b>	<b>923</b>	<b>-</b>	<b>1,813</b>	<b>(25)</b>	<b>12,683</b>
Foreign currency translation	-	-	(245)	-	-	-	(245)
<b>Total income/(expenses) for the period recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>(245)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(245)</b>
Loss for the period	-	-	-	-	(19,224)	(17)	(19,241)
<b>Total income/(expenses) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,224)</b>	<b>(17)</b>	<b>(19,241)</b>
Issue of share capital	26,430	-	-	-	(5)	-	26,425
Share issue costs	(540)	-	-	-	-	-	(540)
Share based payment	-	-	1,050	-	-	-	1,050
Transfer of period profits to Profit Reserve	-	-	-	6,440	(6,440)	-	-
Dividends paid	-	-	-	(3,297)	-	-	(3,297)
<b>Balance as at 30 June 2014</b>	<b>35,661</b>	<b>201</b>	<b>1,728</b>	<b>3,143</b>	<b>(23,856)</b>	<b>(42)</b>	<b>16,835</b>
<b>Balance as at 1 July 2012</b>	<b>3,558</b>	<b>(132)</b>	<b>187</b>	<b>-</b>	<b>(624)</b>	<b>151</b>	<b>3,140</b>
Profit for the period	-	-	-	-	2,420	(138)	2,282
<b>Total income/(expenses) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,420</b>	<b>(138)</b>	<b>2,282</b>
Change in non-controlling interest	737	-	(699)	-	-	(38)	-
Issue of share capital	5,476	-	-	-	-	-	5,476
Share based payment	-	-	1,435	-	-	-	1,435
Treasury shares	-	333	-	-	17	-	350
<b>Balance as at 30 June 2013</b>	<b>9,771</b>	<b>201</b>	<b>923</b>	<b>-</b>	<b>1,813</b>	<b>(25)</b>	<b>12,683</b>

## 8.4 Consolidated Statement of Cash Flows

	Note	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		79,905	48,116
Payments to suppliers and employees		(72,705)	(32,110)
Interest received		144	228
Interest and other costs of finance paid		(79)	(449)
Other		(7)	(92)
<b>Net cashflows from operating activities</b>	24	<b>7,258</b>	<b>15,693</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(10,412)	(9,379)
Net cash acquired on acquisition of a subsidiary	18,19	345	(2,654)
Payments for exploration and evaluation		(1,480)	(583)
Payments for security deposits		-	(37)
Refund of payments on deposit		12,149	-
Proceeds from the sale of investments		-	61
Proceeds from the sale of exploration and evaluation assets		-	50
<b>Net cashflows from / (used) in investing activities</b>		<b>602</b>	<b>(12,542)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		11,979	5,596
Costs associated with issue of shares		(540)	(120)
Advances from related parties		-	2,300
Payment to related parties		(21)	(2,331)
Repayment of borrowings		(11,571)	(987)
Payment of dividend		(3,297)	-
Proceeds from borrowings		187	-
<b>Net cashflows from / (used) in financing activities</b>		<b>(3,263)</b>	<b>4,458</b>
<b>Net increase in cash held</b>		<b>4,597</b>	<b>7,609</b>
Cash at the beginning of the financial year		8,830	1,799
Effects of exchange rate changes on the balances of cash held in foreign currencies		(10)	(578)
<b>Cash at the end of the financial year</b>	24	<b>13,417</b>	<b>8,830</b>

## 9. Notes to the Consolidated Financial Statements | 30 June 2014

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### Note 1: Corporate Information

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The financial report of Kimberley Diamonds Ltd ("the Company") for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of Directors on 30 September 2014.

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

The consolidated financial statements for the year ended 30 June 2014 comprise the Company and its subsidiaries ("the Group").

The nature of the operations and principal activities of the Group are detailed in the Directors' report.

### Note 2: Summary of Significant Accounting Policies

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#### **Basis of preparation**

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Account Standards Board. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

#### **Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review. The financial position of the Group, its cash flows and liquidity position are described in the Group Financial review.

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

The Group experienced net cash inflows from operating activities of \$7,258,000 and net cash outflows for financing activities of \$3,263,000. At 30 June 2014, the cash and cash equivalents balance was \$13,417,000 and incurring a net loss after tax for the year ended 30 June 2014 of \$19,241,000

Subsequent to year end, the Group ceased mining at its E9 mine at Ellendale, and is now processing stockpiles until the end of Q2 FY 2015, at which time the mine will be placed on care and maintenance until diamond prices improve.

During the current financial year, the Group acquired Mantle Diamonds Limited, which includes the Lerala Diamond Mine in Botswana. In addition, the Group acquired the Smoke Creek Alluvial Diamond Project. Both of these acquisitions will require significant capital outlay in order to bring these assets into production and realise the full potential of these assets.

As announced by the Company on the 2 June 2014, the Board has approved expenditure of a total of \$14,700,000 to fund the re-commissioning of its Lerala Diamond Mine in Botswana. The capital expenditure will be funded partly from additional capital to be raised by the Company.

KDL has recently announced a non-renounceable rights issue to raise \$9,916,672, which is due to close on 24 October 2014. The directors recognize the need to raise further additional funds via equity raisings or borrowing facilities in order to fund the future capital expenditure over the short to medium term.

Should the Group not achieve the funding outcomes set out above, there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

### Compliance statement

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards, as issued by the Australian Accounting Standards Board and as issued by the International Accounting Standards Board.

### New accounting standards and interpretations

#### *New and amended accounting standards and interpretations*

Except as disclosed below, the accounting policies adopted are consistent with those of the previous financial year. From 1 July 2013, the Group has adopted all new and amended Standards and Interpretations effective from 1 July 2013 including:

Standards	Summary
<p>AASB 10 Consolidated Financial Statements</p> <p>AASB 12 Disclosure of Interests in Other Entities</p>	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation - Special Purpose Entities.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority of voting rights may give control.</p> <p>Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.</p> <p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.</p> <p>Application of AASB 10 and AASB 12 has not resulted in significant changes to those entities controlled by the Group or significant additional disclosure in the 30 June 2014 annual financial report.</p>
AASB 13 Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p>

	<p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p> <p>Application of AASB 13 has resulted in increased disclosure in the 30 June 2014 annual financial report in note 3.</p>
AASB 119 Employee Benefits (Revised 2011)	<p>The revised standard changes the definition of short-term employee benefits. 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.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</p> <p>There is no material impact to the Group.</p>
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)	<p>This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions and resulted in less disclosures in the 30 June 2014 annual financial report.</p>

*Early adopted new and amended accounting standards and interpretations*

The following accounting standard was early adopted by the Group at 30 June 2014:

Standards	Summary
AASB 2013-3 <i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i>	<p>AASB 2013-3 amends the disclosure requirements in AASB 136 <i>Impairment of Assets</i>. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.</p> <p>The amendment is effective for the financial year beginning on or after 1 January 2014 with early adoption permitted.</p> <p>The Group has early adopted the amendment in the 30 June 2014 annual report, which resulted in reduced impairment disclosures required under the AASB 136.</p>

*New and amended Standards and Interpretations, issued but not yet effective*

The following new and amended Standards and Interpretations, issued but not yet effective, have been identified as those which may impact the entity in the period of initial application.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9 / IFRS 9	<i>Financial Instruments</i>	<p>On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in</p>	1 January 2018	1 July 2018

		<p>isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <p>Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.</p>		
		<p>Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>► The remaining change is presented in profit or loss</li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E</p>		

AASB 2012-3	Amendments to Australian Accounting Standards - <i>Offsetting Financial Assets and Financial Liabilities</i>	AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 July 2014
IFRS 15*	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i>, which replaces IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations (IFRIC 13 <i>Customer Loyalty Programmes</i>, IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue—Barter Transactions Involving Advertising Services</i>)</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul> <p>Early application of this standard is permitted.</p>	1 January 2017	1 July 2017
Interpretation 21	<i>Levies</i>	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	1 July 2014
AASB 2014-1 Part A - Annual Improvements 2010–2012 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle	<p>AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) <i>Annual Improvements to IFRSs 2010–2012 Cycle</i> and <i>Annual Improvements to IFRSs 2011–2013 Cycle</i>.</p> <p>Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:</p> <p>AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.</p> <p>AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.</p>	1 July 2014	1 July 2014



		<p>AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.</p> <p>AASB 116 &amp; AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.</p> <p>AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.</p>		
AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2011–2013 Cycle	<p>Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:</p> <p>AASB13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.</p> <p>AASB40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.</p>	1 July 2014	1 July 2014
Amendments to IAS 16 and IAS 38*	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	<p>IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 July 2016

\* These IFRS amendments have not yet been adopted by the AASB. The group is still in the process of assessing the impact of the new requirements.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of Kimberley Diamonds Ltd and its subsidiaries ('the Group'). The financial statements of subsidiaries are prepared for the same reporting year as the parent company and use consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Control is achieved when the Group 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. Specifically, the Consolidated Entity controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra- Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Investments in subsidiaries held by Kimberley Diamonds Limited are accounted for at cost in the separate financial statements of the Parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be re measured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, any goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or groups of cash-generating units, expected to benefit from the combination's synergies.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB8 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognised. Where

goodwill forms part of a cash-generating unit or groups of cash-generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### **Segment reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues.

Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board of Directors.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 Operating Segments are reported separately.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category as "unallocated".

### **Foreign currency translation**

Both the functional and presentation currency of Kimberley Diamonds Ltd and its Australian subsidiaries is Australian dollars (AUD\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Foreign exchange gains or losses arising from translation are recognised in profit or loss except for when they are deferred in equity as qualifying cash flow hedges.

As at the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Kimberley Diamonds Ltd at the rate of exchange ruling at the balance sheet date and the statement of comprehensive income are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are brought to account in the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

**Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Trade and other receivables**

Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment.

**Inventories**

Inventories, which include rough diamonds, ore stock piles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, are recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the 'first-in-first-out method'. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

**Investments in controlled entities**

All investments in controlled entities are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent to the initial measurement, investments in controlled entities are carried at cost less accumulated impairment losses.

**Exploration and evaluation expenditure**

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

Exploration and evaluation expenditure related to areas of interest are carried forward to the extent that the rights to tenure of the areas of interest are current and the Group controls the area of interest in which the expenditure has been incurred and ,

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

### Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is unavailable during the development phase, it is not depreciated. On completion, any capitalised exploration and evaluation expenditure already capitalised to development expenditure, together with subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on that basis. All development expenditure is monitored for indications of impairment annually.

### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, amongst others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. The following methods and useful lives were applied during the period:

Category	Method	Useful Life
Mining assets	<i>Straight line</i>	<i>Unit of production</i>
Leasehold improvements	<i>Straight line</i>	<i>Lesser of 3 years or period of lease</i>
Plant and equipment	<i>Straight line</i>	<i>Unit of production or 3 to 10 years</i>
Finance lease assets	<i>Straight line</i>	<i>Lesser of 5 years or period of lease</i>
Other assets	<i>Straight line</i>	<i>2 to 5 years</i>

**Stripping activity asset:** As part of its mining operations, the Group incurs mining stripping (waste removal) costs both during the development and production phase of its operations. When stripping costs are incurred in the development phase of a mine before the production phase commences (development stripping), such expenditure is capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a units of production method, in accordance with the policy applicable to mine properties. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Waste development costs incurred in the production phase creates two benefits, being either the production of inventory or improved access to the ore to be mined in the future. When the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for a part of the cost of producing those inventories. When production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset in mine property.

If the cost of the inventory produced and the stripping asset are not separately identifiable, the allocation is undertaken based on waste to ore stripping ratio for the particular ore component concerned. If mining of waste in a period occurs in excess of the expected life of component average waste to ore strip ratio, the excess is recognised as part of the stripping asset. When mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided on the units-of-production method over the life of the identified component of ore body. The units of production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources.

## Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## Impairment of assets

**Non-financial assets:** Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax



discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**Financial assets:** The Group assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

**Assets carried at amortised cost:** If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

#### **Dividend distribution**

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are declared by the Board.

#### **Trade and other payables**

Trade and other payables are carried at amortised costs due to their short term nature. They are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured.

#### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**Provisions:** Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in provision due to the passage of time is recognised as a finance cost.

### **Restoration and rehabilitation**

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling; removal and treatment of waste materials; land rehabilitation; and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

### **Employee leave benefits**

**Wages, salaries and annual leave:** Liabilities for employee benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

**Long service leave:** The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### **Share-based payment transactions**

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Kimberley Diamonds Ltd ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

Equity-settled awards granted by Kimberley Diamonds Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Kimberley Diamonds Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

The cumulative expense recognised for equity-settled transactions at each subsequent reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### **Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### Revenue recognition

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**Sale of goods:** Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

**Interest revenue:** Revenue is recognised as the interest accrues using the effective interest method. This is the method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Dividends:** Revenue is recognised when the shareholders' right to receive the payment is established.

**Commission Income:** Commission on diamond sales conducted through eDiamonds are recognised when services are rendered.

### Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the income statement when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

### **Royalties**

Royalties and revenue-based taxes are accounted for under AASB 112 Income Taxes when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation.

Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and disclosed as part of selling and distribution costs. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

### **Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**Significant accounting judgements, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Life of mine:** There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the life of mine estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios and environmental provisions are re-assessed to take into account the revised life of mine estimate.

**Exploration and evaluation expenditure:** This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available.

**Development expenditure:** Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

**Property, plant and equipment – recoverable amount:** The calculation of the recoverable amount of an asset requires significant judgements, estimates and assumptions, including future demand, technological changes, exchange rates, interest rates and others.

**Impairment of mine properties:** The future recoverability of capitalised mine properties and plant and equipment is dependent on a number of key factors including; diamond price, pre-tax discount rates used in determining the estimated discounted cash flows of Cash Generating Units (“CGUs”), foreign exchange rates, the level of proved and probable reserves and measured, indicated and inferred mineral resources, future technological changes which could impact the cost of mining and future legal changes (including changes to environmental restoration obligations).

Impairment is recognised when the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount of each CGU has been determined on its fair value less cost to sell (‘Fair Value’). The costs to sell have been estimated by management based on prevailing market conditions.

Fair Value is estimated based on discounted cash flows using market based commodity price and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, based on CGU life-of-mine (‘LOM’) plans.

Estimates of quantities of recoverable minerals, production levels, operating costs and capital requirements are sourced from the Group’s planning process documents, including LOM plans, external expert reports where appropriate and operational budgets.

Significant judgements and assumptions are required in making estimates of Fair Value. This is particularly so in the assessment of long life assets. CGU valuations are subject to variability in key assumptions including, but not limited to, long-term diamond prices, currency exchange rates, discount rates, and production and operating costs. An adverse change in one or more of the assumptions used to estimate Fair Value could result in a reduction in a CGU's Fair Value.

### Key Estimates

Key assumptions used in the 2014 end of year carrying value assessments for the Ellendale CGU were as follows:

Diamond price range – Non-commercial goods	4,690 – 10,211/carats
Diamond price range – Commercial goods	176 - 347/carats
Discount rate (pre-tax)	8%
AUD:USD exchange rate range	0.88

Foreign exchange rates are estimated with reference to external market forecasts, and updated at least annually.

In determining the Fair Value of CGUs, future cash flows were discounted using rates based on the Group's estimated before tax weighted average cost of capital. An additional premium is applied with regard to the geographic location and nature of the CGU.

Life-of-mine operating and capital cost assumptions are based on the Group's latest budget and life of mine plans. Operating cost assumptions reflect the expectation that costs will, over the long term, have a degree of positive correlation to the prevailing commodity price and exchange rate assumptions.

After assessing the Fair Value of each CGU against its carrying value, no impairment charges were recognised for the current financial year.

### Sensitivity Analysis

- Any variation in the key assumptions used to determine Fair Value would result in a change of the assessed Fair Value. If the variation in assumption had a negative impact on Fair Value, it could indicate a requirement for impairment to non-current assets.

It is estimated that changes in the key assumptions would have the following approximate impact on the carrying value of each CGU in its functional currency that has been subject to impairment testing in the current financial year:

	Ellendale \$'000	Ellendale \$'000
	+	-
10% change in USD diamond price per carat	(6,392)	6,594
200 basis points change in pre-tax discount rate	(4,522)	5,234
5c change in AUD:USD exchange rate	(689)	615

It must be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, while all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions is usually accompanied with a change in another assumption, which may have an offsetting impact (for example, the recent decline in the USD diamond price has been accompanied with a decline in the AUD compared to the USD). Action is also usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.

To the extent that capitalised mine properties, plant and equipment is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

**Provision for restoration and rehabilitation:** Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible disturbance, and the timing, extent and costs of required restoration and rehabilitation activity.

**Taxation:** The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.

**Stripping activity asset:** Management is required to make certain estimates and assumptions regarding the tonnes of waste material expected to be mined during the life of component per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Significant judgements are also required in determining the different components of the mine.

**Functional currency translation reserve:** Under the accounting standards, each entity within the Group is required to determine its functional currency, which is the currency of the primary economic environment in which the entity operates. Management considers the foreign subsidiaries to be foreign operations with the currency of that country as the functional currency. In arriving at this determination, management has given priority to the currency that influences the labour, materials and other costs of exploration activities as they consider this to be a primary indicator of the functional currency.

### Note 3: Financial Risk Management Objectives and Policies

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The Group's principal financial instruments comprise receivables, payables, insurance premium funding, cash and short term deposits.

The Group manages its exposure to key financial risks, including interest rate, foreign currency, credit risk and liquidity risk, with the objective of providing support to delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, commodity risk and foreign currency risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include analysis of aging reports to monitor and manage credit risk, analysis of future rolling cash flow forecasts to monitor and manage liquidity risk, monitoring levels of exposure to interest rate and foreign exchange risk, and assessments of market forecasts for interest rate and foreign exchange rate movement.

The Board reviews and agrees risk management strategies for managing each of the risks identified above.

Primary responsibility for identification and control of financial risks rests with Management under authority of the Board.

#### a. Risk exposures and responses

**Interest rate risk:** The Group exposure to interest rate risk has been minimised through utilisation of fixed interest rates on borrowings.



The Group does not enter into any interest rate swaps, interest rate options or similar derivatives.

At balance date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2014 \$'000	2013 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	13,417	8,830
Bonds	-	12,149
<b>Net exposure</b>	<b>13,417</b>	<b>20,979</b>

	Post tax profit Higher/(Lower)		Equity Higher/(Lower)	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Judgements of reasonable possible movements				
+0.50% (50 basis points)	67	105	67	105
-0.50% (50 basis points)	(67)	(105)	(67)	(105)

**Foreign currency risk:** the Group functional currency is Australian dollars and is exposed to transactional currency exposures. Such exposures arise primarily as a result of the sale of Diamonds being denominated in USD. Foreign currency risk is managed by management monitoring actual and forecast currencies.

At balance date, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	2014 \$'000 USD	2013 \$'000 USD
<b>Financial assets</b>		
Cash and cash equivalents	7,430	919
Borrowings	(478)	-
<b>Net exposure</b>	<b>6,952</b>	<b>919</b>

Management believes that the above balance date risk exposures for foreign currency risk may be unrepresentative, as they do not reflect potential exposure during the year.

The following sensitivity analysis is based on the foreign exchange rate exposures in existence at the balance sheet date:

At 30 June 2014, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Other equity Higher/(Lower)	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Judgements of reasonable possible movements				
<b>Consolidated</b>				
AUD/USD +10%	(655)	(108)	(655)	(108)
AUD/USD -10%	655	108	655	108

The judgement of reasonable possible rate movement is based upon management's current assessment of the possible change in foreign currency exchange rates, which is based on regular review of current trends and forecasts. There has been no change in assumptions and sensitivities from the previous year.

**Commodity price risk:** The Group is exposed to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as size and quality. Diamonds prices are marketed in USD and long term USD \$/carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Groups specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements but has an existing supply agreement with a top-end jeweller for its fancy yellow diamonds production. This contract, which caters for a monthly index review and floor price, is for the life of the mine and provides certainty to the revenue flows.

The group also has indirect exposure to the price of gold and copper.

**Credit risk:** Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. Exposure on trade and other receivables is limited as the Group sales are made on a cash basis.

**Liquidity risk:** Responsibility for liquidity risk management rests with Management and the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements.

**Exposure to liquidity risk**

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

	<=6 months \$'000	6-12 months \$'000	1-5years \$'000	Total \$'000
<b>2014</b>				
<b>Financial liabilities</b>				
Trade and other payables	16,274	-	-	16,274
Interest bearing loans and borrowings	967	113	283	1,363
	<b>17,241</b>	<b>113</b>	<b>283</b>	<b>17,637</b>
<b>2013</b>				
<b>Financial liabilities</b>				
Trade and other payables	9,166	-	-	9,166
Other payables	1,470	-	-	1,470
Related party loans	21	-	-	21
Interest bearing loans and borrowings	11,013	-	-	11,013
	<b>21,670</b>	<b>-</b>	<b>-</b>	<b>21,670</b>

**Fair value of financial instruments:** 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. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

#### Note 4: Segment Information

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For management purposes, the Group is organised into business units based on its products and services and currently has two reportable segments, both operating in Australia:

- Diamond mining being the mining, processing and marketing of diamonds,
- Mineral exploration, being the acquisition and exploration of minerals and mineral tenements.

The Chief Operating Decision Maker ('CODM') is the Board of Directors, which monitors the operating results of the business units separately for purposes of making decisions about resource allocations and performance assessment.

Segment performance is evaluated based segment results which are determined using revenues and expenditure directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results are measured consistently with the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Inter-segment revenues are eliminated upon consolidation and included in the "unallocated" column.

	2014			2013		
	Diamond mining \$'000	Exploration & corporate \$'000	Total \$'000	Diamond mining \$'000	Exploration & corporate \$'000	Total \$'000
<b>Revenue</b>						
External customers	76,196	-	76,196	47,951	-	47,951
Interest revenue	76	68	144	196	33	229
Research and development incentive claim	-	-	-	-	126	126
Other revenue		1,219	1,219	-	-	-
<b>Total segment revenue</b>	<b>76,272</b>	<b>1,287</b>	<b>77,559</b>	<b>48,147</b>	<b>159</b>	<b>48,306</b>
Segment (loss) / profit	(7,832)	(10,359)	(18,191)	4,870	(2,711)	2,159
Share option expense	-	(1,050)	(1,050)	-	(1,435)	(1,435)
Gain on acquisition of business	-	-	-	-	1,539	1,539
Other	-	-	-	-	19	19
<b>(Loss) / profit after income tax expense for the period</b>	<b>(7,832)</b>	<b>(11,409)</b>	<b>(19,241)</b>	<b>4,870</b>	<b>(2,588)</b>	<b>2,282</b>
Interest paid	-	14	14	162	10	172
Depreciation and amortisation	11,884	32	11,916	9,399	4	9403
Impairment of exploration asset	-	147	147	-	831	831
Segment assets	32,637	33,452	66,089	60,453	3,468	63,921
Segment liabilities	44,200	5,054	49,254	50,591	647	51,238

Diamond mining revenue includes sales to one customer amounting to \$56.051 million (2013:\$41.573 million) which represents 74% of its total revenue for the period.

	2014 \$'000	2013 \$'000
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#### Geographic segment

##### *Revenues from external customers*

Australia	77,362	48,306
Belgium	197	-
Total revenue per consolidated statement of profit or loss	<b>77,559</b>	<b>48,306</b>

##### *Non-current assets*

Australia	19,437	20,478
Belgium	67	-
Botswana	15,337	-
Total non-current assets	<b>34,841</b>	<b>20,478</b>

Non-current assets for this purpose consist of property, plant and equipment and trade and other receivables.

#### Note 5: Revenue

	2014 \$'000	2013 \$'000
<b>(a) Revenues</b>		
Sale of goods	76,576	47,936
Research and development incentive claim	-	126
Other income	839	15
Interest income	144	229
	<b>77,559</b>	<b>48,306</b>

**Other income:** includes commissions on diamonds sales conducted through eDiamonds and receipts from ticket sales to, and auction at the Annual Diamond Dinner.

## Note 6: Expenses

	2014 \$'000	2013 \$'000
<i>Profit before income tax includes these specific expenses:</i>		
<b>Employee benefits expense</b>		
Wages and salaries	22,102	9,591
Defined contribution superannuation expense	1,966	2,103
Share based payments expense	1,050	1,435
	<b>25,118</b>	<b>13,129</b>
<b>Impairment</b>		
Exploration and evaluation	147	831
	<b>147</b>	<b>831</b>
<b>Finance costs</b>		
Interest expense	79	172
Mine rehabilitation and site restoration discount unwind	990	361
	<b>1,069</b>	<b>533</b>
<b>Amortisation and depreciation expenses</b>		
Depreciation of plant and equipment	11,916	6,827
	<b>11,916</b>	<b>6,827</b>
<b>Minimum lease payments recognised as an operating lease expense</b>	<b>303</b>	<b>264</b>
<b>Foreign exchange loss</b>	<b>263</b>	<b>571</b>

## Note 7: Auditors Remuneration

	2014 \$	2013 \$
<i>An audit or review of the financial report of the entity and any other entity in the consolidated group</i>		
Ernst & Young	100,000	75,000
Deloitte Touche Tohmatsu	-	28,250
	<b>100,000</b>	<b>103,250</b>
<i>Other services in relation to the entity and any other entity in the consolidated group</i>		
tax compliance	-	26,424
	<b>-</b>	<b>26,424</b>

## Note 8: Income Tax

	2014 \$'000	2013 \$'000
The major components of income tax are:		
<b>Income statement</b>		
<b>Current income tax</b>		
Current income tax credit/(charge)	(13)	-
<b>Deferred income tax</b>		
Relating to origination and reversal of timing differences	(4,472)	(634)
Current year tax losses and temporary differences not recognised in the current period	4,472	634
<b>Income tax benefit/(expense) reported in the income statement</b>	<b>(13)</b>	<b>-</b>
<i>A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:</i>		
<b>Accounting profit before income tax</b>	<b>(19,228)</b>	<b>2,282</b>
At the Group's statutory income tax rate of 30% (2013: 30%)	(5,769)	685
Share based payments	315	431
Non-accessible gains	-	(732)
Assessable dividend income	970	-
Sundry non-deductible / (deductible) expenses	12	250
Current period tax losses and temporary differences not recognised	4,472	(634)
Adjustment in respect of current income tax of previous years	(13)	-
<b>Income tax benefit/(expense) reported in the income statement</b>	<b>(13)</b>	<b>-</b>
<b>Tax losses not recognised</b>		
Unused tax losses for which no deferred tax asset has been recognised	41,317	20,770
<b>Potential tax benefit @ 30%</b>	<b>12,395</b>	<b>6,231</b>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

The Group has no franking credit as at 30 June 2014 (2013: nil).

	2014 \$'000	2013 \$'000
<b>Deferred tax balances</b>		
Taxable and deductible temporary differences arise from the following:		
<i>Deferred tax liabilities</i>		
Exploration and evaluation	-	-
Foreign exchange gains / losses	2	2
Accrued income	233	267
Consumables	202	260
Prepayments	-	1
Other	-	6
Deferred tax asset offset against deferred tax liability	(437)	(536)
	-	-
<i>Deferred tax assets</i>		
Business related costs	79	115
Exploration and evaluation	3,016	2,942
Intangibles	2,409	2,429
Provision for annual leave	631	659
Provision for long service leave	279	251
Other provisions	8,676	7,961
Accrued superannuation	2	5
Accrued expenses	37	460
Fixed assets	52,992	55,901
Project pool	3,577	-
Asset impairments	-	129
Trading stock	1,510	1,471
Revenue tax losses	12,395	6,231
Capital losses	2	2
Deferred tax liability offset against deferred tax asset	(437)	(536)
	<b>85,168</b>	<b>78,020</b>
Amount not recognised	(85,168)	(78,020)
<b>Net deferred tax asset / (liability)</b>	-	-
<b>Movement in deferred tax balances</b>		
Balance 1 July	-	-
Credited / (charged) to the profit or loss	(4,472)	197
Not recognised	4,472	(197)
Acquired	-	-
Credited / (charged) to other comprehensive income	-	-
	-	-



## Note 9: Trade and Other Receivables

	2014 \$'000	2013 \$'000
<b>Current</b>		
Other receivables	683	1,501
Prepayments	1,021	1,239
Environmental bonds	-	12,149
Goods and services tax recoverable	1,027	1,445
<b>Total current receivables</b>	<b>2,731</b>	<b>16,334</b>
<b>Non-current</b>		
Other security bonds and capitalised bond costs	65	543
<b>Total non-current receivables, net</b>	<b>65</b>	<b>543</b>

**Other receivables:** are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is recognised when there is objective evidence that the Group may not be able to collect all amounts due according to original terms of the transaction. None of the amounts are considered impaired.

**Prepayments:** consist predominately of insurance premiums paid relating to the 2015 financial year.

## Note 10: Inventories

	2014 \$'000	2013 \$'000
<b>Current</b>		
Stores stock	3,588	3,132
Ore stockpiles – net realisable value	4,987	8,357
Diamond inventory – net realisable value	6,525	6,790
<b>Total inventories</b>	<b>15,100</b>	<b>18,279</b>
Net realisable value write down	1,928	4,017

## Note 11: Property, Plant and Equipment

## a) Non-current fixed assets

	Plant & equipment *	Land & buildings	Stripping activity asset	Mine properties	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2014</b>						
<b>As at 1 July 2013 net of accumulated depreciation</b>	<b>8,897</b>	<b>3,815</b>	<b>5,557</b>	-	-	<b>18,269</b>
Additions	2,545	-	-	20,162	2,994	25,701
Disposals	-	-	-	-	-	-
Transfers	(3,839)	3,262	-	-	577	-
Acquired through business combination	87	-	-	-	-	87
Reclassification to cost of sales	-	-	(364)	-	-	(364)
Depreciation	(3,359)	(3,720)	(2,970)	(1,867)	-	(11,916)
<b>As at 30 June 2014</b>	<b>4,331</b>	<b>3,357</b>	<b>2,223</b>	<b>18,295</b>	<b>3,571</b>	<b>31,777</b>
<b>As at 30 June 2014</b>						
Cost	11,509	10,079	2,223	20,162	3,571	47,544
Accumulated depreciation	(7,178)	(6,722)	-	(1,867)	-	(15,767)
Net carrying amount	<b>4,331</b>	<b>3,357</b>	<b>2,223</b>	<b>18,295</b>	<b>3,571</b>	<b>31,777</b>
<b>Year ended 30 June 2013</b>						
<b>As at 1 July 2012 net of accumulated depreciation</b>	<b>9</b>	-	-	-	-	<b>9</b>
Additions	929	317	8,133	-	-	9,379
Disposals	-	-	-	-	-	-
Acquired through business combination	11,776	6,508	-	-	-	18,284
Depreciation	(3,817)	(3,010)	(2,576)	-	-	(9,403)
<b>As at 30 June 2013</b>	<b>8,897</b>	<b>3,815</b>	<b>5,557</b>	-	-	<b>18,269</b>
<b>As at 30 June 2013</b>						
Cost	12,716	6,825	8,133	-	-	27,674
Accumulated depreciation	(3,819)	(3,010)	(2,576)	-	-	(9,405)
Net carrying amount	<b>8,897</b>	<b>3,815</b>	<b>5,557</b>	-	-	<b>18,269</b>

\* The purchaser of the HPGR Crusher acquired through the Mantle acquisition was funded through a loan and the asset is held as security, refer note 13 for details of loan.

## b) Exploration and evaluation assets

	2014	2013
	\$'000	\$'000
<b>Opening balance</b>	<b>1,666</b>	<b>1,361</b>
Additions	1,480	646
Transfers	-	438
Acquired through business combination	-	52
Impairment	(147)	(831)
<b>As at 30 June 2014</b>	<b>2,999</b>	<b>1,666</b>

## Note 12: Trade and Other Payables

	2014 \$'000	2013 \$'000
<b>Current</b>		
Trade payables	12,703	3,995
Accrued expenses	2,068	5,171
Other payables	1,503	1,470
	<b>16,274</b>	<b>10,636</b>

**Trade payables:** are non-interest bearing and are normally settled on 30-day terms.

**Other payables:** are non-interest bearing and have an average term of 120 days.

## Note 13: Interest Bearing Loans and Borrowings

	2014 \$'000	2013 \$'000
<b>Current</b>		
Insurance premium funding	775	-
Other	80	-
Loan	225	-
Obligations under hire purchase contract	-	303
Due to Summit Equities Pty Ltd	-	21
Loan from Gem Diamonds Ltd	-	10,710
<b>Total current interest bearing loans &amp; borrowings</b>	<b>1,080</b>	<b>11,034</b>
<b>Non-current</b>		
Loan	283	-
<b>Total non-current interest bearing loans &amp; borrowings</b>	<b>283</b>	<b>-</b>

**Insurance premium funding:** the agreement was entered into on the 28 May 2014. The funding is for a period of 10 months with a flat fixed interest rate of 2.33%

**Other:** represents a repayment agreement between Zodiac Resources and the Office of State Revenue in Western Australia. The agreement was entered into on the 31 December 2013 for a period of 12 months and interest is charged at a rate of 11.5% per annum.

**Loan:** the loan is denominated in USD. It is for a period of 3 years and bears interest at 4.468% per annum, repayable monthly. There were no breaches in covenants which came to our attention. The loan was used to purchase an HPGR Crusher which is held as security.

**Loan from Gem Diamonds Ltd:** arose prior to the acquisition of KDC and bears interest at a fixed rate of 2.6%. The loan was secured by fixed and floating charges over KDC's assets and was settled in full during the current financial year.

## Note 14: Provisions

	2014 \$'000	2013 \$'000
<b>Current</b>		
Employee benefits	2,102	2,197
	<b>2,102</b>	<b>2,197</b>
<b>Non – current</b>		
Employee benefits	929	836
Mine rehabilitation provision	28,579	26,535
	<b>29,508</b>	<b>27,371</b>
<i>Movement in the mine rehabilitation provision</i>		
At the beginning of the period	26,535	-
Acquired through business combination	258	28,955
Arising during the period	251	22
Release of mine rehabilitation	-	(2,648)
Re-estimation of provision	550	-
Utilised during the period	(5)	(155)
Unwinding of discount	990	361
	<b>28,579</b>	<b>26,535</b>

The site and mine restoration provision has been recognised as the Group has an obligation for the rehabilitation of its mining areas. The provision has been calculated based on the total estimated rehabilitation costs over a period of 12 years.

## Note 15: Contributed Equity

	2014	2013
<b>(a) Issued and paid up capital</b>		
Number of ordinary shares fully paid	104,203,915	74,614,742
<b>(b) Movements in shares on issue</b>	<b>2014</b>	
	<b>Number of shares</b>	<b>\$'000</b>
Beginning of the financial year	74,614,742	9,771
<i>Issued during the year</i>		
Equity placement	26,191,173	25,252
Share options exercised	3,398,000	1,178
Share issue costs	-	(540)
	<b>104,203,915</b>	<b>35,661</b>
	<b>2013</b>	
	<b>Number of shares</b>	<b>\$'000</b>
Beginning of the financial year	32,974,000	3,558
<i>Issued during the year</i>		
Equity placement	41,640,742	6,333
Share issue costs	-	(120)
	<b>74,614,742</b>	<b>9,771</b>
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Other contributed equity</b>		
Capital contribution reserve	201	201
	<b>201</b>	<b>201</b>

The capital contribution reserve represents the common shareholder transaction on the acquisition of Zodiac Resources Pty Ltd in 2012.

## Note 16: Reserves

	Share option reserve (a) \$'000	Foreign currency translation (b) \$'000	Profit reserve (c) \$'000	Other (d) \$'000	Total \$'000
At 1 July 2013	1,622	-	-	(699)	923
Currency translation differences	-	(245)	-	-	(245)
Share based payments	1,050	-	-	-	1,050
Transfer to reserves	-	-	6,440	-	6,440
Dividends paid			(3,297)		(3,297)
<b>As at 30 June 2014</b>	<b>2,672</b>	<b>(245)</b>	<b>3,143</b>	<b>(699)</b>	<b>4,871</b>
At 1 July 2012	187	-	-	-	187
Change in non-controlling interest	-	-	-	(699)	(699)
Share based payments	1,435	-	-	-	1,435
<b>As at 30 June 2013</b>	<b>1,622</b>	<b>-</b>	<b>-</b>	<b>(699)</b>	<b>923</b>

**a) Share option reserve:** The share option reserve is used to record the value of equity benefits provided to executives as part of their remuneration. Refer note 20 for further details of these plans.

**b) Foreign currency translation reserve:** The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign operations.

**c) Profit reserve:** On acquisition of Kimberley Diamond Company NL the directors resolved to isolate accumulated profits into a Profit Reserve.

**d) Other reserve:** The equity reserve is used to record gains and losses associated with equity transactions with minority

**Dividends:** Dividends paid or provided for during the year \$3,297,087 (2013: nil).

## Note 17: Retained Earnings

	2014 \$'000	2013 \$'000
Operating (loss) / profit after tax and non-controlling interest	(19,224)	2,420
Accumulated profit / (loss) at the beginning of the financial year	1,813	(624)
Fair value adjustment on disposal of treasury shares	-	17
Transfer to profit reserve	(6,440)	
Transfer to issued capital	(5)	-
<b>Accumulated (losses) / retained profit at the end of the financial year</b>	<b>(23,856)</b>	<b>1,813</b>

### Note 18: Business Combinations

**eDiamond Belgium BVBA:** 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:

	\$'000
Cash and cash equivalents	89
Other receivables	640
Property plant and equipment	87
Trade payables	(747)
<b>Total identifiable net assets</b>	<b>69</b>
Fair value of cash consideration paid	(69)
Fair value of cash and cash equivalents acquired	89
<b>Net cash and cash equivalents acquired</b>	<b>20</b>

From the date of acquisition, eDiamond has contributed \$196,897 to revenue and \$340,394 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.

### Note 19: Asset Acquisition

**Mantle Diamonds:** During the year KDL completed the acquisition of Mantle Diamonds Ltd ("Mantle"), including Mantle's wholly owned Lerala Diamond Mine ("Lerala"). Under the terms of the acquisition, the shareholders in Mantle received 13,566,317 new ordinary KDL shares issued on 24 February 2014.

The acquisition does not constitute a business combination and the cost of acquisition has been allocated to individual identifiable assets and liabilities on the basis of their relevant fair values.

The fair values of the identifiable assets and liabilities of the Mantle Group as at the date of acquisition were:

	\$'000
Cash and cash equivalents	325
Other receivables	113
Mine properties	15,218
Trade payables	(1,029)
Provisions	(270)
Borrowings	(656)
<b>Total identifiable net assets</b>	<b>13,701</b>
<b>Fair value of the total consideration transferred (Shares issued)</b>	<b>13,701</b>
Fair value of cash and cash equivalents acquired	325
<b>Net cash and cash equivalents acquired</b>	<b>325</b>

## Note 20: Share Based Payments

### Share option plans

The Group has established an employee share option plan ("ESOP"). The objective of the ESOP is to assist in the recruitment, reward, retention and motivation of employees of Kimberley Diamonds Limited. Under ESOP, the Directors may invite eligible persons to participate in the ESOP and receive options. The plan is open to executive officers and employees of Kimberley Diamonds Ltd, or other persons determined by the Board from time to time to be an eligible person.

The fair value of the options granted at the date of grant was calculated using the Binomial model and taking into account the terms and conditions upon which the options were granted. All options vested on grant date.

The following table lists the inputs to the model used.

Grant Date	29 November 2013	12 September 2013	26 April 2013	8 March 2013
Volatility	100%	100%	85%	85%
Risk free rate	2.69%	2.64%	3.10%	3.00%
Share price at grant date	\$0.90	\$0.43	0.26	0.18
Exercise price of options	\$1.15	\$0.75	\$0.30	\$0.30
Expected dividend yield	3.00%	3.00%	0.00%	0.00%
Number of options issued	1,500,000	4,000,000	10,000,000	4,000,000
Vesting date	29 November 2013	12 September 2013	26 April 2013	8 March 2013
Expected life of options(yrs)	2	2	2.18	2.31
Fair value of options at grant date	\$0.3898	\$0.1559	\$0.117	\$0.066



**Reconciliation of outstanding share options**

Grant Date	Vesting date and exercisable date	Expiry date	Exercise price	Number under option	Granted during the year	Exercised during the year	Expired during the year	Ending balance
27-Feb-12	17-Feb-12	30-Jun-14	\$0.30	4,000,000	-	(3,398,000)	(602,000)	-
26-Apr-13	26-Apr-13	30-Jun-15	\$0.30	10,000,000	-	-	-	10,000,000
8-Mar-13	8-Mar-13	30-Jun-15	\$0.30	4,000,000	-	-	-	4,000,000
29-Nov-13	29-Nov-13	29-Nov-15	\$1.15	-	1,500,000	-	-	1,500,000
12-Sep-13	12-Sep-13	12-Sep-15	\$0.75	-	4,000,000	-	-	4,000,000
<b>Total</b>				<b>18,000,000</b>	<b>5,500,000</b>	<b>(3,398,000)</b>	<b>(602,000)</b>	<b>19,500,000</b>
<b>Weighted average of share price</b>				<b>0.30</b>	<b>0.86</b>	<b>0.30</b>	<b>0.30</b>	<b>0.46</b>

**Other share-based payments**

On 17 February 2014, the Company acquired the Smoke Creek Alluvial Diamond Project ("Smoke Creek") from Venus Metals Corporation Limited. The Company paid \$250,000 cash and issued 625,000 new ordinary shares in KDL as consideration for Smoke Creek. The fair value of the shares of \$750,000 was used to record the value of assets acquired and was determined by reference to the market value on the Australian Stock Exchange at the date of asset acquisition, as the underlying assets acquired cannot be reliably measured.

On 24 February 2014, the Company completed the acquisition of Mantle Diamonds Limited. The Company issued 13,566,317 new ordinary KDL shares as consideration for 100% of the total issued share capital of Mantle. The fair value of the shares of \$13,701,980 was used to record the value of assets acquired and was determined by reference to the market value on the Australian Stock Exchange at the date of asset acquisition, as the underlying assets acquired cannot be reliably measured.

## Note 21: Related Party Disclosures

**Parent entity:** Kimberley Diamonds Ltd is the parent entity.

**Subsidiaries:** Interests in subsidiaries are set out in note 23.

### Transactions with related parties

	2014 \$	2013 \$
<b>Payment for other expenses</b>		
<i>The following transactions occurred with related parties</i>		
Management fees paid to Summit Equities Limited, a director related entity	-	70,000
Office rent (received from) / paid to Summit Equities Limited, a director related entity	(254,288)	40,000
Capital raising fees to Summit Equities Limited, a director related entity	540,000	-
5,000,000 Share options issued to Summit Equities, a director related entity	-	584,725
<b>Loans to/from related parties</b>		
<i>The following balances are outstanding at the reporting date in relation to loans with related parties</i>		
Current borrowings		
Loan (to) / from Summit Equities Limited, a director related entity (interest free)	-	21,406
<b>Accounts receivable from related parties</b>		
<i>The following balances are receivable at the reporting date in from related parties</i>		
Receivable from Summit Equities Limited, a director related entity (interest free)	(93,000)	-

### Terms and conditions

Except for the interest free loan, all transactions were made under normal commercial terms and conditions at market rates. There is no written agreement in place.

**Loans to key management personnel of the Company and the Group**

(i) Details of the aggregate loans to key management personnel are as follows:

	Balance at beginning of period \$'000	New loans \$'000	Interest charged \$'000	Interest not charged \$'000	Balance at end of period \$'000	Number in group #
<b>2014</b>						
G Sheepers	-	120	-	-	84	1

**Other transactions with key management personnel**

During the year there were no other transactions conducted with Key Management Personnel. There were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

**Compensation of key management personnel**

	<b>2014</b> \$	<b>2013</b> \$
Short-term employee benefits	2,865,192	970,304
Post-employment benefits	206,046	68,439
Termination benefits	637,715	-
Share-based payment	1,208,275	1,434,694
<b>Total compensation</b>	<b>4,917,228</b>	<b>2,473,437</b>

**Interests held by key management personnel under the Senior Executive Share Plan**

i) Options over ordinary shares in Kimberley Diamonds Limited

<b>Grant Date</b>	<b>Vesting date and exercisable date</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Number under option</b>
29 November 2013	29 November 2013	29 November 2015	\$1.15	1,500,000
12 September 2013	12 September 2013	12 September 2015	\$0.75	4,000,000
26 April 2013	26 April 2013	30 June 2015	\$0.30	10,000,000
8 March 2013	8 March 2013	30 June 2015	\$0.30	4,000,000
				<b>19,500,000</b>

Employee options in Kimberley Diamonds Limited are not listed. No issue price is payable for the options

## Note 22: Parent Entity Information

	Parent	
	2014	2013
	\$'000	\$'000
<i>Statement of comprehensive income</i>		
Loss after income tax	(756)	(3,718)
<b>Total comprehensive income</b>	<b>(756)</b>	<b>(3,718)</b>
<i>Statement of financial position</i>		
Current assets	11,276	2,293
Non-current assets	19,562	5,097
<b>Total assets</b>	<b>30,838</b>	<b>7,390</b>
Current liabilities	966	414
<b>Total liabilities</b>	<b>966</b>	<b>414</b>
<b>Net assets</b>	<b>29,872</b>	<b>6,976</b>
Issued capital	35,661	9,771
Share-based payments reserve	2,672	1,621
Profit reserve	3,143	-
Accumulated losses	(11,604)	(4,416)
<b>Total equity</b>	<b>29,872</b>	<b>6,976</b>
<i>Capital commitments – exploration and evaluation</i>		
Committed at balance date, payable:		
Within one year	42	156
Two to five years	168	254
<b>Total</b>	<b>210</b>	<b>410</b>

## Note 23: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2.

		2014	2013
	Country of Incorporation	%	%
Zodiac Resources	Australia	58.57	58.57
Kimberley Diamond Company NL	Australia	100.00	100.00
Kimroy Pty Ltd	Australia	100.00	100.00
Royell Pty Ltd	Australia	100.00	100.00
Kimberley Mining Services Pty Ltd	Australia	70.00	70.00
Kimphil Pty Ltd	Australia	100.00	100.00
eDiamonds Belgium BVBA*	Belgium	100.00	-
Mantle Diamonds UK **	United Kingdom	100.00	-
Mantle Diamonds Canada Inc **	Canada	100.00	-
Mantle Europe **	Europe	100.00	-
Lerala Diamond Mine **	Botswana	100.00	-

\* Entity acquired on 22 July 2013

\*\* Entities acquired on 24 February 2014

## Note 24: Cash Flow Statement

**Reconciliation of net profit after tax to net cash flows from operations**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Net (loss) / profit after tax	(19,241)	2,282
<b>Non-cash items</b>		
Loss on disposal of property, plant and equipment	-	148
Re-estimation / (release) of mine restoration provision	-	(2,648)
Gain on acquisition of business	-	(1,539)
Amortisation and depreciation	11,916	9,403
Impairment	147	831
Foreign exchange loss	484	571
Share based payments	1,050	1,435
Other	550	107
<b>Changes in assets and liabilities</b>		
Movement in inventories	3,544	5,473
Movement in receivables	1,522	(2,029)
Movement in trade and other creditors	4,822	1,506
Movement in provisions	2,394	153
<b>Net cash flow from operating activities</b>	<b>7,258</b>	<b>15,693</b>

**(a) Reconciliation of cash**

For the purposes of the cash flow statement cash and cash equivalents comprise the following at 30 June:

Cash on hand	14	27
Cash at bank	12,250	8,803
Cash on deposit	1,153	-
	<b>13,417</b>	<b>8,830</b>

**(b) Non cash financing and investing activities**

The consolidated entity entered into financing agreements of \$1,107,000 relating to insurance premium funding. These acquisitions are not reflected in the Cash Flow Statement.

### Note 25: Commitments

The Group leases corporate office space and equipment under a non-cancellable operating lease expiring from two to four years, with renewal options thereafter.

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	820	383
Two to five years	1,349	351
	<b>2,169</b>	<b>734</b>

The Group is committed to the following minimum expenditure on the mining lease specified by local authorities, in order to maintain current rights of tenure.

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	1,624	2,005
Two to five years	6,142	10,177
More than five years	2,110	35
	<b>9,876</b>	<b>12,217</b>

Capital expenditure contracted for at reporting date but not recognised as a liability is as follows:

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	509	520
	<b>509</b>	<b>520</b>

### Note 26: Contingent Liabilities and Contingent Assets

#### (a) Contingent liabilities

No contingent liabilities have been identified.

## Note 27: Earnings per Share

	2014 \$'000s	2013 \$'000s
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The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

(Loss) / profit used in calculating basic earnings per share	(19,224)	2,420
--	----------	-------

	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	87,064,619	47,751,596

**Effect of dilutive securities:**

(Loss) / profit used in calculating basic earnings per share	(19,224)	2,420
--	----------	-------

(Loss) / profit used in calculating diluted earnings per share	(19,224)	2,420
--	----------	-------

	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares used in calculating diluted earnings per share:	87,064,619	47,751,596

	2014 Share options	2013 Share options
The number of share options not considered dilutive are:	19,500,000	18,000,000

**Conversions, calls, subscription or issues after 30 June 2014**

On 31 July 2014, the Company issued 140,000 new ordinary shares to Rivonia Pty Limited as non-cash consideration for consultancy services provided to the Company in relation to its acquisition of Mantle Diamonds Limited.

## Note 28: Joint Arrangements

As at 30 June 2014 the group had the following interests in joint arrangements.

Name	Place of business	% Interest
Yeoval	Australia	75%
Tenby Property	Canada	50%
Commonwealth Property	Canada	25%



### Note 29: Subsequent Events

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Subsequent to year end, on 22 August 2014, the Company announced that it was undertaking a non-renounceable pro-rata rights issue offer of new KDL ordinary shares at an issue price of \$0.19 per new share to raise up to approximately \$9,912,672 (Offer). The funds raised by the Offer will be used to fund the re-commissioning of Kimberley's Lerala Diamond Mine in Botswana and for general working capital requirements. The Offer opened on 4 September 2014 and closes at 5pm on 24 October 2014 (as extended on 23 September 2014). Shareholders holding shares at 7pm on 1 September 2014 were eligible to participate.

The Company received an interest free loan of \$1,085,000 from the Chairman, Mr Alex Alexander in August 2014 for short term working capital. This loan was repaid in full in September 2014.

On 2 July 2014, the Company's wholly owned subsidiary, Lerala Diamond Mines Limited, entered into a Farm-In and Joint Arrangement Agreement with Tilwane Services (Pty) Limited, a Botswana based exploration company. The Joint Arrangement covers two prospecting licences, Prospecting Licence 267/2013 and Prospecting Licence 268/2013, located in north-eastern Botswana, close to the Orapa Diamond Mine. Under the terms of the Joint Arrangement Agreement, Lerala has the exclusive right to earn up to a 70% interest in the Joint Arrangement by spending a total of AUD1.1 million on project expenditure for the Joint Arrangement over the next 2.5 years, plus payment of an additional AUD20,000 to Tilwane. If Lerala spends AUD100,000 on project expenditure in the first 12 months of the Joint Arrangement, it will earn a 50% interest in the Joint Arrangement. It will then have the opportunity to earn a further 20% interest by spending a further AUD1.0 million on project expenditure in the following 18 months.

On 1 July 2014, the Company announced the appointment of Mrs Laila Green (interim CFO) as Chief Financial Officer and Company Secretary.

## 10. Independent Auditor's Report

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Ernst & Young  
11 Mounts Bay Road  
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### Independent auditor's report to the members of Kimberley Diamonds Limited

#### Report on the financial report

We have audited the accompanying financial report of Kimberley Diamonds Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

#### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

#### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit 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.



## Opinion

In our opinion,

- (a) the financial report of Kimberley Diamonds Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 Going Concern in the financial report in relation to principal conditions that raise doubt about the consolidated entities' ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Report on the remuneration report

We have audited the Remuneration Report included in page 27 to 34 of the directors report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Kimberley Diamonds Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

F Drummond  
Partner  
Perth

30 September 2014

## 11. Additional ASX Information

The shareholder information set out below was applicable as at 29 September 2014.

### Distribution of equity securities – fully paid ordinary shares (KDL)

HOLDING RANGES		HOLDERS	TOTAL UNITS	%
1	- 1,000	107	54,579	0.052%
1,001	- 5,000	252	799,157	0.766%
5,001	- 10,000	314	2,803,488	2.687%
10,001	- 100,000	446	14,764,059	14.149%
100,001	and over	85	85,922,632	82.346%
<b>Totals</b>		<b>1,204</b>	<b>104,343,915</b>	<b>100.000%</b>

- There were 242 holders of less than a marketable parcel of ordinary shares.
- The 20 largest shareholders held 64.80% of Kimberley Diamonds' ordinary shares.

### Twenty largest shareholders

NAME	NUMBER OF ORDINARY SHARES	%
1. Country Rose Limited	9,606,929	9.21%
2. Hanking Australia Pty Ltd	9,054,400	8.68%
3. Pacific Road Capital Management GP Ltd	8,146,481	7.81%
4. Summit Equities Limited	6,933,334	6.64%
5. Mrs Ling Wei Dong	6,041,211	5.79%
6. Mr Alex Alexander & Mrs Liang Xie	5,085,000	4.87%
7. International Conveyors (Asia) Ltd	3,300,000	3.16%
8. Edenbridge Investments Pty Limited	3,003,118	2.88%
9. Pacific Road Capital A Pty Limited	2,306,275	2.21%
10. Mrs Marianna Dergushina	1,614,497	1.55%
11. HSBC Custody Nominees (Australia) Limited	1,538,238	1.47%
12. Advanced Mining Solutions Pty Ltd	1,433,198	1.37%
13. Strategic Development Partners (Aus) Pty Ltd	1,333,332	1.28%
14. Mr Peter Oswald Buttery & Dr Tanya Karen Buttery	1,321,668	1.27%
15. Twynam Agricultural Group Pty Limited	1,307,448	1.25%
16. Sun Hung Kai Investment Services Ltd	1,290,000	1.24%
17. Tennessee Investments Pty Ltd	1,125,000	1.08%
18. Pacific Road Capital A Pty Ltd	1,060,704	1.02%
19. Pacific Road Capital B Pty Ltd	1,060,704	1.02%
20. J P Morgan Nominees Australia Limited	1,057,796	1.01%
	<b>67,619,333</b>	<b>64.80%</b>

**Substantial Shareholders**

NAME	NUMBER OF ORDINARY SHARES	%
Country Rose Limited	9,606,929	9.21%
Hanking Australia Pty Ltd	9,054,400	8.68%
Pacific Road Capital Management GP Ltd	8,146,481	7.81%
Summit Equities Limited	6,933,334	6.64%
Mrs Ling Wei Dong	6,041,211	5.79%

The voting rights attached to ordinary shares are set out below:

**Ordinary shares**

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

**Unquoted Equity Securities**

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Fully Paid Ordinary Shares Escrow to 24 February 2015	10,678,310	4
Fully Paid Shares Escrowed to 17 February 2015	312,500	1
Fully Paid Shares Escrowed to 17 November 2014	156,250	1
Unlisted Options \$0.30 Exp. 30 June 2015	14,000,000	3
Unlisted Options \$0.75 Exp. 12 Sept 2015	4,000,000	4
Unlisted Options \$1.15 Exp. 29 Nov 2015	1,500,000	1

## 12. Tenement Interests

### 12.1 Tenements Held at 30 June 2014

<b>Project</b>	<b>Tenement</b>	<b>Interest</b>
<b>Ellendale Diamond Mine</b> WA, Australia	M04/372, L04/26, L04/48	100% Kimberley Diamond Co. NL
<b>Smoke Creek Diamond Project</b> WA, Australia	P 80/1712, P 80/1713, P 80/1714, P 80/1715, P 80/1716, P 80/1717, P 80/1718, P 80/1719, P 80/1720, P 80/1721, P 80/1722, P 80/1723, P 80/1724, P 80/1725, P 80/1734, P 80/1735, P 80/1736, P 80/1737, P 80/1738, P 80/1739, P 80/1740, P 80/1741	100% Kimberley Diamond Co. NL
<b>Lerala Diamond Mine</b> Central District, Botswana	2006/29L	100% Lerala Mines Diamonds Limited
<b>Commonwealth Property</b> 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	25% Mantle Diamonds Canada Inc Joint Arrangement with Diavik Diamond Mines Inc.
<b>Tenby Property</b> 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	50% Mantle Diamonds Canada Inc Joint Arrangement with Diavik Diamond Mines Inc.
<b>Centenary Project</b> Ontario - Canada	4206426, 4206425	100% Mantle Diamonds Canada Inc.
<b>Trillion Project</b> Ontario - Canada	4216482, 3013687, 3013668, 3013646, 3013648, 3013647, 4202624, 4206505, 3013699, 3013666, 3013698	100% Mantle Diamonds Canada Inc.
<b>Calarie</b> NSW, Australia	EL8007, EL7023, ML739	EL8007 100% KDL EL7023 & ML739 are subject to a farm-in agreement with Tri Origin Mining Pty Ltd and Tri AusMin Ltd
<b>Yeoval</b> NSW, Australia	EL6311, ML811	75% Zodiac Resources Pty Ltd Joint Arrangement with Augur Resources Ltd

## 12.2 Tenement Interests Disposed Of Between 1 July 2013 and 30 June 2014

<b>Project</b>	<b>Tenement</b>	<b>Interest</b>
<b>Yarrowitch</b> NSW, Australia	EL7972, ELA4807	Zodiac Resources Pty Ltd, Kimberley Diamonds Ltd
<b>Trillion Project</b> Ontario - Canada	3013698	Mantle Diamonds Canada Inc.
<b>Troy Creek</b> WA, Australia	E69/1729, E69/ 2357, E69/2358, P69/45, E69/2903, E69/2904, E69/2905, E69/2870, E69/2921, E69/2485, E69/2869	Zodiac Resources Pty Ltd
<b>South Tanami</b> NT, Australia	EL28787	Kimberley Diamonds Ltd
<b>Wilga Downs</b> NSW, Australia	EL7810	Zodiac Resources Pty Ltd
<b>Boomey</b> NSW, Australia	EL6567, ELA4334	Kimberley Diamonds Ltd
<b>Biscay</b> NSW, Australia	EL7889	Kimberley Diamonds Ltd
<b>Garland</b> NSW, Australia	EL7812	Kimberley Diamonds Ltd
<b>North Parkes East</b> NSW, Australia	EL7994, EL7995	Kimberley Diamonds Ltd
<b>Wyalong</b> NSW, Australia	EL7827, EL7828	Kimberley Diamonds Ltd

### 13. Corporate Directory

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<b>Directors</b>	Alexandre Alexander – Non-Executive Chairman Rupert Baring Noel Halgreen Mark Yumin Qiu Rodney Alan Sainty Yong Xiao
<b>Company secretary</b>	Laila Green
<b>Registered office</b>	Level 39, Australia Square Tower 264-278 George Street Sydney NSW 2000 Tel: +61 2 8243 7500 Fax: +61 2 8243 7599
<b>Principal place of business</b>	Level 39, Australia Square Tower 264-278 George Street Sydney NSW 2000
<b>Share register</b>	Boardroom Pty Limited Level 7 207 Kent Street Sydney NSW 2000 Tel: +61 2 9290 9600
<b>Auditor</b>	Ernst & Young 11 Mounts Bay Road Perth WA 6000
<b>Solicitors</b>	Kemp Strang Level 17 175 Pitt Street Sydney NSW 2000
<b>Stock exchange listing</b>	Kimberley Diamonds Ltd shares are listed on the Australian Securities Exchange (ASX code: KDL)
<b>Website address</b>	<a href="http://www.kdl.com.au">www.kdl.com.au</a>





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Kimberley Diamonds Ltd

# Annual Report 2014

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