

KIMBERLEY DIAMONDS LTD

ACN 150 737 563

NOTICE OF EXTRAORDINARY GENERAL MEETING

-and-

EXPLANATORY MEMORANDUM

-and-

PROXY FORM

TIME: 10.00am (Sydney time)

DATE: 27 September 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 Tuesday 27 September 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 A to the Explanatory Memorandum.

BUSINESS

Resolution 1 Approval for the issue of up to an additional 50 million Shares

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

That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the issue by the Company of up to 50 million Shares 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:

- (a) a person who may participate in the proposed issue; and
- (b) any person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if this resolution is passed,

and any Associate of those persons.

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 amendments to draw down facility

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

That, for the purpose of Listing Rule 10.1, Listing Rule 10.11 and for all other purposes, approval is given for the amendments to the terms of draw down facility provided by DDA Trading BVBA (**DDA Trading**) to Lerala Diamond Mines Limited (**Lerala**) under the terms of the diamond marketing and sales agreement entered into by the Company, Lerala and DDA on 26 February 2016 and approved by shareholders on 27 April 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 nominees under the arrangements above, Liang Xie, and the Associates 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.

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 intends to vote undirected proxies <u>in favour of</u> each Resolution. 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.

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 September 2016. Boardroom's contact details are as follows:

Post	GPO Box 3993 Sydney NSW 2001 Australia
In 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 September 2016.

BY ORDER OF THE BOARD

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Laila Green Company Secretary Kimberley Diamonds Ltd 9 August 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 Tuesday, 27 September 2016 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 September 2016
Last time/date for receipt of valid proxies	10:00 am Sydney time on 25 September 2016
Date and time of Meeting	10:00 am Sydney time on 27 September 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 Approval for the issue of up to an additional 50 million Shares

Resolution 1 seeks the approval for the purposes of Listing Rule 7.1 and all other purposes, the issue of up to an additional 50 million Shares to professional and sophisticated investors.

Background

KDL is considering undertaking a placement of up to 50 million Shares and is seeking Shareholder approval for this possible placement.

Listing Rule 7.1

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

Currently, the Company's remaining capacity to issue shares under Listing Rule 7.1 is 24,148,069 Shares and the Company has no capacity to issue Shares under Listing Rule 7.1A. If Resolution 1 is passed, the issue of Shares the subject of Resolution 1 will be approved for the purposes of Listing Rule 7.1, and the Company will be able to issue additional Equity 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 7.3

The following information is provided in compliance with Listing Rule 7.3.

(a) Listing Rule 7.3.1: Maximum number of securities the Company is to issue (if known) or the formula for calculating the number of securities the Company is to issue:

Up to 50 million Shares.

(b) Listing Rule 7.3.2: The date by which the Company will issue the securities:

The Company will issue the Shares not later than 3 months following the date of this General Meeting.

(c) Listing Rule 7.3.3: The issue price of the securities:

A minimum price of at least 85% of volume weighted average price (**VWAP**) of Shares, calculated over the last 5 days on which sales in Shares were recorded before the day on which this issue is made.

(d) Listing Rule 7.3.4: The names of the allottees (if known) or the basis on which the allottees will be identified or selected:

Shares will be issued to professional or sophisticated investors.

(e) Listing Rule 7.3.5: The terms of the securities:

The Shares will rank equally in all respects with all other Shares on issue.

(f) Listing Rule 7.3.6: The intended use of the funds raised:

Funds will be used for the operation of the Lerala Diamond Mine in Botswana and working capital.

(g) Listing Rule 7.3.7: The issue date or a statement that the issue will occur progressively:

The issue date will be a date or dates not later than 3 months following the General Meeting and the Company may issue the Shares progressively.

(h) Listing Rule 7.3.8: 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 amendments to draw down facility

Resolution 2 seeks the approval for the purposes of Listing Rule 10.1, Listing Rule 10.11 and all other purposes, for amendments to the terms of the draw down facility provided by DDA Trading BVBA (**DDA Trading**) to Lerala Diamond Mines Limited (**Lerala**) under the terms of the diamond marketing and sales agreement entered into by the Company, Lerala and on 26 February 2016 (**Sales Agreement**) and approved by shareholders on 27 April 2016.

Background

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 the auction of diamonds to be produced by Lerala Diamond Mine in Botswana on 26 February 2016 (amended in June 2016) (the **Sales Agreement**). 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 relevant current terms of the Sales Agreement for the purposes of approving an extension of the term of the draw down facility are as follows:

- (a) Current terms relating to sales of diamonds (NOT CHANGING): the Sales Agreement provides that 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 5 years (Term) (the Term was previously amended from 3 years to 5 years by agreement between the parties in June 2016) and will be paid commission of 1.75% on diamonds sold, plus reasonable expenses. The rate of commission is subject to annual review and may be adjusted with agreement by all 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; and
- (b) Current terms relating to draw down facility (SOME TERMS ARE CHANGING SEE BELOW SECTION "WHAT IS CHANGING?" FOR DETAILS): the Sales Agreement currently provides that from 1 April 2016 to 31 August 2016, 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). The DDA Loan is currently required to be repaid by 30 September 2016 and incurs simple interest of 10% per annum on the outstanding amount from time to time (DDA Interest). It is 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.

WHAT IS CHANGING?

It is proposed to make the following changes to the Sales Agreement in respect of the DDA Loan:

- (a) it is proposed to change the term of the DDA Loan so that it can be drawn down until 31 December 2016. It is proposed that in each of September, October, November and December 2016, Lerala can draw down up to USD\$2.8 million (unless a higher amount is agreed between the parties), provided that it repays the amount owing from the previous month each subsequent month, such that USD\$2.8 million is the total outstanding at any time (or such higher amount as agreed between the parties). The parties intend for repayments to be made through monthly sales of diamonds, or as otherwise agreed between the parties. If Lerala requests, DDA may agree (in its discretion) for Lerala to roll the outstanding amount due in one month (or any part of it) over to the next month but if that occurs, Lerala can only draw down further amounts up to a total debt of USD\$2.8 million (unless a higher amount is agreed between the parties). The final repayment is due 31 January 2017, unless extended by the parties; and
- (b) it is proposed that DDA may elect to have the outstanding loan amount owed to it by Lerala as at 30 September 2016 (or a part thereof, up to a maximum of USD\$2.8 million) repaid by a conversion of its debt into KDL Shares, at a 10 day VWAP, calculated over the last 10 days on which sales in KDL Shares were recorded before the day on which the request to issue is made. DDA may convert such amount of its debt as at 30 September 2016 as it may elect, up to a maximum of the lesser of the following (Maximum Amount):
 - a. USD2.8 million; or
 - b. such number of Shares which would result in DDA and its associates (or its nominee(s) and their associates, if some or all of the shares are issued to a nominee/s) holding up to 19.95% of the total issued share capital of KDL after the issue of the Shares.

The request to issue may be made at any time from 30 September 2016 to 26 October 2016, in respect of the amount owing as at 30 September and irrespective of whether the amount has been rolled over into October.

No other terms of the DDA Loan are being changed. As at the date of this Notice, the proposed changes have not yet been executed, and will only be executed on receipt of Shareholder approval.

Why are we seeking approval for this change?

The Sales Agreement was approved by Shareholders on 27 April 2016, along with other transactions entered into with DDA Trading. Shareholder approval is being sought again now at the request of the ASX, who consider that an extension of the term of the DDA Loan requires shareholder approval under Listing Rule 10.1.

We are also obtaining approval under Listing Rule 10.11 for the ability for DDA to convert the outstanding loan amount as at 30 September 2016 (which will be up to the Maximum Amount) to Shares.

Listing Rule 10.1

When the Sales Agreement was first approved by Shareholders on 27 April 2016, DDA Trading reasonably believed 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). At that time, DDA Trading was in discussions with a number of parties, including related parties of KDL, for the purposes of such parties investing in DDA Trading or providing debt funding to DDA Trading. An investment was made subsequent to the 27 April 2016 Shareholder meeting by Liang Xie, the spouse of Director Alexandre Alexander. Ms Xie now controls DDA.

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

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.

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 31 December 2015 Half Yearly Report, the Company's equity interests at that time were \$16,756,000; 5% of this amount is \$873,800.

It is the DDA Security which is a "substantial asset" and requires approval under Listing Rule 10.1. The value debt secured will be up to USD\$2.8 million (or a higher amount agreed between the parties), meaning that the value of the DDA Security will be up to USD\$2.8 million (or such higher amount agreed between the parties). 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 to be 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.

Based on the above, the DDA Security constitutes disposal of a "substantial asset" and requires shareholder approval under Listing Rule 10.1.

Independent Expert's Report

In accordance with Listing Rule 10.10, accompanying this Notice is a letter from BDO, annexing their Independent Expert's Report prepared for the 27 April 2016 Shareholders meeting. This letter assesses whether the amendments the subject of Resolution 2 are fair and reasonable to the non-associated Shareholders and determines that the conclusions set out in the Independent Expert's Report continue to apply, taking into account the effect of both the extension and the other amendments to the DDA Loan. The report concludes that the amendments to the DDA Loan 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. 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. If the transaction was considered a control transaction for the purposes of s611 item 7 of the Corporations Act (i.e. if the conversion resulted in DDA owning more than 20% of KDL), a separate assessment would be required, however the proposed amendments do not allow DDA to hold over 20% of KDL so this will not occur.

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.

While the amendments to the DDA Loan results in the giving of a financial benefit to a related party through the DDA Security and the DDA Interest, the Directors have determined that the amendments to the DDA Loan are on arm's length terms. Accordingly, the arm's length exception set out in section 210 of the Corporations Act applies and Shareholder approval is not being sought under Chapter 2E of the Corporations Act for the amendments to the DDA Loan.

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, an agreement for DDA to elect, at its discretion, to convert up to USD\$2.8 million to Shares requires Shareholder approval in accordance with ASX Listing Rule 10.11.

Further Information required for Shareholders

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is being provided in relation to the possible conversion:

(a) Listing Rule 10.13.1: The name of the person.

The Shares will be issued to DDA Trading or its nominee(s).

(b) Listing Rule 10.13.2: The maximum number of securities to be issued (if known) or the formula for calculating the number of securities to be issued to the person.

The maximum number of securities in KDL to be issued are the number of Shares which are equal to the lesser of:

- a. USD\$2.8 million on the date of conversion, using the issue price set out in (e) below; or
- b. the maximum number of Shares which would result in DDA and its associates (or its nominee(s) and their associates, if some or all of the shares are issued to a nominee/s) holding up to 19.95% of the total issued share capital of KDL after the issue of the Shares.

By way of example only, the following table shows possible scenarios which could occur:

Volume Weighted Average Price (example only)	Number of shares issued assuming amount converted is AUD\$1 million (example only)	Number of shares issued assuming amount converted is AUD\$3.5 million (example only and please note that some amounts may exceed 19.95% of the Company's issued share capital and would be capped at an amount equal to the holder and their associates holding 19.95%)
\$0.05	20,000,000	70,000,000
\$0.10	10,000,000	35,000,000
\$0.15	6,666,667	23,333,333

- (c) Listing Rule 10.13.3: The date by which the entity will issue the securities, which must not be more than 1 month after the date of the meeting.
 - If conversion is elected by DDA, the Shares will be granted to DDA Trading or its nominee(s) no later than 1 month after the date of the Meeting.
- (d) Listing Rule 10.13.4: If the person is not a director, a statement of the relationship between the person and the director that requires the approval to be obtained.
 - The related party is DDA Trading, who is a related party pursuant to section 228(4) of the Corporations Act as it is controlled by Liang Xie, the spouse of Director Alexandre Alexander.
- (e) Listing Rule 10.13.5: The issue price of the securities and a statement of the terms of issue.
 - The Shares will be ordinary, fully paid Shares in the capital of the Company and will have an issue price equal to the 10 day VWAP, being the VWAP calculated over the last 10 days on which sales in KDL Shares were recorded before the day on which the request to issue is made.
- (f) Listing Rule 10.13.6: A voting exclusion statement.
 - A voting exclusion statement is included in the Notice accompanying this Explanatory Memorandum.
- (g) Listing Rule 10.13.6A: The intended use of the funds raised.
 - No funds will be raised by the issue as the issue would be for a repayment of existing debt.

Approval pursuant to Listing Rule 7.1 is not required in order to issue the Shares on conversion to DDA Trading or its nominees(s) as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of Shares on conversion 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. While Mr Alexander does not have an interest in the outcome of Resolution 2, as his spouse does have an interest, he makes no recommendation.

ANNEXURE A

Glossary

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

\$ means Australian Dollars.

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.

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

Corporations Act means the Corporations Act 2001 (Cth).

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 (or

such higher amount as is agreed between the parties), to be provided and repaid in

monthly tranches under the terms of the Sales Agreement.

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.

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

Notice.

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.

Proxy Form means the proxy form which accompanies this Notice.

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

Resolution means a resolution in this Notice.

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 Volume Weighted Average Price.

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

ANNEXURE B

Independent Expert's Report



Level 11, 1 Margaret St Sydney NSW 2000

Australia

PART 1 - SUPPLEMENTARY INDEPENDENT EXPERT'S REPORT

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

8 August 2016

Dear Directors

SUPPLEMENTARY INDEPENDENT EXPERT'S REPORT

Introduction

On 26 February 2016, Kimberley Diamonds Ltd (KDL or the Company) announced that KDL and its wholly owned subsidiary, Lerala Diamond Mines Limited (Lerala), have entered into a sales and marketing agreement (Sales Agreement) and an offtake agreement (Offtake Agreement) with DDA Trading BVBA (DDA) (Transactions).

BDO Corporate Finance (East Coast) Pty Ltd (BDOCF, us or we) was engaged by the Directors of KDL to prepare an independent expert's report, the purpose of which was to provide an opinion as to whether the Transactions were fair and reasonable to the non-associated shareholders of KDL (Non-associated Shareholders) in accordance with Chapter 2E of the Corporations Act 2001 (Cth) (the Act) and Australian Securities Exchange (ASX) Listing Rule 10.1 Approval required for certain acquisitions or disposals (LR 10.1). Our opinion, as set out in our Independent Expert's Report, was that the terms of the Transactions were fair and reasonable to the Non-associated Shareholders.

Our independent expert's report dated 16 March 2016 (Report or IER) accompanied the Notice of Extraordinary General Meeting and Explanatory Memorandum dated 23 March 2016 sent to KDL shareholders. On 27 April 2016, KDL shareholders approved Resolution 2 of the Notice of Extraordinary General Meeting and Explanatory Memorandum in relation to the Transactions.

Lerala and KDL now propose to amend the terms of the US\$2.8 million working capital facility with DDA under the Sales Agreement (Proposed Amendments).

The Directors of KDL have engaged us to prepare a supplementary independent expert's report (Supplementary IER) to provide further analysis and discussion of this material new information relevant to KDL shareholders and to accompany the Notice of General Meeting and Explanatory Memorandum to be issued to the KDL shareholders (Transaction Document). This Supplementary IER should be read in conjunction with the statements made in the IER. We recommend that the shareholders read the Transaction Document in relation to the Proposed Amendments to obtain a full understanding of the changes.



Proposed amendments to the Sales Agreement

The Proposed Amendments as follows:

- 1. Extension of the final draw down of the working capital facility as follows:
 - The final draw down of the loan facility under clause 5 is extended from 31 August 2016 to 31 December 2016 (unless further extended);
 - The final repayment date is extended from 30 September 2016 to 31 January 2017 (unless further extended);
 - In each of September 2016, October 2016, November 2016 and December 2016 (and any further period agreed between the parties), Lerala can draw down up to USD2.8 million (or a higher amount if agreed by the parties), provided that the preceding month's draw down is repaid or, if requested by Lerala, rolled over into the next month (if permitted by DDA, at its discretion).

The ASX have required KDL to obtain shareholder approval for the change under LR 10.1 on the basis that in the past Notice of Extraordinary General Meeting, the documents specifically set out the exact months in which funds could be drawn down and the exact amounts which could be drawn down each month. An approval under Chapter 2E of the Act is not required.

2. An additional clause to the Sales Agreement is proposed to be added providing the ability for DDA to convert (as repayment) part or all of the outstanding loan as at 30 September 2016 as follows: "Subject to receipt of KDL shareholder approval, DDA may elect (in its discretion) to convert part or all of the amount outstanding at 30 September 2016 to KDL shares, to be issued to DDA or its nominees, up to a maximum amount of the lesser of the following:

i. USD\$2.8 million; or

ii. an amount equal to the number of KDL shares such that DDA and its associates (or, if KDL shares are issued to its nominees, its nominees and their associates) will have up to a maximum total equity interest in KDL of 19.95%,

with the conversion to be calculated at a 10 day volume weighted average price (VWAP), calculated over the last 10 days on which sales in KDL Shares were recorded before the day on which the request to issue is made.

The request to issue may be made at any time from 30 September 2016 to 26 October 2016, in respect of the amount owing as at 30 September and irrespective of whether the amount has been rolled over into October. For the avoidance of doubt, if DDA agrees to roll some or all of the amount owing as at 30 September 2016 into October, it may later elect to convert some or all of that rolled amount into KDL shares in accordance with this clause, any time until 26 October 2016." KDL is seeking an approval under the ASX Listing Rule 10.11 Approval required for an issue of securities (Listing Rule 10.11) for the above addition. Although the Company is not required to obtain an approval under Listing Rule 10.1, we have been engaged to opine on the above as we had previously formed our opinion in the IER in relation to fairness by comparing the Transactions as a whole.



Resultant changes to IER

Given that the majority of the terms are the same as that previously discussed in our IER, we have undertaken our review on the impact of the changes on our assessment and conclusion. We have considered the impact of the Proposed Amendments as follows:

- 1. Extension of the final draw down of the working capital facility
 - Following the above proposed changes, we have updated page 2 of the IER and set out in appendix A the amended terms in tracked changes together with this letter.
 - Given that the timing of the advances does not have any bearing on the fairness assessment, the changes do not have any impact on our opinion.
- Additional clause to the Sales Agreement for the ability for DDA to convert (as repayment) the outstanding loan as at 30 September 2016

We have formed our opinion in the IER in relation to fairness by comparing the Transactions as a whole. As such, we took into consideration the Proposed Amendments and noted in relation to the fairness of the conversion, Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 Content of expert reports (RG 111), which requires the expert to compare:

- The value of the financial benefit to be provided by KDL to DDA (that is, the value of KDL shares), with
- The value of the consideration being provided to Lerala and/or KDL, that is, the release of the debt obligations of up to US\$2.8 million.

In considering the above, we note that the terms of the conversion may give rise to the following:

- Conversion would occur at market rate (that is, 10 day VWAP of KDL shares) which is representative of the portfolio value of the interest that DDA is entitled to.
- KDL would be relieved from seeking any funding (if required) to repay the loan and debt obligations such as the accumulative interest commitments; and
- KDL would not have to incur potential costs (if any) to fund the repayment of the loan on call if the election to convert is exercised.

Based on the above, we have assessed that the conversion of the DDA debt to equity would not worsen the financial position of KDL and should not have the impact of reducing the price of a KDL share by any more than if the DDA debt was repaid from cash.

A separate assessment may be required prior to conversion if the conversion option was elected if the transaction is considered a control transaction under s611 item 7 of the Corporations Act 2001 (Cth) (i.e. if the conversion resulted in DDA owning more than 20% of KDL).

On the whole, we consider that the Proposed Amendments would not alter our conclusion that the Transactions are fair and reasonable to the Non-associated Shareholders.



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

David McCourt

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD

Dan Taylor

Director

Director



Appendix A

Overview of the DDA Loan terms

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

Table 1: 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: U\$\$0.84 million during the period 1 April 2016 to 30 April 2016. U\$\$1.26 million during the period 1 May 2016 to 31 May 2016. U\$\$2.45 million during the period 1 June 2016 to 30 June 2016, subject to full repayment of the earlier two advances. U\$\$1.75 million during the period 1 July 2016 to 31 July 2016, subject to full repayment of the advance in June 2016; and up to U\$\$2.80 million (or such higher amount agreed between the parties), in each month during the period 1 August 2016 to 31 December 2016, subject to full repayment of the advances in the preceding month (or roll over into the next month, but if this is agreed to by DDA and occurs, the total outstanding must not exceed USD\$2.80 million unless a higher amount is agreed by the parties). The facility can only be drawn down in a different time period if agreed by the parties. 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, unless rolled over (if requested by Lerala and agreed to by DDA) or converted into KDL shares at the election of DDA. Further advances in each of September 2016, October 2016, November 2016 and December 2016 are to each be repaid in the following month, unless rolled over (if requested by Lerala and agreed to by DDA). The amount owing each month can be rolled over into the next month if it is not repaid. However, the total amount owing must be repaid on or before 31 January 2017, unless extended or agreed otherwise by the parties in writing.
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.



Table 1: Overview of the DDA Loan terms

Key terms	Details
DDA Security	 Lerala grants to DDA a security interest by way of a deposit of the secured diamonds (and any 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 U\$\$500,000; in May 2016, value of the second advance less U\$\$500,000; in June 2016, value of the third advance; in July 2016, value of the fourth advance; in August 2016, the value of the fifth advance; and in each of September 2016, October 2016, November 2016 and December 2016, secured diamonds to the amount equal to the amount of the requested advance that month. DDA is not obliged to provide any advance at any time until it holds a sufficient value of secured diamonds in accordance with the terms above.
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



Appendix B - QUALIFICATIONS, DECLARATIONS AND CONSENTS

1.1. 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.

1.2. Limitations

This Supplementary 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 Amendments. This Supplementary IER is to accompany the Transaction Document to be sent to Non-associated Shareholders to consider the Proposed Amendments and was not prepared for any other purpose.

Accordingly, this Supplementary 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 Supplementary IER.

This Supplementary 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 Supplementary 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 Supplementary IER with the Transaction Document. Apart from this Supplementary IER, we are not responsible for the contents of the Transaction Document or any other document associated with the Proposed Amendments. We acknowledge that this Supplementary IER may be lodged with regulatory authorities.

1.3. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this Supplementary 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.



In addition to providing the IER dated 16 March 2016 in connection with the Transactions, 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 Transactions. The advice provided did not give any recommendations in relation to the Transactions or the Proposed Amendments 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 Amendments. 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 Amendments. 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 Amendments.

We will receive a fee of up to \$5,500, plus Goods and Services Tax for the preparation of this Supplementary IER. We will not receive any fee contingent upon the outcome of the Proposed Amendments, 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 Amendments.

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

1.4. Disclaimer

This Supplementary IER has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this Supplementary IER. This Supplementary IER has been prepared for the sole benefit of the Directors and Shareholders. Accordingly, this Supplementary 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 Supplementary IER.

The statements and opinions contained in this Supplementary 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.



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PART 2 - FINANCIAL SERVICES GUIDE

This Financial Services Guide is issued in relation to a supplementary independent expert's report (Supplementary 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 Supplementary IER is intended to accompany the Notice of 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 their further understanding of the proposed changes to the related party transactions (Proposed Amendments).

Financial Services Guide

BDOCF holds an Australian Financial Services Licence (License No: 247420) (Licence). As a result of our Supplementary 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 Supplementary IER in connection with the issue of securities of another person.

Our Supplementary 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 Supplementary IER (as a retail client) because of your connection with the matters on which our Supplementary IER has been issued.

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

General financial product advice

Our Supplementary 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 Amendments 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 Supplementary IER in the amount of approximately \$5,500 (plus GST and disbursements). BDOCF

will not receive any fee contingent upon the outcome of the Proposed Amendments, 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 Amendments.

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 Supplementary 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 Supplementary 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

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

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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.

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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.

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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



Tel: +61 2 9251 4100 Fax: +61 2 9240 9821 www.bdo.com.au

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

David McCourt
Director

Man

Director Director



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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 repayment 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 any 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 fourth 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 secured diamonds in accordance with the terms above.



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
- 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

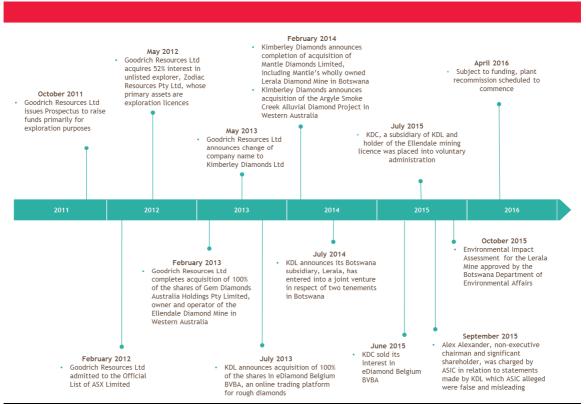
3.1. Overview

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.

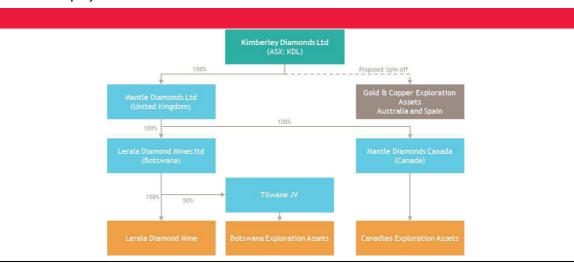
In KDL's 2015 Annual Report, the Company confirmed that the Lerala Diamond Mine has become KDL's new operational focus, and will become KDL's key source of revenue once mining recommences.



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	maicatea	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		4.8	28.2	1.36	\$79
K4	Probable	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:

Angola

Zambia

DeBeers Mines

Zimbabwe

Karowe

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

\$2000 maless stated athermities	FY13	FY14	FY15
\$'000 unless 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

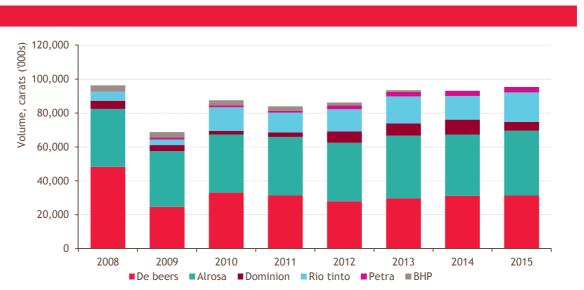
KDL owns the Lerala Diamond Mine in Botswana, Africa spanning an area of 21.86 km².

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.

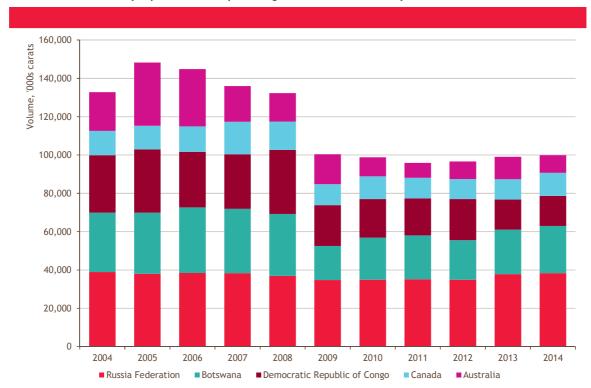


Table 20: Production by top five diamond producing countries in the last 10 years to 2014

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:

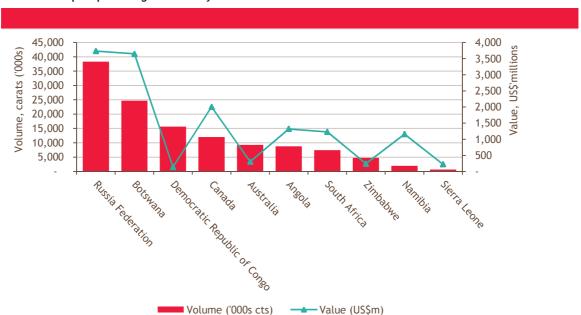


Table 21: Top 10 producing countries by volume and value in 2014

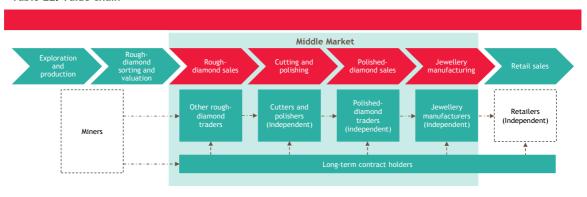
Source: https://kimberleyprocessstatistics.org, BDO analysis



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 months13.5% 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%	14.2
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%	29.8
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%	31.0
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	СС	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/
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%	4.609
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 Equit
Date	Company Name		Nature of Assets	Location	(Low) %	(High)
14/12/2015	Aquarius Platinum	Kroondal Mine	Platinum	South Africa	16.56	17.4
		Mimosa Mine	Platinum	Zimbabwe	21.35	22.3
		Platinum Mile	Platinum	South Africa	16.56	17.4
29/07/2015	Sirius Resources NL					
		Tropicana JV	Gold	Collison Zone, WA	6.81	8.9
2/04/2015	Norton Gold Fields	Paddington Project	Gold	Kalgoorlie, WA	10.96	11.0
		Mount Morgan	Gold Copper	Rockhampton, QLD	14.22	16.3
23/06/2015	Evolution Mining				10.90	12.
		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.
16/07/2014	Gondwana		Gold		9.60	12.
24/10/2014	Vantage GoldFields		Gold		17.40	20.
16/12/2014	Orbis Gold Limited		Gold		16.60	17.
28/11/2013	BCX Gold Investment	t (Gold One)	Gold		16.26	17.
2/07/2013	Kentor Gold	Andash	Gold	Kyrgyz Republic	21.30	23.
27/04/2012	Chalice gold mines	Koka Gold Mine	Gold		17.50	19.
13/09/2012	Republic Gold	Amayapampa	Gold	Bolivia	16.00	18.
9/11/2012	Regis Resources		Gold		7.89	10.
23/08/2012	Westgold	Westgold Projects (geared)	Gold		20.52	27.
14/02/2011	DiamonEx Limited	Lerala	Diamond	Botswana	15.0	
					(Note 1)	
6/10/2011	Adamus Resources	Nzema	Gold	Ghana	9.50	11.
		Youga	Gold	Burkina Faso	10.50	12.
		Agbaou	Gold	Cote D'Ivoire	16.40	17.
		Finkolo	Gold	Mali	11.90	12.
22/06/2011	Gold one		Gold		15.80	16
		Westgold Projects	Gold		9.78	12.
		Metals X projects	Gold		9.25	12.
	AVERAGE				13.87	15,

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

•	<u>-</u>	
	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, CapitallQ, 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, $0.21 \text{ million} + 10\% \times 3.9 \text{ million} \div 3.9 \text{ million}$).

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
ASX	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 th 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.



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 Sunday 25 September 2016.

■ TO VOTE ONLINE

STEP 1: VISIT www.votingonline.com.au/kdlegmsept2016

STEP 2: Enter your Postcode OR Country of Residence (if outside Australia)

STEP 3: Enter your Voting Access Code (VAC):



BY SMARTPHONE

Scan QR Code using smartphone QR Reader App

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 Sunday 25 September 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:

■ Online www.votingonline.com.au/kdlegmsept2016

■ By Fax + 61 2 9290 9655

By Mail Boardroom Pty Limited GPO Box 3993.

Sydney NSW 2001 Australia

In Person Boardroom Pty Limited Level 12, 225 George S

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 LTD

ACN 150 737 563

			register. If this is incorrect, make the correction in th sponsored by a broker shou	it appears on the company's share please mark the box with an "X" and the space to the left. Securityholders uld advise their broker of any changes. Change ownership of your securities				
	PROXY FORM							
STEP 1	APPOINT A PROXY							
I/We being a me	ember/s of Kimberley Diamonds Ltd (Com	pany) and entitled to attend and vote hereby app	oint:					
	the Chair of the Meeting (mark box)							
	NOT appointing the Chair of the Meeting as our proxy below	s your proxy, please write the name of the person	on or body corporate (excluding	the registered shareholder) you are				
of the Company	or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Extraordinary General Meeting of the Company to be held at the offices of Boardroom Pty Ltd, Level 12, 225 George Street, Sydney, NSW on Tuesday 27 September 2016 at 10:00am AEST and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.							
		favour of all Items of business. If you wish to apide a direction by marking the 'Against' or 'Abstai		as your proxy with a direction to vote				
STEP 2	VOTING DIRECTIONS * If you mark the Abstain box for a particul be counted in calculating the required maj	lar item, you are directing your proxy not to vote of ority if a poll is called.	on your behalf on a show of hand	ds or on a poll and your vote will not				
				For Against Abstain*				
Resolution 1	Approval for the issue of up to an additional 50 million Shares							
Resolution 2	Approval for amendments to draw down facility							
STEP 3	SIGNATURE OF SHAREHOL This form must be signed to enable your of							
Indiv	idual or Securityholder 1	Securityholder 2		Securityholder 3				
Sole Directo	or and Sole Company Secretary	Director	Dire	ector / Company Secretary				
Contact Name		Contact Daytime Telephone		Date / / 2016				