2016 ANNUAL REPORT

KIMBERLEY DIAMONDS LTD

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1. Table of Contents

2. Report from Chairman and Managing Director

Dear Shareholders

The 2016 financial year ("FY2016") was a momentous year for Kimberley Diamonds Ltd (**KDL** or the **Company**) as mining and production commenced at the Lerala Diamond Mine (**Lerala Mine**) in Botswana. The opening of the Lerala Mine marks a significant milestone for KDL, as it becomes an operating diamond miner in Africa.

Lerala Diamond Mine: The Lerala Mine is KDL's key operational focus and will become the Company's key source of revenue as production ramps up during FY2017 and regular diamond sales are undertaken.

KDL acquired the Lerala Mine in February 2014, when it acquired Mantle Diamonds Limited (**Mantle**) and its controlled entities, including Lerala Diamond Mines Limited (**Lerala**), the owner of the Lerala Mine. In 2014, KDL engaged Consulmet (Pty) Limited (**Consulmet**), a South African mining engineering firm with extensive experience in diamond treatment plants, to redesign the Lerala Mine treatment plant to achieve improved diamond recovery and lift plant capacity to reliably treat 200 tonnes per hour. In July 2015, KDL entered into a lump sum turnkey contract with Consulmet to undertake the plant modifications. Key elements of the re-commissioning were completed in May 2016, with ongoing work being undertaken by Lerala and Consulmet into June 2016 to test the plant and ramp up production levels.

In February 2016, Lerala entered into a contract with Basil Read Botswana (Pty) Limited (**Basil Read**) for the open pit mining operations at the Lerala Mine following a competitive tender process. Basil Read mobilised staff and equipment to the Lerala Mine during February and March 2016. Mining commenced in April 2016.

Valuation: During FY2016, global resource consultancy Venmyn Deloitte (Proprietary) Limited (**Venmyn Deloitte**) delivered an independent valuation of the Lerala Mine. Subject to certain assumptions, set out in further detail on page 11 and 12 of this Annual Report, Venmyn Deloitte valued the Lerala Mine at a preferred valuation of $A105 million, within a valuation range of A$55.86 million to A$128.73 million.

Diamond Sales and Marketing: Lerala undertook its first sale of diamonds recovered from the Lerala Mine on 28 June 2016. A small parcel of gem quality diamonds comprising 1,110.18 carats was sold at an average price of $98 per carat. The auction was conducted by DDA Trading BVBA (**DDA**) from Antwerp, Belgium, using its online auction technology.

In February 2016, Lerala entered into a sales and marketing agreement with DDA (**Sales Agreement**), under the terms of which DDA will act as exclusive sales agent and auction diamonds recovered from the Lerala Mine for a period of 5 years. Lerala and DDA also entered into an offtake agreement (**Offtake Agreement**) under which Lerala has agreed to supply to DDA run of mine diamonds to the total value of at least USD$5 million at a price agreed between the parties.

Lerala also entered into an offtake agreement for the sale of diamonds with Restwell Investments Pty Ltd (**Restwell**) in January 2016, under the terms of which Restwell agreed to acquire USD$6 million of run of mine diamonds when they are available at a price agreed between the parties. Restwell pre-paid USD$1 million to Lerala for diamonds in FY2016, which was applied to pre-production costs.

Despite volatility during early FY2016 in prices for both rough and polished diamonds, we remain positive in our medium to long-term outlook for the diamond market. With diminishing supply from mature mines, and no major new mines in the pipeline, many industry participants and observers are forecasting that supply will start declining, and a consequential growing gap between supply and demand will result in increased diamond prices in the medium to long-term.

Funding: The Group has obtained both equity and debt funding during the course of FY2016 from a number of parties, a summary of which is set out below.

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 $2,855,817 in cash, with the balance being a debt to equity conversion. The entitlement and shortfall issues together raised $3,307,551 in cashflow.

Loan from Zhejiang: The Company has obtained debt funding of AUD$13 million from a third party lender, Zhejiang Huitong Auction Co Ltd (**Zhejiang**), which has allowed KDL to undertake the Lerala Mine refurbishment. On 29 January 2016, Zhejiang agreed to convert $1.5 million of KDL's debt to 15 million KDL shares at a share price of $0.10 per share. On 24 June 2016, 7,041,202 of the rights issue shortfall shares were issued to Zhejiang, partly in payment of interest, as well as repayment by conversion to equity of approximately $180,000 of the debt owed to Zhejiang. As at 30 June 2016, KDL owes Zhejiang approximately A$11.3 million. This debt will mature in May 2017 and has an interest rate of 5% per annum.

Loan from DDA: Under the terms of the Sales Agreement entered into between DDA and KDL's subsidiary, Lerala, DDA agreed to make available a draw down loan facility of USD$2.8 million in aggregate, to be provided and repaid in monthly tranches, with interest of 10% per annum. Draw downs are subject to Lerala providing collateral of diamonds produced at the Lerala Mine as security. Shareholder approval was obtained for the Sales Agreement and the Offtake Agreement at the Extraordinary General Meeting held on 27 April 2016.

DDA also advanced Lerala funds under a short term loan agreement entered into between DDA and Lerala. As at 30 June 2016, USD$1,110,000 had been received by Lerala under the short term loan, with a further USD$700,000 advanced by DDA to Lerala in early July 2016. Subsequent to the end of Q4, 2016, DDA converted the short term debt to the terms of the draw down loan facility.

Loan from Eternal: Lerala entered into a loan agreement in April 2016 with an unrelated third party, Eternal Diamonds BVBA (**Eternal**), under the terms of which Eternal provided a loan of USD$1 million.

Botswana Joint Venture: In July 2014, Lerala entered into a farm-in and joint venture with Tilwane Services (Pty) Limited (**Tilwane**) in respect of two tenements located in north-eastern Botswana, close to the Orapa Diamond Mine. In the first 12 months of the joint venture, Lerala earned a 50% interest in the joint venture. Lerala now has the opportunity to earn an additional 20% interest in the joint arrangement by spending a further AUD$1m on project expenditure in the period to January 2017. If it does this successfully, it will hold a 70% interest in the joint venture. During FY2016, Lerala spent A$15,000 on the Botswana joint venture.

Copper-Gold: In October 2014, KDL 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 FY2016, the formal resolution document granting KDL the Lomero project was issued. In August 2016, subsequent to the end of the financial year, KDL entered into a farm in and joint venture arrangement with Winmar Resources Limited (**WFE**), the terms of which are detailed later in this report.

KDL withdrew from its Calarie joint venture project during FY2016, and subsequent to the end of the financial year finalised the terms of this withdrawal with the joint venture party.

Financial Performance: As at 30 June 2016, KDL had a cash position of A$0.117 million and debt of A$13.959 million (net of establishment fees capitalised). AUD$11.3 million of this debt matures in May 2017.

Finally, we would like to extend the Board's appreciation of the hard work and commitment from our staff and management and the support of our shareholders over the last year. We look forward to continued success from the operation of the Lerala Mine and becoming a profitable miner in FY2017.

Alex Alexander
Non-Executive Chairman

Noel Halgreen
Managing Director

3. Business Review

3.1 Operations

3.1.1 Lerala Diamond Mine

The Lerala Mine was acquired by KDL in February 2014 when KDL acquired 100% of the issued share capital of Mantle, the holding company of Lerala, which owns the Lerala Mine.

The Lerala Mine consists of five diamond-bearing kimberlite pipes, designated K2 to K6, and a processing plant with a nominal capacity of 200 tonnes per hour (tph). It has a 15 year fully permitted mining lease which is valid until 2021 and covers an area of 21.86 km2.

In late 2015, a technical review modelled the Lerala mineral resources and reserves and provided a revised estimate of tonnage and grade prior to the re-commencement of mining. The result was presented in a statement titled "Mineral Resource and Ore Reserve Statement – 31 December 2015" (**Statement**), which was released to the ASX on 11 January 2016. The Statement identifies the Mineral Resources and Mineral Reserves at that date as:

- Probable Ore Reserves of 11.7 Mt at an average diamond grade of 25.8 cpht;
- Indicated Mineral Resources of 15.0 Mt at an average diamond grade of 25.6 cpht; and
- Inferred Mineral Resources of 5.1 Mt with an average diamond grade of 20.2 cpht.

At 30 June, 2016, the mineral resources and reserves have been depleted by mining undertaken during the initial three months of operations. The total depletion is estimated as approximately 191,000 tonnes, or 0.2 Mt, across all three categories listed above. This depletion is considered to be immaterial to the last Statement. A revised Statement will be released in the second half of calendar year 2016.

Plant refurbishment and modifications

Under its former owners, Mantle operated the Lerala Diamond Mine between February 2012 and July 2012 but a range of technical factors in the processing plant resulted in poor recovery of diamonds and Mantle ceased operations.

In September 2014, Lerala engaged Consulmet Pty Limited (**Consulmet**), a leading South African process engineering company with extensive diamond plant experience, to design modifications to the processing plant that would facilitate improved diamond recovery and throughput reliability, to allow it to reliably treat 200 tonnes per hours. The design phase was completed by Consulmet in late 2014.

In July 2015, KDL advised the ASX that the Board had approved the recommencement of mining, processing and diamond sales operations at Lerala. Also in July 2015, KDL entered into the lump sum turn-key contract with Consulmet to undertake the modifications to the plant which it had previously designed. Consulmet commenced the construction and refurbishment work in August 2015.

The discovery of alluvial gravels at the proposed site of the Tailings Storage Facility (**TSF**) necessitated a delay to the original schedule so that KDL could investigate the potential for alluvial diamond resources. The investigation cleared the way for the TSF to be constructed as planned.

Consulmet completed the key refurbishment work during Quarter 4, 2016. Commissioning of the plant and processing operations commenced shortly thereafter.

Mining Operations

A detailed invitation to tender was issued early in 2015 for the contracting of all mining activities at the Lerala Mine, including drilling and blasting, loading and hauling of ore and waste, plant headfeed operations and ancillary activities. A total of eight qualifying tenders were received and subsequently reviewed, from which three were selected for final negotiations in late 2015. Ultimately the contract was awarded to Basil Read Mining Botswana Ltd (**Basil Read**). Basil Read commenced its mobilisation to site in March 2016.

Basil Read's excavator loading one of the haul trucks inside the K3 pit

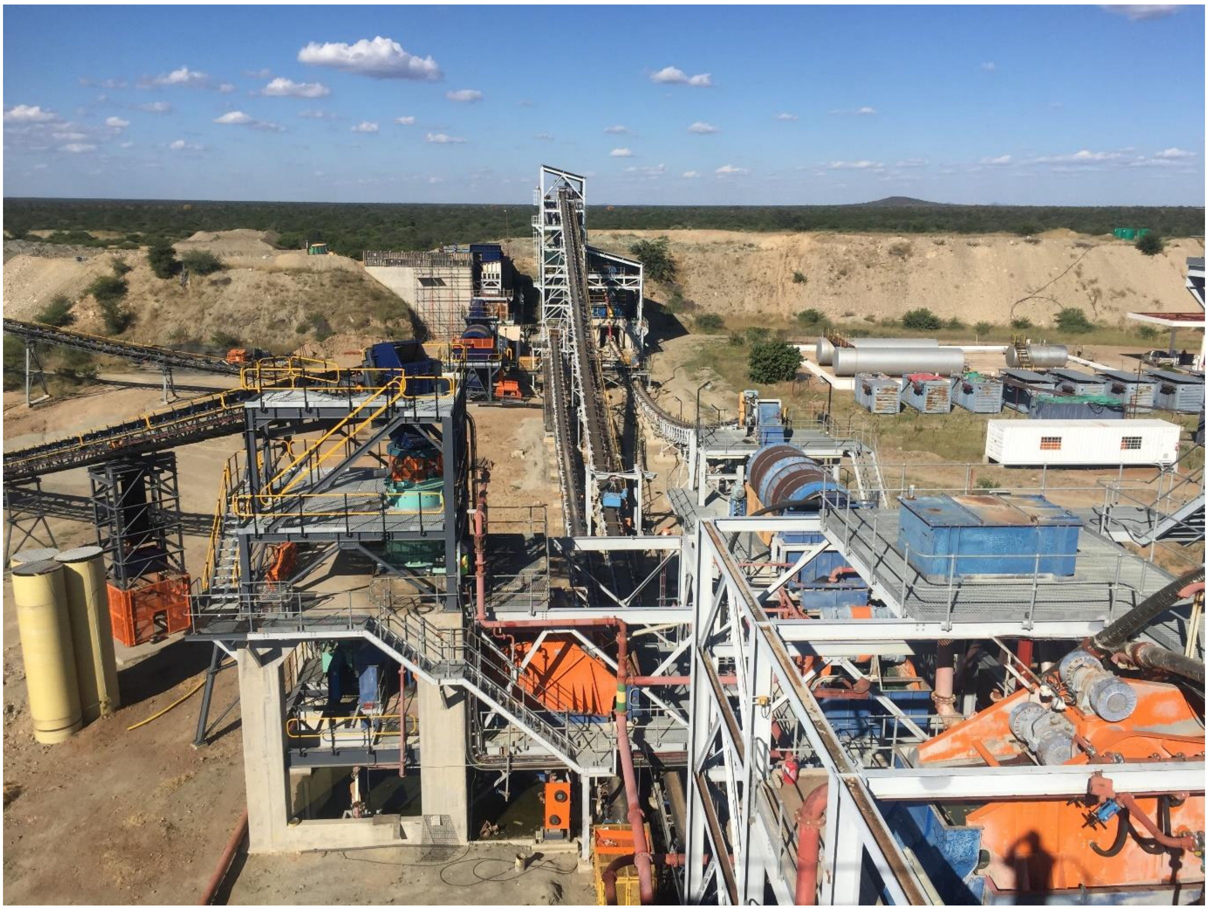
Mining operations commenced on 8 April 2016 from the pre-existing pit developed on the K3 kimberlite pipe. To 30 June 2016, mining operations extracted a total of 224,229 Bank Cubic Metre (BCM) of rock , including 70,635 BCM of ore, from the K3 pit, as per the following table.

Category Mined to 30 June 2016	Units	YTD Actual
Ore	**BCM**	70,635
Low Grade Ore	**BCM**	54,770
Waste	**BCM**	98,824

Processing Operations

Project construction activities were largely completed during final quarter of FY2016 with the exception of some minor punchlist and non-critical items which lagged into July. Commissioning of the process plant was completed early in the quarter and production commenced immediately thereafter. Production has continued to ramp up during the remainder of Q4 2016, however the ramp up of the plant to full capacity on a consistent basis has been slower than anticipated. A number of constraints to the process flow and efficiency of the plant have been identified and are being systematically rectified. The ramp-up willl continue into Quarter 1, 2017.

Processing to June 2016	Units	YTD Actual
Ore Treated	t	70,589
Carats Recovered	Cts	10,564.11
Grade Recovered	cpht	14.97



A view of the process plant viewed looking east from the top of the de-grit section

Environmental approvals

The final Environmental Approval for Lerala Mine was received from the Botswana Department of Environmental Affairs (**DEA**) on 29 October 2015. This approval followed a revision of the existing Environmental Impact Assessment (**EIA**) and Environmental Management Plan prepared by an earlier owner. The revision was based on a new set of technical studies completed by Loci Environmental, a Botswana based company project managed by Envirobility Loci cc. and submitted on 30 April 2015. The Environmental Approval paved the way for the Lerala Mine to re-commence operations.

Performance Improvement Plan

On 1 September 2016, KDL released an investor presentation outlining production performance of the Lerala Diamond Mine to date. The presentation noted that:

- During the ramp-up phase, average daily head feed has steadily increased.
- The plant has proven capable of operating at and above its designed capacity of 200 tph.
- Operating the recommissioned plant for three months has revealed shortcomings in some pre-existing elements of the plant.
- This, combined with the highly abrasive character of the internal waste within the kimberlite ore, has significantly impacted the plant's ability to operate at maximum capacity on a consistent basis.

The presentation outlined the details of a "Performance Improvement Plan" that Lerala anticipates would, if successfully implemented, have the plant processing 200 tonnes per hour on a consistent basis with a monthly steady state target of 120,000 tonnes by January 2017.

Successful implementation of the plan is dependent on certain assumptions, including the raising of A$1.6m for capital expenditure items and spare parts and a further $2.4m for working capital requirements.

3.1.2 Tilwane Project

Background

Lerala is party to a Farm-In and Joint Venture Agreement (**Joint Venture**) with Tilwane, a Botswana based exploration company. The Joint Venture is in respect of two tenements, Prospecting Licence 267/2013 and Prospecting Licence 268/2013, located in north-eastern Botswana, close to the Orapa Diamond Mine. The licences cover a total of 162km2 and lie close to the main Orapa-Francistown road.

Farm-In Progress

Lerala has now earned a 50% right in the Joint Venture. At 30 June 2016, approximately A$162,000 has been expended in exploring the property since the commencement of the farm-in. Exploration has focused on geophysical surveys and geochemical analyses, and has identified a number of significant targets deserving of further attention.

At this point, Lerala has the opportunity to earn an additional 20% interest in the Joint Venture by spending a further A$1 million on project expenditure in the period to early 2017. If it completes this expenditure, it will hold a 70% interest in the Joint Venture. If it does not, or does not agree an extension with the joint venture partner, then it will be deemed to withdraw from the Joint Venture. The next phase of exploration at Tilwane is a drilling program designed to test the identified targets. The drilling programme had been expected to take place during calendar year 2016, however the expenditure was deferred due to the extended ramp-up of production at Lerala. The market will be kept informed as to when the drilling 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 the Lerala Mine.

3.1.3 Sales and Marketing of Diamonds

First sale of diamonds from the Lerala Diamond Mine

Lerala undertook its first sale of diamonds recovered from the Lerala Mine on 28 June 2016. A small parcel of gem quality diamonds comprising 1,110.18 carats was sold at an average price of $98 per carat. The auction was conducted by DDA from Antwerp, Belgium, using its online auction technology.

Diamonds from the Lerala Diamond Mine

Sales and Marketing of Lerala diamonds

In February 2016, Lerala entered into a sales and marketing agreement with DDA (**Sales Agreement**), under the terms of which DDA will auction diamonds recovered from the Lerala Mine. Under the terms of the Sales Agreement, DDA is appointed as the exclusive sales and marketing agent for a period of 5 years. In February 2016, Lerala also entered into an offtake agreement with DDA (**Offtake Agreement**) to supply to DDA run of mine diamonds from the Lerala Mine to the total value of at least USD$5 million at a price agreed between the parties.

Shareholder approval for amendments to the Sales Agreement were obtained at a second Extraordinary General Meeting, which was held on 27 September 2016.

Restwell Offtake Agreement

Lerala entered into an offtake agreement for the sale of diamonds with Restwell Investments Pty Ltd (**Restwell**) in January 2016, under the terms of which Restwell agreed to acquire USD$6 million of run of mine diamonds when they are available at a price agreed between the parties. Restwell has pre-paid USD$1 million to Lerala for diamonds to assist with pre-production costs.

3.1.4 Independent Valuation

Global mineral resource consultancy Venmyn Deloitte (Proprietary) Limited (**Venmyn Deloitte**) delivered an independent valuation of the Lerala Mine in February 2015. Subject to certain assumptions, set out below, Venmyn Deloitte valued the Lerala Mine at a $A105 million, within a valuation range of A$55.86 million to A$128.73 million.

Key findings of the Independent Valuation Report

Venmyn Deloitte made the following key findings:

- The Diamond Resources and Ore Reserves for Lerala Diamond Mine (announced on 11 January 2016) were assessed as reasonable, based on the information available and assumptions used, and provide a suitable basis for a mineral asset valuation.
- The preferred mineral asset valuation for the Lerala Diamond Mine is A$105.0 million, within a valuation range of A$55.86 million to A$128.73 million.
- The planned Life of Mine (LOM) was extended from 7 years to 9 years.
- Venymn noted that the process plant is one of the greatest areas of risk in relation to the success of the project but stated that theoretical performance of the modifications being undertaken appear to address previous production and recovery issues.

Assumptions

The findings of the IVR are subject to certain assumptions made by Venmyn Deloitte, including the following key assumptions:

Item	Unit	Venmyn Valuation
Tonnes Mined	Mt	33.47
Tonnes Processed	Mt	12.61
Carats Recovered	Mct	3.08
Starting Diamond Price	USD/ct	79
Average LOM selling price	USD/ct	82

Average LOM AUD:USD		0.59
Average OPEX	A$/t processed	12.83
Life of Mine CAPEX	A$ million	22.3
Total Net	A$ million	165
Discount Rate	%	10%
Valuation Life of Mine (DCF)	A$ million	93
Value of Resource outside LOM	A$ million	12
Total Valuation	**A$ million**	**105**

3.1.5 Fundraising

Financial Position

At 30 June 2016, KDL had a cash position of AU$0.117 million and debt of AU$13.959 million (including capitalised establishment fees). AUD$11.3 million of this debt matures in May 2017.

KDL has undertaken a number of steps during FY2016 to raise the additional funds required to complete the re-commissioning and re-open the Lerala Diamond Mine. These are set out in detail below.

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 $2,855,817 in cash, with the balance being a debt to equity conversion. The entitlement and shortfall issues together raised $3,307,551 in cashflow.

Zhejiang Huitong loan

In late FY2015, 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 agreed to convert $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 and ratified by shareholders at our Extraordinary General Meeting in April 2016.

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

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

DDA Loans

KDL announced on 26 February 2016 that it has secured a USD2.8 million working capital loan facility for the Lerala Diamond Mine. Under the terms of the Sales Agreement with DDA, DDA agree to provide to Lerala USD$2.8 million in aggregate, available to be drawn down and repaid in monthly tranches, 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.

The loan facility under the Sales Agreement 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. USD$1,110,000 had been received by Lerala under the short term loan on 30 June 2016 and a further USD$700,000 advanced by DDA to Lerala in early July 2016.

In late July, subsequent to the end of Q4, 2016, DDA converted the debt outstanding under the short term loan to the terms of the loan facility under the Sales Agreement. As at 27 July 2016, total of USD$2,060,000 is outstanding under the terms of the loan facility. Shareholder approval for amendments to the Sale Agreement relating to the loan facility was obtained at our Extraordinary General Meeting in September 2016.

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.

3.1.6 Lomero Copper-Gold-Zinc Project, Spain

Background

Granting of Investigation Permit

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 polymetallic 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.

An independent resource estimation in May 2012 by global resource consultants Behre Dolbear International (UK) using data from 57 diamond drill holes completed in 2001-2004 classified Lomero as an Inferred Resource containing approximately 830,000 oz of gold, from 6.1 million tonnes at an average grade of 4.25 g/t gold (using the base case cut-off grade of 1g/t gold). The gold is accompanied by significant levels of silver, copper and zinc. The estimate was compliant to the Canadian NI43-101 standard.

KDL was awarded the Investigation Permit covering the deposit in October 2014 following a public tender conducted by the government of Andalucia. KDL has been evaluating the potential for a profitable re-development of Lomero through its wholly owned Spanish subsidiary, Alto Minerals S.L.

Investigation Permit No. 14977 covering the Lomero deposit was formally granted to KDL by the Government of Andalucia on 13 May 2016. 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.

Resource estimation

In 2013, the then-titleholder completed two phases of diamond drilling totaling 28 holes to upgrade the confidence level of the resource from Inferred to Indicated and obtain fresh sulphide material for metallurgical test work. However, that company encountered financial difficulties and ceased activities before a new estimate incorporating the additional results could be completed. KDL undertook to acquire all available data and commission an updated resource estimate compliant to the Australian JORC 2012 standard.

KDL acquired datasets from the 2001-2004 and 2013 drill programmes, together with crushed assay samples of the 2013 sulphide intercepts retained at the assay laboratory. While geology logs were available for all 28 holes drilled in 2013, assay results and samples were available for only the first phase of 14 drill holes. Both the laboratory and personnel associated with the 2013 programme confirmed that the core for the second phase of 14 holes had not been assayed, and the core from them remains unavailable. In several cases, the available assay results were incomplete, so KDL re-assayed the original crushed assay samples. KDL also accurately re-surveyed the locations of all existing drill collars to resolve a number of inconsistencies identified in their co-ordinates and elevations.

KDL commissioned a new independent resource estimation from mining consultants Ingenieria y Consultoria en Recursos del Subsuelo S.L. (**CRS**) collaborating with Snowden do Brasil Consultoria Limitada (**Snowden**). CRS was able to provide down-hole survey data from the 2013 drilling, critical to accurately locating the sulphide intercepts within those holes. The resource estimation included data verification, the development of a new three-dimensional (3D) block model, an estimation using kriging, and a new resource classification. The estimation report was received on 29 December 2015 and a summary of the methodology and results was included within KDL's Annual Statement of Mineral Resources and Mineral Reserves, issued initially on 7 January 2016. A revised Statement was issued on 11 January 2016.

The new estimation classified Lomero as an Indicated and Inferred Mineral Resource of 8.1 million tonnes at an average grade of 2.3g/t gold, 31g/t silver, 0.56% copper, 0.68% lead and 1.4% zinc (using a 0.5g/t cut-off for open pit mining and a 1.5g/t cutoff for underground mining). The split between Indicated Resources and Inferred Resources is shown in the table below. Based on this estimate, the Lomero resource contains approximately 600,000 oz of gold, 8.1 million oz of silver, 45,000 tonnes of copper, 55,000 tonnes of lead and 110,000 tonnes of zinc.

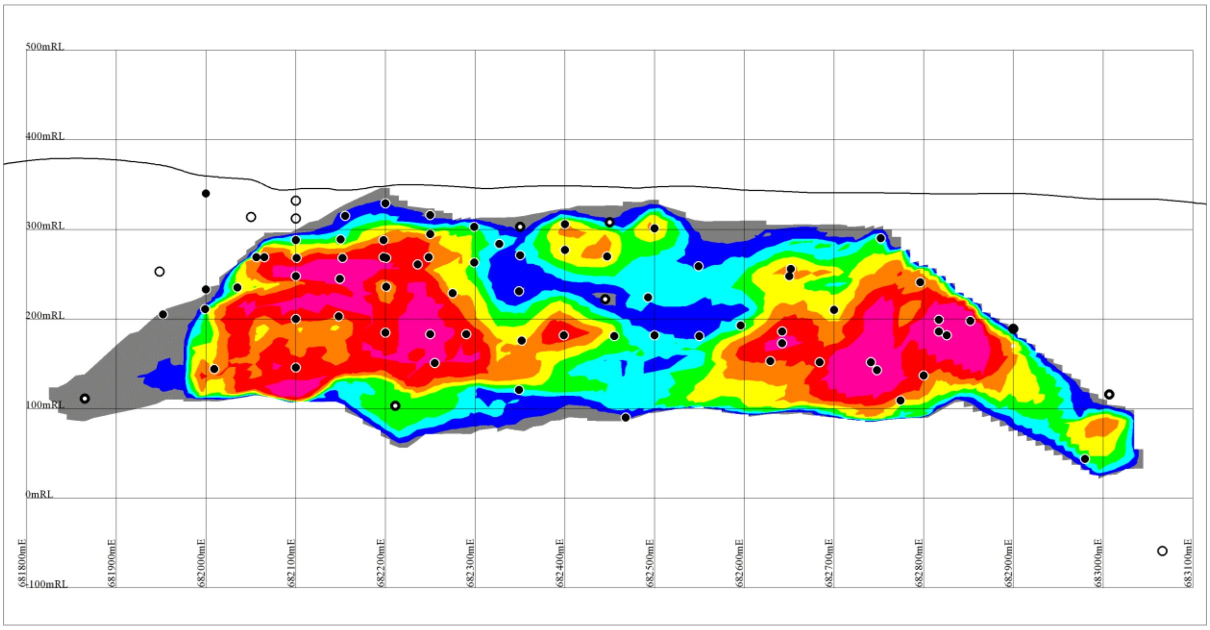
Lomero Mineral Resource at 0.5 g/t Au cut-off Open pit and 1.5 g/t Au cut-off Underground

Source	Mining Method	Category	KTonnes	Au g/t	Ag g/t	Cu %	Pb %	Zn %
Lomero	Open pit	Indicated	1,926	2.77	34.08	0.70	0.86	2.01
		Inferred	4,115	1.71	24.69	0.57	0.54	1.04
		Total Open Pit	**6,041**	**2.05**	**27.68**	**0.61**	**0.64**	**1.35**
	Underground	Indicated	199	5.18	65.40	0.36	1.39	1.80
		Inferred	1,858	2.86	39.26	0.43	0.75	1.33
		Total Underground	**2,057**	**3.09**	**41.78**	**0.42**	**0.81**	**1.38**
	Total	**Indicated**	**2,125**	**3.00**	**37.01**	**0.67**	**0.91**	**1.99**
		Inferred	**5,973**	**2.07**	**29.22**	**0.52**	**0.60**	**1.13**
		Total	**8,098**	**2.31**	**31.27**	**0.56**	**0.68**	**1.36**

**Note: Cu, Pb and Zn grades are reported to two significant figures, which may result in apparent discrepancies.*

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

The reason (or reasons) for the marked variance between the two resource estimates is unresolved at this date and further investigation is required. An independent audit of one or possibly both estimates will be undertaken when funds allow. A Sydney-based resource consultancy has already quoted for this work.



East-west longitudinal section of the Lomero gold-silver-copper-zinc deposit, coloured for gold grade (g/t Au) x thickness (m). The grid squares are 100m in dimension. Black dots represent drill intercepts of massive sulphide. Note that few holes have tested lateral to the deposit, and none exist below, suggesting excellent potential exists to discover additional resources.

Historic underground data

Historic assay data resulting from a programme 60 underground diamond drill holes was plotted and examined in the hope that it could help resolve the variance in grade between the 2012 and 2015 resource estimates. The underground drilling was completed by the former mine operator in 1984, prior to mine closure. Unlike the surface drill holes, the drill intercepts of massive sulphide in the 60 underground holes were complete and uninterrupted by mining voids, because the holes were drilled horizontally through the sill pillars supporting each mine level. The dataset was an important input to an estimation by global mining consultant SRK (UK) in 2002, but excluded from both the 2012 and 2015 estimations after fresh data from new surface drilling became available and doubts emerged concerning the reliability of the earlier data. The dataset lacks any original documentation identifying the provenance, methodologies and quality control measures used, and therefore does not conform to the JORC 2012 standard.

A search was undertaken for any original documentation that could support or challenge the historic dataset. Four geologists associated with Billiton's exploration on the surrounding property from 1982 to 1994 (two of which undertook systematic underground sampling within the mine before its closure in 1992) provided relevant information. It appears that all original documents relating to the underground drilling were retained by a subsequent titleholder. At this time, the documents remain unavailable.

Other activities

- 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 a number of parties regarding potential metallurgical investigations and treatment pathways for the Lomero massive sulphide.

- Discussions were held with the government mining authority regarding our applications for two additional Investigation Permits adjacent to IP 14977 Lomero. In late June 2016 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.

Joint Venture with Winmar Resources Limited

On 17 August 2016, subsequent to FY2016 year end, the Company announced that it has entered into a farm in and joint venture arrangement with ASX listed Winmar Resources Limited (**Winmar**) in relation to the Lomero project on the following key terms:

- On execution of the JVA and payment of a condition precedent payment of AUD$200,000, Winmar has a right to earn up to a 70% interest in the tenements over a 3 year period, starting 13 May 2016.

- Winmar must acquire an initial 10% by spending €400,000 in Year 1 (**First Commitment**).

- Winmar may then elect to acquire a further 35% interest (for a total 45% interest) by spending €3 million in Year 2.

- Winmar may then elect to acquire a further 25% interest (for a total 70% interest) by spending a further €2 million in Year 3.

- Winmar may withdraw at any time after the First Commitment has been completed. If Winmar withdraws during Years 2 or 3, its interest earned to date will revert back to KDL.

The arrangement with Winmar will meet the expenditure requirements for the Lomero project for the initial three years. KDL will retain a 30% interest in the project after this time, thereby providing its shareholders with continued exposure to the project and to copper-gold markets. Mr Rod Sainty, a former Director of KDL, has been appointed by Winmar as Managing Director and will lead the Lomero exploration program for Winmar.

San Telmo tender

Discussions were 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 since February 2015 due to a number of administrative and legal issues. KDL was informed that the San Telmo evaluation panel wass to convene in July 2016. Subsequent to the reporting period, KDL received a written communication confirming that the evaluation process has now commenced.

3.1.7 Calarie Copper-Gold Project, Central NSW

On 23rd October 2015, KDL advised the holders of EL7023 and ML839, Tri Orgin Mining Pty Ltd and TriAusmin Ltd that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination documentation with Tri Origin Mining Pty Ltd and TriAusmin Ltd was ongoing at 30 June 2016, but was finalised on 26 August 2016 and subject to a final payment by KDL, the parties have agreed that the termination is effective 23 October 2015.

3.1.8 Yeoval Copper-Gold Project, Central NSW (Zodiac, 75%)

KDL holds an interest in the Yeoval copper-gold project through its 58% shareholding of Zodiac Resources Pty Ltd (**Zodiac**), which has a 75% interest in the project.

No work was undertaken during the Year under review. On 1 September 2016, Zodiac Resources Pty Ltd entered into an agreement with Augur Resources Limited to terminate the farm in and joint venture agreement between those parties in relation to the Yeoval tenements. The parties agreed to relinquish and cancel the Yeoval tenements. As at the date of this report, the relinquishment and cancellation process is underway.

3.2 Annual Review of Mineral Resources and Ore Reserves

3.2.1 Lerala Diamond Mine

The diamond resources and ore reserves at Lerala are hosted by a cluster of kimberlite-filled volcanic pipes intruded into the Limpopo Mobile belt, an east north-east trending zone of deformed metamorphic rocks separating the Zimbabwe and Kaapvaal Cratons.

The initial geological investigation of the Lerala kimberlite pipes was undertaken following their discovery by De Beers in the early 1990s. The De Beers interpretation was subsequently refined using the data gathered during exploration by DiamonEx and trial mining by Mantle Diamonds.

Eight kimberlite pipes are known to exist at Lerala, and five of those pipes are diamond-bearing. The diamond-bearing pipes are designated K2, K3, K4, K5 and K6.

Diamond Mineral Resources

The Lerala Diamond Mineral Resources at 31 December 2015 were estimated as 20.1 million tonnes (Mt) at 24.2 carats per hundred tonnes (cpht) containing a total of 4.9 million carats. The breakdown into the categories of Indicated and Inferred Mineral Resources is shown in the following table.

Mineral Resource Summary as at 31 December 2015

			31 DECEMBER 2015 RESOURCE STATEMENT				30 JUNE 2015 RESOURCE STATEMENT			
SOURCE	ZONE	RESOURCE CLASS	TONNAGE (Mt)	GRADE (cpht)	CARATS (M cts)	VALUE (USD/ct)	TONNAGE (Mt)	GRADE (cpht)	CARATS (M cts)	VALUE (USD/ct)
Lerala	K2	Indicated	6.3	20.5	1.29	$61	3.1	25.4	0.80	$61
	K3		4.6	30.4	1.40	$79	2.8	44.1	1.25	$79
	K4		1.8	31.0	0.55	$79	0.7	53.4	0.38	$79
	K5		2.3	25.7	0.59	$79	1.5	17.8	0.27	$79
	K6		No Indicated Resource				0.3	30.3	0.09	$79
	ROM Stockpiles		0.1	22.5	0.02	$79	0.0	0.0	0.00	$0
	TOTAL INDICATED LERALA		**15.0**	**25.6**	**3.85**	**$73**	**8.5**	**32.8**	**2.80**	**$74**
	K2	Inferred	0.9	13.8	0.13	$61				$61
	K3		1.5	28.6	0.41	$79	1.5	26.7	0.40	$79
	K3 marginal breccia		1.2	9.9	0.12	$79				
	K4		0.3	32.2	0.09	$79	0.2	20.8	0.04	$79
	K5		0.2	46.1	0.11	$79				$79
	K6		0.4	28.3	0.12	$79				$79
	DB tailings		0.4	5.5	0.02	$40	0.1	13.0	0.01	$40
	Low grade stockpile		0.1	8.9	0.01	$79				
	TOTAL INFERRED LERALA		**5.1**	**20.2**	**1.01**	**$76**	**1.8**	**25.4**	**0.45**	**$78**
	TOTAL LERALA		**20.1**	**24.2**	**4.86**	**$74**	**10.3**	**31.5**	**3.25**	**$74**
TOTAL KDL INDICATED RESOURCE			**15.0**	**25.6**	**3.85**	**$73**	**8.5**	**32.8**	**2.80**	**$74**
TOTAL KDL INFERRED RESOURCE			**5.1**	**20.2**	**1.01**	**$76**	**1.8**	**25.4**	**0.45**	**$78**
TOTAL KDL RESOURCE			**20.1**	**24.2**	**4.86**	**$74**	**10.3**	**31.5**	**3.25**	**$74**

* Tonnage is stated in million's tonnes and rounded to the nearest 10 kt while carats are stated in million's carats and rounded to the nearest 10 kCarat, which may result in minor computational discrepancies

Notes:

- Mineral Resources are reported inclusive of Ore Reserves.
- The new Diamond Mineral Resource represents an increase of 9.8 Mt and 1.6 million carats over the Mineral Resource estimate at 30 June 2015 of 10.3 Mt at 31.5 cpht for 3.3 million carats (excluding resources from the KDC assets which ceased to be part of KDL on 1 July 2015).
- The increase in the Mineral Resources was due primarily to the inclusion of alternative mining methods into the open pit optimisation process and a revision of the criteria for determining the classification of mineral resources for each pipe.
- Depletion due to mining from the K3 pit in the last quarter of 2016 (and reported above in the Operations Report) is estimated at approximately 0.2 million tonnes. That depletion will reduce these Diamond Mineral Resource estimates by the same amount.

Further details are available in the *Mineral Resource and Ore Reserve Statement – 2016*, released to the ASX on 11 January 2016.

Diamond Ore Reserves

The Lerala Diamond Ore Reserve at 31 December 2015 was estimated as 11.7 million tonnes (Mt) at 25.8 carats per hundred tonnes (cpht), containing 3.0 million carats. The breakdown into the individual kimberlite pipes is shown in the following Table.

Ore Reserve Summary as at 31 December 2015

SOURCE	ZONE	RESERVE CLASS	31 DECEMBER 2015 RESERVE STATEMENT				30 JUNE 2015 RESERVE STATEMENT			
			TONNAGE (Mt)	GRADE (cpht)	CARATS (M cts)	VALUE (USD/ct)	TONNAGE (Mt)	GRADE (cpht)	CARATS (M cts)	VALUE (USD/ct)
Lerala	K2	Probable	3.0	23.8	0.71	$61	0.8	35.3	0.29	$61
	K3		4.8	28.2	1.36	$79	2.7	32.3	0.86	$79
	K4		1.5	26.6	0.40	$79	0.6	32.2	0.20	$79
	K5		2.4	22.7	0.53	$79	0.7	20.0	0.13	$79
	K6		No Probable Reserve				0.2	29.9	0.06	$79
	PROBABLE RESERVES LERALA		**11.7**	**25.8**	**3.01**	**$75**	**5.0**	**31.0**	**1.54**	**$76**
TOTAL PROBABLE RESERVES KDL			**11.7**	**25.8**	**3.01**	**$75**	**5.0**	**31.0**	**1.54**	**$76**

* Tonnage is stated in million's tonnes and rounded to the nearest 10 kt while carats are stated in million's carats and rounded to the nearest 10 kCarat, which may result in minor computational discrepancies

Notes:

- All Ore Reserves are in the Probable category and are converted entirely from Indicated Resources.
- The stated Ore Reserve grades are head feed grades.
- The new Ore Reserve estimate represents an increase of 6.7 Mt and 1.46 million carats over the Ore Reserve estimate at 30 June 2015 of 5.0 Mt at 31.0 cpht containing 1.54 million carats.
- The increase in the estimate of Ore Reserves is primarily due to a significant movement from the Inferred Mineral Resources classification into the Indicated classification that resulted from a review of the geological model. In addition, improvements in input parameters for the Whittle-optimisation process on pipes K2, K3, K4, and K5, and detailed open pit mine designs, allowed more of these Indicated resources to be exploited by open pit methods and converted to Probable Reserves.
- Depletion due to mining of approximately 0.2 Mt from the K3 pit in the last quarter of 2016 and reported above in the Operations Report will reduce these estimates of the Diamond Ore Reserve by a commensurate amount.
- There were no acquisitions that added to the Diamond Ore Reserves since the last update.

Further details are available in the *Mineral Resource and Ore Reserve Statement – 2016*, released to the ASX on 11 January 2016.

3.2.2 Lomero Gold-Copper-Zinc Project

Lomero is a 1km-long polymetallic volcanogenic massive sulphide (VMS) deposit with elevated gold content and is located within Spain's premier mineral district, the Iberian Pyrite Belt (IPB).

As described in Section 3.1.4, a new resource estimation completed in December 2015 classified Lomero as an Indicated and Inferred Mineral Resource of 8.1 million tonnes at an average grade of 2.3g/t gold, 31g/t silver, 0.56% copper, 0.68% lead and 1.4% zinc (using a 0.5g/t cut-off for open pit mining and a 1.5g/t cutoff for underground mining). The split between Indicated Resources and Inferred Resources is shown in the table below.

Source	Mining Method	Category	KTonnes	Au g/t	Ag g/t	Cu %	Pb %	Zn %
Lomero	Open pit	Indicated	1,926	2.77	34.08	0.70	0.86	2.01
		Inferred	4,115	1.71	24.69	0.57	0.54	1.04
		Total Open Pit	**6,041**	**2.05**	**27.68**	**0.61**	**0.64**	**1.35**
	Underground	Indicated	199	5.18	65.40	0.36	1.39	1.80
		Inferred	1,858	2.86	39.26	0.43	0.75	1.33
		Total Underground	**2,057**	**3.09**	**41.78**	**0.42**	**0.81**	**1.38**
	Total	**Indicated**	**2,125**	**3.00**	**37.01**	**0.67**	**0.91**	**1.99**
		Inferred	**5,973**	**2.07**	**29.22**	**0.52**	**0.60**	**1.13**
		Total	**8,098**	**2.31**	**31.27**	**0.56**	**0.68**	**1.36**

**Note: Cu, Pb and Zn grades are reported to two significant figures, which may result in apparent discrepancies.*

Further details are available in the *Mineral Resource and Ore Reserve Statement – 2016*, released to the ASX on 11 January 2016.

As explained in section 3.1.4, the resource estimate of December 2015 is significantly different to the previous resource estimate completed in May 2012. That estimate classified Lomero as an Inferred Resource containing approximately 830,000 oz of gold, from 6.1 million tonnes at an average grade of 4.25 g/t gold (using the base case cut-off grade of 1g/t gold). The reason (or reasons) for the variance between the two resource estimates is unresolved at this date and further investigation is required. An independent audit of one or possibly both estimates will be undertaken when funds allow. A Sydney-based resource consultancy has already quoted for this work.

Statements of Compliance

The information in this report that relates to Mineral Resources and Ore Reserves at the Lerala Diamond Mine is extracted from the report titled "Statement of Mineral Resources and Ore Reserves as at 31 December 2015", created on 11 January 2016 and available to view on www.asx.com.au and www.kdl.com.au. The company confirms that with the exception of the minor quantities of depletion due to mining undertaken during the last quarter of FY2016 and highlighted above in the Operations Report for Lerala, it is not aware of any other 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 report that relates to Mineral Resources at the Lomero gold and polymetallic project, Andalucia, Spain, is extracted from the report titled Statement of Mineral Resources and Ore Reserves as at 31 December 2015 issued on 11 January 2016. The report is available online at www.asx.com.au and www.kdl.com.au. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and confirms that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented here have not been materially modified from the original market announcement.

The information in this report that relates to Exploration Results at the Lomero gold and polymetallic project in 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 was a full-time employee of the Company up until 16th August, 2016, whereby he resigned as Director of KDL. 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.

3.3 Financial Performance (Non IFRS information)

Financial performance

The Group's profit before tax for the year amounted to $9.527 million. The continuing operations loss of $12.136 million was offset by the profit from discontinued operations $21.663 million.

Financial position

The Group finished the year with a cash balance of $0.117 million.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position (including its cash flows and liquidity position) are set out in the Operating and Financial review section of the directors' report.

The Group experienced net cash outflows from operating activities of $(6.720)m, net cash outflows from investing activities of $(14.880)m and net cash inflows from financing activities of $17.657m. In addition, the Group produced a net profit after tax of $9.527m for the year ended 30 June 2016. At 30 June 2016 and 30 June2015 the cash and cash equivalents balance was $0.117m and $4.063m respectively.

In July 2015, the KDL Board had approved expenditure of $14.6 million to be spent on upfront capital items required to upgrade the plant and update infrastructure at the Lerala Mine. In July 2015, KDL entered into a lump sum turnkey contract with Consulmet for Consulmet to undertake the plant modifications, and the Lerala Mine was re-commissioned in Quarter 4, 2016.

The re-commissioning of the Lerala Mine was funded by debt and equity, with $10.789 million received from third party lenders.

On 1 July 2015, the Company's wholly owned Australian subsidiary, KDC, the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. KDC's subsidiaries were also placed into voluntary administration on 1 July 2015. On 5 August 2015, the creditors of KDC voted to place KDC and its subsidiaries into liquidation, rejecting a Deed of Company Arrangement proposal put forward by Kimberley Diamonds Limited ("KDL"), which was a secured creditor of KDC. On 30 June 2015, KDL was owed an amount of $3.64m as a secured creditor by KDC. KDL was repaid in full by the end of September 2015.

On 22 June KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDC. The liquidators have commenced proceedings against KDL and Alex Alexander, Noel Halgreen and Rodney Sainty (in their capacity as KDC directors) in respect of a number of claims relating to KDC, including alleged insolvent trading, alleged voidable transaction recovery proceedings and alleged breaches of director duties. The amount specifically claimed against KDL by the liquidators in the documentation received is approximately A$22.7 million, plus costs and interest. There are also additional claims for unspecified amounts.

These conditions indicate the existence of a material uncertainty that may cast significant doubt over the consolidated entities ability to continue as a going concern.

The directors recognize the need to raise further additional funds via equity raisings or borrowing facilities in order to fund the future capital expenditure and working capital requirements over the short to medium term. The directors are satisfied they will be able to raise additional capital as required and thus it is appropriate to prepare the financial statements on a going concern basis.

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.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

Accounting policies

Following the acquisition of KDC, appropriate accounting policies for a producing mine business were adopted as set out in the notes to the annual financial statements.

Dividends

The Company did not pay any dividends in FY2016 (FY2015: Nil).

3.4 Corporate Social Responsibility

3.4.1 Introduction

We set out below our report on Corporate Social Responsibility (**CSR**) for our operations at Lerala, including environment, health, safety and community. Operations at Lerala commenced in late FY2016, and the CSR programme is under active development.

3.4.2 Environment

The Group is committed to conducting its operations in a sustainable and responsible manner.

The Lerala Diamond Mine EIA and Environmental Management Plan (**EMP**) were approved by the Department of Environmental Affairs of Botswana in October 2015. Operations are being conducted in compliance with the provisions of the approved EIA and EMP as well as the general regulatory framework of Botswana.

Late in the period, Lerala commenced the construction of a 22 km fence around the perimeter of the mining lease to prevent the inadvertent access of livestock into operating areas, which may put them at risk. The planning for this fence was undertaken in consultation with local officials who facilitated discussion with local farmers in the area. The farmers welcomed the construction of the fence.

The construction of a new tailings storage facility had progressed sufficiently by the end of the period to accept the deposition of pumped tailings. The initial phase of the facility was completed during July 2016 and return water is expected to start being available for reclaimation early in calendar year 2017.

3.4.3 Rehabilitation Planning

New disturbance of the land surface was limited within the period, as most activities were undertaken within the existing disturbance footprints. The notable exception was the construction of the new Tailings Storage Facility (**TSF**). Rehabilitation planning has been incorporated into the Environmental and Social Management Plan and will be further developed in compliance with the specific provisions approved in the EMP.

3.4.4 Water at Lerala

Construction activities and (from Q4/2016) mining and processing operations resulted in a slight increase in water drawn from local bores for camp requirements. Water pumping from the Seleka well-field, situated some 34 km to the South East of Lerala, re-commenced in Q4, 2016.

No adverse environmental impacts on water quality or significant reduction in water tables on the lease area or the nearby well-field were detected or reported during the period.

3.4.5 Sustainability

KDL aims to ensure that it and its subsidiaries operate in a sustainable manner and bring as much benefit as possible to the community and region in which it operates.

Local suppliers

Lerala has used local suppliers and small businesses in the Lerala village and surrounding areas wherever possible to supply goods and services, ranging from food supplies for the camp and personal protective equipment to transport and accommodation services.

Tailings Storage Facility

The TSF has been designed to recover maximum water from wet tailings. The photo below shows one of the newly constructed "penstock rings" inside the TSF footprint which will be raised by adding additional ring segments as the dam level rises. This structure forms part of the water reclamation facility and allows decant water from the dam to gravitate back to a storage pond for later return to the process water dam. The recycling of water reduces the necessity to draw upon other natural water sources such as the Seleka wellfield.

3.4.6 Health and Safety

The Lerala Diamond Mine Safety, Health and Environmental Management (**SHE**) system was developed early in Q3/2016 during the commissioning phase, which included the development of an Emergency Response Plan. In addition, a significant number of policies and procedures for the SHE management system were introduced. An extensive set of training packages were also developed and implemented.

At the end of FY2016, KDL was in the process of developing and implementing the IsoMetrix software system to monitor and manage all aspects of safety, health and environment, and this system is expected to be fully implemented early in FY2017.

The SHE statistics for the period to 30 June 2016 are illustrated in the following table, which follows the form set out by the International Council of Mining and Metals.

	Jan	Feb	Mar	Apr	May	Jun	YTD
FR	0	0	0	0	0	0	0
LTIFR	0	0	0	0	0	0	0
TRIFR	0	4.8	2.8	1.6	2.4	3.8	3.8
CIFR	0	0	0	0	0	0	0
Man-hours worked	18,360	22,464	28,460	52,140	42,941	46,012	210,377
SR	0	0	0	0	0	0	0

FR Fatality rate
LTIFR Lost time injury frequency rate
TRIFR Total recordable injury frequency rate
CIFR Classified injury frequency rate
SR Severity rate

3.4.7 Operations, Environmental and Licence Compliance

KDL recognises that environmental compliance is integral to its business and is committed to responsibly managing its environmental impacts. In addition, KDL's mining operations are subject to stringent mining licence requirements. KDL uses risk management systems to monitor compliance and licence requirements and flag potential risks, which are then addressed and managed.

In Botswana, representatives of numerous national and local government departments in key technical disciplines visited the Lerala Mine site during the period to review and assess Lerala's transition from a care and maintenance environment to an active mining and processing operation. Personnel from the Environmental, Mining and Safety departments were particularly active. Regulatory officials have been very supportive of Lerala's efforts to re-commence operations and have willingly provided advice and assistance in order to assist Lerala in developing the compliance regime required.

3.4.8 Community

With the commissioning of Lerala in Q4, 2016, the Lerala and KDL management teams continued to engage with the community and utilise local resources to strengthen their financial benefits. In particular, we have worked with local transport companies to ensure the safe arrival of employees by bus to and from the mine, worked with local guesthouses to ensure employees and contract staff have obtained suitable accomodation, and ensured that all fresh produce is sourced locally.

In September 2015, KDL held a Blessing Ceremony with the local community at Lerala, which was aimed at mobilising the community to provide its best wishes for the success of the mine.

Some members of the local Lerala community, visiting Pastors and KDL senior management at the Blessing Ceremony

In May 2016, Lerala management attended the Lerala Primary School Teachers Development Day and discussed with teachers the involvement of Lerala with the school community. This interaction brought us increased understanding of the academic challenges faced by young people in the local school setting.

Lerala will continue its efforts to understand the needs of the local community and act accordingly. Lerala will also regularly review the EIA and act upon its recommendations.

3.4.9 Local Workforce and Diversity in Botswana

To date, we have been fortunate to employ more than 120 local people at Lerala, of whom 29% are female.

In addition, we actively encourage our contract service providers to source employees from the local communities and encourage female employment for improved workplace diversity. For example, our mining contract with Basil Read resulted in the employment of more than 70 local people to operate mining equipment.

3.5 Principal Risks

The Group's principal business risks are outlined below. These are significant risks that may adversely affect the Group's business strategy, financial position or future performance. This is a non-exhaustive list. It is not possible to identify every risk that could affect the Group's business and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise.

Economic and Market Risks

The general economic climate in which the Group operates may adversely affect the financial performance of the Group. Factors which may contribute to the general economic climate include the level of direct and indirect competition facing the Group, the performance of the diamond market, industrial disruption, the rate of global growth, interest rates, exchange rates and the rates of inflation.

Future earnings are likely to be closely related to the price of diamonds and the terms of any sale agreements into which the Company or its subsidiaries enter.

Diamond prices may fluctuate and are affected by numerous factors beyond the control of the Company. These factors include world demand, forward selling by producers, production cost levels in other producing regions and global conflict. Diamond prices are also affected by macroeconomic factors such as expectations regarding inflation, interest rates, currency and exchange rate fluctuations, and global and regional demand for, and supply of, diamonds as well as general global economic conditions. Diamond prices remain volatile and sensitive to market uncertainties, directly impacting cash flows. These factors may have an adverse effect on the Company's exploration, development and production activities.

Mitigation: Market conditions are continually monitored to identify current trends that may either pose a threat or create an opportunity for the Group and the Group will continually assess its capital projects and sales cycles, with a view to using its best efforts to preserve positive cash balances on its Statement of Financial Position.

Operation and development risks

The success of the business of an exploration and mining company depends on many factors, including the successful exploration and/or acquisition of recoverable and economic reserves, design and construction of efficient processing facilities, competent operation and proficient marketing of the product. There are many risks inherent in this process.

Whether or not income will result from the exploration, development and production of KDL's assets depends on the successful establishment of exploration and mining operations and project development. Factors including costs, equipment availability and resource prices affect successful operations and project development, as does the design and construction of efficient exploration facilities, prudent financial administration and skilled management and employees, including the availability and reliability of appropriately skilled and experienced consultants.

The Lerala Mine has been on care and maintenance since July 2012. The Company has recently recommenced operations at the Lerala Mine after undertaking work to re-commission the plant at the Lerala Mine. As a result, the Company will be subject to all the risks inherent in the establishment of new operations. No assurances can be given as to the level of viability that the operations of Lerala Mine may achieve. Any delay in the plant and/or the mine operating at full forecast production levels, issues with the plant or performance below that which is forecast, or diamonds recovered of a quality below forecasts will impact on the performance of the Group as a whole and may threaten the ongoing operations of the Group. In the period to 30 June 2016, 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.

The successful operation of the Lerala Diamond Mine is reliant on a number of third parties, such as (but not limited to) a mining contractor and a fuel supplier. If these third parties do not perform their roles satisfactorily and to an appropriately high standard or if there are any issues with such third parties, this may impact on the performance and outcomes of the Lerala Diamond Mine. In addition, the Lerala Diamond Mine as a new operation has a new workforce, which will need to be appropriately trained at the mine. Any delays in employing people with the skills needed, or inability to find or train such people, or performance below the standard required, may impact on the performance and outcomes of the Lerala Diamond Mine.

The operations of the Group may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including diamond theft, environmental hazards, industrial accidents, technical failures, labour disputes, unusual or unexpected rock formations, formation damage, flooding and extended interruptions due to inclement or hazardous weather conditions, fire and explosions. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. While the Company currently intends to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

Mitigation: The Group has engaged experienced professionals to manage and operate its business in Australia and Botswana. The Group regularly undertakes risk assessment and financial modelling to assess its current and anticipated future performance and respond to operational and development risks.

Health, safety, social and environmental related risks

The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining and exploration operations.

The Company's activities are subject to laws and regulations regarding occupational health and safety, as well as environmental matters and the discharge of hazardous wastes and materials. As with all mining and exploration projects, a variety of environmental impacts exist. The Company intends to conduct its activities in a safe and environmentally responsible manner and in accordance with applicable laws in each country in which it has operations.

Mitigation: The Group has formal procedures and published policies in this regard as well as dedicated resources to continuously improve, review, recommend, implement and monitor compliance throughout the operations and departments within the Group. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place.

Mineral resource risk

The Group's ability to operate profitably in the medium to long-term depends significantly on the Group's mineral resource, which influences the operational mine plans and the generation of sufficient cash flows and margins. There is a risk that the actual mineralisation may be different to the expected results. Adverse results may impact on the financial viability of the relevant projects.

Mitigation: Various bulk sampling programs combined with geological mapping and modelling methods significantly improve the Group's understanding of its mineral resources and further assist in mining the resource optimally.

Mining Title – tenements and interests

The future viability and profitability of the Group will depend upon maintaining, and where relevant, obtaining the renewal of the tenements or interests held by the Group in Australia, Botswana, Spain and Canada. Such renewal is at the discretion of the relevant government departments in those jurisdictions. Tenements held by the Group have conditions which must be complied with. Failure by the Group to comply with these conditions may mean forfeiture of the relevant tenements.

Mitigation: The Group regularly reviews and assesses its compliance with the conditions of its tenements.

Inability to achieve profitability and positive cash flow in medium to long term

The financial impact of the risks that may affect the Group may individually, or in a combination, affect the ability of the Group to operate profitably and generate positive cash flow in the medium to long-term.

Mitigation: The various risk management processes employed by the Group provide a substantial base from which to assess, monitor and mitigate this risk.

Future Capital Requirements

The Group's existing funds as at 30 June 2016 will not be sufficient to cover costs until such time that the Lerala Diamond Mine is cash flow positive and providing sufficient revenue to support the Group, and as a result, the Company is seeking further debt or equity funding for the interim period. If debt or equity funding is not obtained within the timeframe additional funds are required, the Group may not be able to continue its operations. There is no certainty that the Group will have access to available financial resources sufficient to fund its obligations and operations in the future.

Mitigation: The Group regularly assesses its cash flow and expenditure need and is in ongoing discussions with possible financiers, both debt and equity.

Debt financing

The Company has entered into debt finance arrangements with a number of parties. The Company has granted to Zhejiang Huitong Auction Co Ltd, one lender to whom approximately A$11.3 million was owing as at 30 June 2016, a security interest over its shares in Mantle Diamonds Limited, the sole shareholder of Lerala Diamond Mines Limited which is the owner of the Lerala Diamond Mine. If the Company defaults on its repayment obligations under this loan, the lender may enforce its security over the Company's shares in Mantle Diamonds Limited. If this occurred, the Company would lose its interest in Mantle Diamonds Limited and consequentially the Lerala Diamond Mine.

If the Group enters into any further debt funding arrangements, it may be required to offer some or all of its assets as security.

Mitigation: Any further debt funding arrangements entered into by the Group will be entered into after an assessment as to the Group's ability to repay such debt and appropriate risk assessment is undertaken.

Growth Plans – Inability to achieve planned growth

The Group's growth strategy is based on various studies, cost indications and future market assumptions. Although due process in assessing the viability, costs and implementation of these projects is undertaken, risks with regards to cost overruns and/or delays may impact the effective implementation thereof. The funding of these growth plans could also be adversely affected by negative market conditions.

Mitigation: Project governance structures have been implemented to ensure that projects are monitored and risks managed at an appropriate level. Strict financial management procedures are also in place to monitor this risk.

Exposure to Subsidiary

On 1 July 2015, the Company's former wholly owned Australian subsidiary, Kimberley Diamond Company Pty Ltd (KDC), the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. KDC's subsidiaries were also placed into voluntary administration. On 5 August 2015, the creditors of KDC subsequently voted to place KDC and its subsidiaries into liquidation. On 22 June KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDC. The liquidators have commenced proceedings against KDL and KDL Directors (in their capacity as KDC directors) Alex Alexander, Noel Halgreen and Rodney Sainty in respect of a number of claims relating to KDC, including alleged insolvent trading, alleged voidable transaction recovery proceedings and alleged breaches of director duties. The amount specifically claimed against KDL by the liquidators in the documentation received is approximately A$22.7 million, plus costs and interest. There are also additional claims for unspecified amounts.

Mitigation: KDL and its Directors will defend any actions that may be brought by a liquidator or regulators.

Exchange rates

The Group operates internationally and is exposed to foreign exchange risk arising from currency movements. The Group currently earns revenue in US dollars while its cost base is in Australian dollars, Botswana Pula and South African Rand. Any weakening or strengthening of the US dollar relative to the Australian dollar, Botswana Pula and/or the South African Rand and the volatility of the trading against the US dollar will impact the Group's cash flows and profitability.

Mitigation: The impact of the exchange rates and fluctuations are closely monitored. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect cash flows in the short to medium term.

Regulatory and sovereign

The Group operates in Australia, Botswana, Spain, the United Kingdom and Canada and deals with local regulatory authorities in relation to the operation of its business and the development of its properties. There may be adverse changes in the regulatory environment in future periods which may impact mining tenure, mine regulation, export regulation, taxation and other regulated activities that may impact the financial viability of the Group.

Mitigation: The Group monitors all regulatory changes and where necessary will seek legal advice on ways to mitigate any impacts arising from such changes.

Native Title and Land Access

The activities of KDL in Australia are subject to the Native Title Act 1993 (Cth). Native title and Aboriginal land rights may affect the Company's ability to gain access to prospective exploration areas on the Australian tenements, and to explore and develop these tenements. Compensatory obligations may be necessary in relation to settling native title claims lodged over any undeveloped area in the Australian tenements. KDL may also be subject to native title laws in other jurisdictions in which it operates, which may also affect the Company's ability to access explore and develop its tenements in such jurisdictions.

Within Australia, Commonwealth and State legislation also allows for the protection of sites of significance to Aboriginal custom and tradition. The Company is aware of its obligations in this respect and will carry out surveys prior to conducting any exploration work on its Australian tenements that would disturb the surface of the land.

Mitigation: The Group reviews and assesses its compliance with native title laws.

Diamond theft

Theft is an inherent risk factor in the diamond industry.

Mitigation: Precautionary measures have been implemented to minimise this risk at KDL's Lerala Mine. Furthermore, the Group has a diamond specie policy in place with reputable brokers and underwriters.

Operations in Africa

The operations of KDL in Botswana are subject to all risks inherent in operating in an African jurisdiction. While Botswana is known to have a stable government, it may be affected by politics of neighbouring countries. Infrastructure and services may be less reliable than those in Australia and health risks are increased for the employees of the Company based in Botswana.

Mitigation: Botswana is known as a stable, pro-mining jurisdiction, with a stable government and a well-developed diamond industry, which was a key reason why KDL chose to invest in Botswana.

Exposure to ASIC action

In September 2015, the Australian Securities and Investments Commission ("ASIC") charged Alexandre Alexander, a Director of the Company, with offences under the Corporations Act, relating to statements in announcements made by KDL between October 2013 and March 2014, which ASIC alleges were false and misleading. A hearing has been scheduled for this matter in 2017. It is possible that ASIC or other parties may take action against KDL in relation to this matter. KDL does not have securities litigation insurance cover, and accordingly, any action against KDL will need to be funded by the Company, which has cash flow implications.

4. Directors' Report

Your directors submit their report for the year ended 30 June 2016.

4.1 Directors

The following persons were directors of Kimberley Diamonds Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Alexandre Alexander, *Double Master's Degree in Engineering/Economics, Graduate Diploma in Accounting and a Graduate Diploma in Applied Finance and Investments*
(Non-Executive Chairman)

Alexandre is a founder and Managing Director of Summit Capital Ltd (**Summit Capital**), a boutique financial advisory firm with particular focus on resources and commodities. Prior to founding Summit Capital, Alexandre was a stockbroker with Deutsche Bank Stockbroking and ABN AMRO Bank Stockbroking. Since founding Summit Capital in 2005, he has had a lead role in a number of capital raisings and corporate transactions in resources and real estate sectors and built a highly successful business between Australia and China.

Alexandre is a Non-Executive Director of Winmar Resources Limited (ASX: Winmar). During the past three years he has also served as a director of Freshtel Holdings Limited (ASX: FRE).

Noel Halgreen, *B.Sc. Eng (Mining Engineering), Bsc. Eng (Hons), Master of Engineering (Industrial Engineering)*
(Managing Director)

Noel is a mining engineer with over 30 years diverse industry experience. During his career, Noel's experience has included appointments as Vice President and Executive Director of BHP Billiton Coal, Executive Director of Trans Natal Coal Corporation and Chief Operating Officer of Sasol Coal.

Noel is a Non-Executive Director of Winmar Resources Limited (ASX: Winmar). During the past three years he has also served as a director of Bligh Resources Limited (ASX: BGH) and International Coal Limited (ASX: ICX).

Rodney Alan Sainty, *B.Sc. (Hons) (Syd) majoring in Geology and Geophysics, Graduate Diploma of Management (UCQ)*
(Executive Director) (resigned as a Director on 16 August 2016)

Rodney is a minerals exploration geologist with 30 years' experience in the mining industry. Based for much of his career at operating mines throughout Australia, his experience has focused on mine-district exploration for gold and base metal ore deposits in several of Australia's most productive minerals domains. He has worked with successful exploration teams from Electrolytic Zinc, Pancontinental Mining, Plutonic Resources, Outokumpu, Jabiru Metals, and in consulting roles for several junior explorers. This broad experience includes advanced field-based skills in unravelling the complexities of volcanic-intrusive terrains and hydrothermal systems. Rodney has, to date, performed key roles in the discovery of three ore deposits: a gold deposit near Kalgoorlie, a copper-zinc lens near the Thalanga mine in Queensland and, most recently, the Bentley copper-zinc orebody at Teutonic Bore, WA.

During the past three years Rodney has not served as a director of any other ASX listed company.

Yong Xiao, *Finance Degree and Postgraduate Degree in Economic Management from the Southwestern University of Finance and Economics in China*
(Non-Executive Director)

Yong is currently an Executive with Beijing Casin Investment Holding Co., Ltd. He has built a highly successful business for Beijing Casin Investment Holding Co. Limited and led numerous investment transactions and projects for the company. Yong is a director of Australia Casin Resources Co.

During the past three years, Yong has not served as a director of any other ASX listed company.

Rupert Baring
(Independent Non-Executive Director)

Rupert is co-founder and director of Mantle Diamonds Ltd, which was acquired by the Company in February 2014. Rupert has more than 20 years' experience in the diamond industry, including extensive experience as a diamond broker with De Beers and I Hennig & Co. He has in-depth knowledge of the diamond markets in Belgium, Israel and India and has negotiated mineral licences in more than a dozen African countries including Botswana, Sierra Leone, Angola, South Africa and Lesotho.

During the past three years, Rupert has not served as a director of any other ASX listed company.

Laila Green
(Chief Financial Officer and Company Secretary)

Mrs Laila Green was appointed as Chief Financial Officer and Company Secretary, effective from 1 July 2014. Laila has over 25 years of experience in finance and accounting, and has worked in a number of senior finance roles including at BHP Billiton, Gordon and Gotch, Yahoo!7, Australia Consumers' Association and International Masters Publishers. Laila is a Certified Practicing Accountant and a commerce graduate from the University of Western Sydney.

4.2 Incorporation

The Company was incorporated on 5 May 2011.

4.3 Principal activities

During the financial year the principal continuing activities of the Group consisted of:

- the mining of diamonds; and
- the exploration for minerals including diamonds, copper and copper-gold; and
- the development of mineral exploration and mining tenements.

4.4 Dividends

The Company did not declare or pay any dividends in FY2016. (FY2015: Nil)

4.5 Operating and financial review

The Group's profit attributable to owners of the Company after providing for income tax and non-controlling interest amounted to $9.527 million compared to the prior period loss of $17.463 million. Excluding the profit on disposal of discontinued operations of $21.663 milllion, continued operations generated a loss of $12.136 million. While there was continued cost savings on administration costs of $3.375 million, the loss was mainly due to re-commissioning of the Lerala Diamond Mine up to Quarter 4, 2016.

The Group's detailed financial and operating results are covered in the preceding report of the Chairman and Managing Director and in the Business Review.

4.6 Significant changes in the state of affairs

On 1 July 2015, the Company announced that KDC and its subsidiaries were placed into voluntary administration by their directors and operations have been suspended at the Ellendale Diamond Mine. The decision to place KDC and its subsidiaries into voluntary administration occurred primarily as a result of prices achieved at the June 2015 commercial diamond auction in Antwerp being significantly lower than forecasted. On 5 August 2015, the creditors of KDC voted to place KDC into liquidation, rejecting a Deed of Company Arrangement proposed by KDL.

On 20 July 2015, the Company announced that Lerala Diamond Mines Limited had entered into a lump sum turnkey contract with Consulmet (Pty) Limited (**Consulmet**) for modifications to the plant at the Lerala Diamond Mine in Botswana, to allow the plant to operate more effectively, and allow it to reliably treat 200 tonnes per hour. On 6 August 2015, Consulmet arrived on site at the Lerala Diamond Mine to commence the plant refurbishment work.

On 31 July 2015, the Company announced that it had received a further AUD$3.2 million under the terms of a loan agreement (**Loan Agreement**) with Zhejiang Huitong Auction Co Ltd (**Zhejiang**). Under the terms of the Loan Agreement, Zhejiang agreed to provide KDL with a total loan of AUD$10 million. On 27 August 2015, the Company announced it had received the balance of the loan funds from Zhejiang, with a total of AUD$10 million received.

On 8 September 2015, KDL released its Annual Statement of Mineral Resources and Ore Reserves as at 30 June 2015.

On 12 September 2015, 4 million unlisted options with an exercise price of $0.75 expired.

On 16 September 2015, Alex Alexander was charged with offences under the Corporations Act, relating to statements in announcements made by KDL between October 2013 and March 2014, which ASIC alleges were false and misleading. Mr Alexander will be defending these offences.

On 30 June 2015, KDL was owed an amount of $3.64m as a secured creditor by KDC. KDL was then repaid $2.24m in the form of diamond sales during July and August 2015. On 30 September 2015, KDL was repaid in the final amounts owing to it by KDC.

On 12 October 2015, KDL announced that Zhejiang has agreed to provide KDL with a further $3 million in debt finance. The additional funds will be provided under the terms of the Loan Agreement and bring the total funds provided to KDL from Zhejiang to $13 million. As at 30 June 2016, all funds had been received.

On 16 October 2015, KDL announced that its geological team at the Lerala Diamond Mine had found evidence for buried alluvial channels immediately adjacent to the diamond-bearing kimberlite pipes that host the Lerala diamond resource which required further investigation.

On 29 October 2015, the Botswana Department of Environmental Affairs approved the Environmental Impact Assessment (**EIA**) for the re-opening of the Lerala Diamond Mine. The new EIA updates the existing EIA which was previously in place which allowed for the upgrade of the plant, site infrastructure and tailings dam, and extends to all planned diamond mining and production activities.

On 25 November 2015, KDL shareholders voted to remove Ernst & Young as KDL's auditor under section 329 of the Corporations Act 2001 (Cth) (Corporations Act). A resolution under section 327D of the Corporations Act to appoint Hall Chadwick as replacement auditor did not pass.

On 29 November 2015, 1.5 million unlisted options with an exercise price of $1.15 expired.

On 11 January 2016, KDL released its Annual Statement of Mineral Resources and Ore Reserves as at 31 December 2015.

On 21 January 2016, KDL announced that ASIC had appointed BDO East Coast Partnership as auditor of KDL under section 327E of the Corporations Act.

On 29 January 2016, KDL announced that Zhejiang agreed to convert $1.5 million of KDL's then current $12 million debt to 15 million KDL shares at a share price of $0.10 per share.

On 4 February 2016, KDL announced that Lerala had entered into a diamond sales agreement with Restwell Investments Pty Ltd. Under the terms of the Sales Agreement, Restwell agreed to acquire USD$6 million of diamonds produced at the Lerala Diamond Mine after production commences, on a timetable and at a price agreed between the parties. Restwell agreed to pre-pay USD$1 million in February 2016 to Lerala, which will be applied to pre-production costs.

On 11 February 2016, KDL announced that Lerala had entered into a contract for the open pit mining operations at the Lerala Diamond Mine with Basil Read Botswana (Pty) Limited.

On 24 February 2016, KDL announced that it had received the first independent valuation of its Lerala Diamond Mine in Botswana from Venmyn Deloitte (Proprietary) Limited. Deloitte's preferred mineral asset valuation of the Lerala Diamond Mine was $A105 million (based on certain assumptions).

On 26 February 2016, KDL's subsidiary, Lerala, had secured a USD$2.8 million working capital draw down loan facility from DDA Trading BVBA (**DDA**), subject to shareholder approval, which was obtained at an extraordinary general meeting held on 27 April 2016. Under the agreed terms set out in the Sales Agreement, the loan will carry interest rate of 10% per annum and will be secured by collateral of diamonds produced at the Lerala Diamond Mine. The Sales Agreement contained certain conditions precedent to draw down which were not satisfied within the required timeframes. DDA and Lerala agreed to waive certain of these conditions precedent, and Lerala will be able to draw down this loan once sufficient collateral of diamonds becomes available. To date, DDA has advanced Lerala funds under an interim short term loan agreement entered into between DDA and Lerala in April 2016. DDA is appointed as the exclusive sales and marketing agent for the diamonds produced from the Lerala Diamond Mine for a period of 5 years. KDL was also required to issue 5,000,000 KDL options to DDA or its nominees, with an exercise price of $0.20, expiring 3 years from the date of issue. These were issued on 28 April 2016. Lerala will also supply to DDA run of mine rough diamonds to the total value of at least USD$5 million at an agreed discount to valuation under the terms of an inter-conditional off-take agreement.

On 7 March 2016, KDL announced that it was undertaking non-renounceable rights issue to raise up to approximately $4,024,678 at an issue price of $0.10 per new KDL share for every 3 KDL shares held on 10 March 2016. The rights issue opened on 14 March 2016.

On 24 March 2016 the rights issue closed, with $1,838,923 received in both entitlements and shortfall. KDL announced that the Directors would look to place the remaining shortfall within 3 months. 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. A total of 40,246,738 shares were issued between 31 March and 24 June 2016 under both the entitlement and various shortfall issues. The entitlement and shortfall issues together raised $3,307,551 in cashflow. 7,041,202 of the shortfall shares were issued to Zhejiang, partly in payment of the interest owing under the Zhejiang Loan (non cash). KDL and Zhejiang also agreed to vary the Zhejiang Loan to allow Zhejiang to convert approximately $180,000 of its loan to shares available under the shortfall at $0.10.

On 11 April 2016, KDL announced that Basil Read commenced open pit mining operations at the Lerala Diamond Mine in Botswana in early April.

On 25 April 2016, Lerala entered into an agreement with DDA under which DDA agreed to advance a short term loan of USD$500,000. This agreement amended by the parties during Q4, 2016 for additional funds to be advanced. As at 30 June 2016, this agreement provided for a total loan of USD$1,810,000, for a fee of USD$250,000, repayable on 31 July 2016. The final USD$700,000 was advanced by DDA to Lerala in early FY2017. The short term loan was converted to the terms of the loan facility under the Sales Agreement in July 2016.

On 27 April 2016, KDL held an Extraordinary General Meeting for shareholders to vote on some extraordinary business. All resolutions were passed by poll. These resolutions included the issue of options to directors Noel Halgreen and Alexandre Alexander and the adoption of a new employee share option plan.

On 28 April 2016, KDL issued options to a nominee of Noel Halgreen (5 million options), a nominee of Alexandre Alexander (2 million options) and DDA Trading (5 million options). These options will convert into a fully paid ordinary share on a one-for-one basis at an exercise price of $0.20 per option exercisable at any time prior to 5:00pm (Sydney time) on 28 April 2019.

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. Lerala agreed to pay Eternal a fee of USD$100,000 for this loan, payable on 26 July 2016. This loan is secured by diamonds where such diamonds are available to be used as security and unsecured where no diamonds are available. In July 2016, the parties extended the terms of this loan to 30 September 2016 and Lerala agreed to pay an agreed percentage of interest for this extension.

On 2 May 2016, KDL announced that production had commenced at its Lerala Diamond Mine in Botswana.

On 11 May 2016, KDL announced that the Government of Andalucia, Spain had issued the formal resolution document granting KDL Investigation Permit 14977 over the Lomero copper-gold project in southern Spain. KDL was awarded the IP on 7 October 2014 as the outcome of a public tender process. The award resolution required additional compliance requirements and completion of a government review before final granting of the IP could be confirmed, which has now occurred.

On 3 June 2016, KDL issued 3,300,000 options to senior executives under the terms of the Employee Share Option Plan. These options will convert into a fully paid ordinary share on a one-for-one basis at an exercise price of $0.20 per option exercisable at any time prior to 5:00pm (Sydney time) on 3 June 2018.

On 7 June 2016, KDL issued 2,000,000 options to senior executives under the terms of the Employee Share Option Plan. These options will convert into a fully paid ordinary share on a one-for-one basis at an exercise price of $0.20 per option exercisable at any time prior to 5:00pm (Sydney time) on 7 June 2018.

On 22 June 2016, KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDL's former subsidiary, Kimberley Diamond Company Pty Ltd (**KDC**). The liquidators have commenced proceedings against KDL and former KDC directors Alex Alexander, Noel Halgreen and Rodney Sainty in respect of a number of claims relating to KDC. The amount specifically claimed against KDL by the liquidators in the documentation received is approximately $22.7 million, plus costs and interest. There are also additional claims for unspecified amounts. KDL, and each of Alex Alexander, Noel Halgreen and Rodney Sainty, refutes, and intends to defend, all claims.

On 28 June 2016, the first sale of diamonds from the Lerala Diamond Mine was undertaken. The sale was conducted by online auction platform operated by DDA Trading BVBA in Antwerp. This was a small sample sale, with 1,110.18 carats sold, selling at an average price of $98 per carat.

4.7 Matters subsequent to the end of the financial year

On 16 August 2016, Rod Sainty resigned as a Director of the Company.

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

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

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

On 26 August 2016, KDL finalised its withdrawal from the Calarie Joint Venture. KDL held an interest in EL7023 & ML739 Held through a Farm-in agreement with Tri Origin Mining Pty Ltd and TriAusmin Ltd. On 23rd October 2015, KDL advised the holders of EL7023 and ML839, Tri Origin Mining Pty Ltd and TriAusmin Ltd that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination documentation with Tri Origin Mining Pty Ltd and TriAusmin Ltd was ongoing at 30 June 2016, but was finalised on 26 August 2016 and subject to a final payment by KDL, the parties have agreed that the termination will be effective 23 October 2015.

On 31 August 2016, KDL entered into a loan agreement with Kangni Zou, under which the lender agreed to provide KDL with a loan of renminbi 5 million (A$1.0m). The loan is repayable by 31 July 2017 and has an interest rate of 18% per annum.

On 1 September 2016, Zodiac Resources Pty Ltd entered into an agreement with Augur Resources Limited to terminate the farm in and joint venture agreement between those parties in relation to the Yeoval tenements. The parties agreed to relinquish and cancel the Yeoval tenements. As at the date of this report, the relinquishment and cancellation process is underway. The total value of the asset impairment in the 2016 Consolidated Statement of Profit or Loss and Other Comprehensive Income is A$0.6m. KDL has a 58% shareholding in Zodiac Resources, which has a 75% interest in the project.

On 1 September 2016, KDL released an Investor Presentation which outlined production performance at the Lerala Diamond Mine and a proposed performance improvement plan. Successful implementation of the plan was dependent on certain assumptions, including the raising of A$1.6m for capital expenditure items and spare parts and a further $2.4m for working capital requirements.

On 27 September 2016, KDL entered into two loan agreements with Shuming Zou under which the lender agreed to provide KDL with a loans of approximately USD 1,877,400 and USD 300,000 respectively. The loans have different repayment dates for different tranches of the loans (which fall between the period 31 October 2016 and 31 March 2017) and have interest rates of 15% and 10% per annum respectively.

On 27 September 2016, KDL held an extraordinary general meeting of shareholders, at which two resolutions were put to shareholders and passed. These related to (i) the approval to issue up to 50 million new shares, and (ii) amendments to the loan facility under the Sales Agreement with DDA.

4.7.1 Likely developments and expected results of operations

The Ellendale Diamond Mine had historically been KDL's operating business and sole source of revenue. On 1 July 2015, the Company's wholly owned Australian subsidiary, Kimberley Diamond Company Pty Ltd (**KDC**), the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. As at the date of this report, KDL had re-commissioned the plant at its Lerala Diamond Mine in Botswana and had commenced mining in April 2016. The Lerala Diamond Mine is now KDL's operating business and sole source of revenue.

On 22 June 2016, KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDC. The liquidators have commenced proceedings against KDL and former KDC directors Alex Alexander, Noel Halgreen and Rodney Sainty in respect of a number of claims relating to KDC. KDL, and each of Alex Alexander, Noel Halgreen and Rodney Sainty, refutes, and intends to defend, all claims. In addition, there is a risk that regulators may pursue actions against KDL or KDC's Directors in relation to KDC and/or its subsidiaries.

On 16 September 2015, ASIC charged Alex Alexander with offences under the Corporations Act, relating to statements in announcements made by KDL between October 2013 and March 2014, which ASIC alleges were false and misleading. It is possible that ASIC or other parties may take action against KDL in relation to this matter. 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.

There are no other likely developments of which the directors are aware which could be expected to significantly affect the results of the Group's operations in subsequent financial years other than those disclosed in the Business Review, Directors' Report and Operating and Financial Review, the announcements to the Australian Stock Exchange or the Matters subsequent to the end of the financial year.

4.8 Environmental regulation

The Group strives to comply with environmental regulation applicable to its mining and exploration activities. Operations at Lerala commenced late in the period considered in this report and at that time environmental monitoring procedures and reporting in compliance with the Government of Botswana requirements was being developed and implemented in consultation with relevant statutory bodies.

The Directors are not aware of any significant non-compliance with environmental legislation during the period covered by this report.

4.9 Meetings of Directors

The number of meetings of the Company's Board of Directors held during the period ended 30 June 2016, and the number of meetings attended by each Director were:

2016	Board Meetings		Circular Resolutions	
	Attended	Held[1]	Signed[2]	Total[3]
Alexandre Alexander	6	6	25	25
Noel Halgreen	6	6	33	33
Rupert Baring	6	6	33	33
Yong Xiao	5	6	32	33
Rodney Alan Sainty	6	6	33	33

[1] The number of meetings held during the period that the Director held office.
[2] The number of circular resolutions passed by the Director during the period that the Director held office. Under the Company's Constitution, a circular resolution is passed when it is signed by a majority of the Directors being entitled to vote in relation to the resolution.
[3] The number of circular resolutions circulated during the period that the Director held office. This excludes circular resolutions for certain Directors who abstained from voting because of a material personal interest.

Circular resolutions were used instead of physical meetings where necessary, as detailed above.

During the period ending 30 June 2016, two Audit and Risk Committee meetings were held. The members of the Audit and Risk Committee are Rupert Baring and Alex Alexander. Both members of the committee attended both meetings.

4.10 Remuneration Report

The remuneration report, which has been audited, outlines the director and senior executive remuneration arrangements for the Group and the Company, in accordance with the requirements of the Corporations Act 2001 and its regulations.

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Strike against remuneration report
F Transactions with related parties

A Principles used to determine the nature and amount of remuneration

The objective of the Group's and Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward arrangements satisfies the following key reward governance criteria:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and its most senior executives. The performance of the Group and Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that it considers to be market competitive and complementary to the reward strategy of the Group and Company.

The Board believes that the remuneration framework aligns to shareholders' interests as it:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

The Board believes that the remuneration framework also aligns to the interests of its directors and senior executives as it:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure remuneration for non-executive directors and executive directors are different.

Non-executive directors' remuneration

The ASX listing rules require that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The sum of the remuneration of non-executive directors' is currently capped at $350,000 per annum, which was passed by the shareholders of the Company on 26 April 2013.

Executive remuneration

The Group and Company aims to reward executives at a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually, based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and adds additional value to the executive.

Use of remuneration consultants

During the financial year ended 30 June 2016, the Company has not engaged remuneration consultants.

Company performance and shareholder returns

	2016	2015	2014	2013
Basic earnings / (loss) per share (cents) [1]	(10.10)	(16.58)	(22.08)	5.07
Profit / (loss) after tax ($'000) [1]	(11,872)	(17,461)	(19,224)	2,420
Share price (cents)	8	12	14	24
Dividend per share (cents)	-	-	2	2

[1] 2016 Profit/ (loss) after tax for the owners of Kimberley Diamonds Ltd used in the calculation of Basic earnings/ (loss) per share relates to continuing operations only. Prior Years are including the discontinued operation.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and other key management personnel are set out in the following tables, from the time they were appointed in office. Key management personnel are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the Group.

The key management personnel of the Group consisted of:

- Yong Xiao – Non-Executive Director
- Rupert Baring – Non-Executive Director
- Alex Alexander – Non-Executive Director
- Rod Sainty – Executive Director (resigned 16 August 2016)
- Noel Halgreen – Executive Director and Managing Director
- Laila Green – Chief Financial Officer and Company Secretary
- Brett Thompson – Chief Technical Officer
- Deon Vermeulen – Project Manager Lerala (appointed 1 July 2015 to 28 March 2016); General Manager Lerala (appointed 29 March 2016)

30 June 2016	Short-term benefits			Post-employment benefits	Long-term benefits	Share based payments	
	Cash salary and fees	Bonus	Termination	Superannuation	Long service leave	Equity-settled[4]	Total
Non-Executive Directors							
Y Xiao	40,000	-	-	-	-	-	40,000
R Baring [1]	124,051	-	-	-	-	-	124,051
A Alexander	150,000	-	-	14,250	-	129,256	293,506
Executive Directors							
R Sainty[2]	190,202	-	-	18,050	10,992	-	219,244
N Halgreen	486,309	-	-	35,000	4,662	323,140	849,111
Executives							
L Green	339,677	-	-	22,437	4,499	50,660	417,273
D Vermeulen [3]	304,961	-	-	-	-	65,858	370,819
B Thompson	390,659	-	-	34,752	1,568	50,660	477,639
Total	**2,025,859**	**-**	**-**	**124,489**	**21,721**	**619,574**	**2,791,643**

[1] Mr Baring's service agreement was terminated 16 July 2015, with Directors fee continuing.
[2] Mr Sainty resigned as a Director on 16 August 2016.
[3] Mr D Vermeulen was appointed as Project Manager – Lerala Diamond Mine on 1 July 2015 (until 28 March 2016) and General Manager – Lerala Diamond mine on 29 March 2016
[4] Share based payments have been vested but not exercised

30 June 2015	Short-term benefits			Post-employment benefits	Long-term benefits	Share based payments	
	Cash salary and fees	Bonus	Termination	Superannuation	Long service leave	Equity-settled	Total
Non-Executive Directors							
Dr M Qui[1]	19,555	-	-	1,858	-	-	21,413
Y Xiao	40,000	-	-	-	-	-	40,000
R Baring [2]	175,836	-	-	-	-	-	175,836
A Alexander [3]	166,928	-	43,533	15,858	-	-	226,319
Executive Directors							
R Sainty	190,000	-	-	18,050	-	-	208,050
N Halgreen [4]	496,823	-	-	47,198	-	-	544,021
Executives							
N Kaner [5]	440,310	-	71,479	41,829	-	-	553,618
N Selby [6]	119,392	-	-	6,250	-	-	125,642
L Green [7]	325,060	-	-	30,881	-	-	355,941
B Thompson [8]	134,327	-	-	12,761	-	-	147,088
Total	**2,108,231**	**-**	**115,012**	**174,685**	**-**	**-**	**2,397,928**

[1] Dr M Qui was removed as Non-Executive Director on 26 November 2014.
[2] Mr Baring's salary included both a director's fee and a service agreement.
[3] Mr Alexander was paid a termination amount when he resigned as Chief Executive Officer on 22 May 2014. $106,000 was included in the 2014 Financial Statements and $43,533 in 2015 Financial Statements. Short Term benefits also included amounts relating to 2014 Financial Year
[4] Mr Halgreen's benefits included some amounts relating to the 2014 financial year.
[5] Mr Kaner became a KMP on 1 July 2013, and was terminated on 12 May 2015.
[6] Mr N Selby became a KMP on 1 July 2013 and resigned on 12 Sep 2014.
[7] Mrs L Green was appointed as Chief Financial Officer on 1 July 2014.
[8] Mr B Thompson became a KMP on 2 Mar 2015.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

30 June 2016	**Fixed remuneration**	At risk – STI^	**At risk – LTI****
Non-Executive Directors			
Y Xiao	100%	0%	0%
R Baring[1]	100%	0%	0%
A Alexander	100%	0%	0%
Executive Directors			
R Sainty[2]	100%	0%	0%
N Halgreen	100%	0%	0%
Executives			
L Green	100%	0%	0%
D Vermeulen [3]	100%	0%	0%
B Thompson	100%	0%	0%

[1] Mr Baring's service agreement was terminated 16 July 2015, with Directors fee continuing.
[2] Mr Sainty resigned as a Director on 16 August 2016.
[3] Mr D Vermeulen was appointed as Project Manager – Lerala Diamond Mine on 1 July 2015 (until 28 March 2016) and General Manager – Lerala Diamond mine on 29 March 2016

30 June 2015	**Fixed remuneration**	**At risk – STI^**	**At risk – LTI****
Non-Executive Directors			
Dr M Qui[1]	100%	0%	0%
R Baring	100%	0%	0%
A Alexander	100%	0%	0%
Executive Directors			
R Sainty	100%	0%	0%
N Halgreen	100%	0%	0%
Executives			
N Kaner [2]	70%	0%	30%
N Selby [3]	62%	13%	25%
L Green [4]	100%	0%	0%
B Thompson [5]	100%	0%	0%

[1] Dr M Qui was removed as Non-Executive Director on 26 November 2014.
[2] Mr Kaner became a KMP on 1 July 2013, and was terminated on 12 May 2015.
[3] Mr N Selby became a KMP on 1 July 2013 and resigned on 12 Sep 2014.
[4] Mrs L Green was appointed as Chief Financial Officer on 1 July 2014.
[5] Mr B Thompson became a KMP on 2 Mar 2015.

C Service agreements

The Company had in place the following service agreements with Directors and key management during FY2016:

Rupert Baring

The Company had in place a service agreement with Rupert Baring during the course of FY2016, which was entered into on 28 January 2015 and terminated on 16 July 2015. Under the terms of the Services Agreement, Mr Baring was to provide the Company with assistance in developing its commercial diamond and fancy yellow sales and marketing activities.

The Services Agreement replaced a previous agreement for sales and marketing services with an external services provider. Shareholder approval was not required for the entry into the Services Agreement as it was on terms less favourable to Mr Baring than the arm's length terms previously entered into with the external third party.

The key terms of the Services Agreement were as follows:

- the Services Agreement had a term of 12 months, and commenced on 28 January 2015;
- the Services Agreement can be terminated by either party with 1 month's written notice; and
- the Company paid Mr Baring a services fee of GBP 4,000 per month.

Rupert also has a standard form employment contract for his directorship.

The rest of the key management personnel are subject to a standard form employment contract and receive an annual salary that is in accordance with their seniority and responsibilities. All key management personnel are on a three month notice period, with the exception of Noel Halgreen, who has a six month notice period. Termination periods do not change with any changes in control.

D Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the period ended 30 June 2016 (2015: nil).

Options

The terms and conditions of each grant of options affecting remuneration of directors and other key management personnel in this financial period or future reporting years include the following:

- the implementation and administration of the scheme is the Board's responsibility;
- the only persons eligible to receive options under the scheme are directors and employees of the Company and other persons determined by the Board;
- options offered to eligible persons are made in their personal capacity (or to a nominee if consented to by the Board) and cannot, without the Board's prior written consent:
    - be exercised by another person; or
    - be disposed or dealt with in any way including the granting of security interest over the options;

- options granted but unexercised are adjusted for changes in circumstances including bonus and pro-rata share issues and reorganisation of capital; and
- options granted carry no dividend or voting rights.

The following options were issued during the year to key management personnel:

Grant Date	Name of Key Management Personnel	Number of Options granted	Vesting and exercisable date	Expiry date	Exercise price	Fair Value per Option	Fair value per option at grant date
28 April 2016	Alex Alexander	2,000,000	28 April 2016	28 April 2019	$0.200	$0.065	$129,256
28 April 2016	Noel Halgreen	5,000,000	28 April 2016	28 April 2019	$0.200	$0.065	$323,140
3 June 2016	Laila Green	1,000,000	3 June 2016	3 June 2018	$0.200	$0.050	$50,660
3 June 2016	Deon Vermeulen	1,300,000	3 June 2016	3 June 2018	$0.200	$0.050	$65,858
3 June 2016	Brett Thompson	1,000,000	3 June 2016	3 June 2018	$0.200	$0.050	$50,660

There are no performance conditions on the granting of the options issued during the year. The KDL board made a decision to issue options to certain employees under the Employee Share Scheme in recognition of past performance following the re-commissioning of the Lerala Mine.

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the period are set out below.

Rights and options over equity instruments granted as compensation in FY2016

30 June 2016	Granted as remuneration during the period No.	Options vested during the period No.	Value of options granted $	Value of options exercised $	Value of options lapsed during the period $	Remuneration consisting of options for the period %
Non-Executive Directors						
Y Xiao	-	-	-	-	-	-
R Baring	-	-	-	-	-	-
A Alexander	2,000,000	2,000,000	129,256	-	-	44%
Executive Directors						
R Sainty[1]	-	-	-	-	-	-
N Halgreen	5,000,000	5,000,000	323,140	-	-	38%
Executives						
L Green	1,000,000	1,000,000	50,660	-	-	12%
D Vermeulen[2]	1,300,000	1,300,000	65,858	-	-	18%
B Thompson	1,000,000	1,000,000	50,660	-	-	11%

[1] Mr Sainty resigned as a Director on 16 August 2016.
[2] Mr D Vermeulen was appointed as Project Manager – Lerala Diamond Mine on 1 July 2015 (until 28 March 2016) and General Manager – Lerala Diamond mine on 29 March 2016

Note: Options granted to A Alexander were issued at his direction to his spouse, Liang Xie and accordingly these options are disclosed in accordance with AASB 124 Related Party Disclosures and Corporations Regulation 2001 Reg 2M.3.03.17e. Options granted to N Halgreen were issued at his direction to Carianto Investments Pty Ltd <Halgreen Super Fund A/C>. Mr Halgreen has an indirect interest in these options.

Options and rights over equity instruments held by KMP

30 June 2016	Balance at 1 Jul 2015	Granted as remuneration	Options exercised	Net change	Balance at 30 Jun 2016	Vested at 30 June 2016 Total	Exercisable	Not exercisable
Non-Executive Directors								
Y Xiao	-	-	-	-	-	-	-	-
R Baring	-	-	-	-	-	-	-	-
A Alexander	-	2,000,000	-	2,000,000	2,000,000	2,000,000	2,000,000	-
Executive Directors								
R Sainty[1]	-	-	-	-	-	-	-	-
N Halgreen	-	5,000,000	-	5,000,000	5,000,000	5,000,000	5,000,000	-
Executives								
L Green	-	1,000,000	-	1,000,000	1,000,000	1,000,000	1,000,000	-
D Vermeulen[2]	-	1,300,000	-	1,300,000	1,300,000	1,300,000	1,300,000	-
B Thompson	-	1,000,000	-	1,000,000	1,000,000	1,000,000	1,000,000	-
Total	**-**	**10,300,000**	**-**	**10,300,000**	**10,300,000**	**10,300,000**	**10,300,000**	**-**

[1] Mr Sainty resigned as a Director on 16 August 2016.
[2] Mr D Vermeulen was appointed as Project Manager – Lerala Diamond Mine on 1 July 2015 (until 28 March 2016) and General Manager – Lerala Diamond mine on 29 March 2016

Note: Options granted to A Alexander were issued at his direction to his spouse, Liang Xie and accordingly these options are disclosed in accordance with AASB 124 Related Party Disclosures and Corporations Regulation 2001 Reg 2M.3.03.17e. Options granted to N Halgreen were issued at his direction to Carianto Investments Pty Ltd <Halgreen Super Fund A/C>. Mr Halgreen has an indirect interest in these options. During FY2016, a further 2,000,000 options were issued to other executives who are not KMP and accordingly these are not listed above. 5,000,000 were also issued as part of the establishment of a working capital/offtake arrangement with DDA Trading.

Shareholding of key management personnel

30 June 2016	Fully Paid Ordinary Shares (KDL) Balance at 1 Jul 2015	Granted as remuneration	On exercise of options	Net change other	Balance at 30 Jun 2016
Non-Executive Directors					
Y Xiao	-	-	-	-	-
R Baring	19,904	-	-	-	19,904
A Alexander[1]	13,662,831	-	-	(614,497)	13,048,334
Executive Directors					
R Sainty[2]	10,000	-	-	-	10,000
N Halgreen	480,240	-	-	140,000	620,240
Executives					
B Thompson	-	-	-	25,000	25,000
L Green	-	-	-	-	-
D Vermeulen[3]	-	-	-	-	-
Total	**14,172,975**	**-**	**-**	**(449,497)**	**13,723,478**

[1] Opening balance includes the shareholding of Mrs Marianna Dergushina, a relative of Mr Alex Alexander – number of shares held 1,624,497. This was included in 2015 due to a transaction which occurred in that year, but is not required for 2016. The 2015 annual report was also incorrect, excluding 1,010,000 of direct fully paid ordinary shares. The 2015 balance should have been 14,672,831
[2] Mr Sainty resigned as a Director on 16 August 2016.
[3] Mr D Vermeulen was appointed as Project Manager – Lerala Diamond Mine on 1 July 2015 (until 28 March 2016) and General Manager – Lerala Diamond mine on 29 March 2016

At KDL's 2015 AGM, at least 25% of the votes cast on the remuneration report were against the adoption of that report. The board of KDL has not proposed any action to adjust the remuneration of key management personnel in response to this vote, as the Board believes the remuneration of KMP is appropriate at this level and believes it may risk losing some or all KMP if any downward adjustments were made.

F Transactions with related parties

	2016 $	2015 $
Transactions with Related Parties: *The following transactions occurred with related parties*		
Office rent (received) from Summit Equities Pty Limited, a director related entity	(31,069)	(203,797)
Office rent (received) from Winmar Resources Limited, a director related entity	(139,806)	(33,000)
Consultant costs to Carianto Pty Ltd, a director related entity to Lerala Diamond Mine	26,471	-
Payments from Summit Equities Pty Limited, a director related entity in relation to miscellaneous expenses paid on its behalf	(8,746)	(47,369)
Payments in relation to Office and travel expenses paid to Summit Equities Pty Limited, a director related entity	7,040	431,280
Commission for loan of funds paid to Summit Equities Pty Limited, a director related party	269,539	110,786
Capital raising fees to Summit Equities Limited, a director related entity	310,138	-
Commission to DDA Trading, director related entity, for acting as selling agents for Kimberley Diamond Co Pty Ltd in 2015 Financial Year and selling agents for Lerala Diamond Mine in 2016	57,994	362,655
Establishment Fees to DDA Trading, director related entity, for the loan with Lerala Diamond Mine (USD250k)	324,254	-
Establishment Fees to DDA Trading, director related entity, for the working capital/diamond offtake facility with Lerala Diamond Mine (in the form of options issued)	323,140	-

Amount payable/ (receivable) from Related Parties:

Consultant costs to Carianto Pty Ltd, a director related entity to Lerala Diamond Mine	17,648	-
Commission for loan of funds paid to Summit Equities Pty Limited, a director related party	95,420	110,786
Capital raising fees to Summit Equities Limited, a director related entity	146,062	-
Commission paid to DDA Trading, director related entity, for acting as selling agents for Kimberley Diamond Co Pty Ltd	57,994	-
Office rent (receivable) from Winmar Resources Limited, a director related entity. $66k represents a rent prepayment for future financial year, $5.5k from current financial year	(71,500)	-
Establishment Fees to DDA Trading, director related entity, for the loan with Lerala Diamond Mine (USD250k)	324,254	-

Loans from Related Parties

Loan between Lerala Diamond Mine and DDA Trading, director related entity, USD1.11M	1,473,229	-
Working Capital Facility between Lerala Diamond Mine and DDA Trading, director related entity, USD2.8m available. Nil used as at 30 June 2016	-	-

At 30 June, 2016, there were no loans to key management personnel.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Kimberley Diamonds Ltd under option at the date of this report are as follows:

Grant Date	**Vesting date and exercisable date**	**Expiry date**	**Exercise price**	**Number under option**
28 April 2016	28 April 2016	28 April 2019	$0.20	12,000,000
3 June 2016	3 June 2016	3 June 2018	$0.20	3,300,000
7 June 2016	7 June 2016	7 June 2018	$0.20	2,000,000
Total				**17,300,000**

No person entitled to exercise the options had or has any right by virtue of the options to participate in any share issue of the Company or of any other body corporate.

Directors' interest in shares and options at the date of the report

Directors' interest in shares and options of KDL at the date of this report is as follows:

Grant Date	**Ordinary shares**	**Options over ordinary shares**
Non-Executive Directors		
Y Xiao	-	-
R Baring	19,904	-
A Alexander[1]	13,048,334	2,000,000
Executive Directors		
R Sainty[2]	10,000	-
N Halgreen[3]	620,240	5,000,000

[1] 2,000,000 options granted to A Alexander were issued at his direction to his spouse, Liang Xie and accordingly these options are disclosed in accordance with AASB 124 Related Party Disclosures and Corporations Regulation 2001 Reg 2M.3.03.17e.
[2] Mr Sainty resigned as a Director on 16 August 2016.
[3] Options granted to N Halgreen were issued at his direction to Carianto Investments Pty Ltd <Halgreen Super Fund A/C>. Mr Halgreen has an indirect interest in these options.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith. The Company indemnifies directors and executives against any payment they shall become legally obligated to make (excluding fines, penalties or exemplary damages), legal costs and expenses arising out of claims made against them jointly or severally by reason of wrongful acts including breach of duty or trust, neglect, error, mis-statement or misleading statement, omission, breach of warranty of authority or other act done or wrongly attempted whilst acting in their capacity as a director or officer of the Company.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act (Cth) 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, BDO, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify BDO during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Officers of the Company who are former audit partners of BDO

There are no officers of the Company who are former audit partners of BDO.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Non-audit services

In the period, the audit firm also performed tax and advisory services. The details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 7 to the financial statements.

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided by BDO means that the auditor’s independence requirements under the Corporations Act 2001 were not compromised, for the following reasons:

- All non-audit services have been received and approved to ensure that they do not impact the integrity and objectivity of the auditor, and

- None of the services undermine the principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for the Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor

BDO East Coast Partnership (“BDO”) was appointed as auditor of KDL by the Australian Securities and Investments Commission on 21 January 2016 under section 327E of the Corporations Act 2001 (Cth) (Act), as required after a resolution to appoint a new auditor under section 327D(2) of the Act at KDL’s AGM on 25 November 2016 did not achieve the required 75% vote in favour, following the removal of KDL’s former auditors, Ernst & Young.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) and where noted ($’000) under the option available to the Company under ASIC Legislative Instrument 2016/191. The Company is an entity to which the class order applies.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

____

Alexandre Alexander
Non-Executive Chairman

30 September 2016
Sydney

5. Independent Auditor's Declaration

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

Level 11, 1 Margaret St
Sydney NSW 2000

Australia

DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF KIMBERLEY DIAMONDS LIMITED

As lead auditor of Kimberley Diamonds Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kimberley Diamonds Limited and the entities it controlled during the period.

Gareth Few

Gareth Few
Partner

BDO East Coast Partnership

Sydney, 30 September 2016

6. Corporate Governance Statement

The Board of Directors of Kimberley Diamonds Limited (the "Board") is responsible for the overall corporate governance of the organisation. The Board has developed a corporate governance framework for the Company to act in the interests of shareholders, the Company's employees and stakeholders.

All charters and policies referred to within this Corporate Governance Statement are available on KDL's website (www.kdl.com.au) under "Corporate" then "Corporate Governance".

This Corporate Governance Statement reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) ("ASX Principles"). The Board considers and applies the ASX Principles to the extent there is sound reason to do so given the circumstances of the Company. Where the Company's corporate governance practices have not followed the ASX Principles, the Board has provided its reasons for not following the ASX Principles and disclosed what, if any, alternative practices the Company has or will adopt instead of those in the ASX Principles.

This Corporate Governance Statement is current as at 30 June 2016 and was approved by the Board.

6.1 *Principle 1 – Lay solid foundations for management and oversight*

Recommendation 1.1

The Board is responsible for the overall strategic direction of the Company with oversight and review of the management, administration and overall governance of the Company.

It is the role of Senior Management to manage the Company in accordance with the direction and delegation of the Board and the responsibility of the Board to oversee the activities of Management in carrying out these delegated duties.

The respective roles and responsibilities of the Board and Senior Management are set out in the Company's Board Charter.

Recommendation 1.2

When appointing new Directors, the Board consider the mix of skills and expertise required of Directors in order for the Board to contribute to the successful oversight and stewardship of the Company and to discharge its duties under the law diligently and efficiently.

The Board will have regard to the selection criteria set out in the Board appointment process, which include:

- skills, expertise and background that add to, and complement the range of skills, expertise and background of the existing Directors;
- diversity; and
- the extent to which the candidate would fill a present (and future) need on the Board.

At commencement of the Non-Executive Director selection process, the Company undertakes appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a Non-Executive Director.

Prior to appointment, candidates are required to provide the Chairman with details of other commitments and an indication of time involved, and to acknowledge that they will have adequate time to fulfil his or her responsibilities as a Non-Executive Director of the Company.

Directors available for re-election at a general meeting will be reviewed and approved by the Board. Directors are re-elected in accordance with the Company's Constitution and the ASX Listing Rules. Shareholders will be provided with all material information for a Director's election in the Notice of Meeting that would be relevant for shareholders to make a decision on whether or not to elect or re-elect a Director, such as the Director's qualifications, experience and contribution to the Board.

Recommendation 1.3

Newly appointed Non-Executive Directors receive formal letters of appointment from the Chairman setting out the key terms, conditions, responsibilities and expectations of their appointment. Additionally, the Company enters into employment contracts with each newly employed Senior Executive, setting out in further detail the responsibilities specifically delegated to them.

Recommendation 1.4

The Company Secretary is accountable to the Board, through the Chairman, on all governance matters to do with the proper functioning of the Board.

Recommendation 1.5

The Board has adopted a Diversity Policy which sets out the Company's commitment to diversity and inclusion in the workplace.

The Board is responsible for developing strategies with a view to progressing towards achieving gender diversity ("measurable objectives") and for monitoring the progress of the measurable objectives through appropriate evaluation and reporting structures within the organisation.

The Company has not established measurable objectives for achieving gender diversity at this time. The Company believes this is appropriate given the size of the Company and its stage of development. The Board will consider and review matters relating to diversity.

The table below outlines the proportion of women and men employed by the Company as at 30 June 2016:

	Women	Men
Board	0 (0%)	5 (100%)
Senior Executives	3 (50%)	3 (50%)
Whole organisation (not including non-executive directors and including employees of subsidiaries)	31 (24.4%)	96 (75.6%)

Senior Executives includes the Managing Director and all members of the senior management team reporting directly to the Managing Director.

Recommendation 1.6

The Company has not established a process for periodically evaluating the performance of its Board, its Committees and individual directors at this time. The Company believes this is appropriate given the size of the Company and its stage of development. The Board will consider establishing a process to meet the effectiveness of the evaluation for the Board. The Board has not undertaken an evaluation of its performance during 2015/16.

Recommendation 1.7

The Board is responsible for establishing a process for periodically evaluating the performance of Senior Executives. In particular, the Board is responsible for evaluating the performance of the Managing Director.

Senior Executives are required to prepare their strategic objectives for review and approval by the Managing Director. Senior Executives are expected to meet these objectives as part of their key performance targets. The Board reviews the performance of the Managing Director on an annual basis.

For 2016/17, the Board will review the process for periodically evaluating the performance of Senior Executives and will decide whether to continue with the existing process or develop a more structured review process.

6.2 *Principle 2 – Structure the Board to add value*

Recommendation 2.1

The Board has not established a Nomination Committee and accordingly has not adopted Recommendation 2.1 due to the size and nature of the current operations of the Company. The Board will review its requirement for a Nomination Committee when the Company has reached a certain stage in size and operations.

The Board as a whole fulfils all nomination functions, such as:

- the selection and nomination of Director candidates;
- reviewing the composition of the Board and assess the necessary and desirable competencies of Directors;
- overseeing the Directors' induction program and ensure Directors have access to appropriate education;
- succession planning; and
- evaluating the performance of the Board, individual Directors and Senior Executives.

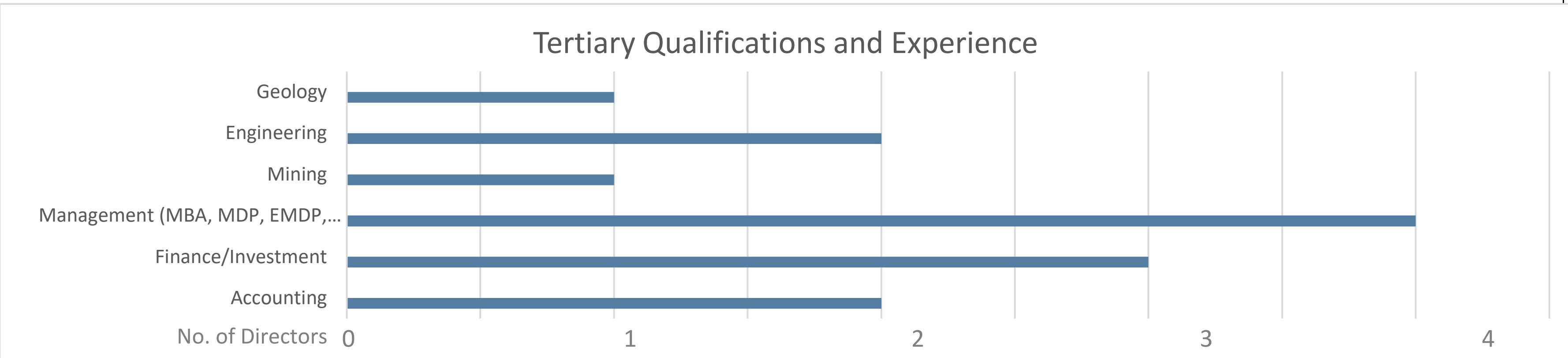
Recommendation 2.2

The Board has developed a Board skills matrix to identify and assess necessary and desirable Director' skills and competencies, and provide advice to the Board on the skills and competency levels of Directors with a view to enhancing the Board composition.

The following table summarises the key skills and experience of the Directors:

Skills and experience

The Board currently comprises 3 non-executive directors, a managing director and 1 executive director.



Executive leadership / strategic thinking capabilities/Global experience

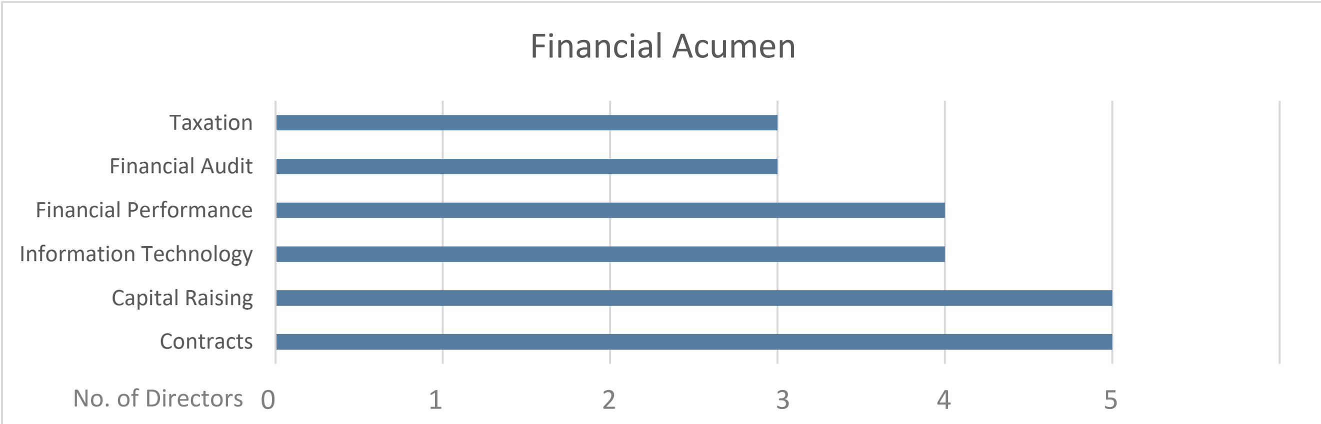
Sustainable success in business at a senior executive level in a successful career. Track record of developing and implementing successful strategy and profit and loss outcomes. Excellent judgement and communication skills.

Board, senior management or equivalent experience in multiple global locations, exposed to a range of political, cultural, regulatory and business environments.

<table>
<tr><td>Governance

Commitment to the highest standards of governance including experience with an organisation that is subject to rigorous governance standards.

Ability/ willingness to probe management in the context of the board acting collegiately in constructive debate.</td><td>
</td></tr>
<tr><td>Financial acumen

Board, senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.</td><td>
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The Board considers these skills and experience are appropriate for the Company.

Recommendation 2.3

Directors are independent if they are not members of Management and are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

During the reporting period, the independence of Directors was measured having regard to the relationships listed in Box 2.1 of the 3rd edition ASX Principles and the Company's materiality thresholds.

The following table outlines the Directors of the Company during the period 1 July 2015 to 30 June 2016 including their term of office and non-executive and independent status.

Name	Appointment Date	Cessation Date	Non-Executive Status	Independent Status
Alexandre Alexander	5 May 2011	-	Yes	No; Mr Alexander is a substantial shareholder
Noel Halgreen	22 May 2014	-	No	No
Rodney Sainty	28 February 2012	16 August 2016	No	No
Rupert Baring	12 March 2014	-	Yes	Yes
Yong Xiao	6 March 2012	-	Yes	Yes; Mr Xiao ceased as a substantial shareholder on 20 March 2014

As at 30 June 2016, the Board had five Directors comprising two Executive Directors and three Non-Executive Directors, two of whom are independent. The members of the Board as at 30 June 2016 were:

- Alexandre Alexander – Non-Executive Chairman;
- Noel Halgreen – Managing Director;
- Rodney Sainty – Executive Director (resigned on 16 August 2016);
- Rupert Baring – Independent Non-Executive Director; and
- Yong Xiao – Independent Non-Executive Director.

Recommendation 2.4

The Board currently does not have a majority of independent Directors. However to participate in a particular Board decision, each Director must, and does, bring an independent judgement to bear, or otherwise abstain from participating in the deliberation.

The Board size, diversity and composition is periodically determined and reviewed by the Board as a whole. In relation to the composition, the Board will consider and regularly review the number and balance of Directors with non-executive and independent status.

Recommendation 2.5

The Chairman, Alexandre Alexander, is not an independent Director because he is a substantial shareholder of the Company. Mr Alexander is a non-executive Director. The Board believes Mr Alexander is most appropriately qualified of all incumbent Directors to be charged with the responsibility as Chairman. The roles of the Chairman and Managing Director are not exercised by the same individual.

Recommendation 2.6

The Board has established a formal induction program for new Directors in which they are given a full briefing on the Company, its operations and the industry in which it operates. This includes meeting members of the existing Board, Company Secretary and the Senior Management for new Directors to familiarise themselves with the Company and Board practices and procedures.

The Company Secretary is responsible for arranging the new Directors to undertake the induction program. The Board is responsible for reviewing induction procedures for the new Directors to facilitate their ability to discharge their responsibilities.

To achieve continuing improvement in Board performance and to enhance the skills of Board members, all Directors may request and undertake training and professional development, as appropriate, at the Company's expense.

6.3 *Principle 3 – Act ethically and responsibly*

Recommendation 3.1

Code of Conduct

The Board has adopted a Code of Conduct that governs the Company's commercial operations and the conduct of Directors, employees, contractors, consultants and all other people that represent the Company ("personnel").

The Code reinforces the need for personnel to always act in good faith, in the Company's best interests and in accordance with all applicable policies, laws and regulations relevant to the regions in which the Company operates.

Personnel are encouraged if they consider a breach has occurred to the Code, to immediately report to the Company Secretary, Managing Director or the Chairman. The Code protects individuals who, in good faith, report conduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

Securities Trading Policy

The Board has adopted a Securities Trading Policy that applies to all Directors, officers, employees, contractors and consultants of the Company and its subsidiaries ("personnel"). The Policy prohibits personnel from dealing in KDL securities while in possession of price-sensitive or inside information.

In addition, Directors and senior executives (in this context meaning direct reports to the Managing Directors and those persons' direct reports) of the Company and its subsidiaries ("Designated Persons") and any family member or associate over whom a Designated Person has influence ("relevant persons"), may deal in KDL securities by following the outside blackout periods, but are prohibited from dealing in KDL securities (subject to exception circumstances) during certain blackout periods.

Designated Persons and relevant persons are restricted from entering into any margin lending or hedging arrangements (subject to certain circumstances) and are prohibited from trading in derivative products and short-selling.

6.4 *Principle 4 – Safeguard integrity in corporate reporting*

Recommendation 4.1

The Company has an Audit and Risk Management Committee. Under the Committee's Charter, it must consist of at least three members who are Non-Executive Directors, with the intention that a majority be independent where the Board composition allows and chaired by a Non-Executive Director. It is anticipated that at least one member has financial expertise or significant experience of financial, accounting and commercial matters. The Committee may seek the counsel of a financial expert at any time.

Given the composition and skill set of the Board, the Committee did not have three members during the reporting period; instead two Non-Executive Directors served as Members. The Committee comprised one independent Non-Executive Director, Mr Rupert Baring (Committee Chairman) and one Non-Executive Director, Mr Alexandre Alexander. At the appropriate time, the Board will consider appointing another Member to this Committee.

Committee members' qualifications, experience and their attendance at the Audit and Risk Management Committee Meetings during the reporting period are set out on pages 31 to 32 (Directors) and page 38 (Meetings of Directors) of the Directors' Report. All the Committee members are financially literate and have an understanding of the industry in which the Company operates.

Recommendation 4.2

Prior to Board approval of the Company's quarterly, half year and annual financial reports, the Managing Director and Chief Financial Officer must provide the Board with declarations required under section 295A of the Corporations Act 2001 (Cth) and Recommendation 4.2 of the ASX Principles.

A declaration was given by the Managing Director and Chief Financial Officer in respect of the Half Year Report (31 December 2015) and it is intended that an equivalent declaration will be given for future Quarterly Reports.

Recommendation 4.3

The Company's external auditor attends each Annual General Meeting ("AGM") and is available to answer shareholder questions about the conduct of the audit and preparation and conduct of the Independent Auditor's Report. The Company believes this is important in both promoting and encouraging shareholder participation in the meeting and providing balanced and understandable information. The Company also considers that this reflects and underlines the role of the auditor and the auditor's accountability to shareholders.

6.5 *Principle 5 – Make timely and balanced disclosure*

Recommendation 5.1

The Board has adopted a Continuous Disclosure Policy to ensure the Company's compliance with its disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules. The Policy outlines the procedures that apply to the central collection, control, assessment and if required, release to ASX, of material information.

The Managing Director is designated as the person responsible for communication with ASX in relation to ASX Listing Rule matters and is authorised to speak to ASX or externally in relation to the Company's affairs.

6.6 *Principle 6 – Respect the rights of shareholders*

Recommendation 6.1

The Board's is committed to providing shareholders with sufficient information to enable them to assess the performance of the Company and to inform shareholders of major developments affecting the state of affairs of the Company. The Company's primary communications tool is its website (www.kdl.com.au) and all announcements are posted on the Company website, immediately following release to ASX. The website also contains information of the Company's asset portfolio and presentations made by the Company and share price information.

Recommendation 6.2

The Company will hold its AGM in November 2016 and the Chairman and the Managing Director will engage with shareholders in advance of the AGM, as appropriate.

Should shareholders wish to contact the Company, the contact details of the Company and its Share Registry are available on the Company's website.

The Company recognises the importance of its relationships with investors and analysts. The Managing Director is the primary contact for communicating with the investment community. Further details are contained in the Continuous Disclosure and Shareholder Communications Policy.

Recommendation 6.3

To encourage shareholder engagement and participation at each AGM, shareholders have the opportunity to attend the AGM, ask questions on the floor, participate in voting and meet the Board and Senior Management in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the Notice of Meeting. Shareholders have the opportunity to submit written questions to the Company and external auditor, or make comments on the management of the Company and access AGM presentations and speeches made by the Chairman and Managing Director prior to the commencement of the meeting. The Company will publish results of the meeting to the ASX and on its website following the conclusion of the AGM.

Recommendation 6.4

Shareholders have the option of receiving all shareholder communications (including notification that the Annual Report is available to view and Notices of Meeting) by email. Electronic communications have the added advantage of being more timely and cost effective, which benefits all shareholders.

The contact details of the Company and its Share Registry are available to shareholders on the Company's website to address and facilitate any shareholder-related enquiries.

6.7 *Principle 7 – Recognise and manage risk*

Recommendation 7.1

Refer to commentary under Recommendation 4.1 for information about this Committee.

The Board is ultimately responsible for overseeing the risk management activities of the Company and the implementation of risk management controls and assessing their effectiveness. The Company's Risk Management Policy sets out the requirements, roles and responsibilities for managing risks across the organisation within areas such as:

- occupational health and safety;
- the environment;
- asset protection (insurances);
- continuous disclosure;
- securities trading policies applicable to directors, employees and key contractors; and
- codes of conduct.

The objective of this Policy is to:

- encourage appropriate tolerance of risks across the organisation;
- establish procedures to analyse risks within agreed parameters across the organisation;
- establish appropriate risk delegations and corresponding frameworks across the organisation; and
- ensure the Company has in place a risk framework which can measurably react should the risk profile of the Group change.

The approach to the Board's risk management practices shall be guided by the following criteria:

- identification of all risks;
- analysis of identified events within the organisation that could adversely impact on the risk profile of the organisation; and
- assessment of effectiveness of risk management framework.

Recommendation 7.2

During the reporting period, Management reported on the effectiveness of the management of the material risks faced by the Company during 2015/16. The Board has reviewed the Company's risk management framework and is satisfied that it continues to be sound.

Recommendation 7.3

The Company does not have an internal audit function at this time. Given the size and scope of the Company's operations, the Board has not established an internal audit function. During the reporting period, the Audit and Risk Management Committee was responsible for oversight of the Company's internal processes and practices, and assessing the effectiveness of the Company's risk management and internal control processes.

Recommendation 7.4

The Board recognises that material risks facing the Company are the more significant areas of uncertainty or exposure to the Company that could adversely affect the achievement of the Company's objectives and successful implementation of its business strategies. Details about the Company's material business risks is contained in "Principal Risks" on page 26 to 30 of the Annual Report.

The Board will consider these material risks as part of its periodic risk management review on an as required basis upon advices from the Audit and Risk Management Committee and/or Management.

6.8 *Principle 8 – Remunerate fairly and responsibly*

Recommendation 8.1

The Board has not established a Remuneration Committee and accordingly not adopted Recommendation 8.1 due to the size and nature of the current operations of the Company. The Board will review its requirement for a Remuneration Committee when the Company has reached a certain stage in size and operations.

The Board as a whole manages all remuneration-related matters of the Company, such as:

- the remuneration framework for Directors; and
- Senior Executive remuneration (short-term and long-term incentives), recruitment, retention, termination policies and procedures.

Recommendation 8.2

In relation to remuneration issues, the Board ensures that it remunerates fairly and responsibly. The remuneration framework is designed to ensure that the level and composition of remuneration to Senior Executives and Directors is competitive, reasonable and appropriate for the results delivered. The Remuneration Report and details about the Company's Remuneration Framework are set out on pages 38 to 47 of the Remuneration Report.

As detailed in the Remuneration Report, Non-Executive Directors are paid fixed fees from an aggregate sum approved by shareholders of the Company. There are no retirement schemes for Non-Executive Directors, other than statutory superannuation.

Senior Executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave entitlements.

Remuneration of key management personnel is detailed in the Remuneration Report.

Recommendation 8.3

Directors and Senior Executives are not permitted to enter into transactions with securities (or any derivative thereof) in associated products which limit the economic risk of any unvested entitlements awarded under any equity-based remuneration scheme offered by the Company.

7. Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001. Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

____

Alexandre Alexander
Non-Executive Chairman
30 September 2016
Sydney

8. Financial Report

8.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016	Note	2016 $'000	2015 $'000
Continuing operations			
Revenue	5	168	30
Cost of sales		(2,003)	(97)
Gross loss		(1,835)	(67)
Gain on conversion of Debt		476	-
Royalties and selling costs		(89)	(18)
Corporate and site administration expenses		(6,755)	(3,782)
Gain/(loss) on disposal of Fixed Assets		(1,194)	1
Impairment of exploration assets		(1,605)	-
Foreign exchange gain		213	137
Operating loss		(10,789)	(3,729)
Finance costs	6	(1,347)	(134)
Loss before income tax expense from continuing operations		(12,136)	(3,863)
Income tax expense	8	-	-
Loss after income tax expense for the period from continuing operations		(12,136)	(3,863)
Profit/(Loss) after income tax expense from discontinued operations	26	21,663	(13,600)
Profit/(Loss) after income tax expense		**9,527**	**(17,463)**
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences - foreign operations	16	(1,749)	1,894
Total other comprehensive income for the period		(1,749)	1,894
Total comprehensive Profit/(Loss) for the period		7,778	(15,569)
Profit/(Loss) for the period is attributable to:			
- Non-controlling interest		(264)	(2)
- Owners of Kimberley Diamonds Ltd		9,791	(17,461)
		9,527	(17,463)
Total comprehensive Profit/(Loss) for the period is attributable to:			
- Non-controlling interest		(264)	(2)
- Owners of Kimberley Diamonds Ltd		8,042	(15,567)
		7,778	(15,569)
Total comprehensive Profit/(Loss) for the period is attributable to:			
- Continuing operations		(13,885)	(1,969)
- Discontinued operations		21,663	(13,600)
		7,778	(15,569)

8.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the year ended 30 June 2016	Note	2016 $'000	2015 $'000
		Cents	**Cents**
Earnings per share for period attributable to the members of Kimberley Diamonds Ltd:			
From continuing and discontinued operations:			
Basic earnings/(loss) per share	24	8.33	(16.58)
Diluted earnings/(loss) per share	24	8.33	(16.58)
From continuing operations:			
Basic loss per share	24	(10.10)	(3.67)
Diluted loss per share	24	(10.10)	(3.67)
From discontinued operations:			
Basic earnings/(loss) per share	24	18.44	(12.91)
Diluted earnings/(loss) per share	24	18.44	(12.91)

The above consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

8.2 Consolidated Statement of Financial Position

As at 30 June 2016	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	21	117	4,063
Trade and other receivables	9	1,259	4,928
Inventories	10	2,847	8,907
Other Financial Assets	21	317	896
Total current assets		4,540	18,794
Non-current assets			
Trade and other receivables	9	214	52
Property, plant and equipment	11a	30,553	27,728
Exploration and evaluation assets	11b	430	3,253
Total non-current assets		31,197	31,033
TOTAL ASSETS		**35,737**	**49,827**
Current liabilities			
Trade and other payables	12	5,699	15,698
Interest bearing loans and borrowings	13	13,959	688
Provisions	14	252	1,543
Interest tax liability		-	(3)
Total current liabilities		19,910	17,926
Non-current liabilities			
Interest bearing loans and borrowings	13	-	5,040
Provisions	14	496	25,401
Total non-current liabilities		496	30,441
TOTAL LIABILITIES		**20,406**	**48,367**
NET ASSETS		**15,331**	**1,460**
Equity			
Contributed equity	15	41,135	36,086
Reserves	16	1,282	6,737
Accumulated losses		(26,778)	(41,319)
Parent interests		15,639	1,504
Non-controlling interest		(308)	(44)
TOTAL EQUITY		**15,331**	**1,460**

The above consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

8.3 Consolidated Statement of Changes in Equity

	Issued capital $'000	Other contributed equity $'000	Reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Consolidated							
Balance as at 1 July 2014	35,661	201	5,116	(245)	(23,856)	(42)	16,835
Prior period reclassification of reserves	-	-	-	-	(2)	-	(2)
Profit/(loss) after income tax expense for the period	-	-	-	-	(17,461)	(2)	(17,463)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	1,894	-	-	1,894
Total comprehensive income/(loss) for the period	-	-	-	1,894	(17,461)	(2)	(15,569)
Transactions with owners in their capacity as owners:							
Contribution of equity, net of transaction costs	224	-	-	-	-	-	224
Share based payment	-	-	(28)	-	-	-	(28)
Balance as at 30 June 2015	**35,885**	**201**	**5,088**	**1,649**	**(41,319)**	**(44)**	**1,460**
Balance as at 1 July 2015	35,885	201	5,088	1,649	(41,319)	(44)	1,460
Prior period reclassification of reserves	-	-	689	338	(1,027)	-	-
Transfer between reserves	-	-	(3,134)	-	3,134	-	-
Profit/(loss) after income tax expense for the period	-	-	-	-	9,791	(264)	9,527
Other comprehensive income/(loss) for the period, net of tax	-	-	-	(1,749)	-	-	(1,749)
Total comprehensive income/(loss) for the period	-	-	-	(1,749)	9,791	(264)	7,778
Transactions with owners in their capacity as owners:							
Contribution of equity, net of transaction costs	5,049	-	-	-	-	-	5,049
Share based payment	-	-	(1,599)	-	2,643	-	1,044
Balance as at 30 June 2016	**40,934**	**201**	**1,044**	**238**	**(26,778)**	**(308)**	**15,331**

The above consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

8.4 Consolidated Statement of Cash Flows

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		-	64,122
Receipts from customers in advance	12	1,344	-
Payments to suppliers and employees (inclusive of GST)		(8,071)	(73,312)
Interest received		7	39
Interest paid and other finance costs		-	(53)
Net cash used in operating activities		(6,720)	(9,204)
Cash flows from investing activities			
Net cash forfeited on disposal of subsidiary	26	(59)	-
Payments for property, plant and equipment	11a	(14,806)	(401)
Payments for exploration and evaluation expenditure	11b	(15)	(2,924)
Payments for security deposits	21	-	(896)
Net cash used in investing activities		(14,880)	(4,221)
Cash flows from financing activities			
Proceeds from issue of shares	21	3,321	158
Share issue transaction costs		-	-
Payment to related parties		-	36
Proceeds of secured borrowings repayment		3,644	-
Repayment of borrowings	21	(97)	(1,177)
Proceeds from borrowings	21	10,789	5,041
Net cash provided by financing activities		17,657	4,058
Net decrease in cash and cash equivalents		(3,943)	(9,367)
Cash and cash equivalents at beginning of financial year		4,063	13,417
Effect of exchange rate changes on cash holdings in foreign currencies		(3)	13
Cash and cash equivalents at end of financial year	21	**117**	**4,063**

The above consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

9. Notes to the Consolidated Financial Statements | 30 June 2016

Note 1: Corporate Information

The financial report of Kimberley Diamonds Ltd ("the Company" or "KDL") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of Directors on 30th of September 2016.

Kimberley Diamonds Ltd is a is a for-profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange under the ticker symbol of KDL.

The consolidated financial statements for the year ended 30 June 2016 comprise the Company and its subsidiaries ("the Group").

The nature of the operations and principal activities of the Group are detailed in the Directors' report.

Note 2: Summary of Significant Accounting Policies

Basis of preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Account Standards Board. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Legislative Instrument 2016/191. The Company is an entity to which the class order applies.

Incomplete records

Following the appointment of the administrators (and now liquidators), the powers of the officers of KDC and its subsidiaries were suspended and the liquidators assumed control of these companies' business, property and affairs. Records relating to KDC and its subsidiaries were provided to the liquidators. Accordingly, this Annual Report for the year ended 30 June 2016 has been prepared without the benefit of complete information being available for KDC and its subsidiaries. To prepare the financial report, the Directors have constructed the financial records of KDC and its subsidiaries using data extracted from the Group's accounting system for the financial year. However, there may be information that the Directors have not been able to obtain, the impact of which may or may not be material on the accounts.

This Annual Report may not contain all the required information or disclosures in relation to transactions undertaken by KDC and its subsidiaries, and the disclosures regarding its business, environmental and health, safety and CSR, as this information is not fully available due to the administration and liquidation process.

Consequently, although the Directors have prepared the Annual Report to the best of their knowledge based on the information made available to them, they are of the opinion that it is not possible to state that this Annual Report has been prepared in accordance with the Corporations Act 2001 as a result of the above matters as at 30 June 2016 and for the year then ended.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position (including its cash flows and liquidity position) are set out in the Operating and Financial review section of the directors' report.

The Group experienced net cash outflows from operating activities of $(6.720)m, net cash outflows from investing activities of $(14,880)m and net cash inflows from financing activities of $17.657m. In addition, the Group produced a net profit of $9.527m for the year ended 30 June 2016. At 30 June 2016 and 30 June 2015 the cash and cash equivalents balance was $0.117m and $4.063m respectively.

In July 2015, the KDL Board approved expenditure of $14.6 million to be spent on upfront capital items required to upgrade the plant and update infrastructure at the Lerala Mine. In July 2015, KDL entered into a lump sum turnkey contract with Consulmet for Consulmet to undertake the plant modifications, and the Lerala Mine re-commissioned in Quarter 4, 2016.

The re-commissioning of the Lerala Mine was funded by debt and equity, with $10.789 million received from third party lenders during the 2016 financial year.

On 1 July 2015, the Company's former wholly owned Australian subsidiary, Kimberley Diamond Company Pty Ltd (KDC), the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. KDC's subsidiaries were also placed into voluntary administration. On 5 August 2015, the creditors of KDC subsequently voted to place KDC and its subsidiaries into liquidation. On 22 June KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDC. The liquidators have commenced proceedings against KDL and Alex Alexander, Noel Halgreen and Rodney Sainty (in their capacity as KDC directors) in respect of a number of claims relating to KDC, including alleged insolvent trading, alleged voidable transaction recovery proceedings and alleged breaches of director duties. The amount specifically claimed against KDL by the liquidators in the documentation received is approximately A$22.7 million, plus costs and interest. There are also additional claims for unspecified amounts.

These conditions indicate the existence of a material uncertainty that may cast significant doubt over the consolidated entities ability to continue as a going concern.

The directors recognize the need to raise further additional funds via equity raisings or borrowing facilities in order to fund the future capital expenditure and working capital requirements over the short to medium term. The directors are satisfied they will be able to raise additional capital as required and thus it is appropriate to prepare the financial statements on a going concern basis.

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.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

Compliance statement

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards, as issued by the Australian Accounting Standards Board and as issued by the International Accounting Standards Board.

New accounting standards, interpretations and application in Future Periods

Except as disclosed below, the accounting policies adopted are consistent with those of the previous financial year. For the year ending 30 June 2016, the Group has adopted all applicable new and amended Standards and Interpretations, and there was no material impact.

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 9	***Financial Instruments***	AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018). The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting. The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective. Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.	1 January 2018	1 July 2018

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 15	**Revenue from Contracts with Customers**	AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15). When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process: - identify the contract(s) with a customer; - identify the performance obligations in the contract(s); - determine the transaction price; - allocate the transaction price to the performance obligations in the contract(s); and - recognise revenue when (or as) the performance obligations are satisfied. The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue. Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.	1 January 2018	1 July 2018
AASB 16	**Leases**	AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019). When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard include: - recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets); - depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components; - variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;	1 January 2019	1 July 2019

Reference	Title	Summary	Application date of standard*	Application date for Group*
		- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and - additional disclosure requirements. The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact		
AASB 2014-3	**Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations**	AASB 2014-3: Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (applicable to annual reporting periods beginning on or after 1 January 2016) This Standard amends AASB 11: Joint Arrangements to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method per AASB 3. The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016. As at 30 June 2016, management is not aware of the existence of any such arrangements that would impact the financial statements of the entity going forward and as such is not capable of providing a reasonable estimate at this stage of the impact on initial application of AASB 2014-3.	1 January 2016	1 July 2016

Basis of consolidation

The consolidated financial statements comprise the financial statements of Kimberley Diamonds Ltd and its subsidiaries ('the Group'). The financial statements of subsidiaries are prepared for the same reporting year as the parent company and use consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, income and expenses and profit or losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Control is achieved when the Group is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Consolidated Entity controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the group's Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra- Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

Investments in subsidiaries held by Kimberley Diamonds Limited are accounted for at cost in the separate financial statements of the Parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the Statement of Profit or Loss and Other Comprehensive Income and are presented within equity in the consolidated Statement of Financial Position, separately from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be re measured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, any goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or groups of cash-generating units, expected to benefit from the combination's synergies.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB8 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit or groups of cash-generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues.

Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board of Directors.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 Operating Segments are reported separately.

Foreign currency translation
Both the functional and presentation currency of Kimberley Diamonds Ltd and its Australian subsidiaries is Australian dollars (AUD$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Exchange differences are recognised in other comprehensive income.

As at the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Kimberley Diamonds Ltd at the rate of exchange ruling at the reporting date and the Statement of Profit or Loss and Other Comprehensive Income are translated at the weighted average exchange rates for the period. Exchange differences are taken to the Statement of Profit or Loss and Other Comprehensive Income.

The exchange differences arising on the retranslation are brought to account in the foreign currency translation reserve.

On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss.

Cash and cash equivalents
Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other receivables
Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment.

Inventories
Inventories, which include rough diamonds, ore stock piles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, are recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the 'first-in-first-out method'. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

Exploration and evaluation expenditure
Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the profit or loss. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

Exploration and evaluation expenditure related to areas of interest are carried forward to the extent that the rights to tenure of the areas of interest are current and the Group controls the area of interest in which the expenditure has been incurred and,

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

Development expenditure
When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is unavailable during the development phase, it is not depreciated. On completion, any capitalised exploration and evaluation expenditure already capitalised to development expenditure, together with subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on that basis. All development expenditure is monitored for indications of impairment annually.

Property, plant and equipment
Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, amongst others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following methods and useful lives were applied during the period:

Category	***Method***	***Useful Life***
Mining assets	*Straight line*	*Unit of production*
Leasehold improvements	*Straight line*	*Lesser of 3 years or period of lease*
Plant and equipment	*Straight line*	*3 to 10 years*
Finance lease assets	*Straight line*	*Lesser of 5 years or period of lease*
Other assets	*Straight line*	*2 to 5 years*

Stripping activity asset: As part of its mining operations, the Group incurs mining stripping (waste removal) costs both during the development and production phase of its operations. When stripping costs are incurred in the development phase of a mine before the production phase commences (development stripping), such expenditure is capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a units of production method, in accordance with the policy applicable to mine properties. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Waste development costs incurred in the production phase creates two benefits, being either the production of inventory or improved access to the ore to be mined in the future. When the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for a part of the cost of producing those inventories. When production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset in mine property.

If the cost of the inventory produced and the stripping asset are not separately identifiable, the allocation is undertaken based on waste to ore stripping ratio for the particular ore component concerned. If mining of waste in a period occurs in excess of the expected life of component average waste to ore strip ratio, the excess is recognised as part of the stripping asset. When mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided on the units-of-production method over the life of the identified component of ore body. The units of production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

Impairment of assets

Non-financial assets: Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets: The Group assesses at each reporting date whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost: If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

Dividend distribution
Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are declared by the Board.

Trade and other payables
Trade and other payables are carried at amortised costs due to their short term nature. They are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date**.**

Provisions: Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in provision due to the passage of time is recognised as a finance cost.

Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling; removal and treatment of waste materials; land rehabilitation; and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

Employee leave benefits

Wages, salaries and annual leave: Liabilities for employee benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave: The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Share-based payment transactions

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). The Group also provides benefits to suppliers in return for services.

The cost of these equity-settled transactions with employees and suppliers is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Kimberley Diamonds Ltd ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

Equity-settled awards granted by Kimberley Diamonds Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Kimberley Diamonds Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

The cumulative expense recognised for equity-settled transactions at each subsequent reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share
Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Revenue recognition
Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods: Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest revenue**:** Revenue is recognised as the interest accrues using the effective interest method. This is the method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends: Revenue is recognised when the shareholders' right to receive the payment is established.

Taxation
Income tax for the period comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the profit or loss when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

Royalties

Royalties and revenue-based taxes are accounted for under AASB 112 Income Taxes when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation.

Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and disclosed as part of selling and distribution costs. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Positions.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Significant accounting judgements, estimates and assumptions
The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Life of mine (Note 11a): There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the life of mine estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios and environmental provisions are re-assessed to take into account the revised life of mine estimate.

Exploration and evaluation expenditure (Note 11b): This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available.

Development expenditure (Note 11a): Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

Property, plant and equipment – recoverable amount (Note 11a): The calculation of the recoverable amount of an asset requires significant judgements, estimates and assumptions, including future demand, technological changes, exchange rates, interest rates and others.

Impairment of assets: The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value-in-use. These assessments require the use of estimates and assumptions such as long-term diamond prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as management's best estimate of the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mine assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value.

Impairment of mine properties: The future recoverability of capitalised mine properties and plant and equipment is dependent on a number of key factors including; diamond price, pre-tax discount rates used in determining the estimated discounted cash flows of Cash Generating Units ("CGUs"), foreign exchange rates, the level of proved and probable reserves and measured, indicated and inferred mineral resources, future technological changes which could impact the cost of mining and future legal changes (including changes to environmental restoration obligations).

Impairment is recognised when the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount of each CGU has been determined on its fair value less cost to sell ('Fair Value'). The costs to sell have been estimated by management based on prevailing market conditions.

The recoverable amount of the Lerala Diamond Mine was based on an independent valuation undertaken by Venmyn Deloitte, an expert specialising in the field of mine valuation.

The determination of fair value for the Ellendale Mine was not undertaken due to inadequate information available.

Provision for restoration and rehabilitation (Note 14): Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible disturbance, and the timing, extent and costs of required restoration and rehabilitation activity.

Taxation (Note 8): The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.

Stripping activity asset (Note 11a): Management is required to make certain estimates and assumptions regarding the tonnes of waste material expected to be mined during the life of component per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Significant judgements are also required in determining the different components of the mine.

Functional currency: Under the accounting standards, each entity within the Group is required to determine its functional currency, which is the currency of the primary economic environment in which the entity operates. Management considers the foreign subsidiaries to be foreign operations with the currency of that country as the functional currency. In arriving at this determination, management has given priority to the currency that influences the labour, materials and other costs of exploration activities as they consider this to be a primary indicator of the functional currency.

Note 3: Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, insurance premium funding, cash and short term deposits.

The Group manages its exposure to key financial risks, including interest rate, foreign currency, credit risk and liquidity risk, with the objective of providing support to delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, commodity risk and foreign currency risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include analysis of aging reports to monitor and manage credit risk, analysis of future rolling cash flow forecasts to monitor and manage liquidity risk, monitoring levels of exposure to interest rate and foreign exchange risk, and assessments of market forecasts for interest rate and foreign exchange rate movement.

The Board reviews and agrees risk management strategies for managing each of the risks identified above.

Primary responsibility for identification and control of financial risks rests with Management under authority of the Board.

a. Risk exposures and responses

Interest rate risk: The Group exposure to interest rate risk has been minimised through utilisation of fixed interest rates on borrowings.

The Group does not enter into any interest rate swaps, interest rate options or similar derivatives.

At reporting date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	117	4,063
Restricted Term Deposits *	317	896
Net exposure	**434**	**4,959**

*Restricted Term Deposit - Rental Lease $257k – security deposit for the leasing of the office premises. Amount was included as part of cash and cash equivalents for the year ending 30 June 2015. For the year ending 30 June 2016, it has been reclassified as a payment for security deposits.

	Post tax profit Higher/(Lower)		Equity Higher/(Lower)	
Judgements of reasonable possible movements	2016 $'000	2015 $'000	2016 $'000	2015 $'000
+0.50% (50 basis points)	2	25	2	25
-0.50% (50 basis points)	(2)	(25)	(2)	(25)

Foreign currency risk: the Group functional currency is Australian dollars and is exposed to transactional currency exposures. Such exposures arise primarily as a result of the sale of Diamonds being denominated in USD. There is also risk in BWP and ZAR as large payments are made denominated in these currencies. Foreign currency risk is managed by management monitoring actual and forecast currencies.

At reporting date, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	2	2,083
Borrowings	(2,829)	-
Net exposure	**(2,827)**	**2,083**

At reporting date, the Group had the following exposure to BWP/ZAR denominated payments

	2016 $'000	2015 $'000
Current Liabilities		
Trade and Other Payables – BWP denominated	(2,221)	(115)
Trade and Other Payables – ZAR denominated	(902)	-
Trade and Other Payables	**(3,123)**	**(115)**

Management believes that the above reporting date risk exposures for foreign currency risk may be unrepresentative, as they do not reflect potential exposure during the year.

The following sensitivity analysis is based on the foreign exchange rate exposures in existence at the reporting date:

At 30 June 2016, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Other equity Higher/(Lower)	
Judgements of reasonable possible movements	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Consolidated				
AUD/USD +10%	258	(189)	258	(189)
AUD/USD -10%	(315)	232	(315)	232
AUD/BWP +10%	202	10	202	10
AUD/BWP -10%	(247)	(13)	(247)	(13)
AUD/ZAR +10%	80	-	80	-
AUD/ZAR -10%	(98)	-	(98)	-

The judgement of reasonable possible rate movement is based upon management's current assessment of the possible change in foreign currency exchange rates, which is based on regular review of current trends and forecasts. There has been no change in assumptions and sensitivities from the previous year.

Commodity price risk: The Group is exposed to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as size and quality. Diamonds prices are marketed in US$ and long term US$/carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Groups specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

The group also has indirect exposure to the price of gold and copper.

Credit risk: Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in each applicable note. Exposure on trade and other receivables is limited as the Group sales are made on a cash basis.

Liquidity risk: Responsibility for liquidity risk management rests with Management and the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

	<=6 months $'000	6-12 months $'000	1-5years $'000	Total $'000
2016				
Financial liabilities				
Trade and other payables	5,699	-	-	5,699
Interest bearing loans and borrowings	285	14,365	-	14,650
	5,996	**14,365**	**-**	**20,361**
2015				
Financial liabilities				
Trade and other payables	15,698	-	-	15,698
Interest bearing loans and borrowings	688	-	5,040	5,728
	16,386	**-**	**5,040**	**21,426**

Fair value of financial instruments: Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 4: Segment Information

For management purposes, the Group is organised into business units based on its products and services and currently has two reportable segments:

- Diamond mining being the mining, processing and marketing of diamonds,
- Mineral exploration, being the acquisition and exploration of minerals and mineral tenements.

The Chief Operating Decision Maker ('CODM') is the Board of Directors, which monitors the operating results of the business units separately for purposes of making decisions about resource allocations and performance assessment.

Segment performance is evaluated based segment results which are determined using revenues and expenditure directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results are measured consistently with the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Inter-segment revenues are eliminated upon consolidation.

	2016				2015			
	Diamond Mining * $'000	Exploration, development& corporate $'000	Discontinued operations $'000	Total $'000	Diamond mining $'000	Exploration, development& corporate $'000	Discontinued operations $'000	Total $'000
Revenue								
External customers	151	-	-	151	-	-	63,488	63,488
Interest revenue	-	17	-	17	-	21	18	39
Other revenue	-	-	-	-	-	8	356	364
Total segment revenue	151	17	-	168	-	29	63,862	63,891
Segment profit/(loss)	(3,776)	(7,639)	21,663	10,248	-	(3,891)	(13,600)	(17,491)
Share option expense	-	(721)	-	(721)	-	28	-	28
Profit/(loss) after income tax expense for the period	(3,776)	(8,360)	21,663	9,527	-	(3,863)	(13,600)	(17,463)
Interest paid	127	395	-	522	-	-	-	-
Depreciation and amortisation	856	38	-	894	-	45	6,208	6,253
Impairment	-	1,605	-	1,605	-	-	-	-
Segment assets	33,635	2,102	-	35,737	-	30,183	19,644	49,827
Segment liabilities ^	65,660	(45,254)	-	20,406	-	7,060	41,307	48,367

* Lerala Diamond Mine is recognised under "Exploration, development & corporate" for 2015 and July 2015 – March 2016. April – June 2016 is reported under "Diamond Mining" in line with re-commissioning of the plant.

^ Intercompany loans are recorded in the "Segment Liability" line. "Diamond Mining" intercompany liability for Lerala Diamond Mine is $57.9m and "Exploration, development & corporate" is ($57.9m).

	2016 $'000	2015 $'000
Geographic segment		
Revenues from external customers		
Australia	17	63,293
Belgium	-	598
Botswana	151	-
Total revenue per Consolidated Statement of Profit or Loss and Other Comprehensive Income	**168**	**63,891**
Non-current assets		
Australia	1,309	7,803
Belgium	-	-
Botswana	29,888	23,230
Total non-current assets	**31,197**	**31,033**

Non-current assets for this purpose consist of property, plant and equipment and trade and other receivables.

Note 5: Revenue

	2016 $'000	2015 $'000
(a) Revenue		
Sale of goods	151	-
Interest income	17	22
Other income	-	8
	168	**30**

Note 6: Expenses

	2016 $'000	2015 $'000
Loss before income tax from continuing operations includes these specific expenses:		
Employee benefits expense		
Wages and salaries	4,042	1,972
Defined contribution superannuation expense	205	235
Share based payments expense	721	(28)
	4,968	**2,179**
Finance costs		
Interest expense	522	33
Establishment Fees	825	101
	1,347	**134**
Amortisation and depreciation expenses		
Depreciation of plant and equipment	894	52
Amortisation of Rehabilitation Asset	10	-
	904	**52**
Operating Lease expenses		
Office Rental lease (excl outgoings)	454	435
Photocopier lease	9	9
	463	**444**

Note 7: Auditors Remuneration

	2016 $	2015 $
Amounts receive, receivable or paid for audit or review of the financial report of the entity and any other entity in the consolidated group		
BDO (Australia)	81,015	-
BDO (Botswana)*	18,500	-
BDO (United Kingdom)*	-	23,101
Ernst & Young (Australia)	-	128,493
Ernst & Young (Botswana)	-	21,958
	99,515	**173,551**
Other services undertaken by Auditing Firm in relation to the entity and any other entity in the consolidated group		
Taxation Services	30,000	-
Advisory Services	31,405	-
	61,405	**-**

*Services have not yet been commissioned for 2015-16 year at date of annual report

Note 8: Income Tax

	2016 $'000	2015 $'000
The major components of income tax are:		
Income statement		
Current income tax		
Current income tax credit/(charge)	2,734	(40)
Tax losses not recognised as not probable	(2,734)	-
Deferred income tax		
Relating to origination and reversal of timing differences	-	4,999
Current year tax losses and temporary differences not recognised in the current period	-	(4,999)
Income tax benefit/(expense) reported in the income statement	**-**	**(40)**
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit/(loss) before income tax	**9,792**	**(17,423)**
At the Group's statutory income tax rate of 30% (2015: 30%)	2,937	(5,227)
Share based payments	216	-
Accounting gain on Discontinued Operations	(6,499)	-
Other assessable income	-	129
Gain on conversion of debt to equity	(143)	
Other permanent adjustments	99	-
Movement in temporary differences - non-deductible	654	37
Current period tax losses not recognised	2,734	5,061
Adjustment in respect of current income tax of previous years	-	(40)
Income tax benefit/(expense) reported in the income statement	**-**	**(40)**

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

The Group has no franking credit as at 30 June 2016 (2015: nil).

	2016 $'000
Unrecognised temporary differences	340
Unrecognised tax losses	2734
Total unrecognised deferred tax assets	**3,074**

Note 9: Receivables

	2016 $'000	2015 $'000
Current		
Other receivables	504	2,957
Prepayments (including loan cost prepayment)	230	863
GST receivable	525	1,108
Total current receivables	**1,259**	**4,928**
Non-current		
Other security bonds and capitalised bond costs	17	52
Prepayments (including loan cost prepayment)	197	-
Total Non-current receivables, net	**214**	**52**

Other receivables: are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is recognised when there is objective evidence that the Group may not be able to collect all amounts due according to original terms of the transaction. None of the amounts are considered impaired.

Note 10: Inventories

	2016 $'000	2015 $'000
Current		
Stores stock	384	2,070
Stores stock in transit	110	-
Ore stockpiles – cost	1,343	2,177
Waste stockpiles - cost	477	
Diamond inventory – cost	533	4,660
Total inventories	**2,847**	**8,907**
Net realisable value write down	-	-

Note 11: Property, Plant and Equipment

a) Non-current fixed assets	PPE & Exploration Discontinued Operations $'000	PPE/Building & infrastructure Continuing Operations $'000	Mine Properties Continuing Operations $'000	Rehabilitation Asset $'000	Assets under construction $'000	Total PPE & Exploration $'000
Year ended 30 June 2016						
As at 1 July 2015 net of accumulated depreciation	**7,860**	**99**	**19,769**	-	-	**27,728**
Additions	-	-	14,806	-	-	14,806
Disposals	(7,860)	-	(1,194)	-	-	(9,054)
Transfers	-	20,466	(20,979)	418	95	-
Unrealised FX Revaluation	-	-	(2,023)	-	-	(2,023)
Depreciation	-	(784)	(110)	(10)	-	(904)
As at 30 June 2016	**-**	**19,781**	**10,269**	**408**	**95**	**30,553**
Cost	29,703	20,591	34,726	418	95	85,533
Disposals/Transfers	(7,860)	-	(22,373)	-	-	(30,233)
Unrealised FX Revaluation	-	-	(1,841)	-	-	(1,841)
Accumulated depreciation	(21,843)	(811)	(242)	(10)	-	(22,906)
Net carrying amount	**-**	**19,781**	**10,269**	**408**	**95**	**30,553**
Year ended 30 June 2015						
As at 1 July 2014 net of accumulated depreciation	**15,581**	**99**	**19,769**	-	-	**35,449**
Additions	774	-	-	-	-	774
Disposals	(64)	-	-	-	-	(64)
Reclassification to cost of sales	(2,223)	-	-	-	-	(2,223)
Depreciation	(6,208)	-	-	-	-	(6,208)
As at 30 June 2015	**7,860**	**99**	**19,769**	**-**	**-**	**27,728**
Cost	29,703	126	19,919	-	-	49,748
Accumulated depreciation	(21,843)	(27)	(150)	-	-	(22,020)
Net carrying amount	**7,860**	**99**	**19,769**	**-**	**-**	**27,728**

b) Exploration and Evaluation Assets	2016 $'000	2015 $'000
Current		
As at 1 July	3,253	2,999
Additions	15	254
Disposal of Discontinued Operations	(1,375)	-
Impairment	(1,605)	-
Reclassification from Receivables	153	-
Unrealised FX Revaluation on Consolidation	(11)	-
	430	**3,253**

Note 12: Trade and Other Payables

	2016 $'000	2015 $'000
Current		
Trade payables	1,485	8,874
Accrued expenses	2,380	1,321
Prepaid Revenue	1,404	-
Other payables	430	5,503
	5,699	**15,698**

Trade payables: are non-interest bearing and are normally settled on 30-day terms.
Prepaid Revenue: Per the Sales Agreement between Lerala Diamond Mines Ltd and Restwell Investments Pty Ltd, Restwell has agreed to acquire USD$6m of diamonds on a timetable (up to March 2017) and at an agreed price between the two parties. The pre-paid USD$1m (A$1.344m) received from Restwell is repayable at the time of the supply of these diamonds. There is also $60k in prepaid rental receipts (term of 184 days)
Other payables: are non-interest bearing and have an average term of up to 120 days.

Note 13: Interest Bearing Loans and Borrowings

	2016 $'000	2015 $'000
Current		
Short term loan (i)	2,690	-
Insurance premium funding (ii)	-	591
Loan received from Zhejiang Auctions Co (iii)	11,269	-
Loan (iv)	-	97
Total current interest bearing loans & borrowings	**13,959**	**688**
Non-current		
Loan received from Zhejiang Auctions Co (v)	-	5,040
Total non-current interest bearing loans & borrowings	**-**	**5,040**

(i) *Short term Loans:*
- USD$1m loan (A$1.34m) from Eternal repayable on 26 July 2016 – USD$100k guarantee fee, nil interest during FY 2016, interest payable for extension agreed in FY2017
- USD$1.11m loan (A$1.48m) from DDA repayable on 26 July 2016 – USD$250k guarantee fee, nil interest
- Capitalised Establishment fees for amortisation of (A$0.130)m

(ii) *Insurance premium funding:* the agreement was entered into on the 7th May 2015. The funding was for a period of 10 months with a flat fixed interest rate of 2.03%. The funding relates to discontinued operations.

(iii) *Current Loan:* The loan has a 1 year term with 5% simple interest computed daily, interest payable in December and June of each year with the principal repaid on maturity. The loan is secured by the shares held by Kimberley Diamonds Limited in Mantle Diamonds Limited. Includes capitalised establishment fees of (A$0.052)m

(iv) *Current Loan:* The Stanbic loan, denominated in USD, was for a period of 48 months, repayable monthly (1st September 2011- 1st August 2015), with 8.82% finance charge over the life of the loan.

(v) *Non-current Loan:* The loan had a 2 year term with 5% simple interest computed daily, interest payable in December and June of each year with the principal repaid on maturity. The loan is secured by the shares held by Kimberley Diamonds Limited in Mantle Diamonds Limited. This loan is a current loan in 2016, refer to (iii).

Current Interest Bearing Loans and Borrowings for continuing operations	**Zhejiang Huitong Auction Co Ltd $'000**	**DDA Loan $'000**	**DDA Working Capital Facility – USD$2.8m $'000**	**Eternal Diamonds BVBA $'000**	**Lerala Stanbic Loan $'000**	**Total Debt Facilities $'000**
Opening Balance	**5,040**	**-**	**-**	**-**	**97**	**5,137**
Increased Borrowings	7,960	1,485	-	1,344		10,789
Repayment of Borrowings					(97)	(97)
Unrealised FX Revaluation on 30.6	-	-	-	(8)		(8)
Capitalisation of Interest	525	-	-	-		525
Capitalisation of Establishment Fees (net of amortisation)	(52)	(95)	-	(36)		(183)
Conversion to Equity	(2,204)	-	-	-		(2,204)
Closing Debt Position 30.6.16	**11,269**	**1,390**	**-**	**1,300**	**-**	**13,959**
Debt Facility Available at 30.6.16	-	-	3,768	-		3,768
Debt Facility used	-	-	-	-		-
Debt Facility unused	-	-	3,768	-		3,768

Note 14: Provisions

	2016 $'000	2015 $'000
Current		
Employee benefits	252	1,543
	252	**1,543**
Non – current		
Employee benefits	78	432
Mine rehabilitation provision	418	24,969
	496	**25,401**
Movement in the mine rehabilitation provision		
At the beginning of the period	24,969	28,579
Re-estimation of provision	(58)	(3,610)
Disposal of Discontinued operations	(24,493)	-
	418	**24,969**

The site and mine restoration provision has been recognised as the Group has an obligation for the rehabilitation of it mining areas. The provision has been calculated based on the total estimated rehabilitation costs over a period of 10 years.

Note 15: Issued Capital

	2016	2015
(a) Issued and paid up capital		
Number of ordinary shares fully paid	**160,987,132**	**105,740,349**

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Consolidated Entity in proportion to the number of and amounts paid on shares held. The fully paid ordinary shares have no par value and the Consolidated Entity does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll, each share shall have one vote

(b) Movements in shares on issue	**2016 Number of shares**	**2016 $'000**
Beginning of the financial year	105,740,349	35,885
Issued during the year		
Equity placement – cash received	33,205,581	3,321
Equity placement – debt to equity	22,041,202	2,204
Gain on conversion of debt	-	(476)
Share options exercised	-	-
Share options forfeited	-	-
	160,987,132	**40,934**

	2015 Number of shares	**2015 $'000**
Beginning of the financial year	104,203,915	35,661
Issued during the year		
Equity placement	1,120,772	224
Share options exercised	415,662	-
Share options forfeited	-	-
	105,740,349	**35,885**

	2016 $'000	**2015 $'000**
Other contributed equity		
Capital contribution reserve	201	201
	201	**201**

The capital contribution reserve represents the common shareholder transaction on the acquisition of Zodiac Resources Pty Ltd in 2012.

Capital Risk Management

The Group debt and capital includes shareholders' funds and financial liabilities, supported by financial assets.

Directors effectively manage the Consolidated Entity's capital by reviewing the financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

For information on the Consolidated Entity's financing and debt facilities, refer to note 13.

Options on Issue

Unissued ordinary shares of Kimberley Diamonds Ltd under option at the date of this report are as follows:

Grant Date	**Vesting date and exercisable date**	**Expiry date**	**Exercise price**	**Number under option**
28 April 2016	28 April 2016	28 April 2019	$0.20	12,000,000
3 June 2016	3 June 2016	3 June 2018	$0.20	3,300,000
7 June 2016	7 June 2016	7 June 2018	$0.20	2,000,000
Total				**17,300,000**

No person entitled to exercise the options had or has any right by virtue of the options to participate in any share issue of the Company or of any other body corporate.

For further information on the issue of options, please refer to Note 17.

Note 16: Reserves

	Share option reserve (a) $'000	Foreign currency translation (b) $'000	Profit reserve (c) $'000	Other (d) $'000	Total $'000
At 1 July 2014	2,672	(245)	3,143	(699)	**4,871**
Currency translation differences	-	1,894	**-**	**-**	**1,894**
Share based payments	(28)	-	**-**	**-**	**(28)**
Dividends paid	-	-	**-**	**-**	**-**
As at 30 June 2015	**2,644**	**1,649**	**3,143**	**(699)**	**6,737**
At 1 July 2015	**2,644**	**1,649**	**3,143**	**(699)**	**6,737**
Prior period reclassification of reserves	(1)	338	-	699	1,036
Transfer between reserves	-	-	(3,143)	-	(3,143)
Currency translation differences	-	(1,749)	-	-	(1,749)
Share based payments	-		-	-	-
Share options forfeited	(2,643)	-	-	-	(2,643)
Issue of share options	1,044	-	-	-	1,044
Dividends paid	-	-	-	-	-
As at 30 June 2016	**1,044**	**238**	**-**	**-**	**1,282**

a) Share option reserve: The share option reserve is used to record the value of equity benefits provided to executives as part of their remuneration. Refer note 17 for further details of these plans.

b) Foreign currency translation reserve: The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign operations.

c) Profit reserve: On acquisition of Kimberley Diamond Company Pty Ltd the directors resolved to isolate accumulated profits into a Profit Reserve.

d) Other reserve: The equity reserve is used to record gains and losses associated with equity transactions with minority interest. At 31 December the reserve was allocated to retained earnings.

Dividends: Dividends paid or provided for during the year nil (2015: nil).

Note 17: Share Based Payments

Share options issued

17.3 million options were granted during the year. The fair value of the options granted was calculated using the Black-Scholes Option Pricing Model and taking into account the terms and conditions upon which the options were granted. All options were vested and exercisable on grant date.

The following table lists the inputs to the model used.

Grant Date	28-Apr-16	03-Jun-16	07-Jun-16
Volatility	114%	114%	114%
Risk free rate	2.515%	2.23%	2.19%
Share price at grant date	$0.11	$0.11	$0.11
Exercise price of options	$0.20	$0.20	$0.20
Expected dividend yield	0.00%	0.00%	0.00%
Number of options issued	12,000,000	3,300,000	2,000,000
Vesting date	28-Apr-16	03-Jun-16	07-Jun-16
Expected life of options(years)	3	2	2
Fair value of options at grant date	$0.065	$0.05	$0.05
Exercisable date	28-Apr-16	03-Jun-16	07-Jun-16

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

Share options expired during 2015-16

Grant Date	Vesting date and exercisable date	Expiry date	Exercise price	Number under option	Granted during the year	Exercised during the year	Expired during the year	Ending balance
29-Nov-13	29-Nov-13	29-Nov-15	$1.15	1,500,000	-	-	1,500,000	-
12-Sep-13	12-Sep-13	12-Sep-15	$0.75	4,000,000	-	-	4,000,000	-
Total				**5,500,000**	**-**	**-**	**5,500,000**	**-**

Share based payment expenses

	2016 $'000	2015 $'000
Options issued to KMPs	620	-
Options issued to other employees	101	-
Options issued for establishment of working Capital/offtake arrangement with DDA	323	-
Total Additions to Share Based Payment Reserve	**1,044**	
Capitalise loan cost prepayment - DDA	(323)	-
Expiry of options	-	(28)
Total Share Based Payment Expense	**721**	**(28)**

Note 18: Related Party Disclosures

Parent entity: Kimberley Diamonds Ltd is the parent entity.

Subsidiaries: Interests in subsidiaries are set out in note 21.

Transactions with related parties:

	2016 $	2015 $
Transactions with Related Parties: *The following transactions occurred with related parties*		
Office rent (received) from Summit Equities Pty Limited, a director related entity	(31,069)	(203,797)
Office rent (received) from Winmar Resources Limited, a director related entity	(139,806)	(33,000)
Consultant costs to Carianto Pty Ltd, a director related entity to Lerala Diamond Mine	26,471	-
Payments from Summit Equities Pty Limited, a director related entity in relation to miscellaneous expenses paid on its behalf	(8,746)	(47,369)
Payments in relation to Office and travel expenses paid to Summit Equities Pty Limited, a director related entity	7,040	431,280
Commission for loan of funds paid to Summit Equities Pty Limited, a director related party	269,539	110,786
Capital raising fees to Summit Equities Limited, a director related entity	310,138	-
Commission to DDA Trading, director related entity, for acting as selling agents for Kimberley Diamond Co Pty Ltd in 2015 Financial Year and selling agents for Lerala Diamond Mine in 2016	57,994	362,655
Establishment Fees to DDA Trading, director related entity, for the loan with Lerala Diamond Mine	324,254	-
Establishment Fees to DDA Trading, director related entity, for the working capital/diamond offtake facility with Lerala Diamond Mine (in the form of options issued)	323,140	-

Amount payable/ (receivable) from Related Parties:

Consultant costs to Carianto Pty Ltd, a director related entity to Lerala Diamond Mine	17,648	-
Commission for loan of funds paid to Summit Equities Pty Limited, a director related party	95,420	110,786
Capital raising fees to Summit Equities Limited, a director related entity	146,062	-
Commission paid to DDA Trading, director related entity, for acting as selling agents for Kimberley Diamond Co Pty Ltd	57,994	-
Office rent (receivable) from Winmar Resources Limited, a director related entity. $66k represents a rent prepayment for future financial year, $5.5k from current financial year	(71,500)	-
Establishment Fees to DDA Trading, director related entity, for the loan with Lerala Diamond Mine (USD250k)	324,254	-

Loans from Related Parties

Loan between Lerala Diamond Mine and DDA Trading, director related entity, USD1.11M	1,473,229	-
Working Capital Facility between Lerala Diamond Mine and DDA Trading, director related entity, USD2.8m available. Nil used as at 30 June 2016	-	-

Compensation of key management personnel

	2016 $	2015 $
Short-term employee benefits	2,025,859	2,108,231
Post-employment benefits	124,489	174,685
Termination benefits	-	115,012
Long-term employee benefits	21,721	-
Share-based payment	619,574	-
Total compensation	**2,791,643**	**2,397,928**

Interests held by key management personnel

i) Options over ordinary shares in Kimberley Diamonds Ltd

Grant Date	**Vesting date and exercisable date**	**Expiry date**	**Exercise price**	**Number under option**
28th April 2016	28th April 2016	28th April 2019	$0.20	5,000,000
3rd June 2016	3rd June 2016	3rd June 2018	$0.20	1,000,000
3rd June 2016	3rd June 2016	3rd June 2018	$0.20	1,000,000
3rd June 2016	3rd June 2016	3rd June 2018	$0.20	1,300,000
				8,300,000

Employee options in Kimberley Diamonds Ltd are not listed. No issue price is payable for the options.

Note 19: Parent Entity Information

	Parent	
	2016	2015
	$'000	$'000
Statement of Profit or Loss and Other Comprehensive income		
Loss after income tax	(17,874)	(3,524)
Total comprehensive income	**(17,874)**	**(3,510)**
Statement of financial position		
Current assets	8,619	12,964
Non-current assets	15,496	19,797
Total assets	**24,115**	**32,761**
Current liabilities	12,560	1,167
Non-current liabilities	31	5,042
Total liabilities	**12,591**	**6,209**
Net assets	**11,524**	**26,552**
Issued capital	40,934	35,885
Share-based payments reserve	1,044	2,652
Profit reserve	-	3,143
Accumulated losses	(30,454)	(15,128)
Total equity	**11,524**	**26,552**
Capital commitments – exploration and evaluation		
Committed at reporting date, payable:		
Within one year	-	-
Two to five years	-	-
Total	**-**	**-**

On 1 July 2015, the Company's former wholly owned Australian subsidiary, Kimberley Diamond Company Pty Ltd (KDC), the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. KDC's subsidiaries were also placed into voluntary administration. On 5 August 2015, the creditors of KDC subsequently voted to place KDC and its subsidiaries into liquidation. On 22 June KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDC. The liquidators have commenced proceedings against KDL and Alex Alexander, Noel Halgreen and Rodney Sainty (in their capacity as KDC directors) in respect of a number of claims relating to KDC, including alleged insolvent trading, alleged voidable transaction recovery proceedings and alleged breaches of director duties. The amount specifically claimed against KDL by the liquidators in the documentation received is approximately A$22.7 million, plus costs and interest. There are also additional claims for unspecified amounts. Please refer to Note 23 for other contingent liabilities.

Note 20: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2.

	Country of Incorporation	2016 %	2015 %
Zodiac Resources	Australia	58.57	58.57
Kimberley Diamond Company Pty Ltd	Australia	0.00	100.00
Kimroy Pty Ltd	Australia	0.00	100.00
Royell Pty Ltd	Australia	0.00	100.00
Kimberley Mining Services Pty Ltd	Australia	0.00	70.00
Kimphil Pty Ltd	Australia	0.00	100.00
Alto Minerals Limited	Australia	100.00	100.00
Mantle Diamonds UK	United Kingdom	100.00	100.00
Mantle Diamonds Canada Inc	Canada	100.00	100.00
Mantle Diamonds Oy *	Finland	0.00	100.00
Lerala Diamonds Limited	Botswana	100.00	100.00
Alto Minerals SL	Spain	100.00	100.00
Baltic Bond	BVI	100.00	100.00
Kimberley Diamonds Ltd (DMCC Branch)	Dubai	100.00	100.00

* Mantle completed the liquidation of its Finnish subsidiary, Mantle Diamonds Oy on 9th February 2016.

Note 21: Cash Flow Statement

Reconciliation of net profit after tax to net cash flows from operations

	2016 $'000	2015 $'000
Net profit / (loss) after tax	9,528	(17,463)
Non-cash items		
Re-estimation / (release) of mine restoration provision	10	(3,827)
Amortisation and depreciation	894	6,291
Impairment	1,605	-
Foreign exchange loss	(213)	(421)
Share based payments	721	(28)
Gain on Discontinued Operations	(21,663)	-
Loss on Disposal of PPE	1,194	-
Gain on debt to equity swap	(476)	
Interest capitalised/converted to equity	522	-
Recommissioning costs Jul15-Mar16 capitalised to Mine Development	(690)	-
Changes in assets and liabilities		
Movement in inventories	(2,847)	6,193
Movement in receivables	(160)	2,197
Movement in prepaid revenue (excl rent not yet received)	1,344	
Movement in trade and other creditors	3,400	2,520
Movement in provisions	113	(4,666)
Net cash flow used in operating activities	**(6,720)**	**(9,204)**

Reconciliation of movement in debt and equity to net cash flows from financing

Changes in equity	
Movement in equity	5,049
Zhejiang Huitong Debt to Equity agreement	(2,204)
Gain on conversion of Debt	476
Net cash flow from financing activities – share issues	**3,321**
Changes in debt	
Movement in debt (current and non-current)	8,231
Zhejiang Huitong Debt to Equity agreement	2,204
Unrealised FX on debt	8
Capitalisation of establishment fees	183
Capitalisation of interest expense	(525)
Discontinued operations – insurance premiums	591
Net cash flow from financing activities – borrowings	**10,692**
Repayment of borrowings	(97)
Proceeds from borrowings	10,789
Net cash flow from financing activities – borrowings	**10,692**

(a) **Reconciliation of cash**

For the purposes of the cash flow statement cash and cash equivalents comprise the following at 30 June:

Cash on hand	11	-
Cash at bank	106	4,063
Cash on deposit	-	-
	117	**4,063**

Note, for 30 June 2015, cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows has been adjusted for \$0.896m (including \$0.639m discontinued) of restricted term deposits, reclassified to other financial asset in the Statement of financial Position.

Note 22: Commitments

The Group leases corporate office space and equipment under a non-cancellable operating lease expiring from two to four years, with renewal options thereafter.

	2016 $'000	**2015 $'000**
Within one year	482	613
Two to five years	534	1,371
	1,016	**1,984**

Capital expenditure contracted for at reporting date but not recognised as a liability is as follows:

	2016 $'000	**2015 $'000**
Within one year	-	-
	-	**-**

Note 23: Contingent Liabilities and Contingent Assets

(a) Contingent liabilities

On 1 July 2015, the Company's former wholly owned Australian subsidiary, Kimberley Diamond Company Pty Ltd (KDC), the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. KDC's subsidiaries were also placed into voluntary administration. On 5 August 2015, the creditors of KDC subsequently voted to place KDC and its subsidiaries into liquidation. On 22 June KDL announced that it had been served with an originating process and supporting affidavit in the Supreme Court of New South Wales by the liquidators of KDC. The liquidators have commenced proceedings against KDL and Alex Alexander, Noel Halgreen and Rodney Sainty (in their capacity as KDC directors) in respect of a number of claims relating to KDC, including alleged insolvent trading, alleged voidable transaction recovery proceedings and alleged breaches of director duties. The amount specifically claimed against KDL by the liquidators in the documentation received is approximately A$22.7 million, plus costs and interest. There are also additional claims for unspecified amounts

KDL has recently been made aware of outstanding tax penalties of BWP 6 million (approximately A$0.7 million) pertaining to the late payments of PAYE and OWHT for 2007, 2008, 2010,2011, 2012, 2013 which was pre the acquisition of the Lerala Diamond Mine by KDL. The company is currently in the process of investigating these penalties and have been advised that they are likely to be incorrect.

KDL has identified potential rehabilitation liabilities not yet included due to the costs not being reliably measured at this point. This includes an estimated stripping cost of the plant of ZAR 8.5m (A$0.7m) on rehabilitation. KDL is also unaware of the cost to rehabilitate the existing stockpile and pit footprint at this stage.

Contingent assets

There are no contingent assets.

Note 24: Earnings per Share

	2016 $'000	2015 $'000
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
a. Reconciliation of earnings to profit or loss:		
Profit	9,527	(17,463)
Profit attributable to non-controlling equity interest	264	2
Redeemable and converting preference share dividends	-	-
Earnings used to calculate basic EPS	**9,791**	**(17,461)**
Dividends on converting preference shares	-	-
Earnings used in the calculation of dilutive EPS	**9,791`**	**(17,461)**
b. Reconciliation of earnings to profit or loss from continuing operations:		
Profit from continuing operations	(12,136)	(3,863)
Profit attributable to non-controlling equity interest in respect of continuing operations	264	(2)
Redeemable and converting preference share dividends	-	-
Earnings used to calculate basic EPS from continuing operations	**(11,872)**	**(3,861)**
Dividends on converting preference shares	-	-
Earnings used in the calculation of dilutive EPS from continuing operations	**(11,872)**	**(3,861)**
c. Reconciliation of earnings to profit or loss from discontinued operations:		
Profit from discontinued operations	21,663	(13,600)
Profit attributable to non-controlling equity interest	**-**	-
Earnings used to calculate basic EPS from discontinuing operations	**21,663**	**(13,600)**
d. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	117,494,030	105,339,630
Weighted average number of dilutive options outstanding	-	**-**
Weighted average number of dilutive converting preference shares on issue	**-**	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	117,494,030	105,339,630
e. Diluted EPS are not reflected for continuing operations as the result is antidilutive in nature.		
Antidilutive options on issue not used in dilutive EPS calculation	17,300,000	5,500,000

Note 25: Subsequent Events

On 16 August 2016, Rod Sainty resigned as a Director of the Company.

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

On execution of the JVA and payment of a condition precedent payment of AUD$200,000, Winmar has a right to earn up to a 70% interest in the tenements over a 3 year period, starting 13 May 2016.

- Winmar must acquire an initial 10% by spending €400,000 in Year 1 (First Commitment).
- Winmar may then elect to acquire a further 35% interest (for a total 45% interest) by spending €3 million in Year 2.
- Winmar may then elect to acquire a further 25% interest (for a total 70% interest) by spending a further €2 million in Year 3.
- Winmar may withdraw at any time after the First Commitment has been completed. If Winmar withdraws during Years 2 or 3, its interest earned to date will revert back to KDL.

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

On 26 August 2016, KDL finalised its withdrawal from the Calarie Joint Venture. KDL held an interest in EL7023 & ML739 Held through a Farm-in agreement with Tri Origin Mining Pty Ltd and TriAusmin Ltd. On 23rd October 2015, KDL advised the holders of EL7023 and ML839, Tri Origin Mining Pty Ltd and TriAusmin Ltd that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination documentation with Tri Origin Mining Pty Ltd and TriAusmin Ltd was ongoing at 30 June 2016, but was finalised on 26 August 2016 and subject to a final payment by KDL, the parties have agreed that the termination will be effective 23 October 2015.

On 31 August 2016, KDL entered into a loan agreement with Kangni Zou, under which the lender agreed to provide KDL with a loan of renminbi 5 million (A$1.0m). The loan is repayable by 31 July 2017 and has an interest rate of 18% per annum.

On 1 September 2016, Zodiac Resources Pty Ltd entered into an agreement with Augur Resources Limited to terminate the farm in and joint venture agreement between those parties in relation to the Yeoval tenements. The parties agreed to relinquish and cancel the Yeoval tenements. As at the date of this report, the relinquishment and cancellation process is underway. The total value of the asset impairment in the 2016 Consolidated Statement of Profit or Loss and Other Comprehensive Income is A$0.6m. KDL has a 58% shareholding in Zodiac Resources, which has a 75% interest in the project.

On 1 September 2016, KDL released an Investor Presentation which outlined production performance at the Lerala Diamond Mine and a proposed performance improvement plan. Successful implementation of the plan was dependent on certain assumptions, including the raising of A$1.6m for capital expenditure items and spare parts and a further $2.4m for working capital requirements.

On 27 September 2016, KDL entered into two loan agreements with Shuming Zou under which the lender agreed to provide KDL with a loans of approximately USD 1,877,400 and USD 300,000 respectively. The loans have different repayment dates for different tranches of the loans (which fall between the period 31 October 2016 and 31 March 2017) and have interest rates of 15% and 10% per annum respectively.

On 27 September 2016, KDL held an extraordinary general meeting of shareholders, at which two resolutions were put to shareholders and passed. These related to (i) the approval to issue up to 50 million new shares, and (ii) amendments to the loan facility under the Sales Agreement with DDA.

Note 26: Discontinued Operations

On 1 July 2015, the Company's wholly owned Australian subsidiary, Kimberley Diamond Company Pty Ltd ("KDC"), the owner of the Ellendale Diamond Mine in Western Australia, was placed into voluntary administration by its directors. KDC's subsidiaries were also placed into voluntary administration. On 5 August 2015, the creditors of KDC subsequently voted to place KDC and its subsidiaries into liquidation, rejecting a Deed of Company Arrangement proposal put forward by KDL.

	2016 $'000s	2015 $'000s
Loss after income tax expense from discontinued operations		
Revenue	-	63,862
Expenses	-	(77,422)
Loss before income tax	-	(13,560)
Income tax expense	-	(40)
Loss after income tax expense	-	(13,600)
Gain on disposal before income tax	21,663	-
Income tax expense	-	-
Profit/ (loss) after income tax expense from discontinued operations	**21,663**	**(13,600)**
Details of the disposal		
Total sale consideration	-	
Carrying amount of net liabilities disposed	21,663	
Derecognition of foreign currency	-	
Disposal costs	-	
Gain on disposal before tax income	21,663	
Income tax expense	-	
Gain on disposal after income tax	**21,663**	

	2016 $'000s
Carrying amounts of assets and liabilities disposed	
Cash and cash equivalents	59
Trade and other receivables	5,050
Inventories	8,908
Other current assets	(3,644)
Property, plant and equipment	9,235
Other non-current assets	37
Total assets	19,645
Trade and other payables	14,408
Interest bearing liability	591
Provisions	26,309
Total liabilities	41,308
Net liabilities	(21,663)

	2016 $'000s	2015 $'000s
Net cash (used in) / from operating activities	-	4,284
Net cash (used in) / from investing activities	-	(785)
Net cash (used in) / from financing activities	-	(15,495)
Net cash (used in) / from deconsolidation	(59)	-
Net (decrease) / increase in cash and cash equivalents	(59)	(11,996)
Cash and cash equivalents at the beginning of the financial period	-	11,806
Effect of exchange rates on cash holdings in foreign currencies	-	249
Cash and cash equivalents at the end of the financial period	-	59

Note, for 30 June 2015, cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows has been adjusted for $0.639m of restricted term deposits for discontinued operations, reclassified to other financial asset.

10. Independent Auditor's Report

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Kimberley Diamonds Limited

Report on the Financial Report

We were engaged to audit the accompanying financial report of Kimberley Diamonds Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on conducting our audit in accordance with Australian Auditing Standards.

Because of the matters described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for an audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kimberley Diamond Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Basis for Disclaimer of Opinion

As disclosed in note 26 to the financial statements, on 1 July 2015 the directors of Kimberley Diamonds Limited's wholly owned subsidiary, Kimberley Diamond Company Pty Limited ("KDC"), resolved to place KDC and its subsidiaries into voluntary administration. On 5 August 2015, the creditors of KDC voted to place KDC and its subsidiaries into liquidation. Following the appointment of the administrators (and subsequently liquidators), the powers of the directors and officers of KDC and its subsidiaries were suspended and the administrators (and subsequently liquidators) assumed control of these companies' business, property and affairs. Books and records relating to KDC and its subsidiaries were provided to the administrators (and subsequent liquidators) and are not available to the directors. Accordingly, the financial report for the period ended 30 June 2016 has been prepared by the Directors without the benefit of complete information being available for KDC and its subsidiaries.

As a result of the matters outlined above we were unable to determine whether any adjustments might have been necessary in respect of the amounts relating to KDC and its subsidiaries included in the financial performance and cash flows for the year ended 30 June 2016. Whilst we were satisfied with the material accuracy of amounts recorded in the consolidated statement of financial position at 30 June 2016, the impact of the amounts relating to KDC and its subsidiaries in the opening balances and the calculation of the $21.663M gain relating to the discontinuation of KDC and its subsidiaries on the current period financial performance and cash flows prevents us from forming an opinion on the financial report taken as a whole.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

Other matter

The financial report of Kimberley Diamonds Limited. for the year ended 30 June 2015 was audited by another auditor who disclaimed an opinion on that financial report on 30 September 2015.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Basis for qualified opinion on the Remuneration Report

As disclosed in note 26 to the financial statements, on 1 July 2015 the directors of Kimberley Diamonds Limited's wholly owned subsidiary, Kimberley Diamond Company Pty Limited ("KDC"), resolved to place KDC and its subsidiaries into voluntary administration. On 5 August 2015, the creditors of KDC voted to place KDC and its subsidiaries into liquidation. Following the appointment of the administrators (and subsequently liquidators), the powers of the directors and officers of KDC and its subsidiaries were suspended and the administrators (and subsequently liquidators) assumed control of these companies' business, property and affairs. Books and records relating to KDC and its subsidiaries were provided to the administrators (and subsequent liquidators) and are not available to the directors. Accordingly the remuneration report for the year ended 30 June 2016 has been prepared by the Board without the benefit of complete information being available for KDC and its subsidiaries.

As a result of the above matter we are unable to determine whether any adjustments to the information included in the Remuneration report relating to KDC and its subsidiaries up to the date of liquidation.

The Remuneration report of Kimberley Diamonds Limited. for the year ended 30 June 2015 was audited by another auditor who disclaimed an opinion on that Remuneration report on 30 September 2015.

Qualified opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the Remuneration Report of Kimberley Diamonds Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

Gareth Few

Gareth Few
Partner

Sydney, 30 September 2016

3

11. Additional ASX Information

The shareholder information set out below was applicable as at 30 June 2016.

Distribution of equity securities – fully paid ordinary shares

HOLDING RANGES		HOLDERS	TOTAL UNITS	%
1	- 1,000	96	44,959	0.028
1,001	- 5,000	180	567,106	0.352
5,001	- 10,000	249	2,232,471	1.387
10,001	- 100,000	359	12,167,908	7.558
100,001	and over	110	145,974,688	90.675
Totals		994	160,987,132	100.000

- There were 305 holders of less than a marketable parcel of ordinary shares.
- The 20 largest shareholders held 68.874% of Kimberley Diamonds' ordinary shares.

Twenty largest shareholders

	NAME	NUMBER OF ORDINARY SHARES	%
1.	ZHEJIANG HUITONG AUCTION CO LTD	19,041,202	11.828
2.	SHUREN ZOU	9,686,280	6.017
3.	COUNTRY ROSY LIMITED	9,606,929	5.968
4.	HANKING AUSTRALIA PTY LTD	9,054,400	5.624
5.	PACIFIC ROAD CAPITAL MGNT GP LTD AS GENERAL PARTNER OF PACIFIC ROAD RESOURCES FUND LP	8,146,481	5.060
6.	MRS LING WEI DONG	7,480,211	4.646
7.	SUMMIT EQUITIES LIMITED	6,933,334	4.307
8.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	5,747,385	3.570
9.	MR ALEX ALEXANDER& MRS LIANG XIE <ALEXXIE SUPER FUND A/C>	5,085,000	3.159
10.	LIAN ZHONG ZHAO	5,000,000	3.106
11.	GUOJUN ZHOU	4,951,113	3.075
12.	INTERNATIONAL CONVEYORS (ASIA) LTD	3,300,000	2.050
13.	MRS HUAYING XIAO	2,630,417	1.634
14.	EDENBRIDGE INVESTMENTS PTY LTD <NEGLASARI SUPER FUND A/C>	2,514,684	1.562
15.	PACIFIC ROAD CAPITAL A PTY LIMITED	2,306,275	1.433
16.	MS KANGNI ZOU	2,281,258	1.417
17.	YAN XIE	2,000,000	1.242
18.	LIXIN PAN	1,984,750	1.233
19.	MRS MARIANNA DERGUSHINA	1,624,497	1.009
20.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,504,156	0.934
		110,878,372	**68.874**

Substantial Shareholders

NAME	NUMBER OF ORDINARY SHARES	%
Zhejiang Huitong Auction Co Ltd	19,041,202	11.83
Alexandre Alexander and associates	13,048,334	8.11
Shuren Zou	9,686,280	6.017
Country Rosy Limited	9,606,929	5.968
Hanking Australia Pty Ltd	9,054,400	5.624
Pacific Road Capital Management GP Ltd and associates	10,687,310	6.64

The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Unquoted Equity Securities

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Unlisted Options $0.20 Exp. 28 April 2019	12,000,000	3
Unlisted Options $0.20 Exp. 3 June 2018	3,300,000	3
Unlisted Options $0.20 Exp. 7 June 2018	2,000,000	2

12. Tenement Interests

12.1 Tenements Held at 30 June 2016

PROJECT	TENEMENT
Lerala Diamond Mine **Central District, Botswana**	2006/29L
Tilwane JV[1] **Central District, Botswana**	PL267/2013, PL268/2013
Lomero[2] **Andalusia, Spain**	IP14977
Tenby Property[3] **North West Territories, Canada**	3768, 3769, 4138, 4139, 4140, 4142, 4141, 4143, 3760, 3761, 3762, 4097, 4098, 4099, 4100, 4101, 4102, 4103, 4174, 4175, 4176, 4181, 4182, 4183, 4184, 4185, 4186, 4187, 4270, 4269, 4271, 4104, 4105, 4106, 4107, 4108, 4109, 4110, 4432, 4433, 4434, 4234, 4235
Commonwealth Property[4] **North West Territories, Canada**	3763, 3764, 3765, 3766, 4144, 4145, 4111, 4112, 4113, 3770, 3719, 3771, 4114, 3772, 4115, 3773, 4116, 4117, 4118, 4119, 4120, 4121, 4122, 4123, 4124, 4125, 4126, 4127, 4128, 4129, 4130, 4437, 4438, 4439, 4435, 4272, 4177, 4440, 4436, 4441, 4178, 4328, 4442, 4266, 4325, 4267, 4326, 4327, 4268
Trillion Project **Ontario - Canada**	3013666, 4206505, 3013699
Yeoval[5] **NSW, Australia**	EL6311, ML811

12.2 Tenement Interests Disposed Of Between 1 July 2015 and 30 June 2016

PROJECT	TENEMENT
Ellendale Diamond Mine **WA, Australia**	M04/372
Smoke Creek Diamond Project **WA, Australia**	P80/1712, P80/1713, P80/1714, P80/1715, P80/1716, P80/1717, P80/1718, P80/1719, P80/1720, P80/1721, P80/1722, P80/1723, P80/1724, P80/1725, P80/1734, P80/1735, P80/1736, P80/1737, P80/1738, P80/1739, P80/1740, P80/1741
Trillion Project **Ontario - Canada**	30136646, 3013647, 3013648, 3013665, 3013668, 4202624

Notes:

1. 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

2. Lomero: IP 14978 and 14989 are applications with priority assigned to KDL.

3. 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

4. Commonwealth Property: Mantle Diamonds Limited, a wholly owned subsidiary of KDL, will acquire a10% interest in the tenements upon a production decision by the registered owner, Diavik Diamond Mines Incorporated

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

KDL also held an interest in EL7023 & ML739 through a Farm-in agreement with Tri Origin Mining Pty Ltd and TriAusmin Ltd. On 23rd October 2015, KDL advised the holders of EL7023 and ML839, Tri Orgin Mining Pty Ltd and TriAusmin Ltd that it had decided to withdraw from the Calarie farm-in. Finalisation of the termination documentation with Tri Orgin Mining Pty Ltd and TriAusmin Ltd was ongoing at 30 June 2016, but was finalised on 26 August 2016 and subject to a final payment by KDL, the parties have agreed that the termination will be effective 23 October 2015.

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