Lucapa Diamond Company Limited
Financial Report for the year ended 28 February 2013

ASX Code: LOM

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Competent Person's Statement

Information in this report that relates to exploration results, mineral resources or ore reserves is based on information compiled by David Jones BSc (Hons) MSc of Ascidian Prospecting Pty Ltd, who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Jones is a director of Lucapa Diamond Company Limited. Mr Jones has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves. Mr Jones consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The directors present their report together with the financial report of Lucapa Diamond Company Limited (the **Company** or **Lucapa**) and of the Group, being the Company and its jointly controlled entity, for the financial year ended 28 February 2013 and independent auditor's report thereon.

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name	Position	Date of appointment	Date of resignation
M Kennedy	Chief Executive Officer	12 September 2008	-
D Jones	Exploration Director	26 February 2010	-
G Gilchrist	Non-executive Chairman	27 March 2012	-
D Lenigas	Non-executive Chairman	21 August 2006	27 March 2012
G White	Non-executive Director	1 July 2007	27 March 2012

The qualifications, experience and other directorships of the directors in office at the date of this report are:

Miles Kennedy
Chief Executive Officer

Mr Kennedy has held directorships of Australian listed resource companies for the past 29 years. He is Chairman of Resource and Investment NL and MOD Resources Ltd. Mr Kennedy was Chairman of Sandfire Resources NL, Kimberley Diamond Company NL, Blina Diamonds NL, Macraes Mining Company Ltd and has extensive experience in the management of public companies with specific emphasis in the resources industry. He lives in Perth, Western Australia.

David Jones
Exploration Director

Mr Jones is one of Australia's most experienced and successful diamond exploration geologists. He began his diamond exploration career in 1976 as part of the Ashton Joint Venture team conducting regional exploration programs in the Kimberley including preliminary exploration in the Ellendale Field. He has held senior exploration and management positions with a number of diamond exploration companies including Ashton Mining, Cluff Resources, Metana Minerals, Western Reefs, Kimberley Diamond Company NL and was Managing Director of Blina Diamonds NL. He lives in Perth, Western Australia.

Gordon Gilchrist
Non-executive Chairman

Mr Gilchrist holds a MSc in Business and MA in Physics. In 1993, Mr Gilchrist was appointed Managing Director of Argyle Diamond Mines in Western Australia, a position he held until 2002. During that time, Argyle grew to become the world's biggest diamond producer, by volume. Mr Gilchrist then became the founding Managing Director of Rio Tinto Diamonds, based out of Antwerp in Belgium, and served in that capacity until 2005. He lives in Perth, Western Australia.

Mr David Lenigas was Non-executive Chairman during the year until his resignation on 27 March 2012 and Mr Geoffrey White was a Non-executive director during the year until his resignation on 27 March 2012.

2. Company Secretary

Mr Mark Clements was appointed to the position of Company Secretary on 2 July 2012. Mr Clements holds a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Institute of Chartered Accountants of Australia. Mr Clements is also a member of the Australian Institute of Company Directors and an affiliated member of the Institute of Chartered Secretaries in Australia.

Mr Clements replaces Ms Jean Mathie who retired from the position on 2 July 2012.

3. Directors' meetings

There were two directors' meetings held during the year which were attended by Gordon Gilchrist, David Jones and Miles Kennedy. There were 6 other occasions when resolutions of the Board were made by circular resolution.

4. Nature of operations and principal activities

The Group's principal activity during the course of the financial year was the exploration of diamond projects in Angola.

5. Operating and financial review

The consolidated loss for the year ended 28 February 2013 was $2,327,826 (2012: $1,268,813). The total comprehensive income for the period attributable to owners of the Group for the year ended 28 February 2013 was loss of $2,013,689 (2012: loss of $2,146,719).

Lulo Diamond Concession

Lucapa Diamond Company Limited is the operator of the Lulo Diamond Concession in Angola. Lulo covers an area of 3,000km^2 and is located in the Cuango River Basin within Angola's Lunda Norte Province.

Lulo hosts a major kimberlite field identified within the concession and extensive diamond-bearing alluvials occurring along the Cacuilo and Lulo Rivers. Lulo is located about 150km west of the world-class Catoca diamond mine operated by Russia's Alrosa.

After more than four years of regional exploration and surface sampling, Lucapa commenced the most critical exploration phase at Lulo in late 2012. This phase involves the drilling, excavating and bulk sampling of priority kimberlite targets to find the source, or sources, of the alluvial diamonds recovered to date from Lulo, including rare Type IIa gems of up to 131.4 carats.

The Lulo Project is operated as a joint venture between Lucapa and the Government-owned diamond company Endiama, which is the exclusive concessionary for Angolan diamond mining rights. Under the joint venture arrangement, Lucapa holds a 40 per cent interest in the concession relating to alluvials (39 per cent for kimberlites), with Endiama and private Angolan interests holding the balance. Lucapa is the manager and operator on the concession and funds all exploration activities.

In March 2013, Lucapa announced that the alluvial licence for the Lulo concession had been renewed for a further two years until December 2014. Lucapa anticipates that the kimberlite exploration licence also will be renewed by a further two years until June 2015.

Alluvial and Kimberlite Diamond Programs

Lucapa continues to conduct both alluvial and kimberlite diamond evaluation programs at the Lulo concession.

The highlight of the Company's alluvial operations was the recovery of a 131.4 carat diamond from the BLK_08 bulk sample in August 2012. This diamond is the biggest recovered at Lulo since Lucapa began treating alluvial gravels through its Dense Media Separation (DMS) diamond recovery plant in 2010.

In September 2012, Independent Diamond Valuers Pty Ltd (IDV) completed a valuation of a parcel of diamonds recovered by Lucapa from its alluvial sampling programs at Lulo. The IDV valuation ascribed a total value of $US3.91 million to 292 diamonds, weighing 495.7 carats. This included a valuation of $US3.51 million on the 131.4 carat stone.

In March 2013, Lucapa received confirmation that the 131.4 carat stone was a Type IIa gem, which are the world's rarest and most valuable tier of diamonds. In addition, two other large stones recovered from Lulo – weighing 53.2 carats and 22.13 carats – were also confirmed as being Type IIa diamonds by independent Johannesburg-based firm G2 Squared Diamond Consultants.

While the joint venture with Endiama stipulates that Lucapa must secure a Mining Licence before selling any of the diamonds recovered from Lulo, Lucapa was able to negotiate with Endiama to offer the Lucapa diamonds for sale. As announced on 22 May 2013, Lucapa was seeking clarification from officials in Angola regarding the timing and process for the proposed sale of the alluvial diamonds recovered from Lulo.

Lucapa's kimberlite evaluation program, which began in late 2012, involves the use of a Bauer drilling rig imported from South Africa to test more than 60 priority kimberlite targets at Lulo.

Bauer's Prakla drill is a multi-purpose rig that can drill both narrow-diameter core (or diamond) holes and wide-diameter reverse circulation holes. The core holes are designed to locate the kimberlite, while wide-diameter RC holes are drilled to collect small bulk samples of the kimberlite to test for diamonds through the Company's DMS plant.

This program aims to find the kimberlite source, or sources, of the alluvial diamonds recovered from the Lulo concession, including the rare Type IIa gems.

While a particularly heavy wet season hampered exploration progress at Lulo in early 2013, Lucapa achieved another significant milestone with the recovery of the first commercial-sized diamond from a kimberlite source. Weighing 0.6 carats, the diamond was recovered from the Se019 kimberlite target.

In May 2013, Lucapa's list of priority kimberlite targets was expanded following the completion of a new aeromagnetic survey flown over approximately two-thirds of the Lulo concession which was not included in the original 2008 survey.

Critically, this new aeromagnetic survey also covered a 70km^2 strip near where Lucapa has been recovering its alluvial diamonds. This strip could not be properly flown in 2008, mainly because of garimpeiro activity.

This survey revealed eight new targets within the 70km^2 strip with magnetic signatures consistent with known kimberlites. The most significant of these features is Se251, which has emerged as Lucapa's highest priority kimberlite target.

Se251 is the potentially the biggest kimberlite identified to date at Lulo with an estimated surface area of ~150 hectares. Its large size and central location adjacent to, and within, the main alluvial workings of the Cacuilo Valley suggest Se251 could be the potential source of the alluvial diamonds recovered from this area.

As at 22 May 2013, Lucapa had drilled five core holes in the northern and central parts of Se251, with all holes encountering kimberlitic material. The first large diameter hole was being drilled adjacent to one of those core holes, with sample from that hole to be processed through Lucapa's DMS plant.

In addition to the eight new targets identified from the 70km^2 strip, preliminary data from the aeromagnetic survey flown by Fugro Airborne Surveys over the remaining two-thirds of the concession revealed multiple new targets with magnetic signatures consistent with known kimberlite pipes. Lucapa will undertake a thorough review and interpretation of the survey results when the final data becomes available from Fugro.

In May 2013, Lucapa achieved another milestone when trucks carrying the remainder of the Company's new 50 tonne per hour DMS plant began arriving at Lulo, where Lucapa is completing site works. This followed unforeseen delays experienced in unloading the containers from the port in the Angolan capital of Luanda after shipping from South Africa.

Lucapa hopes to have the new DMS plant operational by the end of June 2013. This will alleviate the main sample processing bottleneck at Lulo, which is the capacity of the Company's existing DMS plant, which is a small second-hand unit which was re-commissioned on-site at Lulo in September 2010.

Review of financial condition

For the year ended 28 February 2013 the Group recorded a loss of $2,013,689 as at 28 February 2013 had net assets of $25,774,178.

The Group is focused on its Angolan diamond exploration interests in the Lulo Project. This project requires ongoing exploration work and funding. Based on the cash flow forecasts, the directors are satisfied that the going concern basis of preparation is appropriate.

Significant changes in the state of affairs

Corporate

The Company completed the following issued capital and option transactions during the period.

Transaction	Number	Issue/exercise price	Funds raised	Option expiry
Issue of shares	872,922,864	$0.01	$8,729,228.64	-
Issue of shares	636,873,485	$0.009	$5,731,861.37	-
Exercise of options	30,000	$0.02	$600.00	-
Issue of options	1,257,922,864	$0.02	-	2 December 2013
Issue of options	25,000,000	$0.03	-	2 December 2014
Issue of options	125,000,000	$0.019	-	25 September 2014
Expiry of options	135,629,982	$0.15	-	30 June 2012
Expiry of options	19,750,000	$0.50	-	30 September 2012

6. Dividends

No dividends were paid or declared during the current or prior financial year.

7. Environmental regulation

The Group's exploration activities are subject to various environmental regulations. The Board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations. The Group is committed to achieving a high standard of environmental performance and conducts its activities in a professional and environmentally conscious manner and in accordance with applicable laws and permit requirements. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company and the Group.

8. Events subsequent to reporting date

On 12 March 2013 the Company announced that the licence covering alluvial diamond exploration at the 3,000km^2 Lulo Diamond Concession in Angola had been renewed for a further 2 years until December 2014.

On 19 March 2013 the Company announced that its Lulo Diamond Concession in Angola had been confirmed as hosting Type IIa diamonds, which are the world's rarest and most valuable gems.

On 9 April 2013 the Company announced that Fugro Airborne Surveys commenced flying the new aeromagnetic survey over the Lulo Diamond Concession in Angola. The survey is being flown over approximately two-thirds of the 3,000km^2 Lulo concession which was either not flown in a previous aeromagnetic survey flown by the company in 2008 or where the magnetic data from the survey was inadequate.

On 1 May 2013 the Company advised that preliminary data from the new aeromagnetic survey currently being flown over the Lulo Diamond Concession in Angola had identified eight new kimberlite targets. The data provided to the Company from Fugro Airborne Surveys to date is from a 70km^2 strip of the Lulo concession near where Lucapa has recovered diamonds of up to 131.4 carats from its alluvial sampling operation.

On 22 May 2013 the Company announced further significant progress at its Lulo Diamond Concession in Angola, including drilling of the highest priority Se251 kimberlite target and the long awaited arrival on site at Lulo of containers with the remainder of the Company's new 50 tonne per hour Dense Media Separation diamond recovery plant.

Other than the above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

9. Likely developments

Expected results of certain operations of the Group and likely developments in those operations are included within this Directors' Report. Disclosure of any further information has not been included in this Directors' Report because, in the opinion of the directors, to do so would result in unreasonable prejudice to the Group.

10. Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the Group and other related bodies corporate, as notified by the directors to the ASX in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is as follows.

	Ordinary shares	Options over ordinary shares		
Director	**Fully paid**	**Expiring 2 Dec 2013**	**Expiring 1 Aug 2013**	**Expiring 2 Dec 2014**
M Kennedy	36,500,000	16,000,000	-	-
D Jones	3,312,500	-	10,000,000	-
G Gilchrist	875,000	25,000,000	-	25,000,000

11. Share options

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares	Quoted
2 December 2013	$0.02	1,658,701,535	1,658,701,535
1 August 2013	$0.02	30,000,000	-
2 December 2014	$0.03	25,000,000	-
25 September 2014	$0.019	125,000,000	-

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Options granted to directors and executives of the Company

During or since the end of the financial year, the Company has granted the following options to directors of the company;

Director	Expiring 2 Dec 2013 $0.02	Expiring 2 Dec 2014 $0.03
G Gilchrist	25,000,000	25,000,000

Share options

The following options over ordinary shares were issued by the Company during or since the end of the financial year.

Expiry date	Exercise price	Number of shares	Quoted
2 December 2013	$0.02	1,257,922,864	1,257,922,864
2 December 2014	$0.03	25,000,000	-
25 September 2014	$0.019	125,000,000	-

Exercise of options

The following options over ordinary shares were exercised during or since the end of the financial year.

Expiry date	Exercise price	Number of shares
2 December 2013	$0.02	30,000

Lapse of options

The following options over ordinary shares lapsed during or since the end of the financial year.

Expiry date	Exercise price	Number of shares
30 June 2012	$0.15	135,629,982
30 September 2012	$0.50	19,750,000

12. Remuneration report – audited

12.1 Principles of compensation

Key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company.

Compensation levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced directors and executives. The directors of the Company obtain independent advice on the appropriateness of compensation packages of both KMP given trends in comparative companies both locally and internationally, and the objectives of the Company's compensation strategy.

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages include a mix of fixed compensation, equity-based compensation as well as employer contributions to superannuation funds.

Shares and options may only be issued to directors subject to approval by shareholders in general meeting.

Fixed compensation

Fixed compensation consists of base compensation, determined from a market review, to reflect core performance requirements and expectations of the relevant position and statutory employer contributions to superannuation funds. Compensation levels are reviewed periodically by the remuneration committee through a process that considers individual, segment and overall performance of the Group.

Directors' fees

Total compensation for directors and non-executive directors is set based on advice from external advisors with reference to fees paid to other directors of comparable companies. Directors' fees are presently limited to a total of $950,000 per annum, excluding the fair value of any options granted. Directors' fees cover all main Board activities and membership of any committee. The Board has no established retirement or redundancy schemes in relation to directors.

Use of remuneration consultants

The Company did not employ the services of any remuneration consultants during the financial year ended 28 February 2013.

Equity-based compensation (Long term incentive)

A director – Mr Gilchrist – was issued fifty million options during the year as part of his contracted remuneration package. Half of these options are listed, exercisable at $0.02, and will expire on 2 December 2013. The remainder are unlisted, exercisable at $0.03, and will expire on 2 December 2014. For further details, please see section 12.2 (Directors' and executives' remuneration).

Short-term and long-term incentive structure and consequences of performance on shareholder wealth

Given the Company's principal activity during the course of the financial year consisted of exploration and evaluation of mineral resources, the Board has given more significance to service criteria instead of market related criteria in setting the Company's incentive schemes. Accordingly, at this stage the Board does not consider the Company's earnings or earning measures to be an appropriate key performance indicator. The issue of options as part of the remuneration package of directors is an established practice for listed exploration companies and has the benefit of conserving cash whilst appropriately rewarding the directors. In considering the relationship between the Company's remuneration policy and the consequences for the Company's shareholder wealth, changes in share price are analysed.

Service contracts

Miles Kennedy

Mr Kennedy has been engaged to act as the Company's Chief Executive Officer. Mr Kennedy is entitled to receive director fees of $200,000 (gross) per annum which is subject to review by the Board from time to time. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due.

David Jones

Mr Jones has been engaged to act as the Company's Exploration Director. Mr Jones is entitled to receive director fees of $48,000 (gross) per annum, which is subject to review by the Board from time to time. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due.

Gordon Gilchrist

Mr Gilchrist has been engaged to act as the Company's Non-executive Chairman. Mr Gilchrist is entitled to receive director fees of $120,000 (gross) per annum which is subject to review by the Board from time to time. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due. The contract term is three years from the date of inception.

All service contracts noted above are subject to no notice periods for termination and, except as otherwise noted, have no fixed terms.

12. Remuneration report – audited (continued)

12.2 Directors' and executives' remuneration

Details of the nature and amount of each major element of remuneration (in $AUS) of each key management person of the Group are:

Key management personnel		Short-term benefits	Post employment benefits	Equity-settled share based payments	**Total**	Proportion of remuneration performance related %	Value of options as portion of remuneration %
		Salary & fees	Superannuation benefits	Options (A)			
Executive directors							
Mr Miles Kennedy,	2013	182,532	16,428	-	**198,960**	-	-
Chief Executive Officer	2012	201,880	21,056	-	222,936	-	-
Mr David Jones,	2013	48,000	-	-	**48,000**	-	-
Executive Technical Director	2012	48,000	-	-	48,000	-	-
Non-executive directors							
Mr Gordon Gilchrist,	2013	103,877	9,349	172,991	**286,217**	-	60.44%
Non-executive Chairman (appointed 27 March 2012)	2012	-	-	-	**-**	-	-
Former directors							
Mr David Lenigas,	2013	69,703	-	-	**69,703**	-	-
Chairman (resigned 27 March 2012)	2012	50,574	-	-	50,574	-	-
Mr Geoffrey White	2013	50,693	-	-	**50,693**	-	-
Non-executive Director (resigned 27 March 2012)	2012	36,781	-	-	36,781	-	-
Total	**2013**	**454,805**	**25,777**	**172,991**	**653,573**	**-**	**-**
	2012	337,235	21,056	-	358,291	-	-

Notes in relation to the table of directors' and executive officers' remuneration

(A) The fair value of the options are calculated at the date of grant using the Black-Scholes option valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The values disclosed are the portion of the fair value of the options allocated to each reporting period. See 12.3.2 for further details.

12. Remuneration report – audited (continued)

12.3 Equity instruments

All options refer to options over ordinary shares of Lucapa Diamond Company Limited, which are exercisable on a one-for-one basis.

12.3.1 Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person are detailed below.

Director	Granted in year $ (A)	Value of Options exercised in year $	Lapsed in year $
M Kennedy	-	-	-
D Jones	-	-	-
G Gilchrist	172,991	-	-

12.3.2 Options and rights granted

	Grant Details			For the financial year ended 28 February 2013					Overall		
	Date	No.	Value ($)	Exercised No.	Exercised $	Lapsed No.	Lapsed $	Vested No.	Vested %	Unvested %	Lapsed %
Company KMP			(Note 1)								
G Gilchrist	23 August 2012	25,000,000	78,329	-	-	-	-	-	100	-	-
G Gilchrist	23 August 2012	25,000,000	94,662	-	-	-	-	-	100	-	-
			172,991	-	-	-	-	-			

Note 1 The value of options granted as remuneration and as shown in the above table has been determined in accordance with applicable Australian Accounting Standards

12. Remuneration report – audited (continued)

Description of options/rights issued as remuneration

Details of the options granted as remuneration to those KMP listed in the previous table are as follows;

Grant Date	Entitlement on exercise	Dates exercisable	Exercise price ($)	Value per option at grant date ($)	Amount paid/payable by recipient ($)
23 Aug 2012	1:1 ordinary fully paid LOM shares	2 Dec 2013	0.02	0.003	0.00
23 Aug 2012	1:1 ordinary fully paid LOM shares	2 Dec 2014	0.03	0.004	0.00

End of audited section

13. Indemnification and insurance of officers and auditors

The Company has entered into deeds of indemnity, insurance and access (Deeds) with each of its directors. Under these Deeds, the Company indemnifies each director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties (unless the liability arises out of conduct involving lack of good faith), and in successfully defending legal and administrative proceedings and applications for such proceedings. The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavour to insure that a director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

The Company has during and since the end of the year, in respect of any person who is an officer of the Company or a related body corporate, paid a premium in respect of Directors and Officer liability insurance which indemnifies directors, officers and the Company of any claims made against the directors, officers of the Company and the Company, except where the liability arises out of conduct involving a lack of good faith and subject to conditions contained in the insurance policy. The directors have not included details of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

The Company has not entered into any agreement to indemnify the auditors against any claims by third parties arising from their reports on the Financial Report for the years ended 28 February 2013 and 29 February 2012.

14. Non-audit services

During the year, Somes Cooke, the Company's auditors, have not performed any other services for the Company or Group in addition to their statutory audit and as a result the directors are satisfied that auditors have not compromised the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid to the current auditor of the Company, Somes Cooke, are set out below:

Consolidated - in AUD	2013	2012
Audit services:		
Audit and review of financial reports	33,250	37,300
	33,250	**37,300**

15. Auditor's independence declaration

The Lead auditor's independence declaration, as set out on the following page, forms part of the directors' report for the financial year ended 28 February 2013.

Signed in accordance with a resolution of the directors, on behalf of the directors

MILES KENNEDY
CHIEF EXECUTIVE OFFICER

Dated this 27th day of May 2013.

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Business Consultants
Financial Advisors

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Lucapa Diamond Company Limited

As auditor for the audit of Lucapa Diamond Company Limited for the year ended 28 February 2013, I declare that, to the best of my knowledge and belief, there have been:

a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) No contraventions of any applicable code of professional conduct in relation to the audit.

Somes Cooke

Somes Cooke

K Somes

Kevin Somes
Perth
27 May 2013

		Consolidated	
In AUD	**Note**	**2013**	**2012**
Finance income	7	30,273	25,538
Consulting expenses		(15,945)	(116,090)
Depreciation expense		(3,579)	(4,655)
Employee benefits expenses	5	(1,587,811)	(625,661)
Other expenses	6	(750,764)	(547,945)
Loss before income tax		(2,327,826)	(1,268,813)
Income tax expense	9	-	-
Loss after income tax for the year		(2,327,826)	(1,268,813)
Other comprehensive income			
Items that may be re-classified to profit or loss			
Exchange differences on translation of foreign jointly controlled entity		314,137	(877,906)
Total other comprehensive income for the year		314,137	(877,906)
Total comprehensive income for the year attributable to owners of the company		(2,013,689)	(2,146,719)
Loss per share			
Basic (loss) per share (cents)	10	(0.09)	(0.09)
Diluted (loss) per share (cents)	10	(0.09)	(0.09)

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

		Consolidated	
In AUD	**Note**	**2013**	**2012**
Assets			
Cash and cash equivalents	18a	2,623,512	6,032,728
Trade and other receivables	11	65,018	97,192
Other assets	12	702,918	223,233
Total current assets		3,391,448	6,353,153
Other receivables	11	13,517,632	6,048,472
Deferred exploration costs	13	7,248,046	4,753,493
Property, plant and equipment	14	2,606,044	635,202
Total non-current assets		23,371,722	11,437,167
Total assets		26,763,170	17,790,320
Liabilities			
Trade and other payables	15	988,992	1,262,902
Other liabilities	16	-	3,697,500
Total current liabilities		988,992	4,960,402
Total liabilities		988,992	4,960,402
Net assets		**25,774,178**	**12,829,918**
Equity			
Share capital	17	61,836,670	48,472,073
Reserves	17	1,700,013	2,761,052
Accumulated losses		(37,762,505)	(38,403,207)
Total equity		**25,774,178**	**12,829,918**

The statement of financial position is to be read in conjunction with the accompanying notes.

In AUD	Share capital	Reserves	Accumulated losses	Total
Consolidated				
Balance at 1 March 2011	**45,180,526**	**6,401,958**	**(39,897,394)**	**11,685,090**
Total comprehensive income for the year				
Loss for the year	-	-	(1,268,813)	(1,268,813)
Other comprehensive income	-	(877,906)	-	(877,906)
Total comprehensive income for the year	-	(877,906)	(1,268,813)	(2,146,719)
Transactions with owners, recorded directly in equity				
Issue of share capital	4,008,086	-	-	4,008,086
Expiry of options	-	(2,763,000)	2,763,000	-
Share issue expenses	(716,539)	-	-	(716,539)
Total transactions with owners	3,291,547	(2,763,000)	2,763,000	3,291,547
Closing balance at 29 Feb 2012	**48,472,073**	**2,761,052**	**(38,403,207)**	**12,829,918**
Balance at 1 March 2012	**48,472,073**	**2,761,052**	**(38,403,207)**	**12,829,918**
Total comprehensive income for the year				
Loss for the period	-	-	(2,327,826)	(2,327,826)
Other comprehensive income	-	314,137	-	314,137
Total comprehensive income for the year	-	314,137	(2,327,826)	(2,013,689)
Transactions with owners, recorded directly in equity				
Issue of share capital	14,459,305	-	-	14,459,305
Exercise of options	600	-	-	600
Expiry of options	-	(2,968,528)	2,968,528	-
Share issue expenses	(1,095,308)	-	-	(1,095,308)
Share based payments	-	1,593,352	-	1,593,352
Total transactions with owners	13,364,597	(1,375,176)	2,968,528	14,957,949
Closing balance at 28 Feb 2013	**61,836,670**	**1,700,013**	**(37,762,505)**	**25,774,178**

The statement of changes in equity is to be read in conjunction with the accompanying notes.

		Consolidated	
In AUD	**Note**	**2013**	**2012**
Cash flows from operating activities			
Cash paid to suppliers and employees		(1,875,903)	(1,091,164)
Interest received		30,273	25,538
Net cash used in operating activities	18b	(1,845,630)	(1,065,626)
Cash flows from investing activities			
Payments for exploration costs		(2,370,021)	(2,991,451)
Purchases of property, plant and equipment		(2,578,639)	-
Net cash used in investing activities		(4,948,660)	(2,991,451)
Cash flows from financing activities			
Proceeds from investors for share capital	16,17	10,761,805	7,705,586
Proceeds from exercise of options	17	600	-
Proceeds from issue of options	17	30,000	-
Share issue costs	17	(252,308)	(202,810)
Funds advanced to Lulo JV		(7,155,023)	-
Net cash from financing activities		3,385,074	7,502,776
Net (decrease)/increase in cash and cash equivalents		(3,409,216)	3,445,699
Cash and cash equivalents at beginning of year		6,032,728	2,587,029
Cash and cash equivalents at end of year	18a	2,623,512	6,032,728

The statement of cash flows is to be read in conjunction with the accompanying notes.

1. Reporting entity

Lucapa Diamond Company Limited (the 'Company') is a company domiciled and incorporated in Australia. The address of the Company's registered office is 34 Bagot Road, Subiaco WA 6008. The consolidated financial statements of the Group as at and for the year ended 28 February 2013 comprise the Company and its jointly controlled entity (together referred to as the 'Group'). The Group is primarily involved in the exploration of diamond projects in Africa, specifically Angola.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on the date of the directors' report.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for equity settled share-based payments. The methods used to determine fair values of equity settled share-based payments are discussed further in note 3. The consolidated financial statements have been prepared on the going concern basis.

Going concern basis

As at the date of this financial report, the Group had approximately $0.95 million of cash and cash equivalents. The going concern basis is dependent upon the Group realising proceeds from the sale of the diamonds recovered from the Lulo Diamond Concession or raising funds via alternative means to enable it to repay its debts as and when they fall due.

In the directors' opinion, at the date of signing the financial report, there are reasonable grounds to believe that this will be achieved, and the directors have therefore prepared the financial statements on the going concern basis. Should funds not be raised, there is significant uncertainty as to whether the Company will be able to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability or classification of recorded assets or the amounts or reclassification of liabilities, which might be necessary should the Company not be able to continue as a going concern.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian Dollars, which is the Company's functional currency. The functional currency of the Lulo Diamond joint venture is US Dollars (USD).

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3(s).

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Groups interest in the joint venture entity is accounted for using the proportionate consolidation method of accounting. The Group recognises its interests in the assets that it controls and the liabilities that it incurs and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture, classified according to the nature of the assets, liabilities, income and expense.

Transactions with the joint ventures are eliminated to the extent of the Groups ownership interest until such time as they are realised by the joint venture entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(b) Foreign currency

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on retranslation are recognised in the statement of comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

When a foreign operation is disposed of in part or in full, the relevant amount in equity is transferred to the statement of comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognised directly in equity.

(c) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(l).

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Share capital

Equity instruments, including preference shares, issued by the Company are recorded at the proceeds received. Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the Statement of comprehensive income.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaces part is derecognised. All other costs are recognised in the statement of comprehensive income as an expense incurred.

Depreciation

Depreciation is recognised in the statement of comprehensive income on a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

Camp equipment	5-10 years
Plant and machinery	5-10 years
Computer equipment	3 years
Office equipment	5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Deferred exploration costs

Exploration expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the right to tenure of each identifiable area of interest is current, and either the costs are expected to be recouped through successful development of the area, or activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. As the exploration assets are currently not available for use they are not amortised.

Exploration assets are initially measured at cost and include acquisition of mining tenements, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation of assets used in exploration activities. General and administrative costs are only included in the measurement of exploration costs where they are related directly to operational activities in a particular area of interest.

Deferred exploration costs in relation to an abandoned area are written off in full against profit or loss in the period in which the decision to abandon that area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of comprehensive income.

Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount dies not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the statement of comprehensive income as incurred.

Short-term employee benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs: that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Share-based payment transactions

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met.

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.

(i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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, when appropriate, the risks specific to the liability.

Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of disturbed land is recognised when the land is disturbed.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised in accordance with the policy set out in note 3(s). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(j) Revenue

Provision of services

Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date.

Sale of non-current assets

The net gain/(loss) on the sale of non-current assets is included as revenue or expense at the date control of the assets passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(k) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's balance sheet.

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(l) Finance income and expenses

Finance income and expenses comprises interest income on funds invested, interest expense on borrowings calculated using the effective interest method and unwinding of discounts on provisions.

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. All borrowing costs are recognised in the statement of comprehensive income using the effective interest method.

(m) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit (loss) for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(n) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT), except where the amount of GST or VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Receivables and payables are stated with the amount of GST or VAT included.

The net amount of GST and VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(o) Operations in liquidation

When an operation is classified as an operation placed into liquidation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(p) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group engages in business activities within one segment, being the exploration of diamond projects in Africa. The Group maintains an administrative office in Western Australia to support and promote the exploration activities in Africa.

(q) Adoption of new and revised accounting standards

The Group has chosen not to early-adopt any accounting standards that have been issued, but are not yet effective. Set out below is a summary of issued accounting standards, relevant to the Group, which are not yet effective and a description of their expected effect on the Group's financial statements (if any).

At the date of this financial report, the following standards and interpretations have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)
AASB 9	Financial Instruments	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013 (likely to be extended to 2015 by ED 215)
AASB 10	Consolidated Financial Statements	Replaces the requirements of AASB 127 and Interpretation 112 pertaining to the principles to be applied in the preparation and presentation of consolidated financial statements.	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	Replaces the disclosure requirements of AASB 127 and AASB 131 pertaining to interests in other entities.	1 January 2013
AASB 127	Separate Financial Statements	Prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	1 January 2013
AASB 13	Fair Value Measurement	Provides a clear definition of fair value, a framework for measuring fair value and requires enhanced disclosures about fair value measurement.	1 January 2013
AASB 119	Employee Benefits	Prescribes the accounting and disclosure for employee benefits. This Standard prescribes the recognition criteria when in exchange for employee benefits.	1 January 2013

The consolidated entity has decided against early adoption of these standards and interpretations. Furthermore, these changes in standards and interpretations are not expected to have a material impact on the consolidated entity in the current or future reporting periods and on foreseeable future transactions.

(r) Loss per share

Basic loss per share is calculated by dividing the net loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares of the Company during the period. Diluted loss per share is determined by adjusting the net loss attributable to the ordinary shareholders and the number of shares outstanding for the effects of all dilutive potential shares, which comprise share options.

(s) Accounting estimates and judgements

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Exploration assets

The Group assesses the carried value of exploration assets in accordance with the accounting policy noted above. As noted in that policy, the basis of carrying value involves numerous estimates and judgements resulting from the assessment of ongoing exploration activities.

Share-based payment transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions as set out within note 17. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimated useful lives of assets

Estimated useful lives of assets have been based on historical experience. The condition of the assets is assessed at least once per year and considered against the remaining life. Adjustments to useful lives are made when considered necessary.

Site restoration provision

The Group assesses its site restoration provision at each balance date in accordance with accounting policy 3(i). Significant judgement is required in determining the provision for site restoration as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate and restore the exploration sites and related assets. Factors that will affect this liability include future development, changes in technology, price increases and changes in interest rates. When these factors change or become known in the future, such differences will impact the site restoration provision and asset in the period in which they change or become known.

Amounts receivable from Lulo joint venture

Recovery of the carrying amount is dependent upon the successful development and commercial exploitation of diamonds under the joint venture agreement, as outlined by note 11.

(t) Determination of fair values

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of options issued is measured using the Black-Scholes option pricing formula or direct method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

4. Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the Board, which is the Group's "chief operating decision maker."

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group engages in business activities within one segment, being the exploration of diamonds in Angola. The Group maintains an administrative office in Western Australia to support and promote the exploration activities in Angola.

5. Employee benefits expenses

		Consolidated	
In AUD		**2013**	**2012**
Wages, salaries and director remuneration		836,996	586,681
Superannuation costs		30,463	38,980
Equity settled share-based payment transactions	(Note 17)	720,352	-
		1,587,811	625,661

6. Other expenses

	Consolidated	
In AUD	**2013**	**2012**
Administrative expenses	653,902	420,660
Operating lease rental expense	96,862	127,285
	750,764	547,945

7. Finance income and expense

	Consolidated	
In AUD	**2013**	**2012**
Finance income		
Interest on bank deposits	30,273	25,538
	30,273	25,538

8. Auditors remuneration

In AUD	Consolidated 2013	2012
Audit services:		
Audit and review of financial reports (Somes Cooke)	33,250	37,300
	33,250	37,300

9. Income tax (benefit) expense

In AUD	Consolidated 2013	2012
Current tax expense		
Domestic	-	-
Foreign	-	-
	-	-
Deferred tax expense		
Domestic	-	-
Foreign	-	-
	-	-
Total income tax expense	-	-

Numerical reconciliation between income tax expense and loss before income tax

In AUD	Consolidated 2013	2012
Loss for the period	(2,327,826)	(1,268,813)
Total income tax (benefit) expense	-	-
Loss excluding income tax	(2,327,826)	(1,268,813)
Income tax benefit using the Company's domestic tax rate of 30% (2012: 30%) and foreign tax rate of 29% (2012: 29%)	(698,348)	(380,644)
Non-deductible expenses	386,428	62,270
Current year tax losses not recognised	435,358	352,922
Movement in unrecognised temporary differences	(92,698)	(4,171)
Deductible equity raising costs	(30,740)	(30,377)
Income tax (benefit) / expense	-	-

Deferred tax assets not brought to account

As at 28 February 2013, the Group had estimated tax losses of approximately $10,186,950 (2012: $9,843,877), which may be available to be offset against taxable income in future years. The availability of these losses is subject to satisfying taxation legislative requirements. The deferred tax asset attributable to tax losses has not been brought to account in these financial statements because the directors believe it is not presently appropriate to regard realisation of the future income tax benefits as probable. The deferred tax assets have not been brought to account in respect to the following:

In AUD	Consolidated 2013	2012
Deductible temporary differences	644,384	688,937
Tax revenue losses	2,928,983	2,485,570
Tax capital losses	6,613,582	6,669,371
	10,186,950	9,843,878

10. Loss per share

Basic loss per share

	Consolidated 2013	2012
Basic loss per share (cents)	(0.09)	(0.09)

The calculation of basic loss per share at 28 February 2013 was based on the loss attributable to ordinary shareholders of $2,327,826 (2012: $1,268,813) and a weighted average number of ordinary shares outstanding of 2,645,185,932 (2012: 1,346,892,055), calculated as follows.

Weighted average number of shares

	Consolidated	
	2013	**2012**
Issued ordinary shares at beginning of year	1,674,540,206	1,273,731,535
Effect of shares issued on weighted average	970,645,726	73,160,520
Weighted average number of ordinary shares held during the year	2,645,185,932	1,346,892,055

Diluted loss per share

	Consolidated	
	2013	**2012**
Diluted loss per share (cents)	(0.09)	(0.09)

The Group is in a loss making position and it is unlikely that the conversion to, calling of, or subscription for, ordinary share capital in respect of potential ordinary shares would lead to diluted earnings per share that shows an inferior view of the earnings per share. For this reason, the diluted loss per share is the same as the basic loss per share.

11. Trade and other receivables

	Note	**Consolidated**	
In AUD		**2013**	**2012**
Current			
GST receivable		24,886	41,924
Other current receivables		40,132	55,268
		65,018	97,192
Non current			
Lulo joint venture	(i)	13,517,632	6,048,472
		13,517,632	6,048,472

(i) This amount is due to the Company from the Lulo Joint Venture (“JV”). The company has advanced the funds to the JV to fund the exploration program under the JV agreement. The amount is denominated in USD, is interest free and has no set repayment date. Recovery of the carrying amount is dependent upon the successful development and commercial exploitation of diamonds under the JV agreement.

The Group’s exposure to credit and currency risks related to trade and other receivables are disclosed in Note 21.

12. Other assets

	Consolidated	
In AUD	**2013**	**2012**
Cost		
Deposit for plant and machinery	702,918	223,233

13. Deferred exploration costs

	Consolidated	
In AUD	**2013**	**2012**
Cost		
Balance at beginning of year	4,753,493	2,260,136
Bond transferred to deferred exploration	-	1,382,875
Exploration costs incurred in the year	2,180,416	1,443,520
Effect of foreign currency translation	314,137	(333,038)
Balance at end of year	7,248,046	4,753,493

Recovery of the carrying amount is dependent upon successful development and commercial exploitation of diamonds, under the JV agreement.

The license provided by the Angolan government allowing the Group to drill kimberlite in the Lulo diamond concession expires in June 2013. As at the date of this report, the directors believe this renewal will be a formality and have no reason to believe that the renewal will not take place.

14. Property, plant and equipment

In AUD	Plant and machinery	Camp Equipment	Computer Equipment	Office Equipment	Total
Cost					
Balance at 1 March 2011	871,817	8,383	7,518	14,691	902,409
Additions	-	-	-	3,025	3,025
Effect of foreign currency translation	(158,564)	(732)	-	-	(159,296)
Balance at 29 February 2012	713,253	7,651	7,518	17,716	746,138
Balance at 1 March 2012	713,253	7,651	7,518	17,716	746,138
Additions	2,070,636	-	-	-	2,070,636
Effect of foreign currency translation	22,784	-	-	-	22,784
Balance at 28 February 2013	2,806,673	7,651	7,518	17,716	2,839,558
Depreciation					
Balance at 1 March 2011	37,467	-	2,648	1,405	41,520
Depreciation for the year	70,067	-	1,488	3,167	74,722
Effect of foreign currency translation	(5,306)		-	-	(5,306)
Balance at 29 February 2012	102,228	-	4,136	4,572	110,936
Balance at 1 March 2012	102,228	-	4,136	4,572	110,936
Depreciation for the year	111,193	765	1,033	2,545	115,536
Effect of foreign currency translation	7,041	-	-	-	7,041
Balance at 28 February 2013	220,462	765	5,169	7,117	233,513
Carrying amounts					
At 29 February 2012	611,025	7,651	3,382	13,144	635,202
At 28 February 2013	2,586,211	6,886	2,348	10,599	2,606,044

15. Trade and other payables

	Consolidated	
In AUD	**2013**	**2012**
Trade payables	91,113	137,853
Accruals and other payables	897,879	997,070
Director fees payable	-	127,979
	988,992	1,262,902

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

Included within accruals and other payables is an amount of US$175,000 payable to Mr Samuel Mapengo. Details are as follows:

(i) On 24 July 2012 the Company received a letter of demand from a former consultant to the Company, Mr Samuel Mapengo, for payment of US$430,026.65 for accrued and unpaid consultancy and 'success fees' under a 4 year consultancy agreement that commenced on 1 October 2007, together with interest on those amounts. The Company has denied all liability to Mr Mapengo.

(ii) On 24 September 2012 the Company offered Mr Mapengo an ex gratia payment of US$100,000, payable in 10 equal monthly instalments of US$10,000 each, in full and final settlement of all and any claims the Company and Mr Mapengo may have against each other arising directly or indirectly from any agreements, arrangements or dealings of any kind between them or the termination or expiration of such agreements, arrangements or dealings. This offer was made "without prejudice" or admission of liability. The offer was subsequently rejected by Mr Mapengo.

(iii) On 24 May 2013, offered Mr Mapengo an ex gratia payment of US$175,000, payable in 10 equal monthly instalments of US$17,500 each, in full and final settlement of all and any claims the Company and Mr Mapengo may have against each other arising directly or indirectly from any agreements, arrangements or dealings of any kind between them or the termination or expiration of such agreements, arrangements or dealings. This offer was made "without prejudice" or admission of liability and is included in the Company's payables balance as at 28 February 2013. As at the date of this report no response to this offer has been received.

16. Other liabilities

In AUD	Note	Consolidated 2013	2012
Share application monies received	(i)	-	3,697,500

(i) Share application monies received to 29 February 2012 for which shares had yet to be issued as at 29 February 2012. The shares were issued in March 2012.

17. Issued capital and reserves

In AUD	Consolidated 2013	2012
Issued and ordinary fully paid shares	61,836,670	48,472,073

Movement in ordinary shares

In shares	Note	Ordinary shares 2013	2012	AUD 2013	2012
On issue at beginning of year		1,674,540,206	1,273,731,535	48,472,073	45,180,526
Issue of shares for cash	(i)	1,509,796,349	400,808,671	14,459,305	4,008,086
Issue on exercise of options		30,000	-	600	-
Transaction expenses	(ii)	-	-	(1,095,308)	(716,539)
On issue at end of year		3,184,366,555	1,674,540,206	61,836,670	48,472,073

(i) The Company issued the following shares and options during the year to 28 February 2013:

Transaction	Number	Issue/exercise price ($)	Funds raised ($)	Option expiry
Issue of shares	872,922,864	0.010	8,729,228	-
Issue of shares	30,000	0.02	600	-
Issue of shares	636,873,485	0.009	5,731,861	-
Issue of options	1,257,922,864	0.02	-	2 Dec 2013
Issue of options	25,000,000	0.03	-	2 Dec 2014
Issue of options	125,000,000	0.019	-	25 Sept 2014

Terms and conditions

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Unissued ordinary shares of the Company under option at 28 February 2013 were:

Expiry date	Exercise price	Number of shares	Quoted
2 December 2013	$0.02	1,658,701,535	1,658,701,535
1 August 2013	$0.02	30,000,000	-
2 December 2014	$0.03	25,000,000	-
25 September 2014	$0.019	125,000,000	-

Exercise of options

During the period 30,000 listed options with an expiry date of 2 December 2013 were exercised at the price of $0.02

Lapse of options

The following options over ordinary shares lapsed during the financial year:

Expiry date	Exercise price	Number of shares
30 June 2012	$0.15	135,629,982
30 September 2012	$0.50	19,750,000

(ii) Transaction expenses comprise:

In AUD	AUD
Fair value of options issued to Indian Ocean Capital as consideration for acting as lead manager to a non-renounceable rights issue in February and March 2012	843,000
Other transaction costs	252,308
	1,095,308

Summaries of options granted

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year ended 28 February 2013:

	No.	WAEP
Outstanding at 1 March 2012	586,188,653	$0.07
Granted during the year	1,407,922,864	$0.03
Exercised during the year [A]	(30,000)	$0.03
Expired during the year	(155,379,982)	$0.02
Outstanding at 28 February 2013	1,838,701,535	$0.02
Exercisable at 28 February 2013	**1,838,701,535**	**$0.02**

The weighted average share price at the date of exercise is $0.01

The outstanding balance at 28 February 2013 is represented by:

Options expiring on or before	Exercise price	Number
2 December 2013	$0.02	1,658,701,535
1 August 2013	$0.02	30,000,000
2 December 2014	$0.03	25,000,000
25 September 2014	$0.019	125,000,000

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 28 February 2013 is 0.81 years.

Weighted average fair value

The weighted average fair value of options granted during the year ended 28 February 2013 was $0.0033.

Fair value basis

The fair value of options issued are estimated at the date of grant using the Black-Scholes option pricing model. The following table sets out the assumptions made in determining the fair value of the options on issue as at 28 February 2013.

	Options expiring 2 Dec 2013	Options expiring 1 Aug 2013	Options expiring 2 Dec 2014	Options expiring 25 Sept 2014	
				Tranche 1	Tranche 2
Grant date	31 July 2012	30 July 2010	31 July 2012	25 Sept 2012	24 Dec 2012
Expected volatility	100%	50%	100%	100%	100%
Risk-free interest rate	2.56%	4.5%	2.56%	2.56%	2.67%
Option exercise price	$0.02	$0.02	$0.03	$0.019	$0.019
Share price on date of grant	$0.011	$0.024	$0.011	$0.0124	$0.010

Reserves

	Consolidated			
In AUD	Foreign currency translation reserve	Share-based payments reserve	Option premium reserve	Total
Balance at 1 March 2011	447,819	5,768,177	185,962	6,401,958
Expiry of options	-	(2,763,000)	-	(2,763,000)
Foreign exchange differences	(877,906)	-	-	(877,906)
Balance at 29 February 2012	(430,087)	3,005,177	185,962	2,761,052
Expiry of options	-	(2,782,566)	(185,962)	(2,968,528)
Share based payments	-	1,563,352	30,000	1,593,352
Foreign exchange differences	314,137	-	-	314,137
Balance at 28 February 2013	(115,950)	1,785,963	30,000	1,700,013

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve represents the fair value of equity instruments issued to employees as compensation and issued to external parties for the receipt of goods and services. This reserve will be reversed against issued capital when the underlying shares are converted.

Option premium reserve

The option premium reserve records amounts paid by shareholders in acquiring options over ordinary shares. The balance in the option premium reserve is transferred to issued capital on option conversion and transferred to accumulated losses on option expiry.

18a. Cash and cash equivalents

	Consolidated	
In AUD	**2013**	**2012**
Bank balances	2,623,512	6,032,728

The Group’s exposure to interest rate risk is discussed in note 21.

18b. Reconciliation of cash flows from operating activities

	Consolidated	
In AUD	**2013**	**2012**
Loss for the period	(2,327,826)	(1,268,813)
Adjustments for:		
Depreciation expense	3,579	4,655
Share based payments expense	720,352	-
Operating loss before changes in working capital and provisions	(1,603,894)	(1,264,158)
Decrease/(Increase) in trade and other receivables	32,174	(72,929)
(Increase) in other assets	-	(223,233)
Increase/(decrease) in trade and other payables	(273,910)	494,695
Net cash used in operating activities	(1,845,630)	(1,065,625)

18c. Non cash financing activities

Refer to note 17 for further details.

19. Contingent liabilities

The Group did not have any contingent liabilities as at 28 February 2013 (2012: Nil) other than the matter referred to in note 15.

20. Commitments

Capital commitments

	Consolidated	
In AUD	**2013**	**2012**
Approved, not yet contracted for:		
Less than one year	-	-
Between one and five years	-	-
	-	-

21. Financial risk management

The Group has exposure to credit, liquidity and market risks from their use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Market risk

Commodity price risk

The Group is focused on its Angolan diamond exploration interests in the Lulo Project. Accordingly, the Group is exposed to the global pricing structures of the diamond market.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Australian dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations that are not in the entity's functional currency. The company does not use hedging, or any other active risk reduction strategy, in managing its foreign exchange risk.

The functional and presentation currency of the Company is Australian Dollars. The functional currency of the Group's joint venture is the US dollar.

The Group's exposure to foreign currency risk at balance date was a follows, based on notional amounts:

	2013		2012	
In AUD	**A$**	**US$**	**A$**	**US$**
Financial assets				
Cash and cash equivalents	2,356,247	267,265	6,024,816	7,912
Trade and other receivables	65,018	-	97,192	-
Other receivables	-	13,237,817	-	5,625,079
Financial liabilities				
Trade and other payables	(294,114)	(694,879)	(796,797)	(466,105)
Other financial liabilities	-	-	-	-
Net balance sheet exposure	2,127,151	12,810,203	5,325,211	5,166,886

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	**2012**	**2013**	**2012**
A$ = US$	0.97	0.96	0.98	0.93

Sensitivity analysis

A weakening/strengthening by 10% from the spot rate at 28 February 2013 of the US dollar against the Australian dollar would have the following impact on these financial statements:

In AUD	**Weakening DR/(CR)**	**Strengthening DR/(CR)**
Current assets	97,018	(97,018)
Non-current assets	873,645	(873,645)
Total assets	970,663	(970,663)
Current liabilities	(69,488)	69,488
Net assets	901,175	(901,175)
Total comprehensive income	(901,175)	901,175

Cash flow interest rate risk

Cash flow interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments.

The Group is not exposed to significant interest rate risk. Any residual cash flow interest rate risk is in relation to the Group's cash and cash equivalent balances. The Group does not currently use derivatives to mitigate these exposures.

The following table details the Group's exposure to interest rate risk on its interest-bearing financial instruments at 28 February 2013.

			Fixed Interest Rate Maturity				
	Average Interest Rate %	**Variable Interest Rate A$**	**Less than 1 Year A$**	**1 to 5 Years A$**	**More than 5 Years A$**	**Non-Interest Bearing A$**	**Total A$**
Financial Assets							
Cash	3.15	2,623,512	-	-	-	-	2,623,512
Trade and other receivables	-	-	-	-	-	65,018	65,018
Other receivables	-	-	-	-	-	13,517,632	13,517,632
		2,623,512	**-**	**-**	**-**	**13,582,650**	**16,206,162**
Financial Liabilities							
Trade and other payables	-	-	-	-	-	988,992	988,992
		-	**-**	**-**	**-**	**988,992**	**988,992**

The following table details the Group's exposure to interest rate risk on its interest-bearing financial instruments at 29 February 2012.

			Fixed Interest Rate Maturity				
	Average Interest Rate %	**Variable Interest Rate A$**	**Less than 1 Year A$**	**1 to 5 Years A$**	**More than 5 Years A$**	**Non-Interest Bearing A$**	**Total A$**
Financial Assets							
Cash	4.60	6,032,728	-	-	-	-	6,032,728
Trade and other receivables	-	-	-	-	-	97,192	97,192
Other receivables	-	-	-	-	-	6,048,472	6,048,472
		6,032,728	**-**	**-**	**-**	**6,145,664**	**12,178,392**
Financial Liabilities							
Trade and other payables	-	-	-	-	-	1,262,902	1,262,902
		-	**-**	**-**	**-**	**1,262,902**	**1,262,902**

Cash flow sensitivity analysis for variable rate instruments

The sensitivity analysis below has been prepared to demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant through the impact on floating rate interest rates.

A change of 100 basis points in interest rates at the reporting date would not have a material impact on the statement of comprehensive income. There would be no effect on the equity reserves other than those directly related to statement of comprehensive income. The analysis is performed on the same basis as for 2012.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to the financial assets is represented by their carrying values as at the balance sheet date.

Other receivables of $13,517,632 are due to the Group from the joint venture (note 11). The company has advanced the funds to the joint venture to fund the exploration program under the agreement. The other main party to the joint venture is Endiama, Angola's state-run diamond company. Recovery of the carrying amount is dependent upon the successful development and commercial exploitation of the diamonds under the JV agreement.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Consolidated	
In AUD	**2013**	**2012**
Trade and other payables		
- Within one year	988,992	1,262,902
- One to five years	-	-
- Greater than five years	-	-
Total	988,992	1,262,902

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

Fair value

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

The financial assets and liabilities included in the assets and liabilities of the Group approximate net fair value, determined in accordance with the accounting policies disclosed in note 3 to the financial statements.

22. Joint venture

The Consolidated Group includes a proportional consolidation of the Lulo Diamond joint venture. The Company's participating interest in the joint venture is 39% relating to the alluvial deposits (which will decrease to 30% after recoupment of its investment in the Project, should this occur) and 40% for the kimberlites.

The license provided by the Angolan government allowing the Group to drill kimberlite in the Lulo diamond concession expires in June 2013. As at the date of this report, the directors believe this renewal will be a formality and have no reason to believe that the renewal will not take place.

Information relating to the joint venture is set out below:

	Consolidated	
In AUD	**2013**	**2012**
Share of assets and liabilities		
Current assets	970,183	231,144
Non-current assets	8,736,451	4,267,275
Total assets	9,706,634	4,498,419
Current liabilities	(694,879)	(466,105)
Net assets	9,011,755	4,032,314
Share of expenses and results		
Expenses	-	-
Loss before tax	-	-

23. Related parties

Key management personnel compensation

The key management personnel compensation included in ‘employee benefits expense (see note 5) is as follows:

	Consolidated	
In AUD	**2013**	**2012**
Short-term employee benefits	360,186	337,235
Post-employment benefits	-	21,056
Share-based payments	172,991	-
	533,177	358,291

Individual directors’ and executives’ compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors’ report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no other material contracts involving directors’ interests at year-end.

Key management personnel and director transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or the joint venture in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm’s length basis.

Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows.

	Held at 1 March 2012 or date of appointment	Granted as compensation	Rights Issue	Held at resignation	Held at 28 February 2013	Vested during the year	Vested & Exercisable
Directors							
Mr M Kennedy	16,000,000	-	-	-	16,000,000	-	16,000,000
Mr D Jones	10,000,000	-	-	-	10,000,000	-	10,000,000
Mr G Gilchrist	-	50,000,000	-	-	50,000,000	50,000,000	50,000,000
Mr D Lenigas	11,000,000	-	-	11,000,000	-	-	-
Mr G White	11,000,000	-	-	11,000,000	-	-	-

	Held at 1 March 2011 or date of appointment	Granted as compensation	Rights Issue	Held at resignation	Held at 29 February 2012	Vested during the year	Vested & Exercisable
Directors							
Mr M Kennedy	4,000,000	-	12,000,000	-	16,000,000	16,000,000	16,000,000
Mr D Jones	10,000,000	-	-	-	10,000,000	10,000,000	10,000,000
Mr D Lenigas	11,000,000	-	-	-	11,000,000	-	11,000,000
Mr G White	11,000,000	-	-	-	11,000,000	11,000,000	11,000,000

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows.

	Held at 1 March 2012 or date of appointment	Purchases	Received on exercise of options	Sales	Held at resignation	Held at 28 February 2013
Directors						
Mr M Kennedy	32,000,000	4,500,000	-	-	-	36,500,000
Mr D Jones	2,650,000	662,500	-	-	-	3,312,500
Mr G Gilchrist	-	875,000	-	-	-	875,000

	Held at 1 March 2011 or date of appointment	Purchases	Received on exercise of options	Sales	Held at resignation	Held at 29 February 2012
Directors						
Mr M Kennedy	16,000,000	16,000,000	-	-	-	32,000,000
Mr D Jones	2,500,000	150,000	-	-	-	2,650,000
Mr D Lenigas	-	-	-	-	-	-
Mr G White	-	-	-	-	-	-

No shares were granted to key management personnel during the reporting period as compensation in 2013 or 2012.

Other related party transactions

An amount of $139,376 (2012: $131,968) was paid to The Bagot Road Property Partnership, associated with director Miles Kennedy, relating to office rent and associated costs during the period. An amount of $28,740 (2012: $10,059) was paid to The Bagot Road Group Pty Ltd, associated with director Miles Kennedy, relating to the provision of payroll and BAS services during the period. Payments for the provision of director services, as disclosed within remuneration in the directors' report, were paid to Ascidian Prospecting Pty Ltd and Turnicate Consulting, entities associated with director David Jones.

Joint venture

The Company has previously signed a joint venture agreement with Empresa Nacional De Damantes De Angola (Endiama), the national diamond company of Angola and exclusive concessionary for Angolan diamond mining rights. Within the 3,000km^2 Lulo Concession, the Company's participating interest in the kimberlite deposits is 39% of the joint venture which will decrease to 30% after recoupment of its investment in the Project, should this occur. On all alluvial deposits the Company's participating interest is 40% in the joint venture.

In terms of the joint venture agreement the Company is required to fund an exploration work program and during the year loan advances were made to the joint venture for this purpose. Details of the balances due from the joint venture at the end of the financial year are as follows.

	Consolidated	
In AUD	**2013**	**2012**
Lulo Joint Venture (note 11)	13,517,632	6,048,472

24. Subsequent events

On 12 March 2013 the Company announced that the licence covering alluvial diamond exploration at the 3,000km^2 Lulo Diamond Concession in Angola had been renewed for a further 2 years until December 2014.

On 19 2013 March the Company announced that its Lulo Diamond Concession in Angola had been confirmed as hosting Type IIa diamonds, which are the world's rarest and most valuable gems.

On 9 April 2013 the Company announced that Fugro Airborne Surveys commenced flying the new aeromagnetic survey over the Lulo Diamond Concession in Angola. The survey is being flown over approximately two-thirds of the 3,000km^2 Lulo concession which was either not flown in a previous aeromagnetic survey flown by the company in 2008 or where the magnetic data from the survey was inadequate.

On 1 May 2013 the Company advised that preliminary data from the new aeromagnetic survey currently being flown over the Lulo Diamond Concession in Angola had identified eight new kimberlite targets. The data provided to the Company from Fugro Airborne Surveys to date is from a 70km^2 strip of the Lulo concession near where Lucapa has recovered diamonds of up to 131.4 carats from its alluvial sampling operation.

On 22 May 2013 the Company announced further significant progress at its Lulo Diamond Concession in Angola, including drilling of the highest priority Se251 kimberlite target and the long awaited arrival on site at Lulo of containers with the remainder of the Company's new 50 tonne per hour Dense Media Separation diamond recovery plant.

Other than the above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event or a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

25. Parent company

The following information has been extracted from the books and records of the parent company, Lucapa Diamond Company Limited and has been prepared in accordance with Australia Accounting Standards.

The financial information for the parent company has been prepared on the same basis as the consolidated financial statements.

In AUD	**2013**	**2012**
Statement of Financial Position		
Assets		
Current assets	2,421,264	6,122,008
Non-current assets	23,843,049	11,398,025
Total Assets	26,264,313	17,520,033
Liabilities		
Current liabilities	(294,114)	(4,494,297)
Total Liabilities	(294,114)	(4,494,297)
Equity		
Issued capital	61,836,670	52,399,367
Retained earnings	(37,566,483)	(42,134,683)
Reserves	1,700,013	2,761,052
Total Equity	25,970,200	13,025,736
Statement of Comprehensive Income		
Total comprehensive income	(2,013,689)	(2,146,719)

The parent company did not have any contingent liabilities as at 28 February 2013 or 29 February 2012.

Contractual commitments

The parent company did not have any commitments as at 28 February 2013 or 29 February 2012.

1. In the opinion of the directors of Lucapa Diamond Company Limited ("the Company"):

   (a) the financial statements and notes, as set out on pages 15 to 33, and the Remuneration Report in the Directors' Report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 28 February 2013 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 28 February 2013.

Signed in accordance with a resolution of the directors

MILES KENNEDY
CHIEF EXECUTIVE OFFICER

Dated this 27th day of May 2013.

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Chartered Accountants
Business Consultants
Financial Advisors

Independent Auditor's Report
To the members of Lucapa Diamond Company Limited

Report on the Financial Report

We have audited the accompanying financial report of Lucapa Diamond Company Limited, which comprises the consolidated statement of financial position as at 28 February 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and 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 entity it jointly 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 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 our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

(a) the financial report of Lucapa Diamond Company Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 28 February 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 2b, which outlines that the ability of the Company to continue as a going concern and pay its debts as and when they fall due is dependent on the Group realizing proceeds from the sale of the diamonds recovered from the Lulo Diamond Concession or raising funds via alternative means to enable it to repay its debts as and when they fall due.

As a result, there is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, and therefore whether it will realize its asset and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 9 of the directors' report for the year ended 28 February 2013. 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 in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lucapa Diamond Company Limited for the year ended 28 February 2013 complies with section 300A of the *Corporations Act 2001*.

Somes Cooke

Somes Cooke

K Somes

Kevin Somes
27 May 2013
Perth