

KIMBERLEY DIAMONDS LTD

ACN 150 737 563

NOTICE OF EXTRAORDINARY GENERAL MEETING

-and-

EXPLANATORY MEMORANDUM

-and-

PROXY FORM

TIME: 10.00am (Sydney time)

DATE: Wednesday, 27 April 2016

PLACE: Boardroom Pty Limited

Level 12, 225 George Street SYDNEY NSW 2000

This Notice of Extraordinary General Meeting and the Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional advisor.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting of Kimberley Diamonds Ltd (the **Company** or **KDL**) will be held at Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000 at 10.00am (Sydney time) on Wednesday, 27 April 2016.

The Explanatory Memorandum and Proxy Form attached to this Notice are intended to be read in conjunction with and form part of this Notice. Terms and abbreviations used in this Notice are defined in the Glossary attached as Annexure E to the Explanatory Memorandum.

BUSINESS

Resolution 1 Ratification and approval of prior issue of 15,000,000 shares to Zhejiang Huitong Auction Co Ltd and others

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

That, for the purpose of Listing Rule 7.4 and all other purposes, approval is given for the prior issue by the Company of 15,000,000 Shares to Zhejiang Huitong Auction Co Ltd and its nominees, on the terms and conditions set out in the Explanatory Memorandum accompanying this notice.

Further details in respect of Resolution 1 are set out in the Explanatory Memorandum accompanying this Notice.

Voting exclusion statement: The Company will disregard any votes cast on Resolution 1 by Zhejiang Huitong Auction Co Ltd, Kangni Zou and Ying Jin, and the Associates of those parties. However, the Company need not disregard a vote on Resolution 1 if it is cast by:

- (a) a person as a proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the Proxy Form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Resolution 2 Approval for related party arrangements

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

That, for the purposes of Chapter 2E of the Corporations Act, Listing Rules 10.1 and 10.11 and for all other purposes, approval is given to the entry into and performance by the Company and its wholly owned subsidiary, Lerala Diamond Mines Limited (**Lerala**) (as applicable and relevant) of all of the arrangements and transactions contemplated by or in or reasonable necessary and desirable to be undertaken in connection with:

- the diamond marketing and sales agreement entered into by the Company, Lerala and DDA Trading BVBA (**DDA Trading**) on 26 February 2016; and
- 2. the offtake agreement for rough diamonds entered into by Lerala and DDA Trading on 26 February 2016,

further details of which are set out in the Explanatory Memorandum accompanying this Notice.

Further details in respect of Resolution 2 are set out in the Explanatory Memorandum accompanying this Notice.

Voting exclusion statement: The Company will disregard any votes cast on Resolution 2 by DDA Trading or, if applicable, any of its nominee(s) under the arrangements described above and the Associate of those parties. However, the Company need not disregard a vote on Resolution 2 if it is cast by:

- (a) a person as a proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the Proxy Form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Resolution 3 Issue of Options to Noel Halgreen

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

That, for the purposes of Chapter 2E of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue and allot up to 5,000,000 Options to Noel Halgreen and/or his nominee(s), on the terms and conditions set out in the Explanatory Memorandum.

Further details in respect of Resolution 3 are set out in the Explanatory Memorandum accompanying this Notice.

Voting exclusion statement: The Company will disregard any votes cast on Resolution 3 by Noel Halgreen or, if applicable, any nominee(s) nominated by Noel Halgreen to acquire any of such Options and the Associates of such persons (as applicable). However, the Company need not disregard a vote on Resolution 3 if it is cast by:

- (a) a person as a proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the Proxy Form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Resolution 4 Issue of Options to Alexandre Alexander

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

That, for the purposes of Chapter 2E of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue and allot up to 2,000,000 Options to Alexandre Alexander and/or his nominee(s), on the terms and conditions set out in the Explanatory Memorandum.

Further details in respect of Resolution 4 are set out in the Explanatory Memorandum accompanying this Notice.

Voting exclusion statement: The Company will disregard any votes cast on Resolution 4 by Alexandre Alexander or, if applicable, any nominee(s) nominated by Alexandre Alexander to acquire any of such Options and the Associates of such persons (as applicable). However, the Company need not disregard a vote on Resolution 4 if it is cast by:

- (a) a person as a proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the Proxy Form; or
- (b) the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Resolution 5 Approval of Employee Share Option Plan

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

That, for the purposes of Exception 9(b) to Listing Rule 7.2, and for all other purposes, approval is given for the adoption by the Company of the employee incentive scheme known as the "Kimberley Diamonds Ltd Employee Share Option Plan", the rules of which are appended to the Explanatory Statement, and for the issue of options under that plan generally.

Further details in respect of Resolution 5 are set out in the Explanatory Memorandum accompanying this Notice.

Voting exclusion statement: The Company will disregard any votes cast on Resolution 5 by a Director of the Company (except a Director who is ineligible to participate in any employee incentive scheme in relation to that entity) and the Associates of that Director. However, the Company need not disregard a vote on Resolution 5 if it is cast by:

- (a) a person as a proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the Proxy Form; or
- (b) the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

PROXIES, ATTORNEYS AND CORPORATE REPRESENTATIVES

Shareholders are entitled to appoint up to two proxies to act generally at the Meeting on their behalf, and to vote in accordance with their directions on the Proxy Form. A proxy need not be a Shareholder.

Where two proxies are appointed, each proxy can be appointed to represent a specified proportion or number of the votes of the Shareholder. If no number or proportion of votes is specified, each proxy may exercise half of the Shareholder's votes.

If you appoint a proxy, the Company encourages you to direct your proxy how to vote on each Resolution by marking the appropriate boxes on the Proxy Form.

Where permitted, the Chairman of the Meeting will vote undirected proxies <u>in favour of</u> each Resolution. This includes Resolution 3, 4 and 5 on the basis that the Proxy Form expressly authorises the Chairman to vote undirected proxies even if the resolution is connected directly or indirectly with the remuneration of a Director. **Accordingly, if you want to vote against any of the items of business, you should direct your proxy how to vote in respect of that resolution.**

If you appoint a Director (other than the Chairman of the Meeting), or any of the Company's other Key Management Personnel or a Closely Related Party of that person, as your proxy and do not direct your proxy how to vote on Resolutions 3, 4 and 5, the proxy may not be permitted to vote your proxy on that resolution. **Accordingly, if you want your vote to be counted on that Resolution, you should direct your proxy how to vote in respect of it.**

A corporation which is a Shareholder, or which has been appointed a proxy, may appoint an individual to act as a representative to vote at the Meeting. The appointment must comply with section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment unless it has previously been provided to the Share Registry.

Completed Proxy Forms (together with any authority under which the Proxy Form was signed, or a certified copy of the authority) must be returned to our Share Registry, Boardroom Pty Limited by 10.00 am (Sydney time) on 25 April 2016. Boardroom's contact details are as follows:

| Post | GPO Box 3993 Sydney NSW 2001 Australia | |
|----------------------------------|---|--|
| In person | person Level 12, 225 George Street, Sydney, NSW, 2000 | |
| Telephone +61 2 9290 9600 | | |
| Facsimile | +61 2 9290 9655 | |

Voting Exclusion

Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote in accordance with a direction on the Proxy Form to vote as the proxy decides.

Enquiries

All enquiries in relation to the Meeting or the Resolutions to be voted on should be directed to the Company Secretary (telephone +61 2 8243 7500).

ENTITLEMENT TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING

All Shareholders may attend the Meeting.

The Board has determined pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders at 7:00pm (Sydney time) on 25 April 2016.

BY ORDER OF THE BOARD

Laila Green

Company Secretary Kimberley Diamonds Ltd 18 March 2016

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders of the Company in connection with the business to be conducted at the extraordinary general meeting of the Company to be held at Boardroom Pty Limited, Level 12, 225 George Street, Sydney on Wednesday, 27 April at 10.00am (Sydney time).

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice. The purpose of this Explanatory Memorandum is to provide information to Shareholders to assist them in deciding whether or not to pass the Resolutions in the Notice.

A Proxy Form is located at the end of the Explanatory Memorandum.

Important dates and times

| Record time/date to determine shareholders eligible to vote | 7:00pm Sydney time on 25 April 2016 |
|---|---------------------------------------|
| Last time/date for receipt of valid proxies | 10:00 am Sydney time on 25 April 2016 |
| Date and time of Meeting | 10:00 am Sydney time on 27 April 2016 |

Nature of resolutions

All of the resolutions are ordinary resolutions, meaning that they can be passed by a simple majority of votes cast by the shareholders entitled to vote (i.e. over 50%).

Resolution 1 Ratification and approval of prior issue of 15,000,000 shares to Zhejiang Huitong Auction Co Ltd and others

Resolution 1 seeks the ratification and approval of a prior issue of 15,000,000 shares to Zhejiang Huitong Auction Co Ltd and its nominees.

Background

Prior to the date of the Notice the Company issued 15,000,000 Shares to Zhejiang Huitong Auction Co Ltd (**Zhejiang**) and its nominees. These Shares were issued because Zhejiang agreed to convert \$1.5 million of the Company's \$12 million debt owing to Zhejiang to equity at a share price of \$0.10 per Share.

Listing Rule 7.4

Listing Rule 7.1 prohibits the Company from issuing or agreeing to issue more than 15% of its issued securities in any 12 month period without the approval of Shareholders (unless one of the exceptions in Listing Rule 7.2 applies).

The issue of Shares outlined in Resolution 1 did not exceed the 15% limit when applied to the sum of the number of the Company's ordinary securities on issue 12 months before the date of issue of the Shares, the ordinary securities issued in that 12 month period and the number of ordinary securities issued in that 12 month period with Shareholder approval or pursuant to one of the exceptions in Listing Rule 7.2.

Listing Rule 7.4 provides that an issue of securities will be treated as having been made with approval for the purposes of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 at the time and Shareholders subsequently approve it.

If Resolution 1 is passed, the prior issue of Shares the subject of Resolution 1 will be approved for the purposes of Listing Rule 7.4, and the Company will be able to issue additional securities without the Shares the subject of Resolution 1 counting towards the 15% threshold for the purposes of Listing Rule 7.1.

Technical information required by Listing Rule 7.5

(a) Listing Rule 7.5.1: Number of securities issued:

15,000,000 Shares

(b) Listing Rule 7.5.2: Price at which the securities were issued:

Conversion of \$1.5 million debt to equity at a share price of \$0.10

(c) Listing Rule 7.5.3: Terms of the securities:

The Shares were issued on the same terms as the Company's existing ordinary Shares, but are escrowed for 12 months from the date of issue.

(d) Listing Rule 7.5.4: The names of the allottees or the basis on which the allottees were determined:

Zhejiang Huitong Auction Co Ltd: 12,000,000 Shares

Kangni Zou: 2,000,000 Shares Ying Jin: 1,000,000 Shares

(e) Listing Rule 7.5.5: Use (or intended use) of the funds raised:

No funds were raised. \$1.5 million debt converted to equity.

(f) Listing Rule 7.5.6: Voting Exclusion Statement:

A voting exclusion statement is included in the Notice accompanying this Explanatory Memorandum.

Directors' Recommendation

The Board recommends that Shareholders vote in favour of Resolution 1.

Resolution 2 Approval for related party arrangements

Resolution 2 seeks approval for the purposes of Chapter 2E of the Corporations Act, Listing Rules 10.1 and 10.11 and for all other purposes, for the execution and performance by the Company and its wholly owned subsidiary, Lerala Diamond Mines Limited (Lerala) (as applicable and relevant) of all of the arrangements and transactions contemplated by or in or reasonable necessary and desirable to be undertaken in connection with:

- (a) the diamond marketing and sales agreement entered into by the Company, Lerala and DDA Trading BVBA (**DDA Trading**) on 26 February 2016; and
- (b) the offtake agreement for rough diamonds entered into by Lerala and DDA Trading on 26 February 2016,

further details of which are set out in this Explanatory Memorandum.

Background to Resolution 2

On 26 February 2016, the Company and its wholly owned Botswana subsidiary, Lerala, entered into a sales and marketing agreement with DDA Trading (a Belgian incorporated party) in connection with diamonds to be produced by Lerala Diamond Mine in Botswana (the **Sales Agreement**). On 26 February 2016, Lerala and DDA Trading also entered into an offtake agreement for rough diamonds produced from the Lerala Diamond Mine in Botswana (the **Offtake Agreement**). The Lerala Diamond Mine is not yet in production. Mining is expected to commence in approximately March 2016, with first diamond sales expected in June 2016. DDA Trading is a diamond auction house which specialises in the sales and marketing of

rough diamonds for the international diamond trade. DDA Trading was owned by KDL's former subsidiary, Kimberley Diamond Company Pty Ltd, until June 2015, when it was sold to an unrelated third party. Alexandre Alexander (KDL's Chairman) and Laila Green (KDL's CFO and Company Secretary) both remained directors of DDA Trading post the sale at the request of the new owner.

The Sales Agreement and the Offtake Agreement are interconditional and conditional in all respects on Shareholder approval being obtained. Key terms of the agreements, the reasons for seeking Shareholder approval for them and additional information required to be provided to Shareholders in connection with Resolution 2 are set out below.

Summary of key terms of Sales Agreement

The key terms of the Sales Agreement are as follows:

- (a) Lerala will appoint DDA Trading to provide services to Lerala as exclusive sales and marketing agent for the diamonds produced by Lerala Diamond Mine in Botswana for a period of 3 years (Term) and will be paid commission of 1.75% on diamonds sold, plus reasonable expenses (DDA Commission). The DDA Commission is subject to annual review and may be adjusted with agreement by all parties. The arrangement will not affect Lerala's subsisting offtake agreement with Restwell Investments Pty Ltd (Restwell Offtake), however, DDA Trading will otherwise operate as Lerala's exclusive sales and marketing agent for the Term. The Term may be extended by a further 2 years by agreement between the parties. After expiry of the Term, the Sales Agreement will continue to operate but will be terminable on 3 months notice given by Lerala. The Sales Agreement may also be terminated by Lerala (following a 30 day cure period) in the event that DDA Trading materially breaches the Sales Agreement.
- (b) For the first 6 months of the Sales Agreement, DDA Trading will make available to Lerala a working capital loan facility of up to USD\$2.8 million in aggregate, to be provided and repaid in monthly tranches (DDA Loan), with simple interest of 10% per annum on the outstanding amount from time to time (DDA Interest) and secured by collateral of diamonds produced by Lerala (or the proceeds of sale thereof), with the right, title and interest of such diamonds (or proceeds thereof) to be transferred to DDA until such time as the relevant portion of the loan which those diamonds secure is repaid (DDA Security). Insolvency of Lerala or its holding company or a failure to repay the DDA Loan (and DDA Interest) when due will result in an event of default by Lerala, in which case DDA Trading will have the right to exercise its rights under the DDA Security to recover amounts owing to it. Lerala is permitted to on-lend the advances made under the DDA Loan to the Company.
- (c) In consideration of DDA Trading providing the DDA Loan to Lerala, KDL has agreed (subject to Shareholder approval) to issue 5,000,000 Options to DDA Trading or its nominee(s) on the terms and conditions set out in Annexure A (**DDA Options**).

Summary of key terms of the Offtake Agreement

The key terms of the Offtake Agreement are as follows:

- (a) Lerala agrees to supply to DDA Trading run of mine rough diamonds from the Lerala Diamond Mine in Botswana to the total value of at least USD\$5 million (based on an agreed pricing and valuation methodology) at a discount of 10% to an agreed valuation (DDA Offtake). The first shipment is scheduled to occur in December 2016 (irrespective of the aggregate amount delivered under the Restwell Offtake at that time), however any shipments which occur after December 2016 will be subject to Lerala having satisfied its obligations under the Restwell Offtake. The parties may agree to discuss amendments to the timing of shipments under the DDA Offtake in the event that mine development and production is delayed.
- (b) The DDA Offtake is subject to continued availability of applicable regulatory exemptions obtained by Lerala allowing it to sell diamonds from the Lerala Diamond Mine outside Botswana and provides that DDA Trading may elect to acquire diamonds through a local broker in Botswana in the event that these exemptions are no longer available.

Reasons for seeking Shareholder approval of Resolution 2

ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that an entity (or any of its subsidiaries), must not acquire a substantial asset from, or dispose of a substantial asset to, a related party or substantial holder or an associate of a related party or a substantial holder without shareholder approval.

As at the date of this Notice, DDA Trading reasonably believes that it may become a related party of KDL in the future and on this basis is deemed to be a related party in accordance with section 228(6) of the Corporations Act (and accordingly for the purposes of Listing Rule 10.1). DDA Trading is currently in discussions with a number of parties for the purposes of such parties investing in DDA Trading or providing debt funding to DDA Trading, including the following:

- (a) Mr Alexandre Alexander, a Director of KDL and substantial shareholder of KDL, and corporate entities controlled by or associated with him;
- (b) Mrs Ling Wei Dong, a founder and substantial shareholder of KDL, and corporate entities controlled by or associated with her. Mrs Dong is a relative of Mr Alexander (parent of his spouse) and is a related party for the purposes of section 228(3) of the Corporations Act; and
- (c) Mrs Yan Xie, a shareholder of KDL, and corporate entities controlled by or associated with her. Mrs Xie is a relative of Mr Alexander (sister of his spouse) but is not a related party for the purposes of section 228 of the Corporations Act, but who is included here for full disclosure and in the interests of good corporate governance.

As a result of the above discussions, the Board of KDL considers that DDA is a related party for the purposes of section 228(6) of the Corporations Act (and accordingly for the purposes of Listing Rule 10.1), and accordingly, shareholder approval is being sought for Resolution 2.

For the purposes of Listing Rule 10.1, a "substantial asset" is an asset valued at greater than 5% of the equity interests of a company as set out in the latest accounts given to the ASX under the Listing Rules. [Based on the Company's 2015 Annual Report, the Company's equity interests at that time were \$1.46 million; 5% of this amount is \$73,000].

It is the DDA Security and the DDA Offtake which are "substantial assets" and require approval under Listing Rule 10.1. These have a value as follows:

(a) DDA Security: value of debt secured will be up to approximately USD\$2.8 million

(b) DDA Offtake: USD\$5 million

The ASX deems the granting of a security interest over an asset to be a disposal of that asset. As such, the granting of the DDA Security in favour of DDA Trading will be deemed under Listing Rule 10.1 to be a disposal of a substantial asset as the value of the debt secured by the DDA Security is greater than 5% of the equity interests of the Company as set out in its last accounts given to the ASX.

The DDA Offtake provides for the sale of assets of a child entity of KDL, being Lerala, to DDA Trading. These assets are diamonds produced by Lerala at its Lerala Diamond Mine, to a value of USD\$5 million. The value of the diamonds being sold to DDA Trading is greater than 5% of the equity interests of the Company as set out in its last accounts given to the ASX.

Based on the above, KDL consider the transaction with DDA Trading constitutes disposal of a "substantial asset" and requires shareholder approval under Listing Rule 10.1.

The DDA Commission and the DDA Interest are not a disposal of a substantial asset within the meaning of Listing Rule 10.1, however, they have been included for approval by Shareholders in Resolution 2 for the purposes of Chapter 2E of the Corporations Act, which is discussed further below.

The issue of the DDA Options is not disposal of a substantial asset within the meaning of Listing Rule 10.1, but issue of securities which requires approval under Listing Rule 10.11. This is discussed further below.

Independent Expert's Report

In accordance with Listing Rule 10.10, accompanying this Notice is an Independent Expert's Report prepared by BDO. This Independent Expert's Report assesses whether the transactions the subject of Resolution 2 (which are inter-conditional) are fair and reasonable to the non-associated Shareholders. The report concludes that the [transactions the subject of Resolution 2 are both fair and reasonable to the non-associated Shareholders.]

Please refer to the Independent Expert's Report at Annexure B of this Notice for further details and in particular the advantages and disadvantages of the DDA Security, the DDA Offtake and the transaction as a whole. This assessment is designed to assist all Shareholders in reaching their voting decision. It is recommended that all Shareholders read the Independent Expert's Report in full.

Chapter 2E of the Corporations Act

In addition to Listing Rule 10.1, for a public company, or an entity that the public company controls (i.e. Lerala), to give a financial benefit to a related party of the public company, the public company must:

- (a) obtain the approval of the public company's shareholders in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the financial benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

Each of the DDA Commission, the DDA Security, the DDA Offtake and the DDA Options constitute the giving of a financial benefit to a related party. Accordingly Shareholder approval is being sought for the transactions in accordance with and for the purposes of Chapter 2E of the Corporations Act.

ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party or a person whose relationship with the entity or a related party is, in the ASX's opinion, such that approval should be obtained unless an exception in the Listing Rules applies. Such exception does not apply in these circumstances. Accordingly, the grant of the DDA Options to DDA Trading requires Shareholder approval in accordance with ASX Listing Rule 10.11.

Resolution 2 must be approved as a whole

Given that the transactions under the Sales Agreement and the Offtake Agreement are wholly interconditional, they have all both been made the subject of Resolution 2 and are all proposed to be approved for the purposes of Listing Rules 10.1 and 10.11, Chapter 2E of the Corporations Act and all other purposes, as applicable. The agreements and arrangements in them cannot be approved independently due their interconditionality.

Further Information required for Shareholders

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and Listing Rule 10.13, the following information is being provided in relation to the transactions:

- (a) the related party is DDA Trading, who is a related party pursuant to section 228(6) of the Corporations Act as it reasonably believes that it will become a related party in the future for the reasons set out earlier in this Explanatory Memorandum;
- (b) the maximum number of securities in KDL to be issued are the DDA Options, being 5,000,000 Options on the terms set out in Annexure A;

- (c) the DDA Options will be granted to DDA Trading or its nominee(s) no later than 1 month after the date of the Meeting;
- (d) the DDA Options will be issued for no cash consideration;
- (e) the DDA Options will have an exercise price of \$0.20;
- (f) the value of the DDA Options is set out in detail in the Independent Expert's Report. We recommend Shareholders read the Independent Expert's Report in full. A summary is set out below:

The estimated value of the DDA Options in the Independent Expert's Report is \$0.21 million using the Black-Scholes model. The estimated value of the DDA Options was calculated using the following assumptions:

- (i) the valuation date is 19 February 2016;
- (ii) risk free rate of 2.43%;
- (iii) share price of \$0.09 (1 month volume weighted average price as at 19 February 2016);
- (iv) dividend yield of 0%;
- (v) the DDA Options will expire on 19 February 2016; and
- (vi) the exercise price for the purpose of this valuation is \$0.20;
- (g) BDO assessed each of the DDA Options, the DDA Security, the DDA Interest, the DDA Commission and the DDA Offtake as being fair and reasonable to non-associated Shareholders for the reasons set out in the Independent Expert's Report. In particular, for the reasons set out in the Independent Expert Report and the assumptions set out therein, BDO have stated the following:
 - (i) in relation to the DDA Commission, "we have assessed the fee of 1.75% on gross revenue and auxiliary expenses to be provided to DDA to be less than or equal to the value of the commercial market terms and rates observed from publicly available information";
 - (ii) in relation to the DDA Interest "we have assessed the value of the DDA Interest to be equal to or less than the value of the costs of funding arising from various debt and equity instruments";
 - (iii) in relation to the DDA Security "we have assessed the value of the DDA Security to be equal to or less than the value of the liabilities";
 - (iv) in relation to the DDA Options, "the terms of the DDA Options are 'fair' for the risks undertaken by DDA as a whole for providing the DDA [Loan]"; and
 - (v) in relation to the DDA Offtake, "we have assessed the value of the terms of the Offtake Agreement to be less than historical terms achieved by KDL";
- (h) DDA Trading's relevant interest in KDL as at the date of this Notice is nil. It will hold 5,000,000 Options if this Resolution 2 is approved and the DDA Options are issued; and
- (i) if the DDA Options are granted to DDA Trading (or its nominee(s)) and are exercised, a total of 5,000,000 Shares would be issued. The potential dilution effects of the DDA Options being exercised (all other things remaining equal) are set out in Table 1 below.

Table 1 Potential dilution of Shareholders

| | | Existing Share Capital | Proposed DDA Options | | Potential Share Capital | Total Potential Dilution |
|--|---|---------------------------|-------------------------|---|----------------------------|--------------------------------|
| Current Shares on issue | A | 120,740,349 | 5,000,000 | С | 125,740,349 | 4.1% |
| Alexander Options and Halgreen Options are also approved, issued and exercised | В | 7,000,000 | | D | | |
| | | 127,740,349 | 5,000,000 | | 132,740,349 | 3.9% |

Legend for Table 1

- A total Share capital of the Company as at the date of this Notice.
- **B** total Share capital of the Company assuming that the Alexander Options and the Halgreen Options are approved by Shareholders, issued and exercised.
- C A plus the additional Shares if all the DDA Options are approved by Shareholders, issued and exercised.
- D B plus the additional Shares if all the DDA Options are approved by Shareholders, issued and exercised.
- (j) The Directors (other than Alexandre Alexander, who may potentially have an interest in the outcome of this Resolution as he is considering investing in DDA Trading) recommend that Shareholders vote in favour of Resolution 2 for the following reasons:
 - (i) subject to the successful completion of a rights issue to raise \$4 million and the commencement of production at the Lerala Diamond Mine, the DDA Loan is anticipated to provide funding for the Company to put the Lerala Diamond Mine in production and continue its operations until such time as it is estimated that the Lerala Diamond Mine will be cash flow positive. It is currently forecast that Lerala will start to generate revenue in calendar year 2016 and become cash flow positive in the second half of calendar year 2016;
 - (ii) if the DDA Loan is not received by Lerala and the Company, the Company is not aware of any other available source of debt funding. The Company has devoted significant time since acquiring Lerala in February 2014 to raising debt finance for the re-opening of the Lerala Diamond Mine. The Directors believe all possible avenues of debt funding have been investigated, and no other debt options are currently available, or likely to be available in the timeframes such funding is required. If this \$2.8 million debt funding cannot be obtained from the related party, then the Company may be required to consider other options to raise funds. If this occurs, it believes that the only other possible ways to raise these funds will be either a significantly dilutive additional equity raising or a significantly more expensive debt raising, if in fact such sources of funding are available or can be arranged in the timeframe required;

- (iii) as there are no other available sources of funding to the Company, it is not believed that there are any significant opportunity costs to the Company or foregone by the Company in proceeding with transactions described in the Sales Agreement and the Offtake Agreement (including relating to the DDA Commission, the DDA Security, the DDA Interest, the DDA Offtake and the DDA Options) on the terms proposed;
- (k) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision as to whether it is in the best interests of the Company to pass Resolution 2, other than that:
 - (i) while the Directors do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in respect of the proposed transactions described under Resolution 2:
 - a. if the DDA Options are exercised when the market price of the Shares is greater than the exercise price of the DDA Options, there will be a detriment insofar as the Company will be required to issue Shares at a lower price than it might otherwise have been able to, with the result that less funds will be raised. Any funds raised from the exercise of the DDA Options will supplement the Company's working capital requirements;
 - b. the DDA Commission is being charged at a rate of 1.75% on diamonds sold by DDA form Lerala Diamond Mine. This is currently considered by the Directors to be a market rate, and comparable to what could be obtained from a third party if dealing at arm's length terms. The minimum term of the Sales and Marketing Agreement is 3 years. If the rate of commission is no longer market rate within that period, the parties may negotiate an amendment to this to reflect prevailing market rates. However, this requires the agreement of both parties. If both parties cannot agree, there may be a detriment insofar as the Company may not be paying market rates and such prevailing market rates are less than 1.75%;
 - c. the DDA Interest is being charged a rate of 10% per annum outstanding monies owed by Lerala to DDA. This is currently considered by the Directors to be a market rate, and comparable to what could be obtained from a third party if dealing at arm's length terms. If market interest rates change and decrease, there may be a detriment insofar as a lower interest rate could be obtained; and
 - d. the DDA Offtake requires Lerala to sell USD\$5 million of diamonds produced from the Lerala Diamond Mine to DDA Trading at a discount of 10% to an agreed valuation (which is based on market prices). There may be a detriment insofar as Lerala may have otherwise been able to sell the diamonds at a price which is 10% higher than the price achieved under the DDA Offtake; and
 - (ii) the Directors do not consider that there are any adverse taxation implications to the Company in granting the DDA Options, or proceeding with the DDA Offtake, the DDA Commission and the DDA Security.

The latest available price of the Shares quoted on the ASX prior to the date of this Notice on 16 March 2016 was \$0.10.

Approval pursuant to Listing Rule 7.1 is not required in order to issue the DDA Options to DDA Trading or its nominees(s) as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of DDA Options to DDA Trading or its nominee(s) will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

Directors' Recommendation

The Board (other than Alexandre Alexander) recommends that Shareholders vote in favour of Resolution 2. As Mr Alexander may potentially have an interest in the outcome of this Resolution as he is considering investing in DDA Trading, he makes no recommendation in relation to Resolution 2.

Resolution 3 Issue of Options to Noel Halgreen

Resolution 3 seeks the approval of Shareholders for the issue of 5,000,000 Options to a Director, Noel Halgreen, or his nominee(s) (Halgreen Options).

Background

Shareholder approval for the grant of the Halgreen Options the subject of Resolution 3 is sought for the purposes of:

- (a) Chapter 2E of the Corporations Act, which governs the giving of financial benefits to directors and other Related Parties of a company; and
- (b) ASX Listing Rule 10.11, which provides that, subject to certain exceptions (none of which are relevant here), a company must not issue or agree to issue securities to a director without shareholder approval.

The object of the issue of the Halgreen Options pursuant to Resolution 3 is to reward Mr Halgreen for his efforts in progressing the re-opening of the Lerala Diamond Mine, where mining is now scheduled to commence in March 2016. The Halgreen Options are also intended to provide Mr Halgreen with a long term incentive which allows him to participate in the future development of the Company and as an incentive for his future involvement with, and commitment to, the Company's operations.

The Directors believe the success of the Company will depend in large part upon the skills of the people engaged to manage the Company's operations. Accordingly, it is important that the Company is able to attract and retain people of the highest calibre. The Directors consider that the most appropriate means of achieving this is to provide Directors with an opportunity to participate in the Company's future growth and an incentive to contribute to that growth.

Terms of Options

Subject to Shareholder approval, the Halgreen Options will be granted to Mr Halgreen or his nominee(s) on the terms and conditions set out in Annexure C to this Explanatory Memorandum.

Chapter 2E of the Corporations Act

As described above, Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a Related Party of the Company (such as a Director) unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
- (b) shareholder approval is obtained prior to the giving of the benefit.

For the purposes of Chapter 2E, Mr Halgreen (or his nominee(s)) will be considered to be a Related Party of the Company and, therefore, the proposed grant of the Halgreen Options to him (or his nominee(s)) requires prior Shareholder approval.

Listing Rule 10.11

Listing Rule 10.11 provides that, subject to certain exceptions (none of which are relevant here), a company must not issue Options to a Related Party without shareholder approval. Resolution 3 seeks this approval under Listing Rule 10.11.

Further information for Shareholders on Resolution 3

The aggregate amount of remuneration currently received by each of the Directors, excluding superannuation, is set out in Table 2 below:

Table 2 Remuneration received by the Directors

| Director | Position | Remuneration (p.a) |
|---------------------|------------------------|--------------------|
| Alexandre Alexander | Non-executive Chairman | \$150,000 |
| Noel Halgreen | Managing Director | \$440,672.16 |
| Rodney Sainty | Executive Director | \$190,000 |
| Yong Xiao | Non-executive Director | \$40,000 |
| Rupert Baring | Non-executive Director | GBP60,000 |

The following table, Table 3, sets out the beneficial interests of the Directors in the Shares and Options of the Company. KDL does not currently have any Options issued.

Table 3 Beneficial interests of the Directors

| Director | Shares (direct & indirect holdings) | Existing Options | Current Potential Shares | Proposed Options | Proposed Potential Shares {3} |
|--------------------------------------|---|---------------------|--------------------------------|---------------------|-------------------------------------|
| Alexandre Alexander | 13,048,334 | - | - | 2,000,000 {1} | 15,048,334 |
| Noel Halgreen | 620,240 | - | - | 5,000,000 | 5,620,240 |
| Rodney Sainty | 10,000 | - | - | - | - |
| Yong Xiao | - | - | - | - | - |
| Rupert Baring | 19,904 | - | - | - | - |
| Other proposed Related Party Options | - | - | - | 5,000,000 {2} | 5,000,000 |
| Total | 13,698,478 | - | - | 12,000,000 | 25,698,478 |

- {1} refer to Resolution 4 for the approval of the issue of the Alexander Options to Alexandre Alexander or his nominee(s).
- {2} refer to Resolution 2 for the approval of the issue of the DDA Options to DDA Trading or its nominee(s).
- {3} assuming Shareholders approve the issue of the Proposed Options and all of the Proposed Options are exercised.

The following table, Table 4, sets out the current Relevant Interest of Noel Halgreen in KDL and the Relevant Interest of Noel Halgreen in KDL if he were to exercise all of the 5,000,000 proposed Halgreen Options.

Table 4 Potential movements in the Relevant Interest of Noel Halgreen

| | Current | Proposed Potential Shares {1} |
|---------------------|-------------|-------------------------------|
| Noel Halgreen | 620,240 | 5,620,240 |
| Total issued Shares | 120,740,349 | 132,740,349 |
| | 0.5% | 4.2% |

{1} assuming Shareholders approve the issue of all of the Proposed Options and all of the Proposed Options are both issued and exercised (and assuming all other things remain equal).

The following table, Table 5, sets out the potential dilution of Shareholders if (assuming all other things remain equal) all of the Halgreen Options are exercised under two different scenarios; the first based on the existing Share capital of the Company and the second where the Share capital of the Company includes the issue of Shares upon exercise of all the Proposed Options (assuming that Shareholders approve all Proposed Options and they are all issued and subsequently exercised).

Table 5 Potential dilution of Shareholders

| | | Existing | Proposed | | Potential | Total |
|-------------|---|---------------|-----------|---|---------------|-----------|
| | | Share Capital | Halgreen | | Share Capital | Potential |
| | | | Options | | | Dilution |
| | | | | | | |
| Current | Α | 120,740,349 | 5,000,000 | С | 125,740,349 | 4.1% |
| Shares on | | | | | | |
| issue | | | | | | |
| | | | | | | |
| | | | | | | |
| | | 7 000 000 | | | | |
| Alexander | | 7,000,000 | | | | |
| Options and | | | | | | |
| DDA Options | | | | | | |
| are also | | | | | | |
| approved, | | | | | | |
| issued and | | | | | | |
| exercised | | | | | | |
| | | | | | | |
| | В | 127,740,349 | 5,000,000 | D | 132,740,349 | 3.9% |
| | | | | | | |

Legend for Table 5

- A total Share capital of the Company as at the date of this Notice.
- **B** total Share capital of the Company assuming that the Alexander Options and the DDA Options are approved by Shareholders, issued and exercised.
- C A plus the additional Shares if all the Halgreen Options are approved by Shareholders, issued and exercised.
- **D** B plus the additional Shares if all the Halgreen Options are approved by Shareholders, issued and exercised.

Further information required for Shareholders

In accordance with the requirements of Chapter 2E and, in particular, sections 219 and 221 of the Corporations Act and Listing Rule 10.13, the following information is provided to Shareholders to allow them to assess the proposed grant of the Halgreen Options pursuant to Resolution 3:

- (a) being a Director, Mr Halgreen is a Related Party of the Company to whom the financial benefit would be given by virtue of section 228(2)(a) of the Corporations Act (or in the case of his nominee(s), section 228(4) of the Corporations Act);
- (b) the nature of the financial benefit to be given is the grant of 5,000,000 Options on the terms set out in Annexure C to this Explanatory Memorandum;
- (c) the Halgreen Options will be issued within one month of the date of this Meeting;
- (d) Mr Halgreen is not entitled and does not wish to make a recommendation to Shareholders regarding Resolution 3 on the basis that he has an interest in the outcome of the Resolution;
- (e) the Halgreen Options are to be granted for no cash consideration;
- (f) an estimate of the value of the Halgreen Options is set out below as follows:

Table 6 Estimate of Value of Halgreen Options

| | Director | Number of Director Options | Estimated value using Black-Scholes Model |
|--------------|---------------|-------------------------------|--|
| Resolution 3 | Noel Halgreen | 5,000,000 | \$214,350 |

The estimated value of the Halgreen Options was calculated using the following assumptions:

The estimated value of the Halgreen Options \$0.21 million using the Black-Scholes model. The estimated value of the Halgreen Options was calculated using the following assumptions (which are identical to the assumptions used in the Independent Expert's Report in relation to the valuation of the DDA Options as the Halgreen Options have the same material terms as the DDA Options):

- (vi) the valuation date is 19 February 2016;
- (vii) risk free rate of 2.43%;
- (viii) share price of \$0.09 (1 month volume weighted average price as at 19 February 2016);
- (ix) dividend yield of 0%;
- (x) the Halgreen Options will expire on 19 February 2016; and
- (xi) the exercise price for the purpose of this valuation is \$0.20;
- (g) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision as to whether it is in the best interests of the Company to pass Resolution 3 other than as follows:

- (i) if all of the Halgreen Options the subject of Resolution 3 are granted and exercised, the Company's fully paid Share capital (based on the existing number of Shares and assuming all other things remain equal) will be diluted by 4.1%;
- (ii) if all of the Halgreen Options the subject of Resolution 3 are granted and exercised, the Company's fully paid Share capital (based on the existing number of Shares, assuming the Alexander Options and the DDA Options are approved by Shareholders, issued and exercised and assuming all other things remain equal) will be diluted by 3.9%;
- (iii) the Directors consider that the incentive represented by the grant of Options is a cost effective and efficient incentive when compared to other forms of incentive such as cash, bonuses or increased remuneration;
- (iv) the primary purpose of the grant of the Halgreen Options is to provide an incentive to Mr Halgreen. Given this purpose, the Directors do not consider that there is any opportunity cost, adverse taxation implications or benefit foregone to the Company in granting the Options the subject of Resolution 3 (other than as set out below); and
- (v) the Board has examined carefully the remuneration package of Mr Halgreen. As part of the examination, the Board has reviewed the remuneration packages of industry managing directors in similar roles. Based on this examination, the Board has concluded that the total remuneration package of Mr Halgreen, including the equity component of 5,000,000 Options now considered for approval by Shareholders, is fair and reasonable in the circumstances of the Company, in light of his management experience and knowledge of the diamond mining and minerals exploration industry.

The Directors do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in respect of the proposed issue of the Halgreen Options pursuant to Resolution 3, other than, if the Halgreen Options are exercised when the market price of the Shares is greater than the exercise price of the Halgreen Options, there will be a detriment insofar as the Company will be required to issue Shares at a lower price than it might otherwise have been able to, with the result that less funds will be raised. Any funds raised from the exercise of the Halgreen Options will supplement the Company's working capital requirements. The Directors do not consider that there are any adverse taxation implications to the Company in granting the Halgreen Options.

The latest available price of the Shares quoted on the ASX prior to the date of this Notice on 16 March 2016 was \$0.10.

Listing Rule 7.1

Listing Rule 7.1 provides that prior approval of Shareholders is required for an issue of Equity Securities if the Equity Securities will, when aggregated with the Equity Securities issued by a company during the previous 12 months, exceed 15% of the number of ordinary securities on issue at the commencement of that 12 month period.

Approval pursuant to Listing Rule 7.1 is not required (under Exception 14 to Listing Rule 7.1) in order to issue the Halgreen Options to Mr Halgreen or his nominee(s) as approval is being obtained under Listing Rule 10.11.

Shareholders should note that the issue of Equity Securities to Mr Halgreen or his nominee(s) will not be included in the 15% calculation for the purpose of Listing Rule 7.1.

Directors' Recommendation

The Board (other than Mr Halgreen) recommends that Shareholders vote in favour of Resolution 3. As Mr Halgreen has an interest in this Resolution, he makes no recommendation in relation to Resolution 3.

Resolution 4 Issue of Options to Alexandre Alexander

Resolution 4 seeks the approval of Shareholders for the issue of 2,000,000 Options to a Director, Alexandre Alexander, or his nominee(s) (**Alexander Options**).

Background

Shareholder approval for the grant of the Alexander Options the subject of Resolution 4 is sought for the purposes of:

- (c) Chapter 2E of the Corporations Act, which governs the giving of financial benefits to directors and other Related Parties of a company; and
- (d) ASX Listing Rule 10.11, which provides that, subject to certain exceptions (none of which are relevant here), a company must not issue or agree to issue securities to a director without shareholder approval.

The object of the issue of the Alexander Options pursuant to Resolution 4 is to recognise the substantial efforts of Mr Alexander in sourcing sales and marketing opportunities for the Company, with Mr Alexander having secured a total of USD\$11 million of off-take agreements for diamonds to be sourced from KDL's Lerala Diamond Mine once it re-opens and starts producing diamonds. This work went beyond the expectation of Mr Alexander in his role as a non-executive Director, and accordingly, the Board has approved the Alexander Options as a means to compensate Mr Alexander for the additional work undertaken.

The Alexander Options also provide Mr Alexander with a long term incentive which allows him to participate in the future development of the Company and as an incentive for his future involvement with, and commitment to, the Company's operations.

The Directors believe the success of the Company will depend in large part upon the skills of the people engaged to manage the Company's operations. Accordingly, it is important that the Company is able to attract and retain people of the highest calibre. The Directors consider that the most appropriate means of achieving this is to provide Directors with an opportunity to participate in the Company's future growth and an incentive to contribute to that growth.

Terms of Options

Subject to Shareholder approval, the Alexander Options will be granted to Mr Alexander or his nominee(s) on the terms and conditions set out in Annexure C to this Explanatory Memorandum.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a Related Party of the Company (such as a Director) unless either:

- (c) the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
- (d) shareholder approval is obtained prior to the giving of the benefit.

For the purposes of Chapter 2E, Mr Alexander (or his nominee(s)) will be considered to be a Related Party of the Company and, therefore, the proposed grant of the Alexander Options to him (or his nominee(s)) requires prior Shareholder approval.

Listing Rule 10.11

Listing Rule 10.11 provides that, subject to certain exceptions (none of which are relevant here), a company must not issue Options to a Related Party without shareholder approval. Resolution 4 seeks this approval under Listing Rule 10.11.

Further information for Shareholders on Resolution 4

Details regarding the remuneration and beneficial interests of Directors are set out in detail in relation to Resolution 3 above.

The following table, Table 7, sets out the current Relevant Interest of Alexandre Alexander in KDL and the Relevant Interest of Alexandre Alexander in KDL if he were to exercise all of the 2,000,000 proposed Alexander Options (and assuming all other thing remain equal).

Table 7 Potential movements in the Relevant Interest of Alexandre Alexander

| | Current | Proposed Potential Shares {1} |
|---------------------|-------------|-------------------------------|
| Alexandre Alexander | 13,048,334 | 15,048,334 |
| Total issued Shares | 120,740,349 | 132,740,349 |
| | 10.8% | 11.34% |

{1} assuming Shareholders approve the issue of all of the Proposed Options and all of the Proposed Options are both issued and exercised.

The following table, Table 8, sets out the potential dilution of Shareholders of all of the Alexander Options are exercised under two different scenarios; the first based on the existing Share capital of the Company and the second where the Share capital of the Company includes the issue of Shares upon exercise of all the Proposed Options (assuming that Shareholders approve all Proposed Options and they are all issued and subsequently exercised and all other things remain equal).

Table 8 Potential dilution of Shareholders

| | | Existing Share Capital | Proposed Alexander Options | | Potential Share Capital | Total Potential Dilution |
|--|---|---------------------------|----------------------------------|---|----------------------------|--------------------------------|
| Current Shares on issue | A | 120,740,349 | 2,000,000 | С | 122,740,349 | 1.7% |
| Halgreen Options and DDA Options are also approved, issued and exercised | | 10,000,000 | | | | |
| | В | 130,740,349 | 2,000,000 | D | 132,740,349 | 1.5% |

Legend for Table 8

A – total Share capital of the Company as at the date of this Notice.

B – total Share capital of the Company assuming that the Halgreen Options and the DDA Options are approved by Shareholders, issued and exercised.

C – A plus the additional Shares if all the Alexander Options are approved by Shareholders, issued and exercised.

D – B plus the additional Shares if all the Alexander Options are approved by Shareholders, issued and exercised.

Further information required for Shareholders

In accordance with the requirements of Chapter 2E and, in particular, sections 219 and 221 of the Corporations Act and Listing Rule 10.13, the following information is provided to Shareholders to allow them to assess the proposed grant of the Alexander Options pursuant to Resolution 4:

- (h) being a Director, Mr Alexander is a Related Party of the Company to whom the financial benefit would be given by virtue of section 228(2)(a) of the Corporations Act (or in the case of his nominee(s), sections 228(2)(d) or 228(4) of the Corporations Act);
- (i) the nature of the financial benefit to be given is the grant of 2,000,000 Options on the terms set out in Annexure C to this Explanatory Memorandum;
- (i) the Alexander Options will be issued within one month of the date of the Meeting;
- (k) Mr Alexander is not entitled and does not wish to make a recommendation to Shareholders regarding Resolution 4 on the basis that he has an interest in the outcome of the Resolution;
- (I) the Alexander Options are to be granted for no cash consideration;
- (m) an estimate of the value of the Alexander Options is set out below as follows:

Table 9 Estimate of Value of Alexander Options

| | Director | Number of Director Options | Estimated value using Black-Scholes Model |
|--------------|---------------------|-------------------------------|--|
| Resolution 4 | Alexandre Alexander | 2,000,000 | \$85,740 |

The estimated value of the Alexander Options \$85,740 using the Black-Scholes model. The estimated value of the Alexander Options was calculated using the following assumptions (which are identical to the assumptions used in the Independent Expert's Report in relation to the valuation of the DDA Options as the Halgreen Options have the same material terms as the DDA Options):

- (xii) the valuation date is 19 February 2016;
- (xiii) risk free rate of 2.43%;
- (xiv) share price of \$0.09 (1 month volume weighted average price as at 19 February 2016);
- (xv) dividend yield of 0%;
- (xvi) the Alexander Options will expire on 19 February 2016; and
- (xvii) the exercise price for the purpose of this valuation is \$0.20;
- (n) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision as to whether it is in the best interests of the Company to pass Resolution 4 other than as follows:

- (vi) if all of the Alexander Options the subject of Resolution 4 are granted and exercised, the Company's fully paid Share capital (based on the existing number of Shares and assuming all other things remain equal) will be diluted by 1.7%;
- (vii) if all of the Alexander Options the subject of Resolution 4 are granted and exercised, the Company's fully paid Share capital (based on the existing number of Shares, assuming the Halgreen Options and the DDA Options are approved by Shareholders, issued and exercised and assuming all other things remain equal) will be diluted by 1.5%;
- (viii) the Directors consider that the incentive represented by the grant of Options is a cost effective and efficient incentive when compared to other forms of incentive such as cash, bonuses or increased remuneration;
- (ix) the primary purpose of the grant of the Alexander Options is to compensate Mr Alexander for work undertaken above and beyond his role as a non-executive Director and further, to provide an incentive to Mr Alexander. Given this purpose, the Directors do not consider that there is any opportunity cost, adverse taxation implications or benefit foregone to the Company in granting the Options the subject of Resolution 4 (other than as set out below); and
- (x) the Board has examined carefully the remuneration package of Mr Alexander. As part of the examination, the Board has reviewed the remuneration packages of industry non-executive Chairmen directors in similar roles. Based on this examination, the Board has concluded that the total remuneration package of Mr Alexander, including the equity component of 2,000,000 Options now considered for approval by Shareholders, is fair and reasonable in the circumstances of the Company, in light of his experience and knowledge of the diamond mining and minerals exploration industry.

The Directors do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in respect of the proposed issue of Alexander Options pursuant to Resolution 4, other than, if the Alexander Options are exercised when the market price of the Shares is greater than the exercise price of the Alexander Options, there will be a detriment insofar as the Company will be required to issue Shares at a lower price than it might otherwise have been able to, with the result that less funds will be raised. Any funds raised from the exercise of the Alexander Options will supplement the Company's working capital requirements. The Directors do not consider that there are any adverse taxation implications to the Company in granting the Alexander Options.

The latest available price of the Shares quoted on the ASX prior to the date of this Notice on 16 March 2016 was \$0.10.

Listing Rule 7.1

Listing Rule 7.1 provides that prior approval of Shareholders is required for an issue of Equity Securities if the Equity Securities will, when aggregated with the Equity Securities issued by a company during the previous 12 months, exceed 15% of the number of ordinary securities on issue at the commencement of that 12 month period.

Approval pursuant to Listing Rule 7.1 is not required (under Exception 14 to Listing Rule 7.1) in order to issue the Alexander Options to Mr Alexander or his nominee(s) as approval is being obtained under Listing Rule 10.11.

Shareholders should note that the issue of Equity Securities to Mr Alexander or his nominee(s) will not be included in the 15% calculation for the purpose of Listing Rule 7.1.

Directors' Recommendation

The Board (other than Mr Alexander) recommends that Shareholders vote in favour of Resolution 4. As Mr Alexander has an interest in this Resolution, he makes no recommendation in relation to Resolution 4.

Resolution 5 Approval of Employee Share Option Plan

Resolution 5 seeks to approve the ESOP, and for the issue of Options under the ESOP, for the purposes of Listing Rule 7.2 Exception 9, and for all other purposes.

Background

The ESOP provides the Board with the discretion to invite eligible employees (including Directors) to subscribe for Options to acquire Shares in the Company as part of the Company's employee incentive arrangements. The Board considers that, in the Company's current circumstances, Options are a cost effective and efficient incentive for eligible employees as opposed to alternative forms of incentives such as cash bonuses or increased remuneration. The Company needs to be able to attract experienced and competent employees who can assist the Company in achieving its business objectives. The ESOP will give the Company the option of including incentive based remuneration to attract and retain such employees.

The Company previously had an ESOP in place, however, this expired in mid-2014. Under the previous ESOP, a total of 5,000,000 Options were issued. All Options have now expired. 398,000 Options were converted to Shares in 2014 under this ESOP.

The rules of the ESOP are reproduced in Annexure D to this Explanatory Statement.

Listing Rule 7.2, Exception 9

Listing Rule 7.1 provides that without the approval of the holders of ordinary securities, an entity must not issue or agree to issue equity securities which amount to more than 15% of its issued share capital in any rolling 12 month period. However, Listing Rule 7.2 sets out a number of exceptions to Listing Rule 7.1. These exceptions include Exception 9 which is an issue under an employee incentive scheme if within 3 years before the date of issue the holders of ordinary securities have approved the issue of securities under the scheme as an exception to this rule. Shareholders are accordingly being asked to approve the ESOP and issue of Options under the ESOP for the purposes of this Listing Rule.

Directors' Recommendation

The Board recommends that Shareholders vote in favour of Resolution 5.

ANNEXURE A TERMS OF DDA OPTIONS

- 1. Each option gives the holder a right to subscribe (in cash) for one fully paid ordinary share in the capital of the Company at an exercise price of \$0.20 per option (**Exercise Price**).
- 2. Ordinary shares issued as the result of the exercise of an option will rank equally in all respects with previously issued ordinary shares in the capital of the Company.
- 3. All registered optionholders will be entitled to receive and will be sent all reports and accounts required to be presented to members in general meeting and all notices of general meeting of members, but will not be entitled to attend or vote at such meeting unless they are, in addition to being optionholders, members.
- 4. Each option is exercisable during the Exercise Period.
- 5. The Exercise Period commences on the date of issue of the options (**Issue Date**) and expires at 5:00pm Sydney time on the day that is three years subsequent to the Issue Date.
- 6. When the options are exercised, an optionholder holding 2,000 or fewer options must exercise all of the options. An optionholder holding more than 2,000 options may exercise those options only in multiples of 2,000 except in a case where the number held is not a multiple of 2,000. In that case the holder may exercise a number of options which is 2,000 or a multiple of 2,000, plus a number less than the next multiple of 2,000 so that, after the exercise, the number of options then held by that holder is either 2,000 or a multiple of 2,000.
- 7. Where the options are certificated, they are exercisable by completing the notice of exercise which appears on the back of each option certificate (or a notice in that form) and delivering the notice with payment of the Exercise Price for the number of options being exercised to the registered office of the Company, during the Exercise Period.
- 8. Where the options are certificated CHESS eligible securities, they are exercisable by completing a notice of exercise in the form of the notice attached to the option holding statements and delivering it with payment of the Exercise Price for the number of options being exercised to the registered office of the Company during the Exercise Period.
- 9. A notice of exercise is only effective when the Company has received the full amount of the relevant Exercise Price in cleared funds.
- 10. Within 10 Business Days of receipt of an effective valid notice of exercise, the Company will allot and issue the number of fully paid ordinary shares in the capital of the Company required under these terms and conditions in respect of the number of options specified in the notice of exercise.
- 11. The options are not transferable.
- 12. At the time of exercise of an option, the Company will apply to ASX for official quotation of the shares issued upon exercise of the options within the time period required by the Listing Rules.
- 13. If at any time the issued capital of the Company is reorganised or reconstructed, the rights of all registered optionholders will be changed to the extent necessary (including as to the Exercise Price) to comply with the Listing Rules applying to the reorganisation or reconstruction of capital at the time of the reorganisation or reconstruction and in all other respects the terms of the options will remain unchanged.
- 14. If at any time during the currency of the options, any bonus shares in the capital of the Company are issued credited as fully paid by way of capitalisation of reserves or of undistributed profits, the number of ordinary shares underlying the options then held by each optionholder will be increased by a number equal to the number of such bonus shares which would have been issued to that optionholder if the options then held (including options exercised but in response to which exercise shares had not yet been allotted or if allotted, not yet registered) were shares.

- 15. The options do not permit an optionholder to participate in a new issue of securities by the Company to existing shareholders unless and until the optionholder exercises the options and assumes the rights of a shareholder.
- 16. Except as specifically provided in these terms, an option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the option can be exercised.

ANNEXURE B INDEPENDENT EXPERT'S REPORT

INDEPENDENT EXPERT'S REPORT

Kimberley Diamonds Ltd

In relation to agreements entered into with a related party

16 March 2016







This Financial Services Guide is issued in relation to an independent expert's report (**Report** or **IER**) prepared by BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (**BDOCF**) at the request of the directors (**Directors**) of Kimberley Diamonds Ltd (**KDL** or **the Company**).

Engagement

The IER is intended to accompany the Notice of Extraordinary General Meeting and Explanatory Memorandum (Transaction Document) that is to be provided by the Directors of KDL to assist the shareholders of KDL (KDL Shareholders) in determining whether to approve the proposed related party transactions (Proposed Transactions).

Financial Services Guide

BDOCF holds an Australian Financial Services Licence (License No: 247420) (Licence). As a result of our IER being provided to you BDOCF is required to issue to you, as a retail client, a Financial Services Guide (FSG). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of an Australian Financial Services Licence.

Financial services BDOCF is licensed to provide

The Licence authorises BDOCF to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

BDOCF provides financial product advice by virtue of an engagement to issue the IER in connection with the issue of securities of another person.

Our IER includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our IER (as a retail client) because of your connection with the matters on which our IER has been issued.

Our IER is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the IER.

General financial product advice

Our IER provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to voting on the Proposed Transactions described in the Transaction Document may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDOCF may receive

BDOCF will receive a fee based on the time spent in the preparation of the IER in the amount of approximately \$35,000 (plus GST and disbursements). BDOCF will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, does not have any pecuniary or other interests that could reasonably be

regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of BDOCF or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our IER was provided.

Referrals

BDOCF does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that BDOCF is licensed to provide.

Associations and relationships

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. The directors of BDOCF may also be partners in BDO East Coast Partnership, Chartered Accountants and Business Advisers.

BDO East Coast Partnership, Chartered Accountants and Business Advisers are comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients.

BDOCF's contact details are as set out on our letterhead.

BDOCF is unaware of any matter or circumstance that would preclude it from preparing the IER on the grounds of independence under regulatory or professional requirements. In particular, BDOCF has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and Australian Securities and Investments Commission (ASIC).

Complaints resolution

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance (East Coast) Pty Ltd, Level 11, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited (FOS). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. BDOCF is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited GPO Box 3 Melbourne VIC 3001

Toll free: 1300 78 08 08
Email: info@fos.org.au



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The Directors
Kimberley Diamonds Ltd
Level 39, Australia Square Tower
264-278 George Street
SYDNEY NSW 2000

16 March 2016

Dear Directors

INDEPENDENT EXPERT'S REPORT IN RELATION TO THE AGREEMENTS ENTERED INTO WITH A RELATED PARTY

Introduction

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (BDOCF, we, us or our) has been engaged by the Directors (Directors) of Kimberley Diamonds Ltd (KDL or the Company) to prepare an independent expert's report (Report or IER), setting out our opinion as to whether the related party transactions with DDA Trading BVBA (DDA) are fair and reasonable to the non-associated shareholders of KDL (Non-associated Shareholders).

Proposed Transactions

KDL has announced that its wholly owned subsidiary, Lerala Diamond Mines Limited (Lerala), has entered into the following agreements with DDA:

- Diamond Marketing and Sales Agreement The key terms of the agreement are as follows:
 - Lerala will appoint DDA as exclusive sales and marketing agent for the diamonds produced by Lerala Diamond Mine for a period of three years (with an option to renew for a further two years) and will be paid commission of 1.75% on diamonds sold, plus reasonable expenses (DDA Commission)
 - For the first six months of the Sales and Marketing Agreement, DDA will provide Lerala with a working capital loan facility of up to US\$2.8 million (DDA Loan), secured by collateral of diamonds produced by Lerala, with the right, title and interest of such diamonds to be transferred to DDA until such time as the relevant portion of the loan which those diamonds secure is repaid (DDA Security)
 - Lerala to pay 10% interest per annum to DDA on any amounts outstanding under the DDA Loan (DDA Interest)
 - KDL will issue to DDA 5,000,000 options with an exercise price of \$0.20 per option (**DDA Options**) as consideration for DDA agreeing to provide the DDA Loan and that Lerala may on-lend the advances to KDL.
- Offtake Agreement The key terms of the agreement are as follows:
 - Lerala will enter into an offtake agreement with DDA for the supply to DDA of US\$5 million worth of diamonds at a discount of 10% to an agreed valuation (DDA Offtake)
 - The first shipment is scheduled to occur in December 2016, however any shipments which occur after December 2016 will be subject to Lerala having satisfied its obligations under another offtake agreement entered prior to this DDA Offtake
 - The parties agree that DDA will produce a valuation report for each shipment of rough diamonds and if Lerala disagree with the valuation report, it can elect that DDA sells the rough diamonds. DDA will then withhold 10% of the purchase price paid for the diamonds instead of the 10% discounted price of the valuation.

Together the Diamond Marketing and Sales Agreement and the Offtake Agreement are referred to as the Proposed Transactions. The diamonds for sale under the Diamond Marketing and Sales Agreement are not included as part of the diamonds for sale under the Offtake Agreement.



Although there are other conditions applicable, the key condition precedent for the Proposed Transactions is the approval from the shareholders of KDL (KDL Shareholders).

The Directors have indicated that DDA may become a related party to KDL at a point in time within six months of the Proposed Transactions.

Resolution 2 of the Notice of Extraordinary General Meeting and Explanatory Memorandum (**Transaction Document**) seeks KDL Shareholders' approval pursuant to Chapter 2E of the Corporations Act 2001 (Cth) (the **Act**), Australian Securities Exchange (**ASX**) Listing Rule 10.1 Approval required for certain acquisitions or disposals (**Listing Rule 10.1**) and ASX Listing Rule 10.11 Approval required for an issue of securities (**Listing Rule 10.11**).

Purpose of Report

On the basis that DDA may become a related party to KDL, the DDA Security and DDA Offtake are considered disposals of substantial assets to a related party under Listing Rule 10.1. Accordingly, we have been appointed by the Directors to prepare an IER setting out our opinion as to whether the Proposed Transactions are fair and reasonable to the Non-associated Shareholders in accordance with Chapter 2E of the Act and ASX Listing Rule 10.1.

Given the Diamond Marketing and Sales Agreement and Offtake Agreement are interdependent, we have had regard to the Proposed Transactions as a whole in forming our opinion.

This Report is to accompany the Transaction Document required to be provided to the Non-associated Shareholders entitled to vote on the Proposed Transactions and is prepared to assist the Non-associated Shareholders in their considerations of whether or not to approve the Proposed Transactions.

Summary of opinion

We have considered the terms of the Proposed Transactions as outlined in the body of this Report and have concluded that the Proposed Transactions are fair and reasonable to the Non-associated Shareholders.

A summary of our analysis in forming the above opinion is provided below.

Fairness assessment

In undertaking our fairness opinion we have had regard to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 Content of expert reports (RG 111).

Paragraphs 52 to 63 of RG 111 provide guidance on related party transactions. This regulatory guide suggests that when analysing related party transactions, the expert should focus on the substance of the related party transaction rather than the legal mechanism. Where a related party transaction is made up of several separate components, the overall effect of the related party transaction should be considered.

The expert should undertake a separate test of the fairness and the advantages and disadvantages for the Non-associated Shareholders.

Further, RG 111.58 states that where the proposed transaction consists of an asset acquisition by the entity, it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

We have concluded the Proposed Transactions, as a whole, are fair to the Non-associated Shareholders with the following considerations:

- We have assessed the DDA Commission as fair given that De Beers as one of the largest supplier of rough diamonds in the world, sets out the terms of its own supply agreement with its purchasers at a fee of 1.5% on total purchases for planned supply services and some of its services are similar to that of marketing and sales services to be provided by DDA. Therefore, we have assessed the fee of 1.75% on gross revenue and auxiliary expenses to be provided DDA to be less than or equal to the value of the commercial market terms and rates observed.
- In considering the fairness of the DDA Interest, we have had regard to the cost of alternative funding sources. We have assessed the value of the DDA Interest to be equal to or less than the value of costs of funding arising from various debt and equity instruments based on the credit risk profile of KDL and/or Lerala.
- We have assessed the granting of DDA Security as fair on the basis that the potential proceeds from the sale of the secured diamonds will potentially be equal to or less than the value of the outstanding liability



which will be owing to DDA in the event of a default. If DDA was to realise the market value of the secured diamonds as at the time of the sale, it will only receive a maximum amount equal to the total outstanding liability.

- In considering the fairness of the DDA Options, we have had regard to DDA Options as additional costs of funding required by DDA to provide working capital facilities to Lerala. We have assessed the total costs of funding (i.e. DDA Options plus DDA Interest) to be fair as it falls within the range of the costs of funding for similar credit risk profile issuance.
- Based on the historical terms achieved by KDL, we note the value of the terms of the Offtake Agreement to be better than the historical terms achieved by KDL and is therefore, fair to the Non-associated Shareholders.

Based on the assessments above, the Proposed Transactions as a whole is fair to the Non-associated Shareholders.

Reasonableness assessment

In accordance with RG 111 an offer is reasonable if it is fair. On this basis, the Proposed Transactions are reasonable for KDL Shareholders.

Set out below is a summary of other factors we have considered in our reasonableness assessment.

Table 1: Summary of factors considered in the reasonableness assessment

| Advantages | |
|--|---|
| Secured offtake | The Proposed Transactions provide KDL with a guaranteed offtake of the output of the Lerala Diamond Mine. |
| Liquidity | Trading in KDL shares has been illiquid. If the Proposed Transactions are approved and implemented and that KDL becomes fully operational, this provides the KDL Shareholders with an opportunity to realise value for their shares which otherwise may be limited. |
| Provision of funding certainty | If the Proposed Transactions are approved and implemented along with a successful rights issue to raise \$4.0 million, KDL has stated that they will have access to sufficient cash to complete the commissioning of the Lerala Diamond Mine and to produce diamonds. This certainty of funding may have the impact of increasing the KDL share price and remove the going concern qualification in the KDL accounts as well as reducing the exposure to risks and uncertainties inherent in the continuing operation of KDL. |
| No alternative transactions | The Directors of KDL have considered a range of strategic options for the Company including both additional debt and equity, which has included preliminary discussions with other potential capital providers. However, the Directors have advised that there are no other sources of funding for KDL at the date of this Report. |
| Disadvantages | |
| Transaction costs | As part of the Proposed Transactions, KDL has advised it will incur transaction costs of approximately \$55,000. We note that the majority of these transaction costs will have been incurred prior to the EGM and are not dependent upon the outcome of the meeting. |
| Reduced level of diamonds available to other customers | The terms of the Proposed Transactions limit the amount of diamonds (if any) that are able to be sold to other purchasers other than DDA. There is a possibility that sales prices to other parties (recognising that these sale prices are not interdependent upon the provision of funding or guaranteed offtake volumes) may be higher than those able to be achieved from DDA. |
| Ability to raise additional funding | The granting of the DDA Security may limit the ability for KDL to raise additional finance to enable it to increase expenditure on the Lerala Diamond Mine. Given the discussion at section 6.1.4 below, this is not considered a material disadvantage. |
| Other factors | |
| If the proposal does not proceed | If the Proposed Transactions were not approved and implemented, there would continue to be a going concern issue for KDL. This would have an impact on the share price of KDL and the ability of the entity to continue operations. |
| Independent Directors recommendations and intentions | In the absence of a superior proposal and subject to the Independent Expert concluding that the Proposed Transactions are fair and reasonable, the Independent Directors have unanimously recommended that Non-associated Shareholders vote in favour of the Proposed Transactions in the absence of any other competing offer. |

Source: BDOCF analysis



Other matters

Shareholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed at an aggregate level. Accordingly, we have not considered the effect of the Proposed Transactions on the particular circumstances of individual KDL Shareholders. Some individual KDL Shareholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in this IER. Accordingly, individual KDL Shareholders may reach different conclusions as to whether or not the Proposed Transactions are fair and reasonable in their individual circumstances.

The decision of an individual KDL Shareholder in relation to the Proposed Transactions may be influenced by their particular circumstances and accordingly KDL Shareholders are advised to seek their own independent advice.

Approval or rejection of the Proposed Transactions is a matter for individual KDL Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. KDL Shareholders should carefully consider the Transaction Document. KDL Shareholders who are in doubt as to the action they should take in relation to the Proposed Transactions should consult their professional adviser. Capitalised terms used in this Report have the meanings set out in the glossary.

Current market conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time.

Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in light of material information existing at the valuation date that subsequently becomes known to us.

Sources of information

Appendix 2 to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by KDL.

Under the terms of our engagement, KDL agreed to indemnify the partners, directors and staff (as appropriate) of BDO East Coast Partnership and BDOCF and their associated entities, against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided by KDL which is false or misleading or omits any material particulars, or arising from failure to supply relevant information.

Limitations

This IER has been prepared at the request of the Directors for the sole benefit of the Directors and Non-associated Shareholders to assist them in their decision to approve or reject the Proposed Transactions. This IER is to accompany the Transaction Document to be sent to Non-associated Shareholders to consider the Proposed Transactions and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Non-associated Shareholders without our written consent. We accept no responsibility to any person other than the Directors and Non-associated Shareholders in relation to this IER.

This IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER with the Transaction Document. Apart from this IER, we are not responsible for the contents of the Transaction Document or any other document associated with the Proposed Transactions. We acknowledge that this IER may be lodged with regulatory authorities.

Summary

This summary should be read in conjunction with the attached IER that sets out in full, the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.



Currency

Unless otherwise stated, amounts are reported in Australian dollars.

Glossary

A glossary of terms used throughout this IER is set out in Appendix 1.

Financial Services Guide

BDOCF holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A financial services guide is attached to this IER.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD

Dan Taylor

Director

David McCourt

Man

Director



TABLE OF CONTENTS

| 1. | PURPOSE AND BACKGROUND | |
|---------------------------|--|-----|
| 1.1. | Purpose | . 1 |
| 1.2. | Overview of DDA | |
| 1.3. | Proposed Transactions | . 1 |
| 1.4. | Conditions precedent | . 4 |
| 1.5. | Considerations if the Proposed Transactions are approved and implemented | . 4 |
| 2. | SCOPE AND LIMITATIONS | . 5 |
| 2.1. | Scope | |
| 2.2. | Summary of Regulatory Requirements | . 5 |
| 2.3. | Basis of Assessment | . 6 |
| 2.4. | Special Value | |
| 2.5. | Reliance on Information | |
| 2.6. | Limitations | |
| 2.7. | Assumptions | |
| 3. | PROFILE OF KDL | |
| 3.1. | Overview | |
| 3.2. | Company structure | 11 |
| 3.3. | Business operations | |
| 3.4. | Location | |
| 3. 4 . 3.5. | Historical Financial Information | |
| 3.6. | Going concern | |
| 3.7. | Other matters | |
| 3.7. 3.8. | Capital Structure and Ownership. | 17 |
| 3.6. 3.9. | Share price analysis | |
| 3.9. 4. | INDUSTRY | |
| 4 . 4.1. | Overview | |
| 4.1. 4.2. | Key drivers | |
| 4.2. 4.3. | | |
| | Key markets to KDL | |
| 4.4. | | |
| 4.5. | Industry outlook | 20 |
| 5. | FAIRNESS ASSESSMENT | 27 |
| 5.1. | General considerations | |
| 5.2. | Fairness of the DDA Commission | |
| 5.3. | Fairness of the DDA Interest | |
| 5.4. | Fairness of granting DDA Security | 33 |
| 5.5. | Fairness of DDA Options | 34 |
| 5.6. | Fairness of DDA Offtake Agreement | 35 |
| 5.7. | Overall fairness conclusion. | 35 |
| 6. | REASONABLENESS ASSESSMENT | 36 |
| 6.1. | Advantages | 36 |
| 6.2. | Disadvantages | |
| 6.3. | Other factors | 37 |
| 7. | QUALIFICATIONS, DECLARATIONS AND CONSENTS | 38 |
| 7.1. | Qualifications | 38 |
| 7.2. | Independence | |
| 7.3. | Disclaimer | |
| | IIX 1: GLOSSARY | |
| APPEND | DIX 2: SOURCES OF INFORMATION | 41 |
| | DIX 3: VALUATION METHODS - BUSINESSES AND ASSETS | |
| APPEND | IIX 4 : VALUATION METHODS - DERIVATIVES | 44 |



1. PURPOSE AND BACKGROUND

1.1. Purpose

We have been appointed by the Directors to prepare an IER setting out our opinion as to whether the Proposed Transactions are fair and reasonable to the Non-associated Shareholders.

This IER is to accompany the Transaction Document required to be provided to KDL Shareholders. It has been prepared to assist and enable the Non-associated Shareholders assess the merits of the Proposed Transactions and to decide whether to approve the Proposed Transactions.

A summary of the background to the terms of the Proposed Transactions are set out below.

1.2. Overview of DDA

DDA, a Belgian incorporated party, is a diamond auction house which specialises in the sales and marketing of rough diamonds for the international diamond trade. DDA is currently not a related party to KDL however is considered to be a related party under section 228(6) of the Act as it has reasonable grounds to believe that it is likely to become a related party in the future.

1.3. Proposed Transactions

The key elements of the Proposed Transactions are as follows:

1.3.1. Diamond Marketing and Sales Agreement

Overview of the marketing and sales terms

Set out in the table below an overview of the key marketing and sales terms.

Table 2: Overview of the key marketing and sales terms

| Key terms | Details |
|----------------|--|
| Parties | • Lerala will appoint DDA as exclusive sales and marketing agent for the diamonds produced by the Lerala Diamond Mine. |
| Term | • A period of 3 years (with an option to renew for a further 2 years) and no more than 10 auctions and/or tenders of diamonds per calendar year. |
| DDA Commission | For the services, Lerala will pay DDA a fee of 1.75% on gross revenue received by Lerala for the sale of each parcel of rough diamonds plus all expenses relating to shipping between Lerala and DDA offices, taxes, out-of-pocket and other expenses reasonably incurred by DDA in the marketing and sale of the diamonds and provision of services. The DDA Commission shall not be less than US\$30,000 regardless of the sales value for each auction. |
| Sale location | Lerala will sort the produced rough diamonds for marketing and sale and deliver to DDA's office in Antwerp. Lerala's mining licence for its Lerala Diamond Mine in Botswana restricts its sale of diamonds in Botswana. Lerala has obtained an exemption from the Botswana Government to this requirement for the period from 1 April 2016 to 31 March 2017 (which it may apply to extend). During this time, diamonds may be marketed and sold from DDA's office in Antwerp. After expiry of this exemption, DDA may be required to market and sell the diamonds from Lerala's office in Gaborone, Botswana. |
| Exclusivity | Lerala may sell the rough diamonds to other parties only if such arrangements are notified to DDA and/or with consent from DDA. Lerala had notified DDA that it has entered into an offtake agreement with Restwell Investments Pty Ltd (Restwell) for the sale of US\$6 million of rough diamonds prior to entering into the Diamond and Marketing Sales Agreement. The first shipment to DDA is scheduled to occur in December 2016, however any shipments which occur after December 2016 will be subject to Lerala having satisfied its obligations under Restwell offtake agreement entered prior to this DDA Offtake. |

Source: Diamond and Marketing Sales Agreement



Overview of the DDA Loan terms

Set out in the table below an overview of the DDA Loan terms.

Table 3: Overview of the DDA Loan terms

| Key terms | Details |
|--------------|---|
| Facility | DDA agrees to advance to Lerala the following amounts (although there are other conditions applicable) on receipt of notice from Lerala: US\$0.84 million during the period 1 April 2016 to 30 April 2016. US\$1.26 million during the period 1 May 2016 to 31 May 2016. US\$2.45 million during the period 1 June 2016 to 30 June 2016, subject to full repayment of the earlier two advances. US\$1.75 million during the period 1 July 2016 to 31 July 2016, subject to full repaymen of the advance in June 2016; and US\$2.80 million, during the period 1 August 2016 to 31 August 2016, subject to full repayment of the advance in July 2016. The facility is only available within the periods indicated above and cannot be drawn down in a different time period. If Lerala requires further loans, it may request from DDA (at DDA's sole discretion) excess funds to the above agreed amounts provided it has sufficient security to secure the additional advance(s). |
| Term | First and second advances are to be repaid within the period of two to three months ending 30 June 2016. Third advance is to be repaid within a maximum period of two months to 31 July 2016. Fourth advance is to be repaid within a maximum period of two months to 31 August 2016. Fifth advance is to be repaid within a maximum period of two months to 30 September 2016. |
| DDA Interest | Interest will accrue on amount outstanding from time to time, to be computed on a daily basis on a year of 365 days as simple interest until the DDA Loan has been repaid in full, at an interest rate of 10% per annum. |
| DDA Security | Lerala grants to DDA a security interest by way of a deposit of the secured diamonds (and an proceeds thereof) to DDA to secure due and punctual payment of each advance. DDA will hold the right, title and interest in the secured diamonds until the secured diamonds are sold and the each advance is repaid in full. Secured diamonds are defined in the agreement as diamonds provided as collateral by Lerala to DDA and are given a value as follows: DDA values the rough diamonds in accordance with its usual practices, which must be reasonable and consistent with current diamond market practices; and the rough diamonds are then attributed a value of 75% of the valuation for the purposes of forming the value of the secured diamonds. Lerala must send secured diamonds progressively to DDA's office in Antwerp until the value of the secured diamonds held by DDA is equal to the following amounts: in April 2016, value of the first advance less US\$500,000; in May 2016, value of the second advance less US\$500,000; in June 2016, value of the third advance; in July 2016, value of the fourth advance; and in August 2016, the value of the fifth advance. DDA is not obliged to provide any advance at any time until it holds a sufficient value of |



Table 3: Overview of the DDA Loan terms

| Key terms | Details |
|----------------------|---|
| Events of Default | If: Lerala or KDL suffer from an insolvency event; or Lerala fails to repay DDA the amount of any of the advances in accordance with terms above, then an event of default will be deemed to have occurred and the outstanding loan is immediately due and payable to DDA. Any sale of the secured diamonds must be undertaken by DDA in good faith, on an |
| | arms-length basis and consistent with normal commercial practices. DDA has the right to sell the secured diamonds and pay its fees and expenses first and foremost, then any outstanding amount owing and any surplus to or at the direction of Lerala. If DDA wishes to exercise its right above, it must provide Lerala with written notice that it has exercised this right. |
| Conditions precedent | DDA will advance the DDA Loan when the following conditions precedent are satisfied: mining has commenced at the Lerala Diamond Mine on or before 31 March 2016, or at an agreed date; processing has commenced on or before 15 April 2016, or at an agreed date; the Directors provide DDA a statement in each notice that Lerala is solvent and a going concern; and the secured diamonds in respect of each advance are received by DDA. |

Source: Diamond and Marketing Sales Agreement

Overview of the DDA Options

As consideration for DDA agreeing to provide the DDA Loan to Lerala, and for the agreement by DDA that Lerala may on-lend the funds to KDL, KDL agrees to issue the Options to DDA or its nominee(s), subject to KDL Shareholders' approval.

Set out in the table below an overview of the key terms of the DDA Options in the Diamond and Marketing Sales Agreement.

Table 4: Overview of the key terms of the DDA Options

| Key terms | Details |
|----------------------|---|
| Number of Options | • 5,000,000 Options |
| Exercise price | • \$0.20 per Option |
| Term | Three years from the date of issue |
| Right | • Each Option gives DDA (or its nominee(s)) a right to subscribe (in cash) for one fully paid ordinary share in KDL |
| Transferability | The DDA Options are not transferable |

Source: Diamond and Marketing Sales Agreement

1.3.2. Offtake Agreement

Set out in the table below an overview of the key terms in the Offtake Agreement.

Table 5: Overview of the key terms of the Offtake Agreement

| Key terms | Details |
|-----------|--|
| Quantity | DDA shall buy from Lerala rough diamonds produced by the Lerala Diamond Mine without any |
| | deletion or addition to the total value of at least US\$5.0 million. |



Table 5: Overview of the key terms of the Offtake Agreement

| Key terms | Details |
|-----------|---|
| Price | Price will be determined based on DDA's valuation of the rough diamonds less 10%. If Lerala does not agree with DDA's valuation, it can elect to require DDA to sell the rough diamonds as agent of Lerala, and DDA will withhold 10% of the price actually received in lieu of valuation less the 10% price discount. |
| Delivery | The rough diamonds are to be shipped to DDA in Antwerp by 31 March 2017 or such later date until the total quantity to be produced has been provided in full. Lerala expects to commence mining sometime in April 2016 with the first diamond sales expected in June 2016. If there is any delay and Lerala has not commenced selling rough diamonds by August 2016, the parties will discuss amendments to timing. |
| Shortfall | Lerala has obtained approval from the Botswana Government to sell its diamonds outside of Botswana from 1 April 2016 to 31 March 2017. If this approval is revoked, a required Botswana Government Approval is not obtained, or the total quantity is not delivered on or prior to 31 March 2017, the parties agree that either: a) DDA may, in its discretion, take actions to allow sale of the rough diamonds to take place in Botswana or any such other conditions imposed by the Botswana Government; or b) if (a) is not elected by DDA, then the Offtake Agreement will terminate immediately and the quantity (in whole or in part) outstanding will not be sold to DDA. |

Source: Offtake Agreement

1.4. Conditions precedent

The Proposed Transactions are subject to various conditions. Although there are other conditions applicable, the key condition precedent is the approval of the Proposed Transactions by KDL Shareholders.

1.5. Considerations if the Proposed Transactions are approved and implemented

If the Proposed Transactions are approved by the Non-associated Shareholders and implemented by KDL:

- The DDA Loan will help to allow Lerala to put the Lerala Diamond Mine in production and along with the proceeds of a rights issue, is expected to provide sufficient funds for the mine to operate in its early months until such time as it becomes cash flow positive.
- Ability to produce rough diamonds and sell in Antwerp, where higher rough diamond trades are expected, within the timeframe allowed by the Botswana Government.
- Lerala will provide DDA Security over rough diamonds in accordance to the value of the DDA Loan to DDA.
- A small dilution to KDL Shareholders will occur as a result of the issue of DDA Options on exercise.



2. SCOPE AND LIMITATIONS

2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether the Proposed Transactions are fair and reasonable to the Non-Associated Shareholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

The assessment of whether the Proposed Transactions are fair and reasonable to the Non-associated Shareholders involved determining the fair market value of various securities, assets and liabilities.

For the purposes of our opinion, the term "fair market value" is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

2.2. Summary of Regulatory Requirements

The Directors have engaged us to prepare a Report in relation to the Proposed Transactions to satisfy the requirements of:

- Chapter 2E of the Act.
- Listing Rule 10.1.

The regulatory requirements relevant to this IER are summarised below.

2.2.1. Chapter 2E

Section 208 of Chapter 2E of the Act states that for a public company or an entity that the public company controls (i.e. Lerala), to give a financial benefit to a related party of the public company, the public company must:

- a) obtain the approval of the public company's shareholders in the manner set out in sections 217 to 227 of the Act; and
- b) give the financial benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Act.

ASIC Regulatory Guide 76 (RG 76) sets out ASIC's approach to related party benefits and states that it may be necessary for entities to include a valuation from an independent expert with a notice of meeting for member approval under Chapter 2E where:

- a) the financial benefit is difficult to value;
- b) the transaction is significant from the point of view of the entity (RG 76.112); or
- c) the non-interested directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit.

Each of the DDA Commission, the DDA Security, the DDA Offtake and the DDA Options constitute the giving of a financial benefit. Accordingly, Non-associated Shareholder approval is required to be sought for the Proposed Transactions in accordance with Chapter 2E of the Act.

We note that RG 111.63 provides that an expert needs only conduct one analysis of whether the transaction is fair and reasonable, even if the report has been prepared for a reason other than the transaction being a related party transaction.

2.2.2. Listing Rule 10.1

Listing Rule 10.1 provides that an entity (or any of its subsidiaries), must not acquire a substantial asset from, or dispose of a substantial asset to, a related party or substantial holder or an associate of a related party or a substantial holder without shareholders' approval.

The Directors have indicated that DDA may become a related party to KDL at a point of time within six months of the Proposed Transactions. Therefore, DDA is a related party of KDL for the purposes of section 228(6) of the Act, and accordingly for the purposes of Listing Rule 10.1.



A "substantial asset" is an asset valued at greater than 5% of the equity interests of a company as set out in the latest accounts given to the ASX. Based on the Company's 2015 Annual Report, the Company's equity interest is \$1.46 million as at 30 June 2015. 5% of this amount is \$73,000. As the DDA Security and the DDA Offtake have been valued in excess of this amount, they are considered "substantial assets" and require Non-associated Shareholder approval under Listing Rule 10.1. The value of the DDA Security and the DDA Offtake are provided as follows:

- a) DDA Security: value of debt secured will be up to approximately US\$2.8 million
- b) DDA Offtake: US\$5 million.

Accordingly, the Directors have requested us to prepare a Report, stating whether the Proposed Transactions are fair and reasonable to the Non-associated Shareholders.

2.3. Basis of Assessment

In determining whether the Proposed Transactions are fair and reasonable to the Non-associated Shareholders we have had regard to:

- RG 111 Content of expert reports
- Regulatory Guide 112 Independence of experts (RG 112).

In particular, RG 111 establishes guidelines in respect of independent expert reports under the Act.

RG 111 establishes two distinct criteria for an expert analysing a related party transaction. The tests are:

- Is the offer 'fair'?
- Is it 'reasonable'?

That is, the terms fair and reasonable are regarded as separate elements and are not regarded as a compound phrase.

Fair

In undertaking our fairness opinion we have had regard to RG 111.

RG 111.58 states that where the proposed transaction consists of an asset acquisition by the entity, it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

We have formed our opinion in relation to fairness by comparing the Proposed Transactions as a whole as detailed below.

- We have assessed the fairness of the terms of the Diamond Marketing and Sales Agreement with consideration to the following:
- Compared the terms of the DDA Commission against publicly available reference market terms to ensure that they are fair to the Non-associated Shareholders and no net financial benefits are accrued to DDA.
- Compared the DDA Interest to alternative funding sources to ensure that the terms are fair to the Non-associated Shareholders and no net financial benefits are accrued to DDA.
- Compared the proceeds of the sale of the assets under the DDA Security and the value of liability owing to DDA in the event of a default.
- Compared the terms of the DDA Options against the risks undertaken by DDA as a whole for providing the DDA Loan to ensure that they are fair to the Non-associated Shareholders and no net financial benefits are accrued to DDA.
- We have assessed the fairness of the terms of the Offtake Agreement against historical terms achieved by KDL to ensure that they are fair to the Non-associated Shareholders and no net financial benefits are accrued to DDA.



Reasonable

In accordance with paragraph 12 of RG 111, an offer is 'reasonable' if it is 'fair'. An offer could be considered 'reasonable' if there are valid reasons to approve it notwithstanding that it may not be regarded as 'fair'.

In considering whether the Proposed Transactions are reasonable to the Non-associated Shareholders, we have considered a number of factors including:

- The implications to KDL and the Non-associated Shareholders if the Proposed Transactions are not approved.
- Advantages and disadvantages associated with the Proposed Transactions as required by RG 111.
- Costs and risks associated with the Proposed Transactions that may affect the Non-associated Shareholders.
- The likelihood of alternative transactions.

General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Proposed Transactions. In preparing the IER we considered the necessary legal requirements and guidance of the Act, ASIC Regulatory Guides and commercial practice.

The IER also includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time
 within the last two years, between BDO East Coast Partnership or BDOCF and any of the parties to the
 Proposed Transactions.
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- We have been appointed as independent expert for the purposes of providing an IER for the Transaction Document.
- That we have relied on information provided by the board of Directors of KDL (Board) and management of KDL and that we have not carried out any form of audit or independent verification of the information provided.
- That we have received representations from the Board in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

Prior to accepting this engagement, we considered our independence in regard to KDL with reference to RG 112.

BDOCF and BDO East Coast Partnership have provided a range of services to KDL including acting as the independent external auditor (for the half year ended 31 December 2015) and conducting limited scope financial and tax due diligence procedures in relation to its proposed acquisition of all the shares in Gem Diamonds Australia Holdings Pty Ltd as the 100% owner of Kimberley Diamond NL in 2013. In addition, BDO East Coast Partnership's tax practice was engaged to undertake income and payroll tax compliance work as well as advice on the tax consequences of undertaking the Proposed Transactions. The advice provided did not give any recommendations in relation to the Proposed Transactions and is not considered to be strategic of operational planning work in relation to RG 112.

It is our opinion that the above mentioned existing and historical relationships do not impact on our ability to provide an independent and unbiased report in the context of the Proposed Transactions. In our opinion we are independent of KDL.

2.4. Special Value

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the particular potential acquirer of potential economies of scale, reduction in competition,



other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

2.5. Reliance on Information

This IER is based upon financial and other information provided by the Board and management of KDL. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transactions are fair and reasonable to the Non-associated Shareholders.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, KDL has agreed to indemnify BDOCF and BDO East Coast Partnership, and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.6. Limitations

We acknowledge that this IER may be lodged by the Board with regulatory and statutory bodies and will be included in the Transaction Document to be sent to the KDL Shareholders. The Board acknowledges that our IER has been prepared solely for the purposes noted in the Transaction Document and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, as to the form and context in which it may appear.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities in respect of KDL. We understand that the Board has been advised by legal, accounting, tax and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the Board or their advisors.

We note that the IER does not deal with the individual investment circumstances of KDL Shareholders and no opinion has been provided in relation to same. Some individual KDL Shareholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transactions are fair and reasonable. An individual KDL Shareholder's decision in relation to the Proposed Transactions may be influenced by their particular circumstances and, therefore, Non-associated Shareholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Transaction Document or any other document. We have provided consent for inclusion of the IER in the Transaction Document. Our consent and the Transaction Document acknowledge that we have not been involved with the issue of the Transaction Document and that we accept no responsibility for the Transaction Document apart from the IER.



2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- Assumptions outlined in the fairness sections.
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed.
- Information sent out in relation to the Proposed Transactions to KDL Shareholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects.
- Publicly available information relied on by us is accurate, complete and not misleading.
- If the Proposed Transactions are implemented, that it will be implemented in accordance with the stated terms.
- The legal mechanisms to implement the Proposed Transactions are correct and effective.
- There are no undue changes to the terms and conditions of the Proposed Transactions or complex issues unknown to us.



PROFILE OF KDL

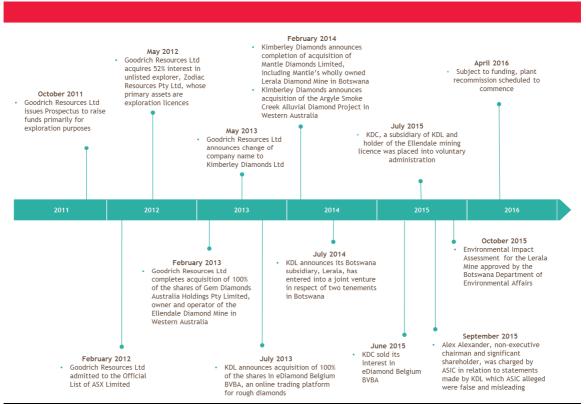
3.1. Overview

KDL is an Australian mineral resources exploration company that specialises in diamond mining and owns a number of exploration rights and assets globally.

KDL was originally incorporated as Goodrich Resources Ltd in May 2011 with headquarters in Sydney, Australia. It focussed on gold and copper-gold tenements in New South Wales and the Northern Territory. The Company was listed on ASX on 22 February 2012 following a \$3.5 million initial public offering.

Chronological order of key events of KDL is illustrated below:

Table 6: Chronological events



Source: KDL management, 2013, 2014 and 2015 KDL Annual Reports

On 4 February 2013, the Company announced the acquisition of Kimberley Diamond Company NL (KDC), operator of the Ellendale Diamond Mine, from Gem Diamonds Limited. On 26 April 2013, the Company was renamed KDL.

On 22 July 2013, KDL announced it had entered into an agreement with eDiamond International Limited to acquire 100% of the shares in eDiamond Belgium BVBA (eDiamond) (now DDA). The acquisition of eDiamond gave KDL the ability to immediately conduct future sales through an already established proprietary office in Antwerp, Belgium.

In February 2014, KDL announced it had completed the acquisition of Mantle Diamonds Limited, including Mantle's wholly owned subsidiary Lerala, owner of Lerala Diamond Mines in Botswana, Africa, which was on care and maintenance at the time of acquisition.

On 1 July 2015, Kimberley Diamonds resolved to place its subsidiary, KDC into voluntary administration. KDL cited the negative impact on revenue due to lower diamond prices, as well as to lower recovered grades and lower size distributions. The Company specifically referred to prices achieved in the week leading up to 1 July 2015 at an auction in Antwerp were significantly lower than those forecasted. As a result, KDC was unable to continue trading solvently and was placed into external administration.

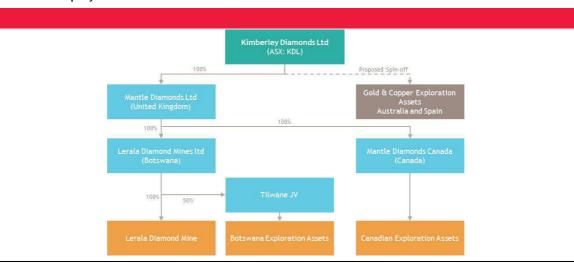
In KDL's 2015 Annual Report, the Company confirmed that the Lerala Diamond Mine has become KDL's new operational focus, and will become KDL's key source of revenue once mining recommences.



3.2. Company structure

An overview of KDL's company structure is illustrated below:

Table 7: Company structure



Source: KDL management

3.3. Business operations

3.3.1. Lerala Diamond Mine

The Lerala Diamond Mine is located in North-East Botswana. It comprises a cluster of five diamondiferous kimberlite pipes totalling 6.66 hectares in size, together with a processing and recovery facility with a nominal capacity of 200 tonnes per hour. The mine was on care and maintenance at the time of acquisition, and KDL intends to bring the mine back into production in 2016.

Lerala Diamond Mine has a 15 year fully permitted mining license covering an area of 21.86 square kilometres. The tables below provide details of the indicated and inferred resources at the Lerala Mine.

Table 8: Mineral Resources Summary as at 31 December 2015

| Zone | Resource Class | Tonnage (Mt) | Grade (cpht) | Carats (m cts) | Value (USD/ct) |
|------------------------|-------------------|-----------------|------------------|-------------------|-------------------|
| K2 | | 6.3 | 20.5 | 1.29 | \$61 |
| K3 | | 4.6 | 30.4 | 1.40 | \$79 |
| K4 | Indicated | 1.8 | 31.0 | 0.55 | \$79 |
| K5 | indicated | 2.3 | 25.7 | 0.59 | \$79 |
| K6 | | | No Indicated Res | ource | |
| ROM Stockpiles | | 0.1 | 22.5 | 0.02 | \$79 |
| Total Indicated Lerala | | 15.0 | 25.6 | 3.85 | \$73 |
| | | | | | |
| K2 | | 0.9 | 13.8 | 0.13 | \$61 |
| K3 | | 1.5 | 28.6 | 0.41 | \$79 |
| K3 marginal breccia | | 1.2 | 9.9 | 0.12 | \$79 |
| K4 | Inferred | 0.3 | 32.2 | 0.09 | \$79 |
| K5 | illerred | 0.2 | 46.1 | 0.11 | \$79 |
| K6 | | 0.4 | 28.3 | 0.12 | \$79 |
| DB tailings | | 0.4 | 5.5 | 0.02 | \$40 |
| Low grade stockpile | | 0.1 | 8.9 | 0.01 | \$79 |
| Total Inferred Lerala | | 5.1 | 20.2 | 1.01 | \$76 |
| Total Lerala | 1.0 | 20.1 | 24.2 | 4.86 | \$74 |

Source: ASX Announcement "Mineral Resource and Ore Reserve Statement - revised", 11 January 2016



Table 9: Ore Reserve Summary as at 31 December 2015

| Zone | Resource Class | Tonnage (Mt) | Grade (cpht) | Carats (k cts) | Value (USD/ct) |
|--------------------------|-------------------|-----------------|-----------------|-------------------|-------------------|
| K2 | | 3.0 | 23.8 | 0.71 | \$61 |
| K3 | Probable | 4.8 | 28.2 | 1.36 | \$79 |
| K4 | | 1.5 | 26.6 | 0.40 | \$79 |
| K5 | | 2.4 | 22.7 | 0.53 | \$79 |
| K6 | | | No Probable Res | serve | |
| Probable Reserves Lerala | | 11.7 | 25.8 | 3.01 | \$75 |

Source: ASX Announcement "Mineral Resource and Ore Reserve Statement - revised", 11 January 2016

During the financial year ended 30 June 2015 (FY15), the Company focussed on re-commissioning the Lerala Diamond Mine by progressing on the environmental approvals process, modelling technical recovery process, re-design the processing plant and tendering for potential mining contractors.

The Company in its August 2015 announcement states that Lerala Diamond Mine is expected to produce an average of 357,000 carats of diamonds per year over a mine life of 7 years and that there is also opportunity to extend the mine life.

On 29 October 2015, the Company announced that it had all regulatory approvals required to proceed with the re-opening of the Lerala Diamond Mine. In July 2015, a South African engineering company, Consulmet, was appointed to undertake the design work and modifications to the plant. The Board approved the expenditure of \$14.6 million on upfront capital items to re-commission the plant. The Company obtained debt funding for the capital expenditure from a third party lender, Zhejiang Huitong Auction Co Ltd (Zhejiang).

In its 31 December 2015 quarterly report, the Company announced that due to delays regarding the construction of a tailings dam, the plant recommissioning has been rescheduled and is currently anticipated to commence in April 2016 (subject to funding).

In February 2016, KDL announced that Lerala had entered into a diamond sales agreement with Restwell. Under the terms of the agreement, Restwell agreed to acquire US\$6.0 million worth of diamonds produced at the Lerala Diamond Mine after production commences. Restwell has agreed to pre-pay US\$1.0 million in February 2016 to Lerala. The US\$1.0 million is repayable by the supply of diamonds from Lerala to Restwell under the terms of the sales agreement.

3.3.2. Ellendale Diamond Mine and Smoke Creek Project

The Ellendale Diamond Mine and Smoke Creek Project were owned by KDC, a former subsidiary of KDL. On 1 July 2015, KDC and its subsidiaries were placed into voluntary administration by their directors, and operations were suspended at Ellendale. On 5 August 2015, the creditors of KDC voted to place KDC into liquidation, rejecting a Deed of Company Arrangement proposal put forward by KDL, which was a secured creditor of KDC.

3.3.3. Tilwane Project

Lerala, a wholly-owned subsidiary of KDL, is party to a farm-in and joint venture agreement with Tilwane Services Pty Limited, a Botswana based exploration company. The joint venture agreement is in respect of two tenements located in North-Eastern Botswana. Soil geochemistry sampling and high resolution ground magnetic surveys have been undertaken at the tenements, along with other activities to determine high priority sites for percussion drilling in order to detect the possibility of kimberlitic intrusives. A drilling program has been designed and is expected to be undertaken during FY16.

3.3.4. Lomero Project

In October 2014, the Company announced that it had been awarded the investigation permit covering the gold-rich Lomero massive sulphide deposit, located within the Iberian Pyrite Belt in southern Spain. During FY15, KDL conducted surveys and data assessments, and engaged consultants to undertake new resource estimation.



The company stated that the acquisition of the Lomero project is an important part of KDL's copper-gold strategy, which envisages the spin out of a new company focussed on copper-gold. The Company is awaiting improved market conditions to further explore the envisaged spin out.

3.3.5. Other tenements

Mantle Diamonds Limited, a wholly owned subsidiary of KDL, holds interests in joint arrangements in diamond projects in Canada (Tenby and Commonwealth exploration projects) through its own wholly owned subsidiary Tenby Resources Inc. The licences are managed by Diavik Diamond Mines under joint arrangement agreements currently free carry during the ongoing exploration phase.

KDL also holds interest in Yeoval copper-gold project in Dubbo, New South Wales.

3.4. Location

The map below illustrates the location of KDL's primary assets in Botswana, the Lerala Diamond Mine, as well as the Tilwane Project:

Namibia

DeBeers Mines

Zimbabwe

Rarowe

BK11

Ghaghoo

Jwaneng

Gaborone

South Africa

Table 10: Mine locations

Source: KDL ASX Announcements, http://www.worldofcultures.org/africa/Botswana/c_botswana.htm



3.5. Historical Financial Information

3.5.1. Financial Performance

The historical audited income statements of KDL are set out in the table below.

Table 11: Statements of financial performance of KDL

| \$'000 unless stated otherwise | FY13 | FY14 | FY15 |
|--|----------|----------|----------|
| \$ 000 miless stated otherwise | Audited | Audited | Audited |
| Revenue | 48,306 | 77,559 | 63,891 |
| Cost of sales | (37,444) | (77,613) | (70,887) |
| Gross Profit | 10,862 | (54) | (6,996) |
| Royalties and selling costs | (3,007) | (5,156) | (4,503) |
| Administration expenses | (6,409) | (10,939) | (9,368) |
| Share options expenses | (1,435) | (1,050) | 28 |
| Impairment of exploration assets | (831) | (147) | - |
| (Provision)/Release of Mine Rehabilitation Provision | 2,648 | - | 3,829 |
| Finance costs | (533) | (1,069) | (413) |
| Gain on acquisition of business | 1,539 | - | - |
| Other operating income/(expenses) | (552) | (813) | - |
| Profit/(Loss) before income tax | 2,282 | (19,228) | (17,423) |
| Income tax expense | - | (13) | (40) |
| Profit/(Loss) after income tax | 2,282 | (19,241) | (17,463) |
| Other comprehensive income/(loss) for the period, net of tax | - | (245) | 1,894 |
| Total comprehensive income/(loss) for the period | 2,282 | (19,486) | (15,569) |
| Key performance indicators | | | |
| Revenue growth | n/a | 60.6% | (17.6%) |
| EBT margin | 4.7% | (24.8%) | (27.3%) |

Source: 2013, 2014 and 2015 annual reports

Note 1: n/a - not available

In relation to the Company's income statements, we note the following:

- Revenue was volatile from FY13 to FY15, with a 60.6% increase in FY14 followed by a 17.6% decrease
 in FY15. The Ellendale Mine was the only source of revenue for the Company over the above observed
 periods to FY15. We note that KDC was placed into voluntary administration on 1 July 2015 and
 therefore, revenue from this source is unlikely to continue to FY16.
- The Profit after income tax achieved in FY13 is significantly driven by the Release of Mine Rehabilitation Provision and Gain on acquisition of business. With the removal of these two extraordinary items, the Company's profit from underlying earnings was negative (\$1.9m).
- Royalties and selling costs and administration expenses moved broadly in line with revenue each year.
- The Company's profit after income tax was negative in FY14 and FY15. In May 2014, the Company announced that it had been unsuccessful in securing a price increase in relation to the offtake agreement with Laurelton Diamonds. This price increase was required to sustain the continued economic development of part of the Ellendale Mine. Additionally, mining at part of the Ellendale Mine was suspended in June 2013 due to a rock slip. These events contributed to the negative result in FY14. FY15 results were primarily driven by lower than expected revenues achieved from the sale of diamonds from the Ellendale Mine. The 2015 Annual Report cited a 27% drop in diamonds prices achieved at auction. This was also cited as the primary reason for placing KDC into voluntary administration.



3.5.2. Historical Statements of Financial Position

The audited statements of financial position of KDL as at 30 June 2013, 30 June 2014 and 30 June 2015 are set out below:

Table 12: Statements of financial position

| \$'000 unless stated otherwise | 30-Jun-13 | 30-Jun-14 | 30-Jun-15 |
|---|------------|-------------|-------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8,830 | 13,417 | 4,959 |
| Trade and other receivables | 16,334 | 2,731 | 4,928 |
| Inventories | 18,279 | 15,100 | 8,907 |
| | 43,443 | 31,248 | 18,794 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 543 | 65 | 52 |
| Property, plant and equipment | 18,269 | 31,777 | 27,728 |
| Exploration and evaluation assets | 1,666 | 2,999 | 3,253 |
| | 20,478 | 34,841 | 31,033 |
| TOTAL ASSETS | 63,921 | 66,089 | 49,827 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10,636 | 16,274 | 15,698 |
| Interest bearing loans and borrowings | 11,034 | 1,080 | 688 |
| Income tax payable | - | 7 | (3) |
| Provisions | 2,197 | 2,102 | 1,543 |
| | 23,867 | 19,463 | 17,926 |
| NON-CURRENT LIABILITIES | | | |
| Interest bearing loans and borrowings | - | 283 | 5,040 |
| Provisions | 27,371 | 29,508 | 25,401 |
| | 27,371 | 29,791 | 30,441 |
| TOTAL LIABILITIES | 51,238 | 49,254 | 48,367 |
| EQUITY | | | |
| Issue capital | 9,972 | 35,862 | 36,086 |
| Reserves | 923 | 4,871 | 6,737 |
| Retained earnings/(accumulated losses) | 1,813 | (23,856) | (41,319) |
| Parent interests | 12,708 | 16,877 | 1,504 |
| Non-controlling interest | (25) | (42) | (44) |
| TOTAL EQUITY | 12,683 | 16,835 | 1,460 |
| Key performance indicators | | | |
| Gearing ratio (Total debt / Total assets) | 17% | 2% | 11% |
| Number of shares | 74,614,742 | 104,203,915 | 105,740,349 |
| Net assets per share | 0.17 | 0.16 | 0.01 |

Source: 2014 and 2015 annual reports

We note the following in relation to the Company's balance sheet information:

- Cash and cash equivalents fell sharply as at 30 June 2015 largely due to higher costs of operations compared to cash inflows from sales of diamonds, payments for re-commissioning of Lerala Diamond Mine and repayment of loans.
- Inventory as at 30 June 2015 were made up of Stores stock, Ore Stockpiles and Diamond Inventory of approximately \$2.1 million, \$2.2 million and \$4.7 million respectively.
- The Non-current provisions largely comprise mine rehabilitation provision. Mine rehabilitation provision was originally acquired through a business combination in FY13. The provision was recognised as the group has an obligation for the rehabilitation of its mining areas. The provision was calculated based on the total estimated rehabilitation costs over a period of 12 years. The balance of the provision rose as at 30 June 2014 primarily due to the unwinding of the discount and re-estimation of the provision. As at 30 June 2015, the balance fell due to the re-estimation of the provision.



Interest bearing debt - Tabled below is a summary of the terms on KDL's interest bearing loans.

Table 13: Interest bearing debt

| \$'000 unless stated otherwise | 2015 | 2014 | Notes |
|--------------------------------|-------|-------|-------|
| Current | | | |
| Insurance premium funding | 591 | 775 | (i) |
| Other | - | 80 | (ii) |
| Loan | 97 | 225 | (iii) |
| Non-Current | | | |
| Loan from Zhejiang | 5,040 | 283 | (iv) |
| | | | |
| Total | 5,728 | 1,363 | |

Source: 2015 annual report

- (i) This is in relation to an agreement was entered into with the insurer on 7 May 2015. Funding is for a period of 10 months with a flat fixed interest rate of 2.33% per annum.
- (ii) This is in relation to a repayment agreement between Zodiac Resources Pty Ltd and the Office of State Revenue in Western Australia. The agreement was entered into on 31 December 2013 for a period of 12 months at an interest rate of 11.5% per annum.
- (iii) Loan entered into in September 2011, with debt expected to be fully repaid in August 2015. Interest rate of 8.82% per annum.
- (iv) On 30 June 2015, the Company entered into a loan agreement with Zhejiang, a third party lender. The key terms of the loan agreement were:
 - Principal amount of \$10.0 million
 - KDL will pay interest of 5% per annum
 - Loan to be repaid in full after 2 years
 - Zhejiang may elect for \$3 million of the loan to be repaid in KDL shares at a 20% discount to the volume weighted average price of KDL's shares for the 20 business days prior to conversion
 - The loan is secured by a security interested over KDL's shares in Mantle Diamonds Limited (UK).

The first \$5.0 million under the terms of the loan agreement was received on 30 June 2015.

On 31 July 2015, KDL announced it had received a further AUD\$3.2 million under the terms of the loan agreement with Zhejiang.

On 27 August 2015, KDL announced it had received the balance of the loan funds from Zhejiang, with a total of AUD\$10 million received.

In an Investor Presentation released on 31 August 2015, the Company advised it required a further \$4.9 million to fund capital expenditure to bring the Lerala Diamond Mine project into production, plus additional funds for working capital.

In October 2015, the Company announced that Zhejiang had agreed to provide a further \$3.0 million in debt finance, under the same terms of the loan agreement previously entered into.

In January 2016, the Company announced that Zhejiang had agreed to convert \$1.5 million of its current \$12 million debt to 15 million KDL shares at a share price of \$0.10 per share. The debt as of January 2016 stood at \$12 million as only \$2.05 million of the additional \$3 million of debt financing agreed in October 2016 had been extended to the Company. The remaining funds were scheduled to be advanced in February 2016. Under the terms of the loan agreement, Zhejiang may elect for up to a further \$1.5 million of the loan to be repaid in KDL shares, subject to shareholders' approval, if required.

• Net assets per share fell by 91% as at 30 June 2015 due to the significant losses in FY15.



3.6. Going concern

The 2015 Annual Report highlighted the need for the Company to raise further additional funds via equity raisings or borrowing facilities in order to fund the future capital expenditure (primarily in relation to the Lerala Diamond Mine) and working capital requirements.

The 2015 Annual Report further stated that 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.

3.7. Other matters

We note that ASIC had on 16 September 2015 commenced proceedings against KDL's chairman, Mr Alexandre Alexander, relating to prior statements which were allegedly false and misleading. Although KDL has Directors and Officers Insurance, KDL does not have securities litigation insurance cover for the Company, and accordingly, any action against KDL will need to be funded by the Company, which has cash flow implications.

We also note that KDL placed its former subsidiary, KDC into voluntary administration in July 2015. Creditors voted to place it in liquidation and the liquidators are currently undertaking their investigations and there is a possibility that litigation may arise out of this.

Other than the above, the Company is not aware of other litigation matters currently underway, threatened or pending.

3.8. Capital Structure and Ownership

As at 19 February 2016, KDL had the following securities on issue:

Table 14: KDL securities on issue

| Security | Total | Details |
|--------------------------------------|-------------|--|
| Fully paid Ordinary Shares | 120,740,349 | 105,740,349 fully paid ordinary shares |
| | | 15,000,000 fully paid ordinary shares subject to voluntary escrow until 29 January 2017 |
| Senior Executive Incentive Scheme | - | KDL does not have any rights or options over equity on issue to Directors and other key management personnel as at 19 February 2016. |

Source: KDL management

The top 10 shareholders as at 19 February 2016 had the following holdings:

Table 15: Top 10 shareholders

| Rank | Shareholder | Securities Outstanding | % ownership |
|------|--------------------------------|---------------------------|-------------|
| 1 | Zhejiang | 12,000,000 | 9.94 |
| 2 | Country Rosy Limited | 9,606,929 | 7.96 |
| 3 | Hanking Australia Pty Ltd | 9,054,400 | 7.50 |
| 4 | Pacific Road Capital Mgnt GP | 8,146,481 | 6.75 |
| 5 | Mrs Ling Wei Dong | 7,415,211 | 6.14 |
| 6 | Summit Equities Limited | 6,933,334 | 5.74 |
| 7 | Mr Alex Alexander | 5,085,000 | 4.21 |
| 8 | ABN AMRO Clearing Sydney | 4,059,745 | 3.36 |
| 9 | Edenbridge Investments Pty Ltd | 3,403,118 | 2.82 |
| 10 | International Conveyors (Asia) | 3,300,000 | 2.73 |
| | Subtotal | 69,004,218 | 57.15 |
| | Other Shareholders | 51,736,131 | 42.85 |
| | Total securities outstanding | 120,740,349 | 100 |

Source: KDL management

The top 10 shareholders own a total equity interest of approximately 57% in the Company.

In January 2016, the Company announced that Zhejiang had agreed to convert \$1.5 million of its current \$12 million debt to 15 million KDL shares at a share price of \$0.10 per share. Of which, 12 KDL million shares are held by Zhejiang and remaining 3 KDL million shares are held by nominees.



3.9. Share price analysis

The table below summarises trades over the last 12 months up until 19 February 2016, being the latest practicable date prior to the issue of this Report.

Table 16: Volume Weighted Average Share Price of Daily Trades

| | High | Low | VWAP | Total Volume Traded | Annualised Turnover (Note 1) |
|--------------------------|------|------|------|------------------------|---------------------------------|
| | (\$) | (\$) | (\$) | ('000s) | (%) |
| As at 19 Feb 2016 | 0.10 | 0.10 | 0.10 | 20 | 4.2% |
| 5 days to 19 Feb 2016 | 0.10 | 0.10 | 0.10 | 26 | 1.1% |
| 1 month to 19 Feb 2016 | 0.10 | 0.08 | 0.09 | 719 | 7.1% |
| 3 months to 19 Feb 2016 | 0.13 | 0.06 | 0.08 | 5,278 | 19.7% |
| 6 months to 19 Feb 2016 | 0.13 | 0.06 | 0.08 | 8,477 | 15.6% |
| 12 months to 19 Feb 2016 | 0.24 | 0.06 | 0.09 | 20,860 | 19.6% |

Sources: Capital IQ; BDOCF analysis

Note 1: Annualised turnover is calculated as period turnover divided by trading days in the period, multiplied by trading days in the

year.

Legend: VWAP denotes volume weighted average share price.

We note the following with respect to KDL shares during the 12 months up until 19 February 2016, being the latest practicable date prior to the issue of this Report:

- KDL shares traded between \$0.06 per share and \$0.24 per share.
- On eight separate days over the period analysed, the daily volume traded was greater than 500,000 shares. These spikes in volume are charted below. Whilst on some days announcements to the ASX were made (which provides possible reasons for the unusual trading activity), reasons for the unusual trading activity were not always traceable to any particular event.
- Volume weighted average prices (VWAP) are observed to have been relatively consistent across the selected time periods, falling within a range of \$0.08 to \$0.10 per share.
- Trading in KDL shares has been relatively illiquid with only 19.6% of shares traded over the 12 months to 19 February 2016, and 70 out of 255 days where no trading occurred at all.



Volume (millions) Share Price \$ C 1.8 0.160 1.6 0.140 1.4 0.120 1.2 0.100 1.0 0.080 0.8 0.060 0.6 0.040 0.020 0.2 4eb.15 -S&P/ASX All Ordinaries Index Kimberley Diamonds Ltd

Table 17: Daily Closing Share Prices and Volumes from 19 February 2015 to 19 February 2016

Sources: Capital IQ; BDOCF analysis

KDL shares trading demonstrate higher volatility compared to the ASX All Ordinaries over the trading period to 19 February 2016. Factors which may have had an impact on trading in KDL shares are detailed below:

Table 18: KDL ASX Announcements

| Note | Date range(s) | Announcement Details | Share price movement over date range % | Volume (million) |
|------|-----------------------------|---|--|---------------------|
| A | 18 Mar 15 to 25 Mar 2015 | No announcements released between 18 March 2015 and 25 March 2015. Prior to those dates, the Company announced its FY15 half-yearly results on 13 March 2015. In particular, the Company reported its half-year FY15 operating loss was approximately \$9.3 million compared to half-year FY14 operating loss of approximately \$6.9 million. | -16.3% | 0.6835 |
| В | 19 May 15 to 22 May 15 | No announcements released on or around 20 May 2015. On 26 May 2015, KDL announced strong production results at Ellendale Diamond Mine. | 6.6% | 0.7173 |
| С | 2 Jun 15 to 19 Jun 15 | Kimberley Diamonds released an announcement on 2 June 2015. The company announced that its wholly owned Botswana subsidiary, Lerala Diamond Mines Limited has successfully earned a 50% interest in its Botswana joint venture over the initial 12 months of the joint venture. | 146% | 4.3848 |
| D | 22 Jun 15 to 25 Jun 15 | The Company announced the commission of resource estimation for its Lomero gold-silver copper-zinc project in Southern Spain on 22 June 2015. | 11.5% | 0.4775 |
| E | 29 Jul 15 to 31 Jul 15 | The Company announced on 31 July 2015 that it had received a further AUD\$3.2 million in loan funds from Zhejiang Huitong Auction Co Ltd. | 11.7% | 0.0642 |
| F | 13 Sep 15 to 16 Sep 15 | On 16 September 2015, ASIC announced that former Kimberly Diamonds chief and chairman, Alexandre Alexander, was charged for allegedly issuing false information to the market. | -32.2% | 0.5486 |



Table 18: KDL ASX Announcements

| Note | Date range(s) | Announcement Details | Share price movement over date range % | Volume (million) |
|------|-------------------------|--|--|---------------------|
| G | 11 Dec 15 | No announcements released on or around December 2015. The latest announcement for 2015 was in November 2015 where the Company provided an update on recent activities, in particular, the on-site civil construction work at its Lerala Mine in Botswana remained on schedule on 30 November 2015. | 7.3% | 1.1597 |
| Н | 14 Jan 16 | No announcements released on or around 14 January 2016. However, the Company released issued a mineral resource and ore reserve statement on 7 January 2016, followed by a revised statement on 11 January 2016. | -25.0% | 0.0126 |
| I | 4 Feb 16 to 9 Feb 16 | The Company announced its Botswana subsidiary, Lerala Diamond Mines Limited has entered into a diamond sales agreement with a third party, Restwell Investments Pty Ltd. | 25.0% | 0.2020 |

Source: ASX announcements



4. INDUSTRY

4.1. Overview

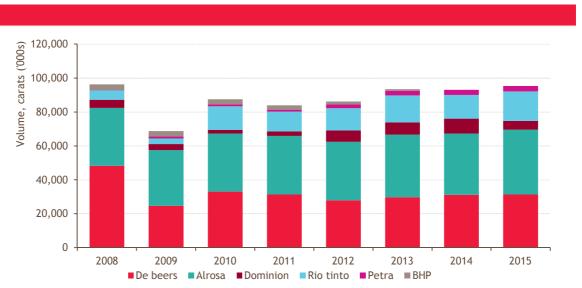
KDL owns the Lerala Diamond Mine in Botswana, Africa spanning an area of 21.86 km².

The global diamond mining industry (Industry) comprises mining, sorting and sale of rough diamonds. Diamonds can either be used for industrial and manufacturing purposes due to their strength and durability (rough diamond), or they are exported as a gem-cut product (polished diamond) used for jewellery manufacturing.

According to the World Diamond Council, approximately 30% of the diamonds mined are gem-grade whilst the remaining 70% are used for other purposes. The industrial diamonds are the smallest, lowest value stones and mostly diamonds for industrial use are now synthetically made. The gem-grade diamonds generate the most value, it represents approximately 95% of the value of production.

Set out below an illustration of the main producers of diamonds:

Table 19: Production of top diamond mining companies from 2008 to 2015



Source: www.diamonds.net; data published by ALROSA, De Beers and Anglo American, Rio Tinto, BHP Billiton and Dominion Diamond Corp and Petra Diamonds. Dominion bought its majority stake in the Ekati mine from BHP Billiton in April 2013 and BDO analysis

In 2015, ALROSA and De Beers made up 73% of total diamonds produced by the main producers. As a result of the higher volume production compared to their peers, ALROSA and De Beers have a substantial market share and are able influence the market through their supply.



Illustrated in the chart below is the production by top five diamonds producing countries in the last 10 years to 2014.

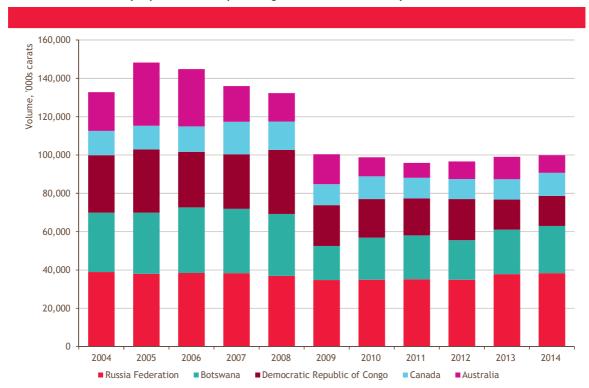


Table 20: Production by top five diamond producing countries in the last 10 years to 2014

Source: https://kimberleyprocessstatistics.org, BDO analysis

The total volume produced by the top five diamond producing countries has declined substantially since 2009 primarily from reduced supply in Democratic Republic of Congo and Botswana.

Illustrated below the top 10 diamond producing countries by volume and value:

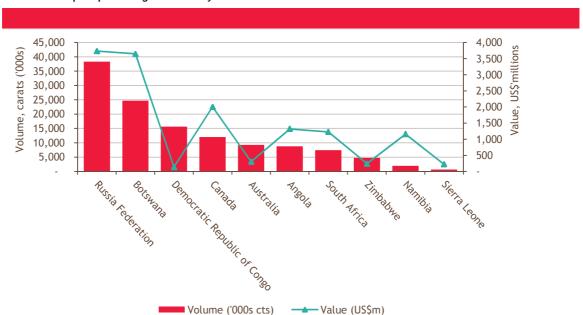


Table 21: Top 10 producing countries by volume and value in 2014

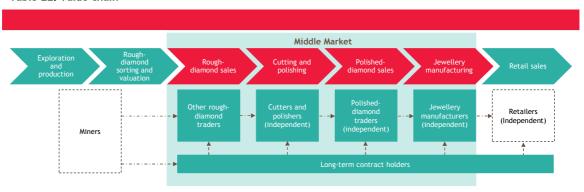
Source: https://kimberleyprocessstatistics.org, BDO analysis



Russia is the largest diamond producing country by volume and value, followed closely by Botswana. In 2014, Botswana produced US\$3.6 billion of diamonds.

The diamond supply chain is quite extensive and involves a range inputs at each stage. Uncontracted rough diamonds are typically auctioned at the main hubs in Antwerp, Israel and Dubai to the middle market that dominate diamond financing who then distribute them to retailers to sell to the public.

Table 22: Value chain



Source: The Global Diamond Report 2014 by Bain & Company, Inc.

4.2. Key drivers

Diamonds are a natural resource with limited life. Based on data for the world's 54 largest mines, the 10 largest mines are estimated to comprise approximately 61% of total global supply in 2015. Key drivers of the Industry are as follows:

- Global macroeconomic outlook: The value of production is largely driven by the rarity and uniqueness of the natural resource and sale of gem-grade quality as luxury items. Demand for diamonds generally grows in line with GDP growth.
- Limited supply of natural diamonds: Given their production volume and market share, ALROSA and De Beers have historically been price setters in the Industry and middle market players have been the price takers. The declining reserves, increasing costs and lower grades contribute to diamond pricing.
- Shift in emerging markets: Developing markets with higher socioeconomic consumers contribute to the demand for diamonds. China and India are emphasised by analysts as key drivers to future demand.
- Consumer preferences: Consumers increasingly prefer branded luxury items. Changing consumer
 preferences influence the demand for diamonds. Another change noted in consumers is that
 investment in diamonds is becoming increasing popular, especially in Asia. High-net-worth individuals
 buy rare high quality diamonds and store them away in anticipation of price appreciation.
 The investment community for diamonds is still small, estimated to be less than 1% of current diamond
 demand.
- Alternatives: As technology becomes more sophisticated gems are used as replacement for natural products and add downward pressure on pricing of natural diamonds. Lab-grown diamonds are usually 30% to 40% cheaper than its natural counterparts. However, there is no substitute for rare and unique qualities of natural diamonds. If natural diamond deposits are exhausted, there may be broader acceptance of lab-grown diamonds. Meanwhile, lab-grown diamonds are likely to have a greater impact on industrial demand than retail.

On the other hand, as high quality rough diamonds become more difficult to source and more expensive to produce, the Industry is seeing higher levels of recycled diamonds. However, sales are not occurring frequently enough to significantly impact the market.



4.3. Key markets to KDL

4.3.1. Antwerp, Belgium

KDL through the Proposed Transactions would be selling diamonds in Antwerp for a period of a year up to March 2017.

According to Antwerp Diamond Report 2014, approximately 84% of the world's rough diamonds pass through Antwerp. Antwerp remains the preferred partner and leader in the global diamond trade.

Illustrated in the chart below is the value per carat for rough diamonds (import and export) in Antwerp in the last six years to 2014.

160 140 120 100 US\$ per carat 80 60 40 20 0 2009 2012 2010 2011 2013 2014 Rough Diamond Import (US\$/cts) Rough Diamond Export (US\$/cts)

Table 23: Value per carat (import and export) in Antwerp from 2009 to 2014

Source: https://www.awdc.be/en/publications, BDO analysis

In 2011, the value of the rough diamonds per carat increased by over 50% for both imports and exports in Antwerp. The 2011 pricing appeared to have set a benchmark for the years from 2011 to 2014 with minimal volatility observed. The above observed prices in 2011 onwards are higher than analysts estimated price for global average price per carat in 2015 of US\$103 per carat.

4.3.2. Botswana, Africa

In 2014, Botswana produced approximately 20% of total volume produced by the top 10 diamond producing countries. Diamonds purchased in the region from international buyers has increased significantly due to De Beers' set up of their global sales operation in the country's capital city, Gaborone, in 2013.

The Botswana Government has implemented new policies and/or proposed changes for mining in Botswana:

- A reduction in the company tax rate from 25% to 22%
- The Botswana Government has the option of acquiring up to 15% working interest participation in each mine. Each mining licence has an initial period of 25 years
- Aim to reduce red tape and increase profitability across the sector

In the 12th Edition of Doing Business 2015 Report by the World Bank Group, Botswana ranked as the 74th country where the regulations are business-friendly. The ease of doing business index ranks economies from 1 to 189, with first place (Singapore) being the most business-friendly. Botswana is also the most creditworthy nation in Africa rated A- by S&P in 2014.



4.4. Current performance

The Industry performance has been relatively volatile over the past five years. Fluctuating production volumes and prices have underpinned this volatility.

Since the global financial crisis, the compound annual growth rate (CAGR) over the five years from 2009 for global diamond consumption was 5% for diamond jewellery and 6% for polished diamonds. Rough-diamond revenues grew 8% in 2014 due to higher sales by the top five producers. Despite the growth of the overall market, prices of rough diamonds have fallen by 15% since the beginning of 2015.

20 15 10 2009 2010 2011 2012 2013 2014

Table 24: Polished diamond sales value - growth by Geography (US\$billion, nominal)

Source: De Beers Insight Report 2015

Between the years 2010 to 2014, many new jewellery shops were opened in China and created a temporary boost in demand. Since then, China's slowing GDP growth resulted in reduced demand for diamonds from the second largest diamond market.

Rough-diamonds are generally priced in US dollars. The growing strength of the US dollar in 2014 against the currencies of these markets also contributed in lower demand for rough diamonds.

The changing macroeconomic factors and tightening credit conditions have also placed margin pressure on middle-market companies which are forced to re-evaluate their business models. De Beers and ALROSA recognised the challenges the manufacturers and dealers faced and gave them the opportunity to defer allocations of the supply. In addition, De Beers and ALROSA have cut prices for their preferred customers by around 15% in 2015. This placed pressure on smaller producers and affected their pricing and margins.

The softened retail demand in 2015 made its way down the value chain and led to falling prices and decreased rough-diamond sales.



4.5. Industry outlook

According to Bain & Company, global rough-diamond demand over the next 15 years is forecasted to grow about 3% to 4% annually, and the supply is projected to decline by 1% to 2%, resulting in a widening gap between supply and demand starting in 2019. This is largely due to fundamental supply and demand factors rather than macroeconomic volatility. Bain & Company foresees the global supply of rough diamonds declining on average by 1% to 2% annually from 2015 to 2030 due to aging and depletion of existing mines and limited supply. Analysts forecast that global average price per carat would reach approximately US\$119 in 2020, being a CAGR of 2.93% over the next five years from 2015.

China, India and the US are expected to continue to be major diamond jewellery consumers, driving rough-diamond demand. In particular, India is transitioning from an emerging diamond market to a more mature market due to middle-class expansion and engagement ring penetration. Demand from Indian market is set to rise by 8% to 9% per year in mid-term and then decelerate to 4% to 5% average annual growth.

An early start in production would assist to increase KDL's chances to strengthen its revenue and achieve profitability in the current challenging Industry conditions.



5. FAIRNESS ASSESSMENT

5.1. General considerations

5.1.1. Overview

RG 111 sets out the appropriate methodologies that a valuer should generally consider when valuing assets or securities. Details of common methodologies for valuing businesses and assets are included in Appendix 3 and details of common valuation methodologies for derivatives are included at Appendix 4.

RG 111 does not prescribe the valuation methodologies that an expert should use in preparing its report, rather an expert should exercise its own skill and judgment to choose methodologies that are appropriate in the circumstances of the entity or the asset being valued. Therefore, in determining the fairness of the Proposed Transactions, we have had regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

In undertaking our fairness opinion we have had regard to RG 111. RG 111.57 states that "the proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity."

In accordance with RG 111.11, we have considered the fair market value of the subject of the offer on the basis of "a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length".

5.1.2. Fairness assessment approach

We have formed our opinion in relation to fairness by comparing the Proposed Transactions as a whole. Our fairness assessment involves comparing the following to determine whether a financial benefit has been provided to DDA from any of the below:

Diamond Marketing and Sales Agreement

- Terms of the DDA Commission against publicly available reference market terms
- Terms of the DDA Interest to alternative funding sources
- Proceeds of the sale of the assets under the DDA Security and the value of liability owing to DDA in the
 event of a default
- The terms of the DDA Options against the risks undertaken by DDA as a whole for providing the DDA Loan.

Offtake Agreement

• Terms of the Offtake Agreement against historical terms achieved by KDL.

5.1.3. Other valuation considerations

5.1.3.1. Future events

The business of KDL to be considered in this fairness assessment is that which exists as at the current date.

Growth opportunities which may result from the commencement of production activities, business initiatives, acquisitions and the like (which are not capable of estimation), are not within the scope of this fairness assessment.

5.1.3.2. Special value

We have not considered special value in forming our opinion.

5.1.3.3. Valuation in Accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.



5.2. Fairness of the DDA Commission

5.2.1. Overview

In relation to the fairness of the DDA Commission, as discussed above, RG 111 requires the expert to compare:

- the value of the financial benefit to be provided by Lerala to DDA (that is, fee of 1.75% on gross revenue and auxiliary expenses), with
- the value of the consideration being provided to Lerala by DDA (that is, sales and marketing of rough diamonds in Antwerp and/or Botswana).

The terms of the DDA Commission is 'fair' if the fee of 1.75% on gross revenue and auxiliary expenses to be provided to DDA is equal to or less than the value of the commercial market terms and rates observed from publicly available information.

5.2.2. De Beers Supply Agreement

In 2015, De Beers Global Sightholder Sales (Proprietary) Limited (GSS) released a 2015-2018 Rough Diamond Supply Agreement (GSS Supply Agreement). The GSS Supply Agreement sets out the supply planning fee terms and conditions for applicants that qualify for an allocation of rough diamonds by GSS. These applicants would make an intention to offer, indicating the aggregate level and nature of goods that GSS intends to make available for inspection. In return for GSS' planned supply services, the applicants would pay a fee of 1.5% of the total purchases made by the applicants plus value added tax, if applicable. The planned supply services include priority announcement of supply, preferred delivery schedule, demand tracker, box consistency, access to an administrator, dedicated point of contact, in-market meetings with sales team, access to applicants' website and premium content, shipping costs, priority room booking, invitations to De Beers events (in-market & receptions) and BPP monitoring.

The GSS Supply Agreement is similar to the Diamond Marketing and Sales Agreement between Lerala and DDA in that DDA provide event management services, goods management services, demand management, event design services and event execution to Lerala. The other services that DDA also provide to Lerala include participation management, reporting and sales analysis and management of the auction platform process.

5.2.3. Conclusion

De Beers is one of the largest suppliers of rough diamonds in the world. It sets out the terms of its own supply agreement with its purchasers whilst Lerala, a significantly smaller new entrant player would have to engage its own agent. It is considered reasonable that the lower fee of 1.5% is based on a higher level of sales, hence providing economies of scale not available to DDA. For instance, De Beers' total revenue for FY15 was approximately US\$4.7 billion which equates to approximately US\$70 million in supply fees. This compares to a maximum estimate of approximately US\$0.5 million DDA Commission payable by KDL in a year (based on KDL's estimates of 357,000 carats of production per annum for the Lerala Diamond Mine multiplied by the total estimated value per carat for Lerala Diamond Mine as set out in section 3.3.1 multiplied by 1.75%).

Further, KDL management advised that the commission payable 1.75% is in their opinion based on commercial terms and historical payments for the services offered.

Based on the above, we have assessed the fee of 1.75% on gross revenue and auxiliary expenses to be provided DDA to be less than or equal to the value of the commercial market terms and rates observed from publicly available information.



5.3. Fairness of the DDA Interest

5.3.1. Overview

In relation to the fairness of the DDA Interest, as discussed above, RG 111 requires the expert to compare:

- the value of the financial benefit to be provided by Lerala to DDA (that is, interest payment on amounts outstanding from time to time, to be computed on a daily basis on a year of 365 days as simple interest until the DDA Loan has been repaid in full, using an interest rate of 10% per annum), with
- the value of the consideration being provided to Lerala by DDA (that is, DDA Loan).

The terms of the DDA Interest is 'fair' if the interest rate of 10% per annum is equal to or less than the value of the commercial arms-length terms and rates observed from publicly available information.

5.3.2. Considerations

We have assessed the fairness of the DDA Interest having regard to the cost of alternative funding sources obtained by comparable companies listed on the ASX and operating in the precious metals and gems industry as well as other available market evidence on cost of funding. A summary of the costs of funding from alternative funding sources we have considered include:

- Domestic bank debt or loan agreements
- Corporate bonds
- Other subordinated and hybrid instruments (shareholders' loans, hybrid notes, preference shares, mezzanine debt and convertible instruments)
- Equity.

When comparing the DDA Interest to the cost of alternative funding, we note that the Company requires immediate funding primarily to bring Lerala Diamond Mine to production. The Directors believe all possible avenues of debt funding have been investigated, and no other debt options are currently available, or likely to be available in the timeframes such funding is required. Therefore, any lenders would consider the following risks in their assessment and consequently, the required rate of return on the loans:

- Lerala Diamond Mines is yet to commence production and as such, there is no certainty to cash flows
- Timing on full recovery of the loan is uncertain
- Full realisation of the value of diamonds is uncertain
- Working capital requirements may be higher than the DDA Loan which may impact the cash flows to the debt holder.

Based on the above, it is reasonable to assume that KDL and/or Lerala's credit risk rating would likely to be BBB- or lower.



5.3.2.1. Lending rates of loans facilities of comparable companies in the precious metals and gems sector and gold industry

We have considered any loan facilities provided by banks, third parties and related parties to comparable companies within the precious metals and gems sector and gold industry. They are noted below:

Table 25: Loan facilities of comparable companies

| Date | Borrower | Amount | Term / maturity date | Interest rate |
|------------|---|------------|-------------------------|--|
| 30/06/2015 | Kimberley Diamonds Ltd (Diamonds) ^{1,5} | A\$10m | 2 years | 5% p.a |
| 30/06/2015 | Zimplats Holdings Limited (Platinum) ^{2,6} | US\$75m | 1-5 years | LIBOR plus 7% margin |
| 30/06/2015 | Zimplats Holdings Limited (Platinum) ^{2,7} | US\$24m | 6 -12 months | LIBOR plus 2.6% per annum |
| 7/05/2015 | Lindian Resources Limited (Copper-gold) ^{3,7} | A\$250,000 | 31 Dec 15 | 10% flat rate |
| 26/11/2014 | Lindian Resources Limited (Copper-gold) ^{3,7} | A\$120,000 | 31 Dec 15 | 6% flat rate |
| 20/01/2012 | RNI NL (Copper-gold) ^{4,7} | A\$23m | 30 Nov 15 | - 12.5% p.a for the first six months - 13.5% p.a for the remainder of the facility term |

Source:

- 1. KDL Debt Finance ASX announcement dated 12 October 2015
- 2. Zimplats FY15 Integrated Annual Report
- 3. Lindian Resources Ltd FY14 Annual report
- 4. RNI NL Taurus facility details

Notes:

- 5. Zhejiang may elect for one third of the loan to be repaid in KDL shares at a 20% discount to the VWAP of KDL's shares for the 20 business days prior to conversion and the loan is secured by a security interest over KDL's shares in Mantle Diamonds Limited (UK).
- The loan is secured and Impala Platinum Holdings Limited has provided political and commercial guarantees.
- 7. The loan is secured.

The interest rates from loan facilities of comparable companies ranged from 6% to 13.5%.



5.3.2.2. Corporate bonds

Outlined in the table below tradeable corporate bonds in major developed markets with S&P issuer credit rating of CCC+ or worse with a yield to worst of less than 50%:

Table 26: Corporate bonds

| | | Issue credit | Date to | Amount | | |
|--|--------------------|--------------|-----------|-----------------|----------|----------------|
| Issuer | Security | rating | maturity | outstanding \$m | Coupon % | Yield to worst |
| Hexion U.S. Finance Corp. | Senior Unsecured | CCC+ | 15-Apr-18 | 307.68 | 9.38% | 7.07 |
| Hexion U.S. Finance Corp. | Senior Unsecured | CCC+ | 15-Jun-17 | 417.73 | 8.13% | 7.29 |
| Consolidated Container Company LLC | Senior Unsecured | CCC+ | 1-Nov-20 | 461.51 | 7.13% | 7.47 |
| Consolidated Container Company LLC | Senior Secured | CCC+ | 15-Apr-18 | 307.68 | 9.38% | 8.09 |
| Ryerson Inc. | Senior Subordinate | CCC+ | 15-Jun-17 | 822.37 | 6.00% | 8.26 |
| Hexion U.S. Finance Corp. | Senior Unsecured | CCC+ | 15-Jun-17 | 822.37 | 6.00% | 8.26 |
| Iracore International, Inc. | Senior Unsecured | CCC+ | 15-Jun-19 | 400.97 | 8.38% | 11.14 |
| Iracore International, Inc. | Senior Secured | CCC+ | 15-Apr-20 | 2160.46 | 6.63% | 14.25 |
| New Enterprise Stone & Lime Co., Inc. | Senior Secured | CCC+ | 15-Apr-20 | 0.007 | 6.63% | 14.25 |
| New Enterprise Stone & Lime Co., Inc. | Senior Unsecured | CCC+ | 15-Apr-20 | 1533.24 | 6.63% | 14.25 |
| AK Steel Corporation | Senior Secured | CCC+ | 15-Apr-20 | 439.06 | 10.00% | 14.98 |
| Horsehead Holding Corp. (OTCPK:ZINC.Q) | Senior Unsecured | CCC+ | 15-Nov-19 | 209.08 | 5.00% | 21.93 |
| AK Steel Corporation | Senior Unsecured | CCC+ | 15-May-20 | 738.46 | 7.63% | 29.85 |
| American Gilsonite Company, Inc. | Senior Secured | CCC+ | 1-Jun-18 | 174.23 | 9.50% | 35.84 |
| American Gilsonite Company, Inc. | Senior Unsecured | CCC+ | 1-Jun-18 | 174.23 | 9.50% | 35.84 |
| Verso Paper Holdings, LLC | Senior Unsecured | ccc | 15-Jul-20 | 348.46 | 10.13% | 20.43 |
| Thompson Creek Metals Company Inc. (TSX:TCM) | Senior Unsecured | ccc | 15-Jul-20 | 348.46 | 10.13% | 20.43 |
| Cliffs Natural Resources Inc. (NYSE:CLF) | Senior Unsecured | ccc | 15-Oct-18 | 279.47 | 11.25% | 31.01 |
| Cliffs Natural Resources Inc. (NYSE:CLF) | Senior Secured | ccc | 1-Feb-18 | 1435.67 | 8.88% | 34.86 |
| Thompson Creek Metals Company Inc. (TSX:TCM) | Senior Unsecured | ccc | 1-Sep-18 | 348.46 | 11.00% | 35.79 |
| Thompson Creek Metals Company Inc. (TSX:TCM) | Senior Unsecured | CCC | 1-Sep-18 | 348.46 | 11.00% | 35.79 |
| Thompson Creek Metals Company Inc. (TSX:TCM) | Senior Unsecured | CCC | 15-Nov-20 | 800.07 | 9.00% | 38.34 |
| Verso Paper Holdings, LLC | Senior Unsecured | cc | 15-May-19 | 284.6 | 8.50% | 12.34 |
| Verso Paper Holdings, LLC | Senior Unsecured | cc | 15-May-19 | 284.6 | 8.50% | 12.34 |
| Minimum | | | | | 5.00% | 7.07 |
| Maximum | | | | | 11.25% | 38.34 |
| Average | | | | | 8.51% | 20.00 |
| Median | | | | | 8.69% | 14,62 |

Source: CapitalIQ

Note: This data was accessed on 25 February 2016

Generally, corporate bonds with lower ratings demand a higher yield than better rated bonds as shown above. The table above shows corporate bonds with CCC+ issuer credit rating or lower have a range of coupons from 5.0% to 11.3% and a range of yields from 7.1% to 38.3%.

5.3.2.3. Convertible loan notes

The cost of funding (i.e. coupons) observed for ASX listed secured and unsecured convertible notes are summarised in the table below.

Table 27: Listed securities

| Company | Security type | Security code | Industry | Coupon | YTM/Conv.(%) |
|--|------------------|---------------|-------------|--------|--------------|
| CRATER GOLD MIN LTD | Convertible note | CGNG | Materials | 10.00% | |
| KBL MINING LIMITED | Convertible note | KBLGA | Materials | 12.00% | |
| RESOLUTE MINING | Convertible note | RSGG | Materials | 10.00% | |
| AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED | Convertible note | AFIG | Financials | 6.25% | n/a |
| CML GROUP LTD | Convertible note | CGRG | Industrials | 9.00% | |
| CONTANGO MICROCAP LIMITED | Convertible note | CTNG | Financials | 5.50% | |
| IAG FINANCE (NZ) LTD | Convertible note | IANG | Financials | 4.45% | 4.60% |
| LAKES OIL NL | Convertible note | LKOGA | Energy | 10.00% | |
| NUFARM FINANCE (NZ) | Convertible note | NFNG | Financials | 6.12% | 5.70% |
| PEET LIMITED | Convertible note | PPCG | Financials | 9.50% | 8.90% |
| STOKES LTD | Convertible note | SKSG | Industrials | 10.00% | |
| Average | | | | 8.44% | 6.40% |
| Median | | | | 9.50% | 5.70% |

Source: Australian Financial Review dated 24 February 2016 and ASX website



The above table highlights that the average and median coupons for the convertible notes are 8.4% pa and 9.5% pa, respectively. We note that the listed companies in the mining sector have coupon terms ranging from 10% to 12%.

5.3.2.4. Cost of equity

The cost of equity observed in relation to comparable companies sourced from independent expert reports is tabled below.

Table 28: Cost of equity

| | | | | | Cost Of Equity | Cost Of Equity |
|------------|---------------------|----------------------------|--------------------|-------------------|----------------|----------------|
| Date | Company Name | | Nature of Assets | Location | (Low) % | (High) % |
| 14/12/2015 | Aquarius Platinum | Kroondal Mine | Platinum | South Africa | 16.56 | 17.47 |
| | | Mimosa Mine | Platinum | Zimbabwe | 21.35 | 22.32 |
| | | Platinum Mile | Platinum | South Africa | 16.56 | 17.47 |
| 29/07/2015 | Sirius Resources NL | | | | | |
| | | Tropicana JV | Gold | Collison Zone, WA | 6.81 | 8.91 |
| 2/04/2015 | Norton Gold Fields | Paddington Project | Gold | Kalgoorlie, WA | 10.96 | 11.68 |
| | | Mount Morgan | Gold Copper | Rockhampton, QLD | 14.22 | 16.76 |
| 23/06/2015 | Evolution Mining | | | | 10.90 | 12.80 |
| | | Cowal | Gold | NSW | | |
| | | Edna May | Gold | WA | | |
| | | Cracow | Gold | QLD | | |
| | | Mt Rawdon | Gold | QLD | | |
| | | Mt Carlton | Gold Silver Copper | QLD | | |
| | | Pajingo | Gold | WA | | |
| 2/09/2015 | Phoenix | | Gold | | 9.39 | 12.69 |
| 16/07/2014 | Gondwana | | Gold | | 9.60 | 12.87 |
| 24/10/2014 | Vantage GoldFields | | Gold | | 17.40 | 20.00 |
| 16/12/2014 | Orbis Gold Limited | | Gold | | 16.60 | 17.70 |
| 28/11/2013 | BCX Gold Investment | t (Gold One) | Gold | | 16.26 | 17.20 |
| 2/07/2013 | Kentor Gold | Andash | Gold | Kyrgyz Republic | 21.30 | 23.40 |
| 27/04/2012 | Chalice gold mines | Koka Gold Mine | Gold | | 17.50 | 19.70 |
| 13/09/2012 | Republic Gold | Amayapampa | Gold | Bolivia | 16.00 | 18.20 |
| 9/11/2012 | Regis Resources | | Gold | | 7.89 | 10.09 |
| 23/08/2012 | Westgold | Westgold Projects (geared) | Gold | | 20.52 | 27.62 |
| 14/02/2011 | DiamonEx Limited | Lerala | Diamond | Botswana | 15.0 | |
| | | | | | (Note 1) | |
| 6/10/2011 | Adamus Resources | Nzema | Gold | Ghana | 9.50 | 11.10 |
| | | Youga | Gold | Burkina Faso | 10.50 | 12.20 |
| | | Agbaou | Gold | Cote D'Ivoire | 16.40 | 17.30 |
| | | Finkolo | Gold | Mali | 11.90 | 12.80 |
| 22/06/2011 | Gold one | | Gold | | 15.80 | 16.40 |
| | | Westgold Projects | Gold | | 9.78 | 12.46 |
| | | Metals X projects | Gold | | 9.25 | 12.65 |
| | AVERAGE | , 3 | | | 13.87 | 15.91 |

Source: Independent expert reports

Note 1: This refers to weighted average cost of capital, not cost of equity

We note the following in relation to the above:

- The cost of equity is generally estimated using the capital asset pricing model and requires a level of
 judgment in relation to future direction of the company, growth rates, beta, optimal gearing structure
 and numerous other factors.
- The weighted average cost of capital for Lerala Diamond Mine in 2011 whilst it was in development was 15%. This indicates that the cost of equity would have been higher than 15%.
- The cost of equity for precious metal (platinum) mines in South Africa ranges from 16.6% to 22.3%.



5.3.3. Conclusion

Set out below an overview of the range of costs of funding arising from various debt and equity instruments listed above:

Table 29: Comparable costs of funding

| | Observations | Comments |
|--|---|--|
| | Observations | Comments |
| Comparable companies loan terms | The interest rates from loan facilities of comparable companies ranged from 6% to 13.5%. | We note that the DDA Interest of 10% falls within the range. |
| Corporate bonds | Corporate bonds with CCC+ rating or lower have a range of yields to worst from 7% to 38%. | We note that the DDA Interest of 10% falls within the range. |
| Listed securities - Convertible notes | The average and median coupons for the convertible notes are 8.4% pa and 9.5% pa, respectively. | We note that the listed companies in the mining sector have coupon terms ranging from 10% to 12% and that that the DDA Interest of 10% falls within the range. |
| Cost of equity | The weighted average cost of capital for Lerala Diamond Mine in 2011 whilst it was in development was 15%. This indicates that the cost of equity would have been higher than 15%. The cost of equity for precious metal (platinum) mines in South Africa ranges from 16.6% to 22.3%. | We note that DDA Interest of 10% falls below the range indicated. |

Source: Australian Financial Review, ASX announcements, annual reports, independent expert reports, CapitallQ, BDO analysis

Based on the above, we have assessed the value of the DDA Interest to be equal to or less than the value of costs of funding arising from various debt and equity instruments.

5.4. Fairness of granting DDA Security

5.4.1. Overview

In relation to the fairness of the DDA Security, as discussed above, RG 111 requires the expert to compare:

- the value of the financial benefit to be provided by Lerala to DDA (that is, proceeds of the sale of the assets under the DDA Security), with
- the value of the consideration being provided to Lerala by DDA (that is, value of the liability owing to DDA).

The terms of the DDA Commission is 'fair' if the proceeds of the sale of the assets under the DDA Security is equal to or less than the value of liability owing to DDA in the event of a default.

5.4.2. Considerations

In determining whether approval of the grant of the DDA Security to DDA is fair to the Non-associated Shareholders, we have considered the circumstances under which DDA could enforce the DDA Security in an event of default.

If an event of default has arisen and is not waived, DDA would be entitled to enforce the DDA Security by selling the secured diamonds in good faith, on an arms-length basis and consistent with normal commercial practices. An event of default occurs if Lerala or KDL suffer from an insolvency event or Lerala fails to repay DDA the amount of any of the DDA Loan advanced.

Given the indeterminacy of any potential future transaction, we have undertaken analysis as to the expected process that would be followed should an event of default occur and DDA take steps to enforce its security.



If DDA exercises its rights, the sale of the secured diamonds are required to be dealt with in a manner which attempts to realise market value as at the time of the sale which may occur in the form of the following three alternative scenarios:

- If the realised market value of the secured diamonds is less than the total amount owing to DDA under the DDA Commission and DDA Loan, than DDA will receive the realised market value of the secured diamonds.
- If the realised market value of the secured diamonds is the same as the total amount owing to DDA
 under the DDA Commission and DDA Loan, than DDA will receive the realised market value of the
 secured diamonds.
- If the realised market value of the secured diamonds is more than the total amount owing to DDA under the DDA Commission and DDA Loan, than DDA will only receive the amount owing to them.

5.4.3. Conclusion

Based on the above, we have assessed the value of the DDA Security to be equal to or less than the value of the liabilities.

5.5. Fairness of DDA Options

5.5.1. Overview

The DDA Options are an additional cost of funding required by DDA to provide working capital facilities to Lerala. Therefore, the terms of the DDA Options are 'fair' if the value of the DDA Options plus the DDA Interest is equal to or less than the value of the cost of funding for similar credit risk profile issuance.

5.5.2. Value of DDA Options

We have assessed the fair market value of the DDA Options using a binomial option pricing model with regards to the following terms and assumptions:

Table 30: Overview of the key terms of the DDA Options

| Parameters | Selected input | Basis |
|-------------------------|------------------|--|
| Valuation date | 19 February 2016 | Assuming valuation date is the latest practicable date prior to the issue of this Report |
| Share price | \$0.09 | One month VWAP to 19 February 2016 |
| Exercise price | \$0.20 | As per the DDA Options terms |
| Expected life | 3 years | As per the DDA Options terms |
| Risk free interest rate | 2.43% | Based on a continuous compounding yield of a 3-year Australian Government bond rate as at 19 February 2016 |
| Dividend yield | 0% | KDL's average forecast annual dividend yield over the next three years |
| Expected volatility | 100% | In determining the expected volatility, we have taken into account the last three years historical market price volatility of KDL |
| Other | | We have not assumed: Any change of control events or reorganisation of capital during the term of the DDA Options Any dilution effect from the issue of the DDA Options noting that they will not likely to have a material impact upon the share price of KDL |

Source: Terms of the DDA Options, RBA website, CapitalIQ, BDO analysis

Based on the above, we have estimated the costs of the DDA Options to be approximately \$0.21 million which represents approximately 6% of total loan advanced (being, \$0.21 million divided by the maximum



DDA Loan of approximately \$3.9 million (being, US\$2.8 million converted at the AUD:USD rate of 0.7159 on 19 February 2016)).

The total costs of funding would be the value of the annualised interest cost plus the value of the options as a percentage of the DDA Loan. This equates to an annualised rate of approximately 15.5% (being, $0.21 \text{ million} + 10\% \times 3.9 \text{ million}$).

5.5.3. Conclusion

We refer to section 5.3.2.2 above in relation to corporate bond analysis, where we observed that corporate bonds with CCC+ issuer credit rating or lower have a range of yields to worst from 7.1% to 38.3%. The total costs of funding (i.e. DDA Options plus DDA Interest) of approximately 15.5% fall within the range of the costs of funding for similar credit risk profile issuance. Therefore, the terms of the DDA Options are 'fair' for the risks undertaken by DDA as a whole for providing the DDA.

5.6. Fairness of DDA Offtake Agreement

5.6.1. Overview

The terms of the Offtake Agreement would be 'fair' if they are equal to or less than the historical terms achieved by KDL.

5.6.2. Considerations

The most recent comparable offtake agreement would be the offtake agreement entered into between Lerala and Restwell on 3 February 2016. Set out in the table below an overview of the key terms in the agreement.

Table 31: Overview of the key terms of the offtake agreement between Lerala and Restwell

| Key terms | Details |
|-----------|---|
| Quantity | Restwell to purchase US\$6 million worth of rough diamonds from Lerala. The valuation of each stone will be based on a valuation report undertaken by a licensed independent diamond valuation specialist appointed by the parties. |
| Price | Valuation of the shipment less a 15% discount. If Restwell elects for the sale of the rough diamonds to be sold by Lerala to a third party instead of to Restwell directly, only a 10% discount will be applied. Restwell must pay Lerala a prepayment of US\$1.0 million on or before 1 March 2016. |
| Delivery | The rough diamonds are to be shipped to Restwell in China by 31 March 2017. Lerala expects to commence mining sometime in April 2016 with first diamond sales expected in June 2016. If there is any delay and Lerala has not commenced selling rough diamonds by July 2016, the parties will discuss amendments to timing. |
| Shortfall | • Lerala has obtained Botswana Government approval to sell its diamonds outside of Botswana from 1 April 2016 to 31 March 2017. If this approval is revoked, a required Botswana Government Approval is not obtained, or the total quantity is not delivered on or prior to 31 March 2017, the parties agree that the offtake agreement will terminate immediately and the quantity (in whole or in part) outstanding will not be sold to Restwell. |

Source: Restwell offtake agreement

5.6.3. Conclusion

From the above, we note the terms are similar except that the pricing of the rough diamonds in the DDA Offtake has a 10% discount to valuation which is of better terms to the Restwell offtake agreement of 15% discount to valuation. Therefore, we have assessed the value of the terms of the Offtake Agreement to be less than the historical terms achieved by KDL.

5.7. Overall fairness conclusion

Based on the assessments above, the Proposed Transactions as a whole is fair to the Non-associated Shareholders.



6. REASONABLENESS ASSESSMENT

In accordance with RG 111 an offer is reasonable if it is fair. An offer may also be considered reasonable if it is not fair.

We have performed an assessment of reasonableness as provided below. Set out below is a summary of the factors we have considered in our reasonableness assessment.

6.1. Advantages

6.1.1. Secured offtake

The Proposed Transactions provide KDL with a guaranteed offtake of the output of the Lerala Diamond Mine.

6.1.2. Liquidity

Trading in KDL shares has been illiquid. If the Proposed Transactions are approved and implemented and that KDL becomes fully operational, this provides the KDL Shareholders with an opportunity to realise value for their shares which otherwise may be limited.

6.1.3. Provision of funding certainty

If the Proposed Transactions are approved and implemented along with a successful rights issue to raise \$4.0 million, KDL has stated that they will have access to sufficient cash to complete the commissioning of the Lerala Diamond Mine and to produce diamonds. This certainty of funding may have the impact of increasing the KDL share price and remove the going concern qualification in the KDL accounts as well as reducing the exposure to risks and uncertainties inherent in the continuing operation of KDL.

6.1.4. No alternative proposals

The Directors of KDL have considered a range of strategic options for the Company including both additional debt and equity, which has included preliminary discussions with other potential capital providers. However, the Directors have advised that there are no other sources of funding for KDL at the date of this Report.

6.2. Disadvantages

6.2.1. Transaction costs

As part of the Proposed Transactions, KDL has advised it will incur transaction costs of approximately \$55,000. We note that the majority of these transaction costs will have been incurred prior to the EGM and are not dependent upon the outcome of the meeting.

6.2.2. Reduced level of diamonds available to other customers

The terms of the Proposed Transactions limit the amount of diamonds (if any) that are able to be sold to other purchasers other than DDA. There is a possibility that sales prices to other parties (recognising that these sale prices are not interdependent upon the provision of funding or guaranteed offtake volumes) may be higher than those able to be achieved from DDA.

6.2.3. Ability to raise additional funding

The granting of the DDA Security may limit the ability for KDL to raise additional finance to enable it to increase expenditure on the Lerala Diamond Mine. Given the discussion at section 6.1.4 above, this is not considered a material disadvantage.



6.3. Other factors

6.3.1. If the proposal does not proceed

If the Proposed Transactions were not approved and implemented, there would continue to be a going concern issue for KDL. This would have an impact on the share price of KDL and the ability of the entity to continue operations.

6.3.2. Independent Directors recommendations and intentions

In the absence of a superior proposal and subject to the Independent Expert concluding that the Proposed Transactions are fair and reasonable, the Independent Directors have unanimously recommended that Non-associated Shareholders vote in favour of the Proposed Transactions in the absence of any other competing offer.



7. QUALIFICATIONS, DECLARATIONS AND CONSENTS

7.1. Qualifications

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDOCF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr Dan Taylor, B.Com and CA, is a director of BDOCF. Mr Taylor is also a partner of BDO East Coast Partnership. Mr Taylor has been responsible for the preparation of this IER.

Mr Taylor has over 20 years' experience in Corporate Finance. He has undertaken numerous specialist Corporate Finance activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, preparation of independent expert's reports, preparation of information memoranda and other corporate investigations. Accordingly, Mr Taylor is considered to have the appropriate experience and professional qualifications to provide the advice offered.

Mr David McCourt, BBus, CA, is a director of BDOCF. Mr McCourt is also a partner of BDO East Coast Partnership.

Mr McCourt is the director responsible for the review of this IER. Mr McCourt has over 16 years experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and advising on independent expert reports. Accordingly, Mr McCourt is considered to have the appropriate experience and professional qualifications to provide the advice offered.

7.2. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

Prior to accepting this engagement, we considered our independence in regard to KDL with reference to RG 112.

BDOCF and BDO East Coast Partnership have provided a range of services to KDL including acting as the independent external auditor (for the half year ended 31 December 2015) and conducting limited scope financial and tax due diligence procedures in relation to its proposed acquisition of all the shares in Gem Diamonds Australia Holdings Pty Ltd as the 100% owner of Kimberley Diamond NL in 2013. In addition, BDO East Coast Partnership's tax practice was engaged to undertake income and payroll tax compliance work as well as advice on the tax consequences of undertaking the Proposed Transactions. The advice provided did not give any recommendations in relation to the Proposed Transactions and is not considered to be strategic of operational planning work in relation to RG 112.

It is our opinion that the above mentioned existing and historical relationships do not impact on our ability to provide an independent and unbiased report in the context of the Proposed Transactions. In our opinion we are independent of KDL.

We are not involved in advising on, negotiating, setting, or otherwise acting in any capacity for KDL in relation to the Proposed Transactions. Further, BDOCF has not held and, at the date of this IER, does not hold any shareholding in, or other relationship with KDL or DDA that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transactions.

We will receive a fee of up to \$35,000, plus Goods and Services Tax for the preparation of this IER. We will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

Three drafts of this IER were provided to the Board and their advisors for review of factual accuracy. Certain changes were made to the IER as a result of the circulation of the draft IERs. However, no changes were made to the methodology, conclusions, or recommendations made to the Shareholders as a result of issuing the draft IERs.



7.3. Disclaimer

This IER has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Directors and Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Directors and Shareholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by the Board, executives and management of all the entities.



APPENDIX 1: GLOSSARY

| Term | Definition |
|-----------------------------|---|
| Act | Corporations Act 2001 (Cth) |
| ASIC | Australian Securities and Investments Commission |
| 4SX | Australian Securities Exchange |
| BDOCF, we, us or our | BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) |
| Board | Board of directors of KDL |
| CAGR | Compound annual growth rate |
| DDA | DDA Trading BVBA |
| DDA Commission | As part of the Diamond Marketing and Sales Agreement, Lerala will appoint DDA as exclusive sales and marketing agent for the diamonds produced by Lerala Diamond Mine for a period of three years (with an option to renew for a further two years) and will be paid commission of 1.75% on diamonds sold, plus reasonable expenses |
| DDA Interest | Lerala to pay 10% interest per annum to DDA on any amounts outstanding under the DDA Loan |
| DDA Loan | DDA will provide Lerala with a working capital loan facility of up to US\$2.8 million |
| DDA Offtake | Lerala will enter into an offtake agreement with DDA for the supply to DDA of US $$5$$ million worth of diamonds at a discount of 10% to an agreed valuation |
| DDA Options | KDL will issue to DDA 5,000,000 options with an exercise price of \$0.20 per option as consideration for DDA agreeing to provide the DDA Loan and that Lerala may on-lend the advances to KDL. |
| DDA Security | The DDA Loan is secured by collateral of diamonds produced by Lerala, with the right, titl and interest of such diamonds to be transferred to DDA until such time as the relevant portion of the loan which those diamonds secure is repaid |
| Directors | Directors of KDL |
| FOS | Financial Ombudsman Service Limited |
| FSG | Financial Services Guide |
| FYxx | Financial year ended 30 June 20xx |
| GSS | De Beers Global Sightholder Sales (Proprietary) Limited |
| GSS Supply Agreement | In 2015, GSS released a 2015-2018 Rough Diamond Supply Agreement |
| Industry | Global diamond mining industry |
| KDL or the Company | Kimberley Diamonds Ltd |
| KDL Shareholders | Shareholders of KDL |
| KDC | Kimberley Diamond Company NL |
| Lerala | Lerala Diamond Mines Limited |
| Licence | Australian Financial Services Licence No: 247420 |
| Listing Rule 10.1 | ASX Listing Rule 10.1 Approval required for certain acquisitions or disposals |
| Listing Rule 10.11 | ASX Listing Rule 10.11 Approval required for an issue of securities |
| Non-associated Shareholders | Non-associated shareholders of KDL |
| Proposed Transactions | KDL has announced that its wholly owned subsidiary, Lerala, has entered into a Diamond Marketing and Sales Agreement and the Offtake Agreement with DDA. Together the Diamond Marketing and Sales Agreement and the Offtake Agreement are referred to as the Proposed Transactions |
| Report or IER | Independent expert's report |
| Restwell | Restwell Investments Pty Ltd |
| RG 76 | ASIC Regulatory Guide 76: Related party transactions |
| RG 111 | ASIC Regulatory Guide 111: Content of expert reports |
| RG 112 | ASIC Regulatory Guide 112: Independence of experts |
| Transaction Document | Notice of extraordinary general meeting and explanatory memorandum |
| VWAP | Volume weighted average price |
| Zhejiang | Zhejiang Huitong Auction Co Ltd |

Source: BDOCF



APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- Transaction Document
- Board paper in relation to the Transaction Document
- Diamond Marketing and Sales Agreement
- Offtake Agreement
- Various discussions with the Board and management of KDL as well as Company information supplied by management
- ASIC guidance notes and regulatory guides as applicable
- Information sourced from Capital IQ
- Other generally available public information



APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of KDL shares the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow (DCF) method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (NPV).

DCF is appropriate where:

- the businesses' earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Asset Value

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business Shares or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- orderly realisation: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- going concern: the net assets on a going concern basis estimate the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.



The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Quoted Market Prices

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.



APPENDIX 4: VALUATION METHODS - DERIVATIVES

In conducting our assessment of the fair market value of options the following commonly used valuation methods have been considered:

Black Scholes Option Pricing Model

Used to value European call options, this methodology takes into account the:

- Exercise price of the option
- Current price of underlying stock
- Volatility of the price of underlying stock
- Time to expiry of option
- Risk free rate of return

Binomial and Trinomial Method

The value of an American option exercisable at various times (up to expiry) can be determined using the binomial tree method.

This method considers the different possible paths that may be followed by the stock price over the life of the option.

The trinomial method is an extension of the binomial options pricing model and is conceptually similar.

Monte Carlo Simulation

Monte Carlo simulation undertakes valuations where a selected valuation input factor (or factors) has inherent uncertainty as to its value. Monte Carlo simulation undertakes analysis by building models of multiple possible results by substituting a range of values (based on an assumed a probability distribution), for any selected factor that has inherent uncertainty as to its value.

Monte Carlo simulation re-calculates the model and records the results of each re-calculation over and over, each time using a different random value for any selected factor that has inherent uncertainty as to its value, sourced from the probability function. Monte Carlo simulation produces a distribution of possible outcome values. The multiple outcome values are then weighted by a probability estimate for each value (sourced from within the model) to produce a single point value.

ANNEXURE C TERMS OF HALGREEN AND ALEXANDER OPTIONS

- Each option gives the holder a right to subscribe (in cash) for one fully paid ordinary share in the capital of the Company at an exercise price of \$0.20 per option (unless the Company in its sole discretion decides to issue options at a higher exercise price in which case such higher exercise price will apply when the holder exercises the options) (Exercise Price).
- 2. Ordinary shares issued as the result of the exercise of an option will rank equally in all respects with previously issued ordinary shares in the capital of the Company.
- 3. All registered optionholders will be entitled to receive and will be sent all reports and accounts required to be presented to members in general meeting and all notices of general meeting of members, but will not be entitled to attend or vote at such meeting unless they are, in addition to being optionholders, members.
- 4. Each option is exercisable during the Exercise Period.
- 5. The Exercise Period commences on the date of issue of the options (**Issue Date**) and expires at 5:00pm Sydney time on the day that is three years subsequent to the Issue Date.
- 6. When the options are exercised, an optionholder holding 2,000 or fewer options must exercise all of the options. An optionholder holding more than 2,000 options may exercise those options only in multiples of 2,000 except in a case where the number held is not a multiple of 2,000. In that case the holder may exercise a number of options which is 2,000 or a multiple of 2,000, plus a number less than the next multiple of 2,000 so that, after the exercise, the number of options then held by that holder is either 2,000 or a multiple of 2,000.
- 7. Where the options are certificated, they are exercisable by completing the notice of exercise which appears on the back of each option certificate (or a notice in that form) and delivering the notice with payment of the Exercise Price for the number of options being exercised to the registered office of the Company, during the Exercise Period.
- 8. Where the options are certificated CHESS eligible securities, they are exercisable by completing a notice of exercise in the form of the notice attached to the option holding statements and delivering it with payment of the Exercise Price for the number of options being exercised to the registered office of the Company during the Exercise Period.
- 9. A notice of exercise is only effective when the Company has received the full amount of the relevant Exercise Price in cleared funds.
- 10. Within 10 Business Days of receipt of an effective valid notice of exercise, the Company will allot and issue the number of fully paid ordinary shares in the capital of the Company required under these terms and conditions in respect of the number of options specified in the notice of exercise.
- 11. The options are not transferable.
- 12. At the time of exercise of an option, the Company will apply to ASX for official quotation of the shares issued upon exercise of the options within the time period required by the Listing Rules.
- 13. If at any time the issued capital of the Company is reorganised or reconstructed, the rights of all registered optionholders will be changed to the extent necessary (including as to the Exercise Price) to comply with the Listing Rules applying to the reorganisation or reconstruction of capital at the time of the reorganisation or reconstruction and in all other respects the terms of the options will remain unchanged.
- 14. If at any time during the currency of the options, any bonus shares in the capital of the Company are issued credited as fully paid by way of capitalisation of reserves or of undistributed profits, the number of ordinary shares underlying the options then held by each optionholder will be increased by a number equal to the number of such bonus shares which would have been issued to that optionholder if the options then held (including options exercised but in response to which exercise shares had not yet been allotted or if allotted, not yet registered) were shares.

- 15. The options do not permit an optionholder to participate in a new issue of securities by the Company to existing shareholders unless and until the optionholder exercises the options and assumes the rights of a shareholder.
- 16. Except as specifically provided in these terms, an option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the option can be exercised.

Employee Share Option Plan Rules

Kimberley Diamonds Ltd ACN 150 737 563

1. Definitions & interpretation

1.1 Definitions

In these rules, unless the contrary intention appears, the following words have the following meanings:

Term: Definition:

ASX ASX Limited ACN 008 624 691.

Board all or some of the Directors acting as a board.

Business Day a day that is not a Saturday, Sunday, public holiday or bank holiday in NSW.

Company Kimberley Diamonds Ltd ACN 150 737 563.

Corporations Act Corporations Act 2001 (Cth).

Director a director of the Company.

Eligible Person an employee of the Company, Directors, or any other person determined by

the Board from time to time to be an Eligible Person for the purposes of the

Plan.

Exercise Period in respect of an Option, the period commencing on its Grant Date and ending on

the date specified in the Offer.

Exercise Price in respect of an Option, to be determined by the Board at the time of issue.

Grant Date in respect of an Option, the day on which the Option is granted by the Company.

Listing Rules the listing rules of ASX.

Offer an invitation to apply for Options under the Plan which must be in writing in a form

determined by the Board.

Option an option to subscribe for a Share granted to an Eligible Person under the Plan.

Option Certificate the certificate issued by the Company to a Participant on the grant of an Option.

Participant an Eligible Person who has been granted an Option under the Plan.

Performance Conditions in relation of an Option, the conditions (if any) as determined by the Board, that

must be satisfied during an agreed period, which must be set out in the Offer.

Plan this Kimberley Diamonds Ltd Employee Share Option Plan, the rules of which

are set out in this document.

a mortgage, charge, pledge, lien, encumbrance or other third party interest of any nature. **Security Interest**

a fully paid ordinary share in the capital of the Company. Share

1.2 Interpretation

In these rules, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) another grammatical form of a defined word or expression has a corresponding meaning;
- (c) a reference to a rule, paragraph or schedule is to a rule or paragraph of, or schedule to, this document, and a reference to this document includes any schedule;
- (d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (e) a reference to A\$, \$A, dollar or \$ is to Australian currency;
- (f) a reference to time is to time in New South Wales, Australia;
- (g) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
- (h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (i) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;
- the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;
- (k) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this Plan or any part of it; and
- (I) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

2. Introduction

2.1 Name of Plan

The Plan is called the Kimberley Diamonds Ltd Employee Share Option Plan.

2.2 Objects of Plan

The objects of the Plan are to:

- (a) attract, reward, retain and incentivise Eligible Persons:
- (b) establish a method by which Eligible Persons can participate in the future growth and profitability of the Company; and

(c) recognise the ongoing ability of Eligible Persons and their expected efforts and contribution to the performance and success of the Company.

2.3 Commencement of Plan

The Plan commences on the date that the Board determines.

2.4 Advice

Eligible Persons should obtain their own independent advice (at their own expense) on the financial, taxation and other consequences to them of, or relating to, participation in the Plan.

3. Operation and Administration of the Plan

3.1 Operation

The Plan operates according to these rules which bind the Company and each Participant.

3.2 Powers of Board

The Board has full power to implement and administer the Plan. Without limitation, the Board has power to:

- (a) determine appropriate procedures and make regulations consistent with the Plan for the administration and operation of the Plan;
- (b) construe and interpret the Plan, any Offer and any other agreement or document executed pursuant to the Plan;
- (c) resolve conclusively all questions of fact or interpretation arising in connection with the Plan:
- (d) terminate or suspend the operation of the Plan at any time;
- delegate any functions and powers it may consider appropriate for the efficient administration of the Plan to any person or persons (including a committee of Directors) whom the Board reasonably believes to be capable of performing those functions and exercising those powers;
- (f) take and rely upon independent professional or expert advice in or in relation to the exercise of any of their powers or discretions under the Plan;
- (g) select persons to receive Offers as the Board thinks fit; and
- (h) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Offer.

3.3 Determination

- (a) Any power or discretion conferred on the Board by the Plan may be exercised by the Board in the interests or for the benefit of the Company and the Board has absolute discretion in any determination, decision, approval or opinion by it under the Plan.
- (b) In exercising its power or discretion, the Board is not under any fiduciary or other obligation to any other person.
- (c) Every exercise of discretion by the Board and every decision of the Board as to the interpretation, effect or application of the Plan is final, conclusive, and binding.

4. Rights of Participants

4.1 No conferred rights

The Plan does not:

- (a) confer on an Eligible Person the right to receive an Offer; or
- (b) affect any right the Company may have to terminate the employment or engagement of an Eliqible Person or a Participant.

4.2 Incorporation of Plan

- (a) The Plan will not form part of, and is not incorporated into, any contract of employment or engagement of any Eligible Person or Participant.
- (b) No Eligible Person or Participant will have any rights to compensation or damages in consequence of the termination of the Eligible Person or Participant's employment or engagement, for any reason whatsoever, in so far as those rights arise, or may arise, from his or her ceasing to have rights under the Plan as a result of such termination.

4.3 Voting

A Participant does not, as a Participant, have any right to attend or vote at general meetings of holders of Shares.

5. Principal conditions

5.1 Options to be granted only to Eligible Persons

An Option may not be granted to a person under the Plan unless the person is an Eligible Person.

5.2 Compliance with laws

An Option may not be offered or granted to an Eligible Person, or exercised by a Participant, if to do so would contravene the Company's Constitution, the Listing Rules or the Corporations Act.

6. Offer

6.1 Offer by Board

- (a) The Board may in its absolute discretion make an Offer to an Eligible Person.
- (b) For the avoidance of doubt, the Board may make an Offer to some but not all Eligible Persons.

6.2 Terms of Offer

An Offer must be in writing and must state:

- (a) the name and address of the Eligible Person to whom the Offer is made;
- (b) the date of the Offer;
- (c) the period for acceptance of the invitation constituted by the Offer;
- (d) the number of Options the subject of the Offer;

- (e) the Exercise Price;
- (f) the Exercise Period; and
- (g) any other specific terms and conditions applicable to the Offer, including Performance Conditions (if any).

6.3 Offer to be Personal

An Offer is personal to the Eligible Person to whom it is made. An Eligible Person may nominate a nominee to apply for Options in accordance with clause 7.1(b).

7. Application for Options

7.1 Application

- (a) An Eligible Person who wishes to apply for Options specified in an Offer must do what is specified in the Offer on or before the Offer's closing date.
- (b) An Eligible Person may nominate a nominee to apply for Options under the Offer by notice in writing to the Board. The Board may, in its absolute discretion resolve not to allow the nominee to apply for Options without giving any reason for such decision.
- (c) Where the Eligible Person complies with rule 7.1(a), the Company may:
 - (i) accept the Eligible Person's application;
 - (ii) grant to the Eligible Person or their nominee the relevant number of Options applied for; and
 - (iii) issue the Eligible Person or their nominee an Option Certificate for the relevant number of Options.
- (d) On grant of the Options to an Eligible Person or their nominee, that person becomes a Participant and is bound by these rules.

7.2 Replacement of Option Certificates

- (a) If any Option Certificate is lost, stolen, damaged or destroyed, it may be replaced by the Company on such terms as to evidence, indemnity and security as the Company may reasonably require.
- (b) The affected Participant will be liable for any expenses incurred in connection with the replacement of an Option Certificate.

8. Exercise of Options

8.1 Exercise

Subject to satisfaction or achievement of exercise conditions (if any), a Participant may exercise an Option granted to the Participant during the Exercise Period for the relevant Option by giving a notice and doing all the other things required by rule 8.3(a).

8.2 Entitlement

Each Option entitles its holder to subscribe for and be allotted one Share on the exercise of the Option in accordance with the Plan and the payment of the Exercise Price.

8.3 Notice

- (a) To exercise an Option, the Participant must give a notice to the Company specifying that the Participant exercises the Option. The notice must be accompanied by:
 - (i) the relevant Option Certificate; and
 - (ii) payment of the Exercise Price in accordance with rule 8.4.
- (b) Exercise of an Option is only effective when the Company receives the entire amount of the Exercise Price.

8.4 Payments

All payments of the Exercise Price for an Option must be made by cheque, bank draft or otherwise in immediately available funds in favour of the Company.

8.5 Allotment

Subject to these rules and the Listing Rules, on exercise of an Option the Company must allot and issue to the Participant the Share the subject of the Option.

8.6 Share allotted upon exercise of Option

The Share allotted and issued following exercise of an Option, upon allotment will rank equally in all respects with the existing issued Shares.

8.7 Interest in Shares to which Options convert

A Participant has no interest in the Share the subject of an Option unless and until the Share is issued to that Participant.

9. Limitation on grants

9.1 Overriding limitation

No grant of Options may be made under the Plan to an Eligible Person and no Options or Shares may be transferred or issued under the Plan if such grant or issue would contravene any laws or these Rules.

9.2 5% limitation

No offer or issue of Options may be made under the Plan if the number of unissued Shares the subject of the Options being offered when aggregated with:

- (a) the number of Shares which would be issued were each outstanding offer or Option, being an offer made or an Option issued pursuant to the Plan or any other employee or executive share scheme extended only to employees or Directors of the Company and associated bodies corporate of the Company, be accepted or exercised (as the case may be); and
- (b) the number of Shares issued during the previous three years pursuant to the Plan or any other employee share or option scheme extended only to employees or Directors of the Company or an associated body corporate of the Company.

but disregarding any offer made, or Option acquired or Share issued by way of, or as a result of:

(c) an offer to a person situated at the time of receipt of the offer outside Australia;

- (d) an offer that did not need disclosure to investors because of section 708 of the Corporations Act; or
- (e) an offer made under a disclosure document,

would exceed 5% of the total number of issued Shares at the time of the proposed offer or issue of Options.

9.3 Overseas Eligible Persons

The Board may elect not to grant Options to Eligible Participants who are resident outside of Australia if it determines that the grants may be illegal or it would be impracticable to do so and the Board may formulate special terms and conditions, in addition to those set out in this Plan, to apply to Eligible Participants resident outside Australia.

10. Lapse of Options

10.1 Lapse

An Option granted pursuant to the Plan will be granted on the condition that the Option automatically lapses on the first to occur of:

- (a) on valid exercise of the Option;
- (b) the last day of the relevant Exercise Period;
- (c) on receipt by the Company of a notice in writing from a Participant to the effect that the Participant has elected to surrender the Option;
- (d) upon the bankruptcy, commencement of winding up or deregistration of the Holder (as appropriate);or
- (e) a determination by the Board that the Option should lapse because the Participant (or if Options are held by a nominee, then the Eligible Employee to whom the Offer was originally made):
 - (i) has been dismissed or removed from office for a reason which entitles the Company (or an associated body corporate, as applicable) to dismiss the Participant without notice;
 - (ii) has committed an act of fraud, dishonesty or gross misconduct in relation to the affairs of the Company (or an associated body corporate); or
 - (iii) has done an act which brings the Company (or an associated body corporate) into disrepute.

10.2 Rights cease

If an Option lapses, all rights of a Participant under the Plan in respect to that Option cease, and no consideration will be payable for or in relation to that lapse.

11. Dealings with Options

11.1 Options personal

Except where Options are held by a nominee or have been otherwise transferred with the prior written consent of the Board, each Option is personal to the Participant and may not be exercised by another person.

11.2 No unauthorised disposal

Except with the prior written consent of the Board, a Participant must not dispose of, deal with or grant any Security Interest over or otherwise deal with an Option or any interest in an Option (or purport to do any of those things), and any Security Interest or disposal or dealing will not be recognised in any manner by the Company.

12. Listing on ASX

The Share to be issued to any Participant upon exercise of an Option will not be quoted on any stock exchange on which the Shares are quoted until the Option is exercised, at which time the Company must apply to ASX (and any other stock exchange on which the Shares are quoted) for, and will use its best endeavours to obtain, quotation for the Share.

13. Change in circumstances

13.1 New issues

- (a) A Participant is not entitled to participate in any new issue to existing holders of Shares unless:
 - (i) the Participant has become entitled to exercise their Options under the Plan; and
 - (ii) the Participant does exercise their Options before the record date for determination of entitlements to the new issue and participate as a result of being a holder of Shares.
- (b) The Company must give Participants, in accordance with the Listing Rules, notice of any new issue before the record date for determining entitlements to the new issue.

13.2 Bonus Issues

If the Company makes a bonus issue of Shares to existing holders of Shares and no Share has been issued in respect of an Option before the record date for determining entitlements to the bonus issue, then the number of underlying Shares over which the Option is exercisable is increased by the number of Shares which the Participant would have received if the Participant had exercised the Option prior to such record date.

13.3 Pro-rata issues

If the Company makes a pro-rata issue of Shares to existing holders of Shares and no Share has been issued in respect of an Option before the record date for determining entitlements to the issue, the Exercise Price of the Option is reduced in accordance with the Listing Rules.

13.4 Reorganisation of capital

If there is a reorganisation of capital of the Company then the rights of a Participant is changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

14. Dividends and Voting Rights

A Participant who holds an Option has no rights or entitlements to participate in dividends declared by the Company, or rights to vote at meetings of the Company, until that Option is exercised.

15. Duration of the Plan

15.1 Termination

The Plan may be terminated at any time by resolution of the Board.

15.2 Suspension

The Board, by resolution, may decide to suspend the operation of the Plan either for a fixed period or indefinitely and may also decide to end any such period of suspension.

15.3 No prejudice

If the Plan terminates or is discontinued or suspended for any reason, that does not prejudice the accrued rights of the Participants.

16. Taxation

Neither the Company nor its Directors, officers, employees, representatives or agents take any responsibility or assume any liability for the taxation liabilities of Participants or Eligible Persons.

17. Listing Rules

The terms and conditions of the Plan must at all times comply with the Listing Rules. If there is any inconsistency between the terms and conditions of the Plan and the Listing Rules, then the Listing Rules will prevail.

18. Notices

Notices may be given by the Company to Eligible Persons and Participants in any manner as the Board may from time to time determine.

19. Primary Instruments

The Plan is to be interpreted subject to the Constitution, the Corporations Act, the Listing Rules and any other applicable laws.

20. Amendment

20.1 Board may amend rules

Subject to the Listing Rules, the Board may at any time amend any of these rules, or waive or modify the application of any of these rules in relation to a Participant.

20.2 Consent

If an amendment to be made under rule 20.1 would adversely affect the rights of any Participant in respect of any Option held by them, the Board must obtain the consent of Participants who between them hold not less than 75% of the total number of those Options held by all those Participants before making the amendment.

21. Governing law

The Plan and the rights and obligations of Participants under the Plan are governed by the law of New South Wales and each Participant irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of New South Wales.

ANNEXURE E

Glossary

In this Explanatory Memorandum the following terms, abbreviations and acronyms have the following meaning:

\$ means Australian Dollars.

Alexander Options means the proposed issue of 2,000,000 Options to a Director, Alexandre Alexander,

or his nominee(s).

ASIC means the Australian Securities and Investments Commission.

Associate has the same meaning it has in the Corporations Act.

ASX means ASX Limited (ACN 008 624 691) and the market operated by it, as the context

requires.

Board means the board of Directors of the Company.

Business Day means a day that is not a Saturday, Sunday or public holiday in Sydney.

Chair or **Chairman** means the person appointed to chair the Meeting.

Closely Related Party has the meaning given to "closely related party" in section 9 of the Corporations Act.

Company or **Kimberley** means Kimberley Diamonds Ltd (ACN 150 737 563).

Corporations Act means the *Corporations Act 2001 (Cth)*.

DDA Commission means commission of 1.75% on diamonds sold under the terms of the Sales

Agreement, plus reasonable expenses.

DDA Interest means simple interest of 10% per annum on the outstanding amount of the DDA Loan

from time to time.

DDA Loan means the working capital loan facility of up to USD\$2.8 million in aggregate, to be

provided and repaid in monthly tranches under the terms of the Sales Agreement.

DDA Offtake means the supply by Lerala to DDA Trading run of mine rough diamonds from the

Lerala Diamond Mine in Botswana to the total value of at least USD\$5 million (based on an agreed pricing and valuation methodology) at a discount of 10% to an agreed

valuation under the terms of the Offtake Agreement.

DDA Options means the proposed issue of 5,000,000 Options to a Related Party, DDA Trading, or

its nominee(s).

DDA Security means collateral of diamonds produced by Lerala (or the proceeds of sale thereof),

with the right, title and interest of such diamonds (or proceeds thereof) to be transferred to DDA until such time as the relevant portion of the loan which those

diamonds secure is repaid under the terms of the Sales Agreement.

DDA Trading means DDA Trading BVBA, a Belgian incorporated company.

Director means a director of the Company.

Equity Securities has the same meaning given to "equity securities" in the Listing Rules.

ESOP means the "Kimberley Diamonds Ltd Employee Share Option Plan" as further

described in this Explanatory Memorandum.

Explanatory Memorandum means the Explanatory Memorandum that accompanies and forms part of this Notice.

Halgreen Options means the 5,000,000 Options proposed to be issued to Noel Halgreen or his

nominee(s).

Key Management Personnel for an entity, has the meaning given to "key management personnel" in the

Corporations Act

Lerala means Lerala Diamond Mines Limited, the Company's Botswana subsidiary.

Lerala Diamond Mine means the Lerala Diamond Mine in Botswana.

Meeting means the extraordinary general meeting of Shareholders convened by the Notice.

Notice means the notice of the extraordinary general meeting, which accompanies this

Explanatory Memorandum and of which this Explanatory Memorandum forms part.

Offtake Agreement means the the offtake agreement for rough diamonds entered into by Lerala and DDA

Trading on 26 February 2016.

Option means an option to acquire a Share.

Proposed Options means the proposed Alexander Options, DDA Options and Halgreen Options.

Proxy Form means the proxy form which accompanies this Notice.

Related Party has the same meaning as "related party" in the Listing Rules.

Relevant Interest has the same meaning as "relevant interest" in the Corporations Act.

Resolution means a resolution in this Notice.

Restwell Offtake has the meaning given in Resolution 2.

Sales Agreement means the agreement for the sales and marketing of diamonds from the Lerala

Diamond Mine, entered into between the Company, Lerala and DDA Trading on 26

February 2016.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means the registered holder of a Share.

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing

Rules.

VWAP means volume weighted average price.

Zhejiang means Zhejiang Huitong Auction Co Ltd.

In the Notice and the Explanatory Memorandum, words importing the singular include the plural and vice versa.



All Correspondence to:

By Mail Boardroom Pty Limited

GPO Box 3993

Sydney NSW 2001 Australia

By Fax: +61 2 9290 9655

Online: www.boardroomlimited.com.au

By Phone: (within Australia) 1300 737 760

(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded before 10:00am AEST on Monday 25 April 2016.

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by 10:00am AEST on Monday 25 April 2016. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

■ By Fax + 61 2 9290 9655

GPO Box 3993,

Sydney NSW 2001 Australia

Level 12, 225 George Street, Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

KIMBERLEY DIAMONDS LIMITED

ACN 150 737 563

| | | | register. If this is incorre make the correction in sponsored by a broker sh | is it appears on the compan ct, please mark the box with a the space to the left. Secur nould advise their broker of any of change ownership of your s | in "X" and rityholders changes. | | |
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| //we being a me | | Company) and entitled to attend and vote hereby app | DOINT: | | | | |
| | the Chair of the Meeting (mark box) | | | | | | |
| | NOT appointing the Chair of the Meeting as our proxy below | your proxy, please write the name of the person of | or body corporate (excludi | ng the registered shareholder) | you are | | |
| | | | | | | | |
| of the Compan | y to be held at the offices of Boardroom Pt | dividual or body corporate is named, the Chair of the ty Ltd, Level 12, 225 George Street, Sydney, NS vote in accordance with the following directions or if | W on Wednesday 27 Ap | ril 2016 at 10:00am AEST and | | | |
| | | xpressly authorise the Chair of the Meeting to exerc indirectly with the remuneration of a member of the | | | 4 and 5, | | |
| The Chair of th | e Meeting intends to vote undirected proxies | in favour of each of the items of business. | | | | | |
| STEP 2 | VOTING DIRECTIONS * If you mark the Abstain box for a particula be counted in calculating the required major | ar item, you are directing your proxy not to vote on yority if a poll is called. | our behalf on a show of ha | ands or on a poll and your vote | will not | | |
| Resolution 1 | Ratification and approval of prior issue of 1 | 5,000,000 shares to Zhejiang Huitong Auction Co L | td and others | For Against | Abstain* | | |
| Resolution 2 | Approval for related party arrangements | | | | | | |
| Resolution 3 | Issue of Options to Noel Halgreen | | | | | | |
| Resolution 4 | Issue of Options to Alexandre Alexander | | | | | | |
| Resolution 5 | Approval of Employee Share Option Plan | | | | | | |
| | | | | | | | |
| STEP 3 | SIGNATURE OF SHAREHOLI This form must be signed to enable your di | | | | | | |
| Individual or Securityholder 1 | | Securityholder 2 | | Securityholder 3 | | | |
| | | | | | | | |
| Sole Direct | or and Sole Company Secretary | Director | D | irector / Company Secretary | | | |
| Contact Name | | Contact Daytime Telephone | | Date / | / 2016 | | |