Kimberley Diamonds Ltd

ABN 95 150 737 563

Half Year Report – 31 December 2014

Kimberley Diamonds Ltd
Directors' Report
31 December 2014

The Directors present their report, together with the financial statements, on Kimberley Diamonds Ltd ('KDL' or 'the Company') and the entities it controlled (referred to hereafter as the 'Group') for the half year ended 31 December 2014 and the auditors report thereon.

DIRECTORS

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

Name	Period of Directorship
Alexandre Alexander *Non-Executive Chairman*	Director since May 2011
Noel Halgreen *Managing Director*	Director since May 2014
Rodney Sainty *Executive Director*	Director since February 2012
Yong Xiao *Non-Executive Director*	Director since March 2012
Rupert Baring *Non-Executive Director*	Director since March 2014
Mark Yumin Qiu *Non-Executive Director*	Director since February 2012, removed on 26 November 2014

OPERATING AND FINANCIAL REVIEW

Principal Activities

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

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

Operating Results

The loss for the Group after providing for income tax and non-controlling interest amounted to $9.3m (31 December 2013: loss of $6.9m).

Financial Performance

Net Assets
Net assets of the Group have reduced by $7.7m to $9.1m during the reporting period.

Cash Balance
The Group finished the half year with $1.8 million of cash in the bank as at 31 December 2014. Cash from our operating activities was AUD ($8.5) million and loss before tax was AUD 9.3 million.

Sales of Diamonds
The sales of diamonds from our Ellendale mine in Western Australia have to date been our sole source of revenue. Sales of both of our fancy yellow diamonds sold under an exclusive life of mine off-take agreement and our commercial quality diamonds sold at auction, generated a total sales of 49,107 carats in the half year to 31 December 2014 for a total sales value of USD 34.3 million.

Review of Operations

A summary of the key points for the six months ending 31 December 2014 are listed below:

(a) Corporate

- Mrs Laila Green was appointed Chief Financial Officer and Company Secretary in July 2014.
- Mr Deon Vermeulen was employed as the Project Manager for the Lerala Diamond Mine in August 2014.
- During the half year, the Company received notices from shareholders under sections 203D, 249D and 249N of the Corporations Act to remove certain directors. At the Company's AGM on 26 November 2014, Mr Mark Qiu was removed from the Board. All other directors in respect of whom these resolutions applied were voted by shareholders to remain on the Board.
- During the reporting period, KDL closed its Perth office as part of its cost savings initiatives, making 9 positions redundant and resulting in approximately $1.2m of annual costs savings to the Company.
- During the reporting period, KDL undertook a non-renounceable pro-rata rights issue offer of 1 new KDL ordinary share for each 2 KDL ordinary shares held at the record date, with an issue price of $0.19 per new share. KDL issued 415,662 new shares as part of this rights issue.

(b) Operations & Sales

- KDL ceased mining the Ellendale E9 pipe in Q1/FY2015 and is processing stockpiles.
- Total sales of 49,107 carats in the half year to 31 December 2014 for a total sales value of USD 34.3 million.
- During the half year, Consulmet (Pty) Ltd ('Consulmet') completed the detailed design work at the Lerala Diamond Mine required for the proposed modifications of the plant.
- KDL is in the process of tendering for the mining contract at Lerala.
- The Botswana Department of Environmental Affairs ('DEA') approved and completed the transfer of the authorisation of the previously approved Environmental Impact Assessment ('EIA') from DiamonEx Botswana to Lerala Diamond Mines Ltd ('Lerala').

- Consultations with the community at Lerala were completed during Q2/FY2015, with positive feedback being received.

(c) Exploration

- On 2 July 2014, the Company entered into a Farm-In and Joint Arrangements Agreement with Tilwane Services (Pty) Ltd, a Botswana based exploration company, in respect of two tenements located in north-eastern Botswana.
- The Company was awarded 100% of the rights to the Lomero-Poyatos gold-rich massive sulphide deposit in Spain, through a competitive tender process run by the regional government of Andalusia in October 2014.
- Exploration data was reviewed to support tenement renewal and the design of a forward work programme at the Yeoval Copper-Gold Project in Central NSW.
- A geophysical survey utilising induced polarization was designed to investigate the doughnut-shaped magnetic anomaly previously identified in the southern portion of EL 6311 at the Yeoval Copper-Gold Project in Central NSW.

Projects

(a) Lerala Diamond Mine (KDL 100%)

Lerala Diamond Mines Ltd ('Lerala') is the owner of the Lerala Diamond Mine which is situated in north-east Botswana, approximately 34km north of the Martin's Drift Border Post with South Africa. Lerala is a wholly owned subsidiary of Mantle Diamonds Ltd ('Mantle'), which KDL acquired in February 2014. The Lerala Diamond Mine is currently in the process of being re-commissioned, and subject to obtaining the necessary funding, environmental approvals and modifications to the plant, Lerala is currently intending production to commence in the first half of FY2016.

Prior to the re-commement of mining, KDL is looking to modify the plant at the Lerala Diamond Mine to enable the plant to reliably treat 200 tonnes per hour. Once in production, the Lerala Diamond Mine has a forecasted mine life of 7 years treating 1.4 million tonnes of ore per annum and producing an average of 357,000 carats per year. A 15% portion of this production forecast consists of tonnes considered to be an exploration target. The potential quantity and grade of an exploration target is conceptual in nature, there has been insufficient exploration to determine a mineral resource and there is no certainty that further exploration work will result in the determination of mineral resource or that the production target itself will be realised in the case of these tonnes.

KDL engaged Consulmet to undertake the detailing and design work required for the modifications of the plant at Lerala Diamond Mine, which it completed during the period. The engagement of Consulmet was the first step in re-commissioning the plant and recommencing mining at Lerala. The Company is in advanced discussions with Consulmet to undertake the required plant modifications on a Lump Sum Turn Key basis.

The Botswana DEA has approved and completed the transfer of the authorisation of the previously approved EIA from DiamonEx Botswana (a previous owner of the Lerala Diamond Mine) to Lerala Diamond Mines Ltd, KDL's Botswana subsidiary and the current owner of the Lerala Diamond Mine. The transfer of this existing EIA permits KDL to undertake the planned upgrade of the plant, site infrastructure and the tailings storage facilities at the Lerala Diamond

Mine. It is expected a new EIA will be obtained in May 2015, which should allow KDL to re-commence production at the Lerala Diamond Mine.

Legal proceedings between Mantle and Sayona Mining Ltd (ASX:SYA) ('Sayona'), which related to Mantle's original acquisition of Lerala, have been settled by agreement between Sayona, Mantle and Kimberley. KDL inherited these proceedings, which were ongoing when it acquired Mantle in February 2014. The settlement included a mutual release of claims by the parties and payment by Mantle to Sayona of cash and scrip in KDL to an aggregate value of USD$340,000, which was paid during the period.

During the half year to 31 December 2014, KDL has expended $690k on costs relating to re-commissioning the Lerala Diamond Mine.

(b) Ellendale Diamond Project (KDL 100%)

Kimberley Diamond Company NL ('KDC'), KDL's wholly owned subsidiary, is the owner and operator of the Ellendale Diamond Mine, which is situated approximately 120km east of Derby, in the West Kimberley Region of Western Australia. The resource comprises three lamproite pipes, known as E9, E4 and E4 Satellite and associated stockpiles at E9 and E4. Current processing operations are ongoing at E9. The E4 operation was placed on care and maintenance in 2009 and E4 Satellite has not been mined to date.

Mining at Ellendale E9 pipe ceased in Q1/FY2015, with KDC currently processing stockpiles. During the half year to 31 December 2014, a total of 1.91 million tonnes of ore was treated, yielding 45,566 carats at an average grade of 2.39 cpht for the period (compared to an average grade of 2.47 cpht for the comparative half yearly period ending 31 December 2013). Management cost saving initiatives implemented have resulted in operating cash costs being significantly lower than budget.

The Ellendale Indigenous Land Use Agreement ('ILUA') with the Bunuba People, was registered by the National Native Title Tribunal (NNTT) on 18 August 2014. The ILUA, signed on 23 December 2013, records the relationship between KDC, Blina Minerals NL, the State of Western Australia, the Bunuba People and the Bunuba Dawangarri Aboriginal Corporation RNTBC in relation to the Ellendale project and provides the parties with streamlined native title processes within the ILUA boundary.

(c) Smoke Creek Alluvial Diamond Project (KDL 100%)

KDL owns the Smoke Creek Alluvial Diamond Project in the east Kimberley region of Western Australia. Smoke Creek remained under care and maintenance throughout the period.

(d) eDiamond Belgium BVBA (KDL 100%)

KDL owns eDiamond BVBA in Antwerp, Belgium, a marketing office for rough diamonds that uses an independent online trading platform for rough diamond sales. KDL conducts its commercial goods sales through eDiamonds' online trading platform.

(e) Botswana Joint Arrangements (KDL 50%)

On 2 July 2014, Lerala entered into a Joint Arrangements with Tilwane Services (Pty) Ltd, under which Lerala has the right to earn up to a 70% interest in two exploration tenements located in north-eastern in Botswana.

Lerala has commenced work on the Joint Arrangements, with soil geochemistry sampling currently being undertaken. Fifteen aeromagnetic anomalies were selected for follow-up by ground magnetic surveys and soil geochemistry sampling based on a combination of the magnetic signature and association with historical heavy mineral occurrences. Preliminary results for thirteen of these blocks have been received, showing an improved definition of the targets.

Confirmation of the geological source of the targets will be supported by modelling of the magnetic data and interpretation of the soil geochemistry data using techniques developed at our Ellendale project. The most promising of the targets will then be selected for diamond core drilling to confirm the presence of Kimberlite.

During the half year to 31 December 2014, KDL has expended $86,000 on costs relating to this Joint Arrangements.

(f) Copper-Gold Exploration Tenements

KDL has a number of copper-gold exploration tenements in its asset portfolio, which, as previously announced to the market, it intends to spin out into a new entity in the future. Existing KDL shareholders would be given shares in the new entity through an in specie distribution, with the new entity to be listed in due course. KDL is in the process of reviewing the options available to it to undertake the proposed spin-off. KDL currently intends to undertake this spin-off in the next 12 months, and will keep shareholders updated as to its progress.

The update in respect of each of KDL's copper-gold assets for the half year to 31 December 2014 are set out below. During the half year to 31 December 2014, KDL has expended $125k on costs relating to all copper-gold projects.

Lomero-Poyatos Copper-Gold Deposit (KDL 100%)

In October 2014, KDL was awarded 100% of the rights to Investigation Permit No. 14.977, a package of tenements covering the gold-rich Lomero-Poyatos massive sulphide deposit, located within the Iberian Pyrite Belt, Spain's premier mining district. KDL was awarded the rights to these tenements through a competitive tender process run by the regional government of Andalusia and was not required to pay any consideration upfront. To maintain the rights to these tenements, KDL is required by the Andalusian government to spend €400,000 on exploration expenditure in Year 1 and a further €5 million spread over Years 2 and 3.

Yeoval Copper-Gold Project, Central NSW (Zodiac 75%)

Exploration data was reviewed to support tenement renewal and the design of a forward work programme. A geophysical survey utilising induced polarization (IP) was designed to investigate the doughnut-shaped magnetic anomaly previously identified in the southern portion of EL 6311. However, funding constraints prevented this programme being undertaken.

Calarie Copper-gold Exploration Project, NSW (KDL 75%)

The Calarie Copper-gold Project, where KDL is earning a 75% interest, includes the historic Lachlan Mine which operated between 1896 and 1906. No work was undertaken during the period under review.

Significant Changes in the State of Affairs

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8 of this combined report and forms part of the Directors' Report for the half-year ended 31 December 2014.

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

On behalf of the Directors

Noel Halgreen
Managing Director
Sydney, 13 March 2015

Competent Person's Statement

The information in this report that relates to Production Targets at the Lerala Diamond Mine is extracted from the announcement titled "Investor Presentation – August 2014" created on the 20 August 2014 and available to view on www.asx.com.au. The Company confirms that all the material assumptions underpinning the Production Target have not materially changed.

Kimberley Diamonds Limited
Half Year Financial Report
31 December 2014

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Kimberley Diamonds Limited
Half year consolidated statement of comprehensive income
For the half year ended 31 December 2014

	Note	Half year ended 31 December 2014 $'000	Half year ended 31 December 2013 $'000
Revenue		34,273	39,245
Cost of sales		(35,610)	(37,483)
Gross profit / (loss)		(1,337)	1,762
Royalties and selling costs		(2,394)	(2,592)
Administration expenses		(5,835)	(4,263)
Share based payment expense		28	(1,251)
Foreign exchange gain		284	131
Impairment of exploration assets		-	(137)
Other operating expenses		-	(1)
Operating loss		(9,254)	(6,351)
Finance costs		(10)	(538)
Loss before income tax expense		(9,264)	(6,889)
Income tax expense		-	-
Loss after income tax expense for the period		(9,264)	(6,889)
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences – foreign operations		1,297	9
Total other comprehensive income for the period		-	9
Total comprehensive loss for the period		(7,967)	(6,880)
Profit/ (loss) for the period is attributable to:			
- Non-controlling interest		2	(13)
- Owners of Kimberley Diamonds Ltd		(9,266)	(6,876)
		(9,264)	(6,889)
Total comprehensive loss for the period is attributable to:			
- Non-controlling interest		2	(13)
- Owners of Kimberley Diamonds Ltd		(7,969)	(6,867)
		(7,967)	(6,880)
		Cents	**Cents**
Basic loss per share	9	(8.83)	(9.13)
Diluted loss per share	9	(8.83)	(9.13)

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

Kimberley Diamonds Limited
Half year consolidated statement of financial position
As at 31 December 2014

	Note	31 December 2014 $'000	30 June 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	4	1,811	13,417
Trade and other receivables		1,916	2,731
Inventories	6	15,652	15,100
Total current assets		19,379	31,248
Non-current assets			
Non-current receivables		29	65
Property, plant and equipment	7	30,781	31,777
Other	7	754	2,999
Total non-current assets		31,564	34,841
Total assets		50,943	66,089
Liabilities			
Current liabilities			
Trade and other payables		10,355	16,274
Interest bearing loans and borrowings		238	1,080
Provisions		1,710	2,102
Interest tax liability		2	7
Total current liabilities		12,305	19,463
Non-current liabilities			
Interest bearing loans and borrowings		-	283
Non-current provisions		29,546	29,508
Total non-current liabilities		29,546	29,791
Total liabilities		41,851	49,254
Net assets		9,092	16,835
Equity			
Issued capital	8	35,885	35,661
Other contributed equity		201	201
Reserves		6,168	4,871
Accumulated losses		(33,122)	(23,856)
Equity attributable to the owners of Kimberley Diamonds Ltd		9,132	16,877
Non-controlling interest		(40)	(42)
Total equity		9,092	16,835

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

Kimberley Diamonds Limited
Half year consolidated statement of changes in equity
For the half year ended 31 December 2014

	Issued capital $'000	Other contributed equity $'000	Reserves $'000	Foreign currency translation reserve $'000	(Accumulated losses)/ retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2013	9,771	201	923	-	1,812	(25)	12,682
Loss after income tax expense for the period	-	-	-	-	(6,876)	(13)	(6,889)
Other comprehensive income for the period, net of tax	-	-	-	9	-	-	9
Total comprehensive income for the period	-	-	-	9	(6,876)	(13)	(6,880)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	10,260	-	-	-	-	-	10,260
Share-based payments	-	-	1,251	-	-	-	1,251
Dividends paid	-	-	-	-	(1,492)	-	(1,492)
Balance at 31 December 2013	20,031	201	2,174	9	(6,556)	38	15,821
Balance at 1 July 2014	35,661	201	5,107	(236)	(23,856)	(42)	16,835
Loss after income tax expense for the period	-	-	-	-	(9,266)	2	(9,264)
Other comprehensive income for the period, net of tax	-	-	-	1,297	-	-	1,297
Total comprehensive income for the period	-	-	-	1,297	(9,266)	2	(7,967)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	224	-	-	-	-	-	224
Share-based payments	-	-	-	-	-	-	-
Balance at 31 December 2014	35,885	201	5,107	1,061	(33,122)	(40)	9,092

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

Kimberley Diamonds Limited
Half year consolidated statement of cash flows
For the half year ended 31 December 2014

	Note	Half year ended 31 December 2014 $'000	Half year ended 31 December 2013 $'000
Cash flows from operating activities			
Receipts from customers		34,029	41,931
Payments to suppliers and employees (inclusive of GST)		(42,561)	(37,310)
Proceeds from other income		-	4
Interest received		21	79
Interest paid & other finance cost		(11)	(153)
Net cash (used in) / from operating activities		(8,522)	4,551
Cash flows from investing activities			
Net cash acquired on acquisition of subsidiary		-	20
Payments for property, plant and equipment	7	(281)	(1,905)
Payments for exploration and evaluation	7	(1,940)	(4,214)
Proceeds from / (payment) for security deposits		-	40
Refund of environmental bonds		-	12,149
Net cash (used in) / from investing activities		(2,222)	6,090
Cash flows from financing activities			
Proceeds from issue of shares		224	10,800
Share issue transaction costs		(55)	(540)
Dividends paid		-	(1,492)
Repayment of borrowings		(1,043)	(10,903)
Payments to related parties		-	(21)
Net cash used in financing activities		(874)	(2,156)
Net (decrease) / increase in cash and cash equivalents		(11,618)	8,485
Cash and cash equivalents at the beginning of the financial period		13,417	8,830
Effect of exchange rates on cash holdings in foreign currencies		12	26
Cash and cash equivalents at the end of the financial period	4	1,811	17,341

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

1. Corporate information

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

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

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

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

Basis of preparation

The half-year Financial Report is a general purpose condensed financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

The half-year Financial Report does not include all notes of the type normally included within the Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Annual Financial Report.

The half-year Financial Report should be read in conjunction with the Annual Financial Report of Kimberley Diamonds Ltd as at 30 June 2014.

It is also recommended that the half-year Financial Report be considered together with the public announcements made by Kimberley Diamonds Ltd during, and since, the half-year ended 31 December 2014 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The half-year Financial Report has been prepared on a historical cost basis and in Australian dollars.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position (including its cash flows and liquidity position) are set out in the Operating and Financial review section of the directors' report.

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 outflows from operating activities of $8,522,000, net cash outflows from investing activities of $2,222,000 and net cash outflows from financing activities of $874,000. In addition, the Group incurred a net loss of $9,264,000 for the half year ended 31 December 2014. At 31 December 2014, the cash and cash equivalents balance was $1,811,000.

The Group ceased mining at its E9 mine at Ellendale during Q1/FY2015 and is now processing stockpiles.

During the year ended 30 June 2014, the Group acquired Mantle Diamonds Ltd (which includes the Lerala Diamond Mine in Botswana) and the Smoke Creek Alluvial Diamond Project. These projects will require significant capital outlay in order to bring them into production and realise the full potential of these assets. In addition, the life of mine plans approved by the board also indicate that, a significant capital outlay will also be required to bring the E4 and E9 processing plant at Ellendale back in to production and realise the full potential of these assets.

Notwithstanding the above, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis taking into account to the following matters:

The Group entered into a binding subscription agreement with Foch Investment Holding Group Co Ltd (Foch), an institutional investor in China, for the placement of 23 million shares to raise $4.4 million during the half year. As announced on 8 January 2015, Foch requested for an extension of time to enable it receive the required statutory approvals in China to complete the placement transaction. In addition, to the binding subscription agreement with Foch, the directors have also been in discussions with a number of other parties in relation to the funding of the Group's capital expenditure and working capital requirements.

The directors recognize the need to raise further additional funds via equity raisings or borrowing facilities in order to fund the future capital expenditure and working capital requirements over the short to medium term. The directors are satisfied they will be able to raise additional capital as required and thus it is appropriate to prepare the financial statements on a going concern basis.

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 liabilities that might be necessary should the Group not be able to continue as a going concern.

Changes in accounting policies, disclosures, standards and interpretations.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2014.

The Group applied, for the first time, all new and revised standards and interpretations which are effective from 1 July 2014 including:

Remove Individual Key Management Personnel Disclosure Requirements – Amendments to AASB 124

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. This amendment has resulted in reduced disclosures in the Group's financial statements.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to AASB 136

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. This amendment has resulted in increased disclosures in the Group's financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to AASB 132

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

AASB Interpretation 21 Levies

AASB Interpretation 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for AASB Interpretation 21. This interpretation has no impact on the Group.

3. Segment information

	Diamond mining $'000	Exploration and corporate $'000	Consolidated $'000
31 December 2014			
Revenue			
External customers	33,788	168	33,956
Interest revenue	10	307	317
	33,798	475	34,273
Segment result	(4,241)	(5,025)	(9,264)
Depreciation and amortisation	4,034	21	4,055
Assets	26,226	24,717	50,943
Liabilities	38,300	3,551	41,851
Capital expenditure for the period ended 31 December 2014	-	754	754
31 December 2013			
Revenue			
External customers	39,166	-	39,166
Interest revenue	62	17	79
	39,228	17	39,245
Segment result	(4,218)	(2,671)	(6,889)
Depreciation and amortisation	3,015	3	3,018
30 June 2014			
Assets	32,637	33,452	66,089
Liabilities	44,200	5,054	49,254
Capital expenditure for the period ended 31 December 2013	6,010	105	6,115

4. Cash and cash equivalents

	31 December 2014 $'000	30 June 2014 $'000
Cash at bank and on hand	1,811	13,417
	1,811	13,417

5. Financial instruments

	31 December 2014	30 June 2014
Financial instruments included in the half year consolidated statement of financial position	$'000	$'000
Cash and cash equivalents	1,811	13,417
Trade and other receivables	1,916	2,731
Trade and other payables	10,355	16,274

The fair value of financial assets and financial liabilities of the Group approximate their carrying value.

6. Inventories

	31 December 2014 $'000	30 June 2014 $'000
Ore stockpiles - net realisable value	6,098	4,987
Diamond inventory - net realisable value	6,250	6,525
Stores stock	3,304	3,588
	15,652	15,100
Net realisable value write down	2,223	1,928

7. Property plant and equipment

During the six months ended 31 December 2014, the Group spent $0.3m (six months ended 31 December 2013: $1.9m) on property plant and equipment and $1.9m (six months ended 31 December 2013: $4.2m) on mine development and exploration at its Ellendale diamond mining operations. In addition, the Group incurred capital expenditure of $0.8m (six months ended 31 December 2013: $0.1m) at its other exploration businesses.

Impairment assessment of non-current assets

In accordance with the Group's accounting policies and processes, non-financial assets are reviewed at each reporting period to determine whether there is an indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

The gross loss for the year is considered to be an indicator of impairment. Accordingly, the Group carried out recoverable amount assessments for all of its cash generating units ("CGUs").

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 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 dispose ('fair value'). The costs to dispose 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. The fair value methodology adopted is categorised as Level 3 in the fair value hierarchy.

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 31 December 2014 carrying value assessments for each respective CGU were as follows:

	Ellendale	**Lerala**
Diamond price range - Non-commercial diamonds	US$5,063 - US$7,673/carat	N/A
Diamond price range - Commercial diamonds	US$190 - US$278/carat	US$99 - US$153/carat
Discount rate (post-tax)	8.5%	12%
AUS:USD exchange rate range	0.78 - 0.82	0.78 - 0.82

Diamond price and foreign exchange rates are estimated with reference to external market forecasts, and updated at least twice 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.

The recoverable amount of the Ellendale and Lerala CGUs exceeded the carrying values of the CGUs by $11,050,000 and $34,513,000 respectively.

It is estimated that changes in the key assumptions would have the following approximate impact on the excess of the recoverable amount over the carrying value (as detailed above) of each CGU in its functional currency that has been subject to impairment testing in the current financial year:

Ellendale CGU

	$'000 +	$'000 -
10% change in USD diamond price growth rate per carat	1,868	1,875
200 basis points change in discount rate (post-tax)	3,166	2,844
3.5c change in AUS:USD exchange rate	10,419	9,380
5% change in operating and capital costs	18,741	9,493
1 year delay in recommencement of production at E4	N/A	3,561

Lerala CGU

	$'000 +	$'000 -
10% change in USD diamond price growth rate per carat	4,507	4,492
200 basis points change in discount rate (post-tax)	7,614	6,675
3.5c change in AUS:USD exchange rate	2,657	2,577
5% change in operating and capital costs	6,400	6,574
1 year delay in recommencement of production at Lerala	N/A	7,503

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 US$ diamond price has been accompanied with a decline in the A$ compared to the US$). 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.

	31 December 2014 $'000	30 June 2014 $'000
8. Issued capital		
Fully paid ordinary shares – 105,740,349 shares (30 June 2014 : 104,203,915)	35,885	35,661

Movements in ordinary share capital

Details	**No of shares**	**$'000**
Balance at 1 July 2013	**74,614,742**	**9,771**
Equity placement	26,191,173	25,252
Share options exercised	3,398,000	1,178
Share issue costs	-	(540)
Balance at 30 June 2014	**104,203,915**	**35,661**
Movement in 1st half FY15		
Equity placement	1,536,434	224
Share options exercised	-	-
Balance at 31 December 2014	**105,740,349**	**35,885**

9. Earnings per share

	Half year ended 31 December	
	2014	**2013**
	$'000	**$'000**
Profit/ (loss) after income tax	(9,264)	(6,889)
Non-controlling interest	(2)	13
Profit/ (loss) after income tax attributable to the owners of Kimberley Diamonds Ltd	(9,266)	(6,876)

	Half year ended 31 December	
	2014	**2013**
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	104,945,444	75,347,526
Weighted average number of ordinary shares used in calculating diluted earnings per share	104,945,444	75,347,526
	Cents	**Cents**
Basic earnings per share	(8.83)	(9.13)
Diluted earnings per share	(8.83)	(9.13)

As their inclusion would be anti-dilutive, 19,500,000 (2013: 23,500,000) options over ordinary shares are excluded from the earnings per share calculation.

10. Contingent Liabilities

Legal proceedings between Mantle and Sayona Mining Ltd (ASX:SYA) ('Sayona'), which related to Mantle's original acquisition of Lerala, have been settled by agreement between Sayona, Mantle and Kimberley. KDL inherited these proceedings, which were ongoing when it acquired Mantle in February 2014. The settlement included a mutual release of claims by the parties and payment by Mantle to Sayona of cash and scrip in KDL to an aggregate value of USD$340,000, which was paid during the period.

Other than the above, there has been no significant change to contingent liabilities since 30 June 2014.

11. Commitments

In October 2014, KDL was awarded 100% of the rights to Investigation Permit No. 14.977, a package of tenements covering the gold-rich Lomero-Poyatos massive sulphide deposit, located within the Iberian Pyrite Belt, Spain's premier mining district. KDL was awarded these tenements through a competitive tender process run by the regional government of Andalusia. and not required to pay any consideration upfront. To maintain these tenements, KDL is required by the Andalusian government to spend €400,000 on exploration expenditure in Year 1 and a further €5 million spread over Years 2 and 3. Other than the above, there have been no significant changes to commitments since 30 June 2014.

12. Events after the reporting period

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Kimberley Diamonds Limited
Directors Declaration
For the half year ended 31 December 2014

In the Director's opinion:

- the attached half year consolidated financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting';

- the attached half year consolidated financial statements and notes thereto give a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and

- subject to achieving the matters set out in note 1 to the financial report, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

Noel Halgreen
Managing Director

13 March 2015
Sydney

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Independent auditor's report to the members of Kimberley Diamonds Limited

Report on the 31 December 2014 half-year financial report

We have reviewed the accompanying half-year financial report of Kimberley Diamonds Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 . As the auditor of Kimberley Diamonds Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. 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 review we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

FD.JH.KDL.042

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kimberley Diamonds Limited is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 2 in the financial report. These conditions along with other matters as set forth in Note 2 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.

Ernst & Young

Ernst & Young

Fiona Drummond
Partner
Perth
13 March 2015

FD:JH:KDL:042

Auditor's Independence Declaration

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

In relation to our review of the financial report of Kimberley Diamonds Limited for the half-year ended 31 December 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

Ernst & Young

Fiona Drummond
Partner
13 March 2015

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