



**LUCAPA**  
DIAMOND COMPANY

ASX Announcement

26 July 2013

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## **MANAGING DIRECTOR'S ADDRESS**

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**Lucapa Diamond Company Limited (ASX: LOM)** advises that the Managing Director's Address attached to this announcement will be presented to shareholders at today's Annual General Meeting, to be held at 11.00am WST at the Celtic Club, 48 Ord Street, West Perth.

For further information please contact:

**MILES KENNEDY**  
**MANAGING DIRECTOR**

Tel +61 8 9489 9200

Thank you Mr Chairman. Welcome Ladies and Gentlemen.

I have said this before, and undoubtedly I will unfortunately have to say it again, but it is becoming increasingly more difficult for us as a Board to match the ever increasing requirement of investors for constant news flow and information, against the generally glacial pace of diamond exploration, exasperated by working in a remote region of Angola where basic communication is often very difficult, and Angola generally where First World concepts of time have no meaning or understanding. This manifests itself in our investors, or some of them, asking for news which we most often simply do not have and cannot often get for extended periods of time. This in turn gives rise to frustration and annoyance on both sides and I take the opportunity to apologise for that, but to say it is often simply beyond our control.

Let me give you an example which I hope will illustrate the point I am trying to make. As you will know, we recovered a magnificent 131.4 carat diamond from the Lulo Diamond Concession in August 2012. By September we had this single stone valued at over US\$3.5 million where the independent valuer raised the possibility it might be a rare Type IIa diamond, which are among the world's top gems.

We had difficulty in sourcing the machine to verify whether it was a Type IIa diamond. However, in March 2013 we were able to buy a Yehuda colorimeter machine which not only confirmed the 131.4 carat diamond was indeed a Type IIa, but that other large diamonds we had recovered from Lulo, including 53.2 and 22.13 carat stones, were also in the same category. At the same time we were delighted to announce that agreement had been reached with our Angolan Government owned Joint Venture partner, Endiama, that the diamonds we had recovered could be sold in April 2013 under a profit sharing agreement, where we would actually derive more than our percentage of the alluvial joint venture, which as you know is a 40% interest. All diamond sales in Angola are actually conducted by another Angolan Government agency, called SODIAM. We were advised that the diamonds would have to be valued by the Government Valuer, before the sale could occur. All the diamonds were then removed from the safe at the Lulo site, to Endiama's premises in the capital city of Luanda. This was to enable the Government Valuer to assess their value in a process designed to ensure that in any tender, the Government Valuer's price effectively became the "floor price", or the price below which SODIAM would not allow the sale.

We then waited with much anticipation to hear what value the Government Valuer had placed on the 131.4 carat stone, and indeed the entire parcel of diamonds recovered from Lulo, which now exceeds 500 carats. However, nothing happened in April. We made repeated attempts to contact the Government Valuer, who was frequently away from Luanda. Finally he was able to tell us, that as he had not previously seen or valued Type IIa diamonds, it would be necessary for him to seek independent

advice and we understood foreign assistance to value the parcel of Lulo diamonds. This process was delayed through May and into June, despite constant and ongoing requests from us.

Then, in June this year, we were advised for the first time that we required authorisation from the Ministry of Geology and Mines in Angola to sell the diamonds. We immediately made this application and have since received authorisation to sell the diamonds through SODIAM.

We had hoped to report to you today with news of the diamond sale, the value obtained and the date at which Lucapa could expect to receive its share of the sale proceeds.

However, while this could not be achieved by the time this Annual Meeting commenced at 11am, we can report that a meeting has been scheduled in Luanda for this evening, Perth time, between SODIAM and the Lulo joint venture partners, including Lucapa's representative John Firth.

While we have endured months of delays and frustrations with the diamond sale process, we remain hopeful that the meeting scheduled for this evening (Perth time) in Luanda will advance the situation and lead to the long-awaited sale of the Lulo diamonds. As you will appreciate from what has occurred during the process to date, there is certainly no guarantee that outcome will be achieved.

The difficulties and frustrations we have faced regarding the drawn-out diamond sale process have raised the issue of sovereign risk.

We note with much interest comments made by Government officials at the recent Angola Diamond Conference in Luanda that the country was keen to encourage foreign investors to help develop huge potential diamond reserves – which is precisely what Lucapa is seeking to achieve.

Irrespective of the outcome of this evening's meeting in Luanda, I propose to write to the Australian Ambassador to Angola, so that he, or our Trade Commissioner, can seek to establish whether we, as a junior diamond explorer, are indeed welcome in Angola.

The spectre of sovereign risk for Lucapa was certainly not evident in mid-2012, when your Board met with two high ranking Angolan people over a number of days. We emerged from those frank and blunt discussions greatly encouraged by what we had heard, and which most certainly at that time alleviated any concerns we may have had with regard to the question of any sovereign risk as a junior explorer operating in Angola.

It was clearly conveyed to us during those discussions that foreign organisations far richer and infinitely more powerful than us had sought to gain ownership of the Lulo Diamond Concession, but that the Government of Angola at every level had made it abundantly clear that our ownership was secure.

The hope was expressed that the ties between Australia and Angola would strengthen and expand over time. It was made clear to us that the Government expected us to honour one of the original commitments made by this Company (then known as Nare Diamonds) when the Lulo Concession was originally granted in 2008, namely that the 3,000km<sup>2</sup> concession had to have an aeromagnetic survey flow over its entirety. We have since honoured that overdue commitment, discovering the priority Se251 kimberlite in the process.

There have been some comments regarding the renewal of our kimberlite licence at Lulo. As we have reported, Lucapa's application to the Ministry of Geology and Mines to extend the kimberlite licence for a further two years until June 2015 was recommended by our joint venture partner Endiama. It should be noted that the extension for our alluvial licence at Lulo was approved in March 2013, some three months after it had expired.

Given that we have honoured our obligations in Angola, it is very difficult to adequately express the Board's concern regarding the sale of these diamonds, the delays and frustrations associated with the process and the collateral decisions we have had to reach.

We firmly believe that this Lulo Concession represents one of the greatest diamond opportunities anywhere in the world. Our very experienced Technical Director David Jones will tell you that he regards the new pipe or pipes which comprise Se251 to be the most likely source of the valuable alluvial diamonds we have recovered at Lulo, which are in themselves magnificent diamonds.

However, our view of the Lulo Diamond Concession must be measured against the spectre of sovereign risk – which appears to have increased since we discovered the 131.4 carat diamond in August 2012 and more recently identified Se251 as the potential source of the valuable alluvial diamonds we continue to recover at Lulo.

In light of those concerns, we have taken the view that without the diamond sale – which is allowed and approved under Angolan law – and the receipt by Lucapa of its share of the proceeds, we will not continue our work on the ground at Lulo until such time as this critical issue is resolved.

If, in the next few weeks, the diamond sale process can proceed, we will immediately apply our share of the funds to completing the commissioning of the new 50 tonne per hour Dense Media Separation diamond plant and continuing our exploration program on the priority Se251 kimberlite pipe.

I want to conclude this address by saying that this Board is certainly not immune to the various forms of criticism that are conveyed to us. And while we have encountered the sorts of concerns and frustrations which I have highlighted, we have maintained our unwavering confidence in the Lulo Diamond Project.

**Miles Kennedy**  
**Managing Director**  
**Lucapa Diamond Company Ltd**  
**Perth, Western Australia**

**26 July 2013**