

KDL AGM 25 November, 2015

Sydney, Australia

Good morning ladies and gentlemen.

It is my great pleasure to welcome you to your Annual General Meeting. Thank you for your attendance. This is our 3rd AGM and my second as Managing Director, and it is good to see a number of familiar faces in the room.

Putting health and safety first is not only one of our core values, it is at the heart of everything we do. Despite this, tragically one of our colleagues died at work this past year. On 10 June, 2015, 2 people were involved in an incident in the workshop area at our Lerala Mine in Botswana, where a crane tyre they were working on exploded, fatally injuring one person – Kabelo Lenkwetse, and causing serious injuries to another, his Supervisor, Isaac Manbalala. This death is a tragedy for Kabelo's family, friends and colleagues, and on behalf of the Board, I extend my deepest sympathy. All of us at KDL are redoubling our efforts to make sure our people return home, fit and well! Nothing is more important than the safety of our people.

I am pleased to be able to share with you today, some of the key events of the year, and offer my perspectives on the future prospects of your Company

There is no doubt that for KDL, it has been a year that saw some exceptional challenges.

- Your Company ceased mining operations at the Ellendale Diamond Mine's (Ellendale) E9 pipe, in September, 2014, and commenced the processing of stockpiles.
- The closure of the Perth corporate office in October/November, 2014 created some challenges, but there was never any doubt that the decision, as well as the timing thereof, was correct. Although we lost most of our staff, who were unable to make the transition - resourcing efforts, in the context of our new structure and future plans, were successfully executed. This has given the team the opportunity to establish all the controls we need for this new phase in your Company.
- Extensive work was undertaken by KDL's management team, to extend the economic viability of Ellendale, through increased efficiencies and focused cost reductions. The outcome of this work, resulted in your Company announcing that it would be able to continue processing operations into FY 2016.
- The Company announced, in April, 2015, that as part of its ongoing operations into FY2016, it planned to commence the processing of stockpiles from Ellendale's E4 pipe, which had been on care and maintenance since 2009. At that time, higher grades were expected from the E4 stockpiles, than those that were being recovered from the E9 stockpiles. It was anticipated that the E9 low grade ore stockpile would be depleted by May, 2015. At this stage it was foreseen that Ellendale would remain operational until at least December 2015.

Let us now fast forward to June this year.

- Your company had a diamond auction in Antwerp, Belgium, on 24 June, 2015. A few days before the auction, a large diamantaire in India, declared bankruptcy. This event had a major impact on the market and on our auction, resulting in a drop of almost 30% in the prices achieved at the auction, compared to the prices which had been achieved at the auction held in March, 2015. Up to this point, based on the prices achieved in the March, 2015 auction,

Ellendale could continue operating, as planned, until December, 2015. The significant reduction in prices achieved at the auction held on 24 June, 2015, which we had to assume would continue for the rest of 2015, resulted in Ellendale's financial models being reviewed. The net result of this review, was that Ellendale's subsidiary, Kimberley Diamond Company Pty Ltd (KDC), the holder of the Ellendale Mining License, was no longer financially viable. The KDC Board met, and resolved to place KDC into voluntary administration. KDC was formally placed into administration on 1 July, 2015.

- It's important to note, that whilst KDC had seen strong processing results at Ellendale in the months prior to being placed into voluntary administration and had initiated a number of successful cost cutting initiatives, KDC's revenues were also negatively impacted by lower recovered grades and lower size distributions, and, as a result, lower overall prices being realised. KDC was just not able to continue trading solvently and the board was left with no option but to place it into voluntary administration.
- In August, 2015, the creditors of KDC and its subsidiaries (KDCG), voted to place KDCG into liquidation and Jirsch Sutherland was appointed as the Liquidator. Your company put forward a Deed of Company Arrangement (DOCA) proposal, which in our view, was in the best interests of all creditors and likely to achieve a better outcome than liquidation, but unfortunately, the creditors did not vote in favour of the DOCA, and as a result, KDCG, is now in liquidation.

Despite the challenging headwinds of 2014, it has also been a year of significant progress and hard work.

To this end, key events, included:

- Your Company announcing, in October 2014, that it had been awarded an investigation permit, covering the gold-rich Lomero massive sulphide deposit, in Southern Spain. The Lomero Project is an important part of KDL's copper-gold strategy, which envisages the spin-out of a new company, focused on copper-gold. In due course, it is intended that the new company be listed and that existing KDL shareholders be given shares, through an in specie distribution. To ensure the best return for our shareholders, KDL intends undertaking this spin-off, when market conditions improve.
- Your Company successfully obtaining debt funding of AUD\$13m from a third party lender, which has allowed KDL to commence the Lerala Mine refurbishment. This has to be one of the highlights of 2015, as this was key to the company being able to take the major step to commence recommissioning of the Lerala Diamond Mine.

Lerala

- Lerala has become KDL's new operational focus, and when mining recommences, will become KDL's key source of revenue. To provide some context, KDL acquired Lerala in February 2014. The KDL Board approved expenditure of AUD\$14.6m, in order to implement modifications and new capital items, designed to lift plant capacity, to reliably treat 200 tonnes per hour – and achieve dramatically improved diamond recovery. Plant modifications are being done by Consulmet, a reputable, highly experienced South African-based engineering firm. The re-construction of the plant is currently scheduled to be completed in February, 2016, with recommissioning scheduled for April. Successful achievement of this timeframe is subject to a number of factors, including the procurement of additional funding. To date we have raised AUD\$13m. We currently require AUD\$1.5m to complete the capital project at the Lerala Mine,

an additional AUD\$2.2m for preproduction operating costs and UAD\$5.6m for working capital until the first diamonds are sold.

- It gives me great pleasure to announce that the Botswana Government has approved your company's environmental impact assessment. This was another highlight of 2015, as this was the final regulatory approval required before production can commence.
- The Lerela re-commissioning process is currently being funded by debt. Your Company continues to engage various third party investors to access additional funds required to complete the re-commissioning, as well as funds for ongoing operational costs, until diamond sales are able to provide sufficient cash flow to support operations.
- Once in production, Lerela is expected to produce an average of 357 000 carats per year, over a mine life of 7 years. This excludes any potential life extension that may come from further exploration in the Kimberlite pipes at Lerela, or from alluvial diamond deposits near these Kimberlite pipes, which is currently being investigated.

Botswana Joint Venture Arrangement

- In July 2014, Lerela entered into a joint venture arrangement with Tilwane Services Pty Ltd (Tilwane), in respect of 2 tenements located in north-eastern Botswana, close to the Orapa Diamond Mine. The entry into this joint arrangement, further highlights KDL's shift to focusing its operations to Botswana, one of the largest diamond producing countries in the world. At this point in time, Lerela, through project expenditure, has earned 50% interest in the joint arrangement, and the intention is to shift this to 70% over the next 18 months.

Corporate Governance

Good corporate governance is essential to long-term business success. It must also be seen to be in place – it should be well communicated and understood by our stakeholders inside and outside the company. Your Board continues to work towards improving our approach to governance.

At our AGM last year, I told you about the progress we had made in the area of Corporate Governance, and committed to continue focusing on further improvements.

During this past year KDL undertook a full review of its compliance with the revised ASX Corporate Governance Principles and Recommendations (as revised in 2014) and taken steps to improve compliance with the revised principles, including:

- a full review and overhaul of all corporate policies
- the development of a shareholder communication policy
- the development of a Board skills matrix, to determine areas of strength and weakness on the KDL Board
- the development and implementation of a director induction program for new directors

Future Outlook

I firmly believe that in times of change, it is important that companies focus on the long-term and stay true to a clear and consistent strategy – and this is what Kimberley Diamonds is doing.

It is clear that in the short term, we will continue to face challenging commodity markets as economic and geopolitical uncertainty continues.

China is now experiencing slower, but still significant, economic growth – as it rebalances its economic priorities from investment towards consumption. All of this impacts on the world that we trade in.

However, we should not lose sight of the longer-term drivers of our industry.

Let us keep in perspective that:

- across the globe, 70 million people each year, are entering the middle class;
- the Chinese economy is almost 25 times the size it was 25 years ago; and
- over the next decade, it is expected that 170 million rural Chinese, will move into an urban environment.

The fortunes of the mining industry have always been linked to increasing development and prosperity, and this will remain the case – regardless of short-term dynamics. Our sector, the resources sector, is cyclical by nature, which means that our business is exposed to factors largely beyond our control, such as commodity prices and foreign exchange rates.

If one looks at the Diamond Market, despite the current volatility in prices for both rough and polished diamonds, we remain positive in our medium- to long-term outlook. With diminishing supply from mature mines, many industry participants and observers are forecasting that supply will start declining and a consequential growing gap between supply and demand will result in increased diamond prices, in the medium to long term.

Our aim – is to make sure that we are well positioned to deliver value, through the cycle.

Let me assure you that your Board, management and all our people are committed to delivering sustainable returns to you, our shareholders.

Our strategy, to create long-term shareholder value, through our efforts to continuously identify undervalued assets, with upside opportunities and acquiring them at prices that add value for our shareholders, has served us well. We now also have the operational and technical capability to add further value when we identify opportunities. We will therefore continue to search for these opportunities in order to grow your Company further.

I am confident that this strategy, executed by some of the best people in the industry, will help us turn volatility and uncertainty in the market, into opportunity.

Delivering shareholder value is at the centre of our strategy and will remain our core focus.

We have a top class management team. Together this team leads our hard working, well trained and dedicated employees. All of them have a clear sense of purpose and are guided by a clear set of values.

On behalf of the Board, I would like to thank you for your continued support.

I would also thank the Chairman and Board for their guidance and my management team and employees, for their tireless efforts, which do not go unnoticed.

Ladies and gentlemen, thank you for your attention.

Noel Halgreen