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1 BACKGROUND

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

The Lerala Diamond Mine comprises a cluster of five diamond-bearing kimberlite volcanic pipes, designated K2 to K6, and a processing plant with a nominal capacity of 200 tonnes per hour (tph). The project area is covered by a 15 year fully permitted mining lease with an area of 21.86km².

Mantle operated the Lerala Diamond Mine between February and July 2012 but a range of technical factors in the processing plant resulted in poor recovery of diamonds and Mantle ceased operations. Following its acquisition of the Lerala Diamond Mine, KDL's Botswana subsidiary, Lerala Diamond Mines Limited (**Lerala**) engaged Consulmet Pty Limited (**Consulmet**), a leading South African process engineering company with extensive diamond plant experience, to redesign sections of the processing plant to facilitate improved diamond recovery and throughput reliability.

Lerala engaged Basil Read Botswana (Pty) Limited (**Basil Read**) to undertake open pit mining operations and Basil Read commenced mining at the Lerala Diamond Mine in early April 2016. Consulmet then commenced the commissioning of the plant in early Q4, 2016 and production commenced shortly thereafter.

The first sale of diamonds from the Lerala Diamond Mine occurred on 28 June 2016.

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

In gold and copper-gold, KDL was awarded the Investigation Permit covering the former Lomero mine in Andalusia, Spain in October 2014. In August 2016, KDL entered into a joint venture with Winmar Resources Limited in relation to the Lomero project.

2 LERALA DIAMOND MINE UPDATE

2.1 MINING AND PRODUCTION

Quarterly Mining and Processing Results

During Q1, 2017, Basil Read mined and hauled 349,750 tonnes of ore to the ROM pad, 31,220 tonnes of low grade ore to the low grade stockpile area and 14,064 BCM (in situ or Bank Cubic Metres) of waste to the waste dump.

During Q1/2017, 138,353 tonnes of ore were processed through the plant at the Lerala Diamond Mine, with 28,479 carats recovered.

Performance Improvement Plan

During the ramp-up phase, the plant has proven capable of operating at and above its design capacity of 200tph. Operating the recommissioned plant over the first few months revealed shortcomings in some pre-existing elements of the plant. This, combined with the highly abrasive character of the internal waste within the kimberlite ore, has significantly impacted the plant's ability to reliably operate at maximum capacity on a consistent basis. In response to this, Lerala has developed a performance improvement plan which looks to address the issues at the plant.

Although this improvement plan had only just commenced, during the period to 30 September 2016, the following positive milestones were achieved towards the implementation of this performance improvement plan:

- the Vibrating Grizzly Feeder was substantially upgraded to improve material flow from the headfeed bin;
- the CDX X-ray recovery machine was recommissioned and recovery tailings retreatment commenced; and
- the coarse cyclone feed pump which processes DMS feed in the range +6mm to -20mm was upgraded from a "6/4" pump to the substantially larger "8/6" pump which had a marked impact on the efficiency and reliability of the DMS module. It is planned to similarly upgrade the fines cyclone feed pump, processing the +1 to -6mm material, early in the next quarter.

In addition, shortly after the end of the period in mid-October, the screening solution after the secondary scrubber which screens off and recycles oversized material to the existing tertiary crusher thereby further improving the reliability of the DMS module, was installed and commissioned.

As reported previously, successful implementation of the next phase of the performance improvement plan is dependent on certain assumptions, most importantly the raising of further funds of approximately A\$4 million for capital expenditure, spare parts and working capital.

In-pit Mining Suspension

Mining operations at the Lerala Diamond Mine, which are conducted by external contractor, Basil Read, have continued to date at rates exceeding the plant's current ability to process feed, which has resulted in the development of a large ore stockpile. As a result, shortly after the end of the period, in mid-October, Lerala asked Basil Read to temporarily suspend their pit mining operations in the K3 kimberlite pipe to allow Lerala to process and reduce these stockpiles to reasonable levels. Basil Read has now temporarily ceased all in-pit operations until further notice, however their operations to provide feed from fresh ore stockpiles to the ROM and into the plant, continue. The plant remains in production and produces diamonds every day. At this stage, Lerala expects the suspension of in-pit operations to continue for approximately 3-4 months or until stockpiles are reduced and mining is required to recommence.

This is a cost saving measure while Lerala implements the performance improvement plan, and is not anticipated to impact on our expected production levels.

2.2 DIAMOND SALES

Lerala has entered into an offtake agreement for the sales of diamonds from its Lerala Diamond Mine from September 2016 to February 2017.

Lerala conducted a tender of its diamonds in late September 2016, which was operated by DDA Trading BVBA in Antwerp. Following the tender, the winning bidder made an offer to enter into an offtake agreement for all diamonds for a 6 month period. The buyer has agreed to purchase all run of mine diamonds produced by Lerala at its Lerala Diamond Mine from 1 September 2016 to 28 February 2017, at prices consistent with KDL and Lerala expectations and recent forecasts.

DDA Trading BVBA, an exclusive marketing agent for Lerala, continues discussions with a number of parties in relation to offtake of Lerala production after February 2017.

3 CORPORATE

3.1 FUNDING

Financial Position

At 30 September 2016, KDL had a cash position of A\$0.2M and a further A\$0.3M in restricted deposits and debt of A\$20M. A\$11.3M of this debt matures in May 2017.

As set out above as well as in further detail in the Investor Presentation released on 1 September 2016, KDL is looking to raise further funds to implement its proposed performance improvement plan at the Lerala Diamond Mine. KDL remains in discussions with external parties for these further funds.

During Q1 2017, KDL took the following steps to raise funds required for the Lerala Diamond Mine and for working capital:

USD\$2.8 million working capital facility

In February 2016, KDL secured a USD\$2.8 million working capital loan facility for the Lerala Diamond Mine, provided by DDA Trading BVBA (**DDA**). DDA agreed to make available USD\$2.8 million in aggregate, to be provided and repaid in monthly tranches if drawn down by Lerala, secured by collateral of diamonds produced at the Lerala Diamond Mine (**DDA Loan Facility**). On 27 September 2016, KDL obtained shareholder approval for amendments to the DDA Loan Facility, including an extension to the term.

Loan Agreement with Eternal Diamonds

On 28 April 2016, Lerala entered into a loan agreement with an unrelated third party, Eternal Diamonds BVBA (**Eternal**), under the terms of which Eternal agreed to provide a loan of USD\$1 million on 28 April 2016, repayable on 26 July 2016. In July 2016, the parties extended the repayment date to 30 September 2016, which was subsequently further extended to 30 November 2016.

Loan Agreements with third parties

During the Quarter, KDL entered into the following loan agreements with third parties:

- a loan for renminbi 5 million (A\$0.93m), repayable by 31 July 2017, which has an interest rate of 18% per annum; and
- two loans for approximately USD\$1,877,400 and USD\$300,000 respectively. The loans have different repayment dates for different tranches of the loans (which fall between the period 31 October 2016 and 31 March 2017). The loans have interest rates of 15% and 10% per annum respectively.

3.2 EXTRAORDINARY GENERAL MEETING

KDL held an extraordinary general meeting (**EGM**) of shareholders on 27 September 2016 at which both resolutions put to shareholders were passed, being the amendments to the loan facility under the Sales Agreement with DDA and this issue of up to 50 million shares.

3.3 MATTERS SUBSEQUENT TO THE END OF THE QUARTER

Changes to key management personnel

KDL announced the following changes to its key management personnel:

- Noel Halgreen, previously Managing Director of KDL, has resigned from the Board and will be leaving KDL in 6 months after serving out his notice period as a consultant;
- Alex Alexander becomes Executive Chairman during the transition stage, while KDL searches for a suitable replacement for the role of Managing Director; and
- Brett Thompson, KDL's current Chief Technical Officer, has been appointed to the newly created role of Chief Operating Officer, and will be responsible for all mining, operations and corporate functions of the Company and its Botswana subsidiary, Lerala Diamond Mines Limited.

Share issue

On 12 October 2016, KDL issued 8,333,333 shares at A\$0.06 per share, raising A\$500,000 from a sophisticated investor. These shares were issued with shareholder approval under ASX Listing Rule 7.3, with approval obtained at the EGM on 27 September 2016.

Loans from third parties

Subsequent to the end of the Quarter, KDL obtained the following loans from third parties:

- a loan for USD\$450,000, repayable by 17 October 2017, which has an interest rate of 5% per annum and is secured under the terms of a security deed; and
- a loan for A\$464,303, repayable by 30 April 2017, which has an interest rate of 10% per annum.

4 EXPLORATION ACTIVITIES

4.1 DIAMONDS

Tilwane Joint Venture

KDL, through its wholly owned subsidiary, Lerala Diamond Mines Limited, has now earned a 50% right in the Tilwane Joint Venture, a greenfields kimberlite exploration project in Botswana located some 60km to the east of the large scale Orapa and Letlhakane diamond mines. At 30 September 2016, approximately A\$162,000 had been expended in exploring the property since KDL has held an interest in the Tilwane Joint Venture. Exploration has focused on geophysical surveys and geochemical analyses, and has identified a number of significant targets deserving of further attention. No additional funds have been expended in the quarter under review.

KDL has the opportunity to earn an additional 20% interest in the Joint Venture by spending a further A\$1 million on project expenditure in the period to early 2017. If it completes this expenditure, it will hold a 70% interest in the Joint Venture. If it does not, and if the parties do not agree to an extension, it will be deemed to withdraw from the joint venture. The next phase of exploration at Tilwane is logically a drilling program designed to test the identified targets. The drilling programme had been expected to be undertaken during calendar 2016, however given the extended focus on ramping up production at Lerala, this may be delayed and the market will be kept informed as to when this will proceed.

Until there is an opportunity to re-focus on the Tilwane greenfields exploration project, one of our local joint venture partners in this project has been engaged on a medium term basis to assist with the geology and grade control activities at Lerala.

KDL is currently in discussions with our Tilwane Joint Venture partners to explore the possibility of extending the early 2017 deadline for the drilling programme, given the current focus on Lerala. While there is no guarantee that these discussions will be successful, KDL will keep the market informed as these progress.

4.2 METALS EXPLORATION ACTIVITIES

4.2.1 LOMERO-POYATOS GOLD-COPPER-ZINC PROJECT, SPAIN

The Lomero-Poyatos gold-silver-copper-zinc project (**Lomero**) is located 60km north of the deep-water port of Huelva in Andalusia, Spain, within Spain's premier mineral district, the Iberian Pyrite Belt. Lomero is a 1km-long tabular volcanogenic massive sulphide (VMS) deposit with elevated gold content. Previous mining operations extracted at least 2.6 million tonnes of massive sulphide ore containing an average grade of 5 g/t gold and 1.2% copper. KDL is evaluating the potential for a profitable re-development of Lomero through its wholly owned Spanish subsidiary, Alto Minerals S.L.

On 17 August 2016, subsequent to year end, the Company announced that it has entered into a farm in and joint venture arrangement with ASX listed Winmar Resources Limited (Winmar) in relation to the Lomero project on the following key terms:

- On execution of the JVA and payment of a condition precedent payment of AUD\$200,000, Winmar has a right to earn up to a 70% interest in the tenements over a 3 year period, starting 13 May 2016.
- Winmar must acquire an initial 10% by spending €400,000 in Year 1 (**First Commitment**).
- Winmar may then elect to acquire a further 35% interest (for a total 45% interest) by spending €3 million in Year 2.
- Winmar may then elect to acquire a further 25% interest (for a total 70% interest) by spending a further €2 million in Year 3.
- Winmar may withdraw at any time after the First Commitment has been completed. If Winmar withdraws during Years 2 or 3, its interest earned to date will revert back to KDL.

The arrangement with Winmar will meet the expenditure requirements for the Lomero project for the initial three years. KDL will retain a 30% interest in the project after this time. Rod Sainty, a former Director of KDL, has been appointed by Winmar as Managing Director and will lead the Lomero exploration program for Winmar.

4.2.2 CALARIE COPPER-GOLD PROJECT, CENTRAL NSW

KDL held an interest in EL7023 & ML739 Held through a Farm-in agreement with Tri Origin Mining Pty Ltd and TriAusmin Ltd (**Holders**). On 23 October 2015, KDL advised the Holders that it had decided to withdraw from the Calarie farm-in. The termination documentation was finalised on 26 August 2016 and the parties have agreed that the termination will be effective 23 October 2015.

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

On 1 September 2016, Zodiac Resources Pty Ltd entered into an agreement with Augur Resources Limited to terminate the farm in and joint venture agreement between those parties in relation to the Yeoval tenements. The parties agreed to relinquish and cancel the Yeoval tenements. KDL has a 58%

shareholding in Zodiac Resources, which has a 75% interest in the project. The process of cancelling the tenement was ongoing as at 30 September 2016.

5 TENEMENTS

Tenement Interests disposed of by KDL (or in process of disposal)

PROJECT	TENEMENT
Yeoval Joint venture* NSW, Australia (Zodiac Resources has a 75% interest)	EL6311, ML811

- *Yeoval tenements relinquished during Quarter by agreement with joint venture partner. Cancellation of Yeoval tenements with relevant mining department is in progress as at end of Quarter.
- Please note that the Calarie tenement termination documents were finalised and final payment made at end of this Quarter, however, the parties agreed the termination is effective as at 23 October 2015 so it is not included in the above table.

Tenement Interests retained by KDL

PROJECT	TENEMENT
Lerala Diamond Mine Central District, Botswana	2006/29L
Tenby Property Joint Venture North West Territories, Canada (20% interest after production decision)	3768, 3769, 4138, 4139, 4140, 4142, 4141, 4143, 3760, 3761, 3762, 4097, 4098, 4099, 4100, 4101, 4102, 4103, 4174, 4175, 4176, 4181, 4182, 4183, 4184, 4185, 4186, 4187, 4270, 4269, 4271, 4104, 4105, 4106, 4107, 4108, 4109, 4110, 4432, 4433, 4434, 4234, 4235
Commonwealth Property Joint Venture North West Territories, Canada (10% interest after production decision)	3763, 3764, 3765, 3766, 4144, 4145, 4111, 4112, 4113, 3770, 3719, 3771, 4114, 3772, 4115, 3773, 4116, 4117, 4118, 4119, 4120, 4121, 4122, 4123, 4124, 4125, 4126, 4127, 4128, 4129, 4130, 4437, 4438, 4439, 4435, 4272, 4177, 4440, 4436, 4441, 4178, 4328, 4442, 4266, 4325, 4267, 4326, 4327, 4268
Trillion Project Ontario, Canada	3013665, 3013666
Tilwane Joint Venture Central District, Botswana (50% interest)	PL267/2013, PL268/2013
Lomero Andalucía, Spain	IP14977, IP14978, IP14989

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

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

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

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

Lomero: IP (Investigation Permit) 14977 was formally granted to KDL on 13 May 2016. IP 14978 and 14989 are applications with priority assigned to KDL.

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APPENDICES

COMPETENT PERSON STATEMENTS

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