

MARKET UPDATE

1 November 2016

**CAPITAL DIAMONDS BOTSWANA DEFAULTS OFFTAKE AGREEMENT WITH LERALA DIAMOND MINES LIMITED**

On 6 October 2016, Lerala Diamond Mines Limited ("**Lerala**"), a subsidiary of Kimberley Diamonds Limited ("**KDL**"), had entered into an offtake sales agreement with **Alpha Capital (Pty) Ltd** trading as **Capital Diamonds Botswana** ("**Capital Diamonds**"), a Botswana based company for the sales of all diamonds produced by Lerala Diamond Mine in a period of 6 months.

KDL would like to provide the following update:

- To date, Capital Diamonds has failed to make payment for the first parcel of diamonds it had agreed to acquire under the offtake agreement despite numerous written acknowledgements that the payment is due as well as numerous written promises from Capital Diamonds that the payment will be made without any further delay.
- As a result, Lerala served Capital Diamonds with a notice of default in relation to the first parcel of diamonds which required Capital Diamonds to make payment no later than 28 October 2016. No such payment has been received to date and **Capital Diamonds is in default** in relation to payment for the first parcel of diamonds.
- Lerala now intends to sell the defaulted first parcel through the upcoming DDA tender and commence legal action against Capital Diamonds for damages and false representations.
- Lerala reserves all rights in relation to the remaining supply of diamonds under the offtake sales agreement with Capital Diamonds.