

**Kimberley Diamonds Ltd**

ACN 150 737 563

Level 39 Australia Square Tower

264-278 George Street

Sydney NSW 2000

**ASX:KDL**

T: 61 2 8243 7500

F: 61 2 8243 7599

[www.kdl.com.au](http://www.kdl.com.au)

## 1 BACKGROUND

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Kimberley Diamonds Ltd (**KDL**) (ASX: KDL) is the owner of the Lerala Diamond Mine (**Lerala Diamond Mine** or **Lerala**), located in north-eastern Botswana. Lerala was acquired by KDL in February 2014 when KDL acquired 100% of the issued share capital of Mantle Diamonds Mines Ltd (**Mantle**).

The Lerala Diamond Mine comprises a cluster of five diamond-bearing kimberlite volcanic pipes, designated K2 to K6, and a processing plant with a nominal capacity of 200 tonnes per hour (tph). The project area is covered by a 15 year fully permitted mining lease with an area of 21.86km<sup>2</sup>.

Mantle operated the Lerala Diamond Mine between February and July 2012 but a range of technical factors in the processing plant resulted in poor recovery of diamonds.

Following its acquisition of the Lerala Diamond Mine, KDL engaged Consulmet, a leading South African mining engineering company with extensive diamond plant experience, to redesign sections of the processing plant to facilitate dramatically improved diamond recovery and throughput reliability. Consulmet is currently undertaking the refurbishment and upgrade of the processing plant under a lump sum turnkey contract. Subject to project funding, KDL intends to re-commission the plant and re-commence mining during the first half of calendar year 2016.

Elsewhere in Botswana, KDL holds a 50% interest in two exploration tenements through a Joint Venture with Tilwane Services (Pty) Limited in which it holds a right to earn an additional 20% interest. KDL also holds interests in diamond tenements in Canada.

In gold and copper-gold, KDL was awarded the Investigation Permit covering the former Lomero mine in Andalusia, Spain in October 2014 and has commenced its initial investigations of that mineral deposit to determine the potential for a re-development of mining. In addition, KDL's unlisted subsidiary Zodiac Resources holds a 75% interest in the Yeoval porphyry-style copper-gold deposit located in central New South Wales.

## 2 CORPORATE

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### 2.1 LERALA DIAMOND MINE PROJECT UPDATE

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During Q2 FY2016 (the **Quarter**), significant progress was achieved in the refurbishment of the Lerala processing plant. In particular:

- all major concrete footings and construction items (“civils”) for new plant modules were completed;
- the steel frameworks were installed for the primary crusher, primary scrubber and secondary cone crusher;
- the secondary cone crusher was installed and its surge bin relocated; and
- fabrication of all new components was nearly complete at the end of the Quarter, and many of those components had been transported to site.



Figure 1: The new Kawasaki secondary cone crusher (foreground) and the relocated surge bin and conveyor plinths (background).





Figure 2: The new platform for the primary scrubber (left foreground) ready to accept the scrubber shell, the primary crusher (rear) and the refurbished conveyor (right foreground).

At 31 December, KDL has paid Consolmet A\$8.53 million, or 90% of the total contract commitment of A\$9.43 million (OANDA Exchange Rate as at 31.12.15 of R11.33/A\$ on unpaid balance).

All refurbishment activities continue to progress on schedule. However, as reported previously, the construction of the tailings dam was delayed while the assessment of the alluvial channel deposits was completed. Accordingly, and subject to funding, plant commissioning has been rescheduled and is currently anticipated to commence in April 2016.



Figure 3: New concrete footings completed and ready for the erection of the new 400 tonne capacity DMS surge bin

### ***Mining Contract***

A preferred mining contractor has been selected through a competitive tender process and post-tender negotiations have progressed well. It is currently anticipated that negotiations will be concluded during January 2016 and, provided required funding is received, the mining contract will be executed during Q3 FY2016. The mining contractor is currently scheduled to start mobilisation to site and commence mining during Q3 FY2016.

### ***New Estimate of Mineral Resources and Ore Reserves***

An updated estimate of Mineral Resources and Ore Reserves was announced on 11 January 2016 within the *Statement of Mineral Resources and Ore Reserves as at 31 December 2015*.





Figure 4: The newly-completed high-security concrete Recovery Module with erection of upper levels structural steelwork in progress.

### ***Approval of Environmental Impact Assessment***

KDL reported on 29 October 2015 that the Botswana Department of Environmental Affairs had approved the Environmental Impact Assessment (**EIA**) for the re-opening of the Lerala Diamond Mine. The EIA was the final regulatory approval required for the re-opening of the Lerala Diamond Mine.

### ***Lerala Alluvial Potential***

KDL reported on 16 October 2015 that its geological team at Lerala had found evidence for buried alluvial channels located immediately adjacent to the diamond-bearing kimberlite pipes that host the Lerala diamond resource. This discovery necessitated an immediate investigation of the alluvial channels for their possible diamond content, because the area overlapped the planned tailings dam. The consequent delay pushed back the construction of the tailings dam, which is now scheduled to commence in February 2016.

## 2.2 FUNDING UPDATE

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### ***Financial Position***

As at 31 December 2015, KDL had a cash position of \$0.361 million and debt of \$10.953 million, which matures in May 2017.

### ***Debt finance***

As previously reported, KDL entered into a loan agreement (**Loan Agreement**) with a third party lender, Zhejiang Huitong Auction Co Ltd (**Zhejiang**) for the provision of \$10 million debt finance. The funds were applied to the refurbishment and re-commissioning of the plant at KDL's Lerala Diamond Mine in Botswana, as well as to ongoing operational costs.

On 12 October 2015, KDL announced that Zhejiang has agreed to provide KDL with a further \$3 million in debt finance. The additional funds will be provided under the terms of the Loan Agreement and will bring the total funds to be provided to KDL from Zhejiang to \$13 million. At 27 January 2016, \$2.05 million of the additional funds had been advanced to KDL, and the remaining funds are scheduled to be advanced in February 2016.

### ***Further funds required***

As stated in recent announcements and our 2015 Annual Report, KDL requires further funding to complete the re-commissioning work and re-open the Lerala Diamond Mine, and for ongoing operational costs. KDL continues discussions with potential investors and will update the market in due course.



## 2.3 MATTERS SUBSEQUENT TO THE END OF THE QUARTER

### 2.3.1 MINERAL RESOURCE AND ORE RESERVE UPDATE

On 11 January 2016, KDL released its *“Statement of Mineral Resources and Ore Reserves as at 31 December 2015”*, which presented a revised estimate of Mineral Resources and Ore Reserves for the Lerala Diamond Mine in Botswana and an initial JORC 2012 compliant estimate of Mineral Resources at the Lomero polymetallic deposit in Andalucia, Spain.

We set out below a summary of the Lerala Ore Reserves and Mineral Resources as at 31 December 2015. The table demonstrates the upgrade in Ore Reserves and Mineral Resources over those reported at 30 June 2015.

Category	As at 31 Dec 2015				As at 30 Jun 2015			
	Mt	cpht	Mct	USD/ct	Mt	cpht	Mct	USD/ct
<b>Total Probable Reserves</b>	<b>11.7</b>	<b>25.8</b>	<b>3.01</b>	<b>\$75</b>	<b>5.0</b>	<b>31.0</b>	<b>1.54</b>	<b>\$76</b>
Indicated Resources	15.0	25.6	3.85	\$73	8.5	32.8	2.80	\$74
Inferred Resources	5.1	20.2	1.01	\$76	1.8	25.4	0.45	\$78
<b>Total Resources (inc. Reserves)</b>	<b>20.1</b>	<b>24.2</b>	<b>4.86</b>	<b>\$74</b>	<b>10.3</b>	<b>31.5</b>	<b>3.25</b>	<b>\$74</b>

The information pertaining to the Lerala Diamond Mine Reserves and Resources is extracted from the report titled *“Statement of Mineral Resources and Ore Reserves as at 31 December 2015”*, created on 11 January 2016 and available to view online at [www.asx.com.au](http://www.asx.com.au) and [www.kdl.com.au](http://www.kdl.com.au). The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, confirms that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

### 3 EXPLORATION ACTIVITIES

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#### 3.1 DIAMONDS

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##### ***Tilwane Joint Venture***

KDL, through its wholly owned subsidiary, Lerala Diamond Mines Limited, has now earned a 50% right in the Tilwane Joint Venture, a greenfields kimberlite exploration project in Botswana located some 60km to the east of the large scale Orapa and Letlhakane diamond mines. At 31 December 2015, approximately A\$162,000 has been expended in exploring the property since KDL has held an interest in the Tilwane Joint Venture. Exploration has focused on geophysical surveys and geochemical analyses, and has identified a number of significant targets deserving of further attention.

KDL now has the opportunity to earn an additional 20% interest in the Joint Venture by spending a further A\$1 million on project expenditure in the period to early 2017. If it completes this expenditure, it will hold a 70% interest in the Joint Venture. The next phase of exploration at Tilwane will be a drilling program designed to test the identified targets. The drilling is expected to be undertaken during calendar 2016, after the focus has shifted from the re-commissioning at Lerala.

#### 3.2 METALS EXPLORATION ACTIVITIES

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##### 3.2.1 LOMERO-POYATOS GOLD-COPPER-ZINC PROJECT, SPAIN

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The Lomero gold-silver-copper-zinc project (**Lomero**) is located 80km north of the deep-water port of Huelva in Andalucia, Spain, within Spain's premier mineral district, the Iberian Pyrite Belt. Lomero is a tabular volcanogenic massive sulphide (VMS) deposit with elevated gold content. Previous mining operations extracted at least 2.6 million tonnes of massive sulphide ore containing an average grade of 5g/t gold and 1.2% copper. KDL is evaluating the potential for a profitable re-development of Lomero through its wholly owned Spanish subsidiary, Alto Minerals S.L.

The key activity completed during Q2 FY2016 was the initial JORC 2012 compliant estimate of Mineral Resources at the Lomero project by Snowden mining consultants. The resource estimate was received from Snowden on 29 December 2015 and was announced by KDL on 7 January 2016 within the *Statement of Mineral Resources and Ore Reserves as at 31 December 2015*. A revised version of the Statement was released on 11 January 2016 and the reader is directed to that document for the technical summary and accompanying JORC 2012 Table 1. The resource estimate received from Snowden can be viewed in full on the KDL website at [www.kdl.com.au](http://www.kdl.com.au).

Other activities completed during the quarter in relation to Lomero included:

- discussions were held with an interested local party regarding potential funding arrangements; and
- KDL sought and received clarification on the status of the public tender for the neighbouring San Telmo mine property in which KDL, as announced on 31 March 2015, submitted a bid. The relevant government authority advised that its evaluation of the tender submissions had been



delayed by a number of administrative issues, that those issues have been resolved, and that the outcome of the tender is expected to be finalised by mid-2016.

### 3.2.2 CALARIE COPPER-GOLD PROJECT, CENTRAL NSW

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On 23 October 2015, KDL advised the holder of the Calarie tenement, TriAusMin, that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination was in progress at the end of the period.

KDL decided that its drilling had efficiently tested the two principal targets, Bald Hill and the former Lachlan Mine, and that the potential for economic mineralisation was significantly downgraded. Accordingly, its efforts and funding are now better spent elsewhere. The total expenditure did not reach the minimum threshold required to retain an interest in the project.

### 3.2.3 YEOVAL COPPER-GOLD PROJECT, CENTRAL NSW (Zodiac, 75%)

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No activities were undertaken during the quarter.

#### 4 TENEMENTS

##### Tenement Interests disposed of by KDL

PROJECT	TENEMENT
<b>Trillion Project</b> Ontario, Canada	4202624
<b>Calarie</b> NSW, Australia	EL7023, ML739

Calarie: On 23 October 2015, KDL advised the holder of EL7023 and ML739, TriAusMin, that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination was in progress at the end of the period.

##### Tenement Interests retained by KDL

PROJECT	TENEMENT
<b>Lerala Diamond Mine</b> Central District, Botswana	2006/29L
<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
<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
<b>Trillion Project</b> Ontario, Canada	3013665, 3013666, 4206505, 3013699
<b>Tilwane JV</b> Central District, Botswana	PL267/2013, PL268/2013
<b>Yeoval</b> NSW, Australia	EL6311, ML811
<b>Lomero</b> Andalucía, Spain	IP14977, IP14978, IP14989



EL6311 & ML811: Zodiac Resources Pty Ltd, a subsidiary of KDL, holds a 75% interest in the project. Augur Resources Ltd holds the remaining 25%.

PL 267/2013 & PL 268/2013: KDL, via its wholly owned subsidiary Lerala Diamond Mines Limited, has the exclusive right to earn up to 70% in the project from Tilwane Services (Pty) Limited.

Tenby Property: Mantle Diamonds Limited, a wholly owned subsidiary of KDL, will acquire a 20% interest in the tenements upon a production decision by the registered owner, Diavik Diamond Mines Incorporated.

Commonwealth Property: Mantle Diamonds Limited, a wholly owned subsidiary of KDL, will acquire a 10% interest in the tenements upon a production decision by the registered owner, Diavik Diamond Mines Incorporated.

Lomero: IP 14977 was awarded on 7 October 2014; granting is currently approaching completion. IP 14978 and IP 14989 are applications with priority assigned to KDL.

**For further information please contact:**

**Noel Halgreen**

Managing Director

T: +61 2 8243 7500

E: [noel.halgreen@kdl.com.au](mailto:noel.halgreen@kdl.com.au)

**Holly Taylor**

Corporate Communications

T: +61 2 8243 7521

E: [holly.taylor@kdl.com.au](mailto:holly.taylor@kdl.com.au)

## APPENDICES

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### COMPETENT PERSON STATEMENTS

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*The information in this report that relates to Mineral Resources and Ore Reserves at the Lerala Diamond Mine is extracted from the report titled "Statement of Mineral Resources and Ore Reserves as at 31 December 2015", created on 11 January 2016 and available to view on [www.asx.com.au](http://www.asx.com.au) and [www.kdl.com.au](http://www.kdl.com.au). The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.*

*The information in this announcement that relates to gold and polymetallic Mineral Resources at Lomero, Spain is extracted from the report titled "Statement of Mineral Resources and Ore Reserves as at 31 December 2015" created on 11 January 2016 and available to view on [www.asx.com.au](http://www.asx.com.au) and [www.kdl.com.au](http://www.kdl.com.au). The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented here have not been materially modified from the original market announcement.*