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**POTENTIAL FOR DIAMOND-BEARING ALLUVIAL DEPOSITS AT LERALA**

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(ASX: KDL) Kimberley Diamonds Ltd is pleased to report that its geological team at the Lerala Diamond Mine in Botswana has found evidence for buried alluvial channels immediately adjacent to the diamond-bearing kimberlite pipes that host the Lerala diamond resource.

If the alluvial channels are confirmed to exist and found to contain significant quantities of diamonds, the life and overall value of the project may be increased.

The on-site team has commenced further investigations using mechanised equipment to dig pits in order to establish the overall extent and significance of the deposits. At this early stage, no diamonds have been observed, but observation of diamonds is expected only when a bulk sample is extracted and processed.

***Evidence for the alluvial channels***

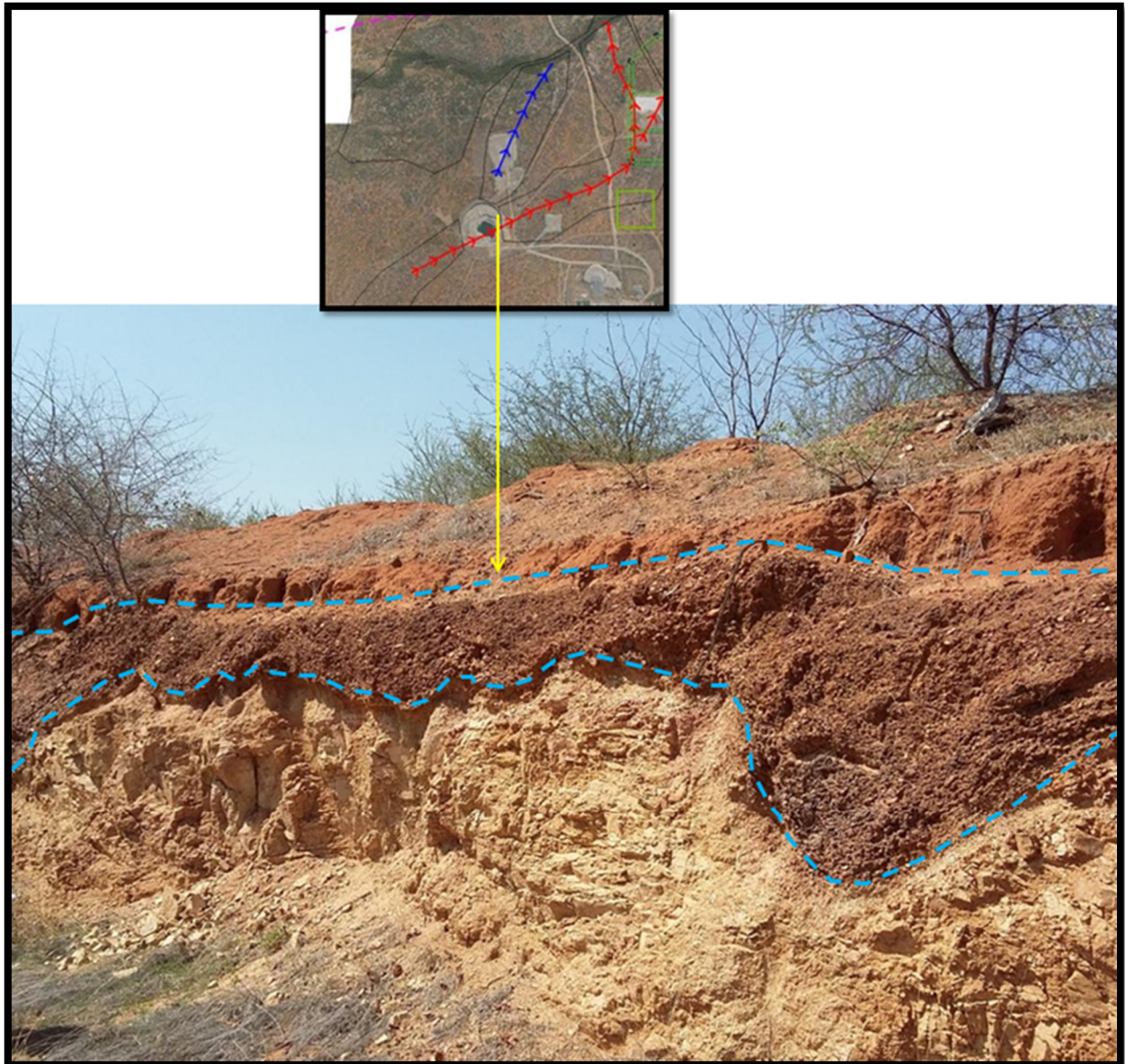
As part of preparation for re-commencement of mining at Lerala, detailed mapping was undertaken in and around the K3 pit. A continuous layer up to 1.5m thick of gravel lag containing occasional sub-rounded pebbles and boulders was identified on top of the gneissic bedrock and below 1.5m of soil on the eastern to north-eastern wall of the K3 pit (see photo on page 2).

Similar gravel layers containing sub-rounded pebbles and boulders were also identified at the K5 and K6 pipes.

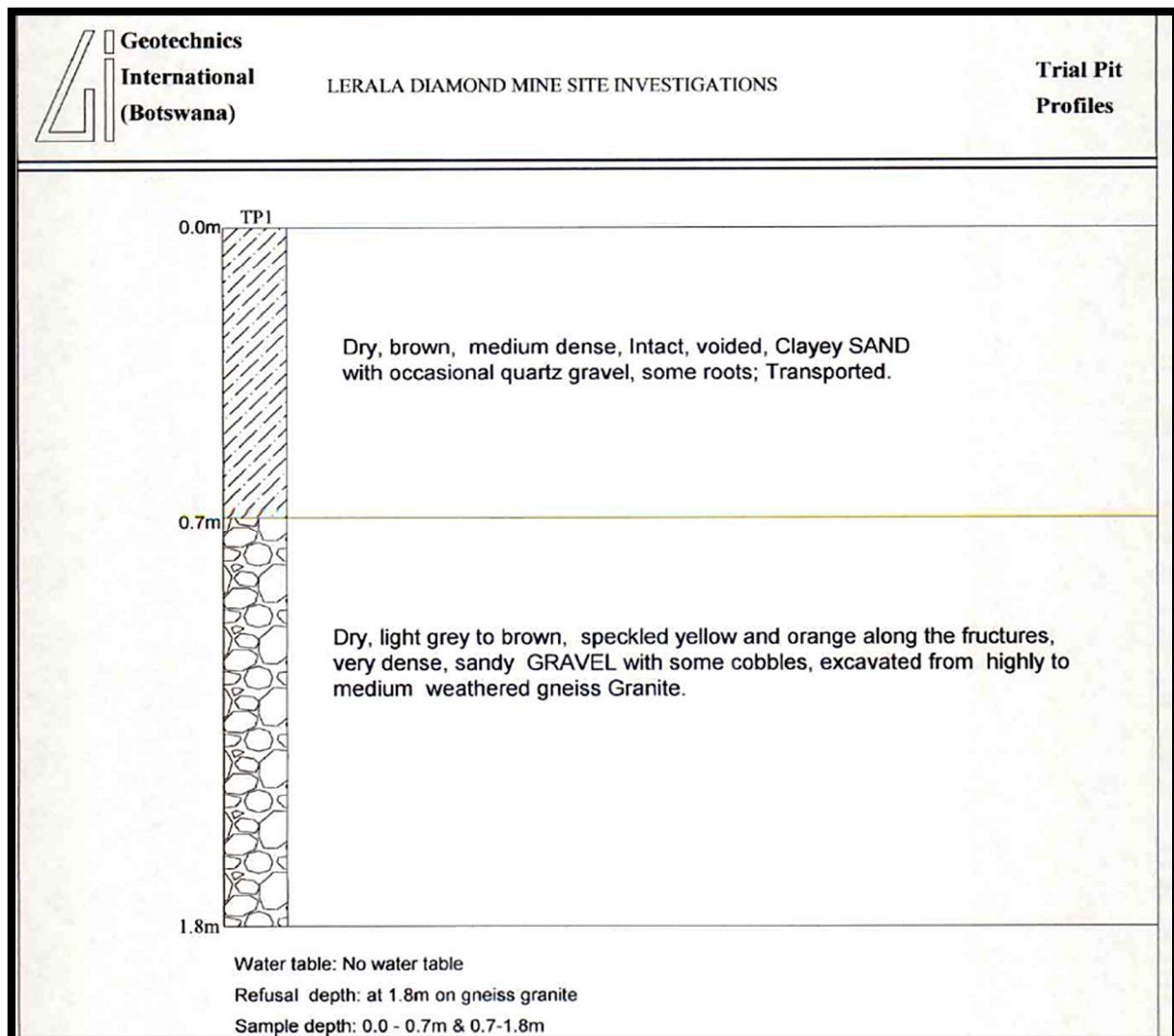
The rounded pebbles of orange quartz and red-brown quartzite and other rock types within the gravel layer are unrelated to the gneissic basement in the vicinity and suggest the layer is alluvial in origin.

Subsequent examination of readily available satellite imagery, aeromagnetic surveys and high resolution aerial photography yielded supporting evidence for channel-like features in the immediate vicinity of the kimberlite pipes. The location of these interpreted buried channels is indicated by the red arrows in the aerial photo on the following page.

Additional occurrences of cobble-bearing gravels were identified in test pits dug in 2014 as part of the geotechnical study for the proposed tailings dam. The test pitting conducted within that study identified gravels and cobbles at a number of sites within the proposed tailings dam footprint and in additional locations that match the target zones identified by the interpretation of imagery.



*Eastern sidewall of the K3 kimberlite pipe displaying a continuous basal gravel lag on top of an uneven surface of gneissic bedrock.*



*Geotechnical pit log for tailings dam construction from the October 2014 Lerala geotechnical report*

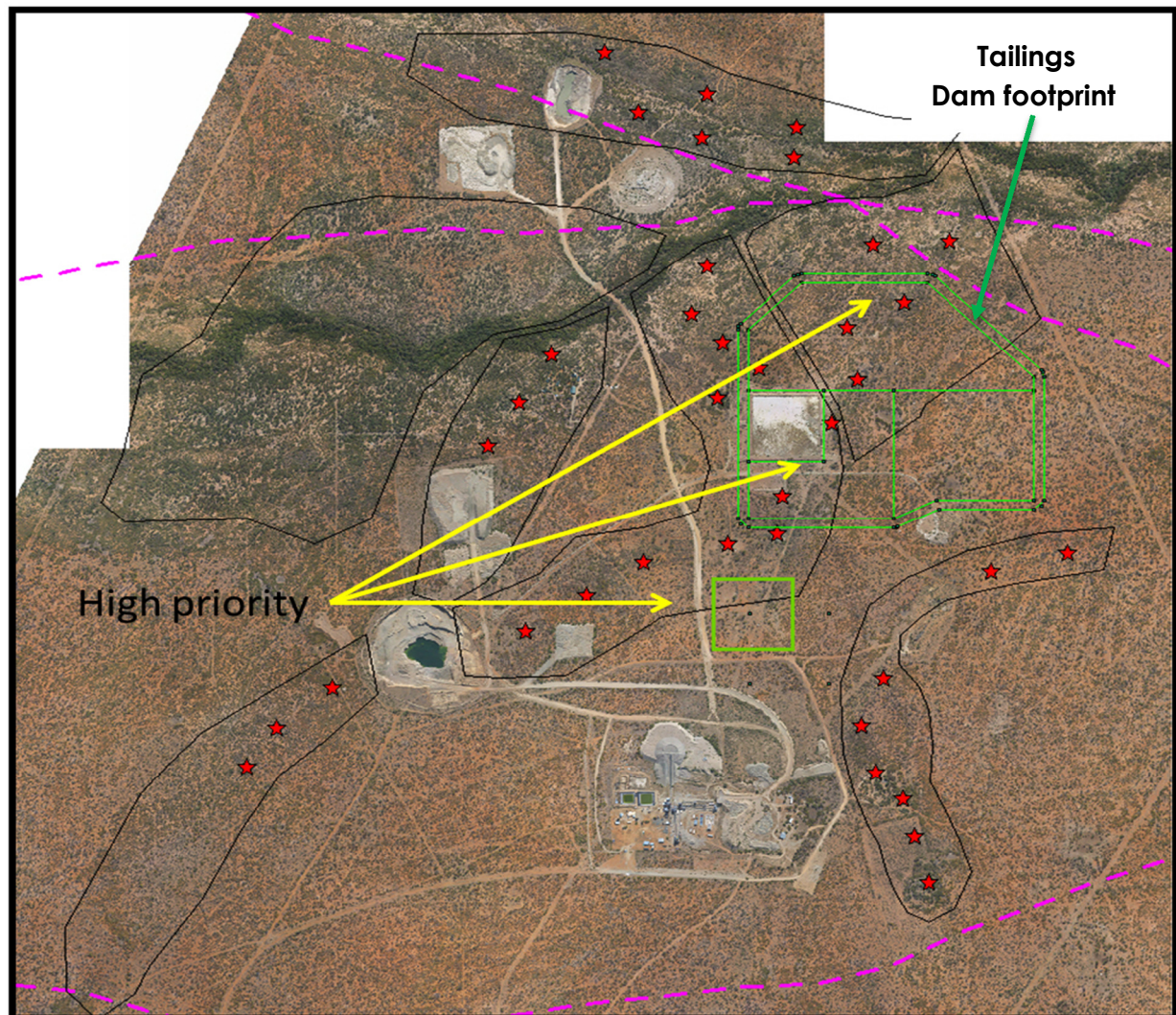
### ***Plans for further investigation***

The interpreted alluvial deposits underlie, in part, the area currently allocated to the proposed tailings dam. In order to avoid sterilising or reducing any potential future alluvial diamond resource within the proposed tailings dam footprint, KDL considers it prudent to thoroughly investigate the potential for an alluvial diamond deposit prior to the commencement of the construction of the tailings dam.

An exploration pitting programme has been designed and has already commenced in the high priority target areas to gain information that will increase our understanding of the extent and significance of the suspected paleochannel deposit in strategic areas.

The results of this programme and the potential impact on the project will be evaluated and a decision made on how best to proceed. Possible options include a decision to abandon these potential resources, or, alternatively, to mine and stockpile these deposits prior to construction of the tailings dam, or, potentially, to relocate the tailings dam.





*Proposed pitting positions in the highest priority areas, including tailings dam footprint*

### ***Impact on re-commissioning of the project***

The discovery of possible alluvial deposits adjacent to the diamond-bearing kimberlite pipes at Lerala is an exciting development and requires immediate investigation. Accordingly, the scheduled development of the new tailings dam, which is situated on two of the higher priority target areas (as shown above) has been delayed while the investigation is undertaken.

The delay to the construction of the tailings dam will impact the timeline for re-commissioning of the Lerala Diamond Mine and re-commencement of mining, although the extent of such impact cannot be determined until the investigation is complete and a decision is made on how to proceed. With the information currently available, management estimates that the delay is unlikely to exceed three months. KDL will further update the market once the outcome of the investigation is known and the full impact this new development will have on the timeline for the project.

While delaying the construction of the tailings dam will result in a delay to the re-commissioning and re-opening of the Lerala Diamond Mine, it is considered of greater long term benefit to the project and all stakeholders to fully explore these identified opportunities and avoid sterilising any possible resources which may have the potential to increase the life and value of the project.

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