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## **1 BACKGROUND**

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

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

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

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

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

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

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

## **2 LERALA DIAMOND MINE UPDATE**

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### **2.1 COMMENCEMENT OF MINING AND PRODUCTION**

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#### ***Mining and production commenced in Q4, 2016***

Open pit mining operations commenced at the Lerala Diamond Mine in Botswana in early April 2016. Basil Read mobilised staff and equipment to the Lerala Diamond Mine during the months of February and March. Mining then commenced early in April from the K3 kimberlite pipe. Mining operations have proved more than capable of sustaining a consistent feed to the processing plant as it continues to ramp up production.

Commissioning of the processing plant commenced early in the quarter, and production commenced immediately thereafter. However, the ramp up of the plant has been slower than anticipated as a number of constraints to the process flow and efficiency of the plant have been identified. These are being systematically rectified and this work will continue into Quarter 1, 2017.

The remaining construction activities on the processing plant were completed during the quarter with the exception of some minor and non-critical items which lagged into July.

#### ***Quarterly Mining and Processing Results***

During Q4, 2016, Basil Read prepared the open pit on the K3 kimberlite pipe for production, established haul roads, hauled 44,000 tonnes of stockpiled ore to the ROM (Run Of Mine) pad, mined and hauled 191,000 tonnes of ore to the ROM pad and hauled 148,000 tonnes of low grade ore to the low grade stockpile area and 99,000 BCM (in situ or Bank Cubic Metres) of waste to the waste dump.

Q4/2016 was the first period in which processing operations were undertaken at the Lerala Diamond Mine. During Q4/2016, 27,967 tonnes of ore were processed, with 10,564.11 carats recovered.

### **2.2 DIAMOND SALES**

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The first sale of diamonds from Lerala was undertaken on 28 June 2016. The sale was conducted on an on-line auction platform operated by DDA Trading BVBA (**DDA**) in Antwerp, Belgium, under the terms of the Sales and Marketing Agreement in place with DDA.

A small parcel of diamonds which were sourced predominantly from historic pre-2016 ROM stockpiles, was sent to Antwerp for the auction, and was available for viewing in Antwerp in the week prior to the auction. The diamonds were sold at the auction at an average price of USD\$98 per carat, with 1,110.18 carats sold for total revenue of USD108,650.

The next diamond sale is scheduled for September 2016, and subject to diamond production levels, it is currently anticipated that regular diamond sales, both auctions and sales through existing offtake agreements, will be held thereafter.

### 3 CORPORATE

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#### 3.1 FUNDING

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##### ***Financial Position***

At 30 June 2016, KDL had a cash position of AU\$0.434M including bonds and debt of AU\$15.499M. AUD\$11.3M of this debt matures in May 2017. The total debt amount also includes the AU\$1.344M (USD\$1M) pre-payment received for diamonds to be supplied to Restwell Investments Pty Ltd (**Restwell**) after production and diamond sales commence.

KDL had previously anticipated that the DDA Loan Facility (defined below) and a fully subscribed rights issue, along with diamond sales and other existing funding, would be sufficient to take Lerala to production and provide necessary funding until such time as Lerala was cash flow positive. However, the ramp up of the production plant has been slower than anticipated, resulting in diamond sales and anticipated cash flow being delayed. This has increased both KDL and Lerala's need for interim working capital beyond what was originally expected and has required KDL to look to further sources of debt and equity funding. KDL remains in discussions with external parties for further funds.

During Q4 2016, KDL took the following steps to raise funds required for the re-commissioning of the Lerala Diamond Mine and for working capital:

##### ***Rights Issue***

During Q3 2016, KDL undertook a 1 for 3 non-renounceable rights issue offer at \$0.10 per new ordinary share to raise approximately \$4,024,678. The rights issue closed at 5pm (Sydney time) on 24 March 2016, raising \$451,734 via the entitlement offer to existing shareholders. On 24 June 2016, KDL announced that it completed the placement of the rights issue shortfall, with 100% of the available shortfall shares successfully placed, raising a further \$3,527,944. The entitlement and shortfall issues together raised \$4,024,678.

##### ***Zhejiang Huitong loan***

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

On 12 October 2015, KDL announced that Zhejiang has agreed to provide KDL with a further \$3 million in debt finance under the terms of the Loan Agreement. At 30 June 2016, \$3 million of the additional funds had been advanced to KDL.

On 29 January 2016, Zhejiang converted \$1.5 million of KDL's debt to 15 million KDL shares at a share price of \$0.10 per share. Zhejiang agreed for these shares to be escrowed for a period of 12 months from the date of their issue. The shares were issued under KDL's 15% capacity under ASX Listing Rule 7.1.

On 24 June 2016, KDL announced that 7,041,202 of the rights issue shortfall shares were issued to Zhejiang at \$0.10 per new ordinary share in payment of outstanding interest and payment of approximately \$180,000 debt in accordance with the terms of an agreement between KDL and Zhejiang.

As at 30 June 2016, KDL owes Zhejiang approximately AUD\$11.3M. This debt will mature in May 2017.

#### ***USD\$2.8 million working capital facility***

KDL announced on 26 February 2016 that it has secured a USD2.8 million working capital loan facility for the Lerala Diamond Mine. KDL and its Botswana subsidiary, Lerala, entered into a sales and marketing agreement (**Sales Agreement**) and an off-take agreement (**Offtake Agreement**) with DDA Trading BVBA (**DDA**), a Belgian based diamond auction house which specialises in the sales and marketing of rough diamonds for the international diamond trade.

Under the terms of the Sales Agreement, DDA will make available USD\$2.8 million in aggregate, to be provided and repaid in monthly tranches if drawn down by Lerala, with interest of 10% per annum on the outstanding amount from time to time and secured by collateral of diamonds produced at the Lerala Diamond Mine (**DDA Loan Facility**). Shareholder approval was obtained for the Sales Agreement and the Offtake Agreement at the Extraordinary General Meeting held on 27 April 2016.

The DDA Loan Facility was not drawn down by Lerala in the period to 30 June 2016 as the required collateral was not available. In the meantime, DDA advanced Lerala funds under an interim short term loan entered into on 25 April 2016 and amended by the parties during Q4, 2016 (**Short Term DDA Loan**). USD\$1,110,000 had been received by Lerala under the terms of the Short Term DDA Loan as at 30 June 2016 and a further USD\$700,000 was advanced by DDA to Lerala in early July.

In late July 2016, subsequent to the end of Q4, 2016, DDA converted the debt outstanding under the Short Term DDA Loan to the terms of the DDA Loan Facility. As at 27 July 2016, total of USD\$2,060,000 is outstanding under the terms of the DDA Loan Facility.

#### ***Loan Agreement with Eternal Diamonds***

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

### **3.2 EXTRAORDINARY GENERAL MEETING**

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KDL held an extraordinary general meeting (**EGM**) of shareholders on 27 April 2016 at which all resolutions put to shareholders were passed, including approval of the entry into the Sales Agreement and Offtake Agreement with DDA, the issue of options to directors and the implementation of an employee share option plan.

Following the EGM, the approved options were issued. In addition, options were issued under the new employee share option scheme in June 2016.

## 4 EXPLORATION ACTIVITIES

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### 4.1 DIAMONDS

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#### *Tilwane Joint Venture*

KDL, through its wholly owned subsidiary, Lerala Diamond Mines Limited, has now earned a 50% right in the Tilwane Joint Venture, a greenfields kimberlite exploration project in Botswana located some 60km to the east of the large scale Orapa and Letlhakane diamond mines. At 30 June 2016, approximately A\$162,000 has been expended in exploring the property since KDL has held an interest in the Tilwane Joint Venture. Exploration has focused on geophysical surveys and geochemical analyses, and has identified a number of significant targets deserving of further attention.

KDL now has the opportunity to earn an additional 20% interest in the Joint Venture by spending a further A\$1 million on project expenditure in the period to early 2017. If it completes this expenditure, it will hold a 70% interest in the Joint Venture. The next phase of exploration at Tilwane is logically a drilling program designed to test the identified targets. The drilling programme had been expected to be undertaken during calendar 2016, however given the extended focus on ramping up production at Lerala, this may be delayed and the market will be kept informed as to when this will proceed.

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

### 4.2 METALS EXPLORATION ACTIVITIES

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

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

During the quarter:

- Investigation Permit No. 14977 covering the Lomero project was formally granted to KDL by the Government of Andalucia on 13 May. KDL was required to complete a number of additional administrative steps before the grant resolution was issued. The granting triggers the commencement of the Year 1 expenditure commitment of €400,000 and enables KDL to commence active steps to investigate the deposit and explore for additional resources;

- a thorough search was undertaken for documentation that could support the input into a future resource estimate of the assay results from a programme of 60 underground drill holes completed at Lomero in 1984, prior to mine closure. SRK UK utilised the dataset in its 2002 resource estimation, but the newer JORC 2012 guidelines for resource estimates require all data inputs to be accompanied by contemporary documentation that describes the methodologies and quality control measures used. Geologists associated with the project in 1984 informed us that all original documents were collected by a subsequent titleholder. At this time, they remain unavailable;
- additional components of the 2001-2004 and 2013 surface drilling datasets and the 2015 modelling outputs were received and reviewed. The review is ongoing. The insights gained are currently being incorporated into the planning of drill targets;
- discussions were held with the government mining authority regarding our applications for two additional Investigation Permits adjacent to IP 14977 Lomero. We received an assurance that the processing of the first application, IP 14978 Palomarejo, will commence shortly, and written confirmation was received subsequent to the reporting period indicating the administrative process has started; and
- discussions were also held with the government mining authority regarding the status of the public tender for the Investigation Permit covering the neighbouring San Telmo mine, the evaluation of which has been delayed due to a number of administrative and legal issues. We were informed that the San Telmo evaluation panel is to convene in July. Subsequent to the reporting period, KDL received a written communication confirming that the evaluation process has now commenced.

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

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On 23 October 2015, KDL advised the holder of EL7023 and ML739, TriAusMin, that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination was still in progress at the end of Q4, 2016.

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

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No activities were undertaken during the quarter.

## 5 TENEMENTS

### Tenement Interests disposed of by KDL

PROJECT	TENEMENT
n/a	n/a

Calarie Project NSW (Farm-In) EL7023 and ML739: On 23 October 2015, KDL advised the holder of EL7023 and ML739, TriAusMin, that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination documentation was still in progress at the end of Q4, 2016.

### Tenement Interests retained by KDL

PROJECT	TENEMENT
<b>Lerala Diamond Mine</b> Central District, Botswana	2006/29L
<b>Tenby Property Joint Venture</b> North West Territories, Canada (20% interest after production decision)	3768, 3769, 4138, 4139, 4140, 4142, 4141, 4143, 3760, 3761, 3762, 4097, 4098, 4099, 4100, 4101, 4102, 4103, 4174, 4175, 4176, 4181, 4182, 4183, 4184, 4185, 4186, 4187, 4270, 4269, 4271, 4104, 4105, 4106, 4107, 4108, 4109, 4110, 4432, 4433, 4434, 4234, 4235
<b>Commonwealth Property Joint Venture</b> North West Territories, Canada (10% interest after production decision)	3763, 3764, 3765, 3766, 4144, 4145, 4111, 4112, 4113, 3770, 3719, 3771, 4114, 3772, 4115, 3773, 4116, 4117, 4118, 4119, 4120, 4121, 4122, 4123, 4124, 4125, 4126, 4127, 4128, 4129, 4130, 4437, 4438, 4439, 4435, 4272, 4177, 4440, 4436, 4441, 4178, 4328, 4442, 4266, 4325, 4267, 4326, 4327, 4268
<b>Trillion Project</b> Ontario, Canada	3013665, 3013666
<b>Tilwane Joint Venture</b> Central District, Botswana (50% interest)	PL267/2013, PL268/2013
<b>Yeoval Joint venture</b> NSW, Australia (75% interest)	EL6311, ML811
<b>Lomero</b> Andalucía, Spain	IP14977, IP14978, IP14989

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

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

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

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

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

**For further information please contact:**

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## APPENDICES

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### COMPETENT PERSON STATEMENTS

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

*The information in this announcement that relates to Exploration Results at Lomero, Spain is based on information compiled by Mr Rod Sainty, a Competent Person who is a member of the Australian Institute of Geoscientists. Mr Sainty is a full-time employee of Kimberley Diamonds Ltd. Mr Sainty has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Sainty consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*