LUCAPA
DIAMOND COMPANY

Lucapa Diamond Company Limited
Financial Report for the period ended 31 December 2013

ASX Code: LOM

LUCAPA DIAMOND COMPANY LIMITED
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Competent Person's Statement

Information in this report that relates to Exploration Targets, exploration results, mineral resources or ore reserves is based on and fairly represents information and supporting documentation prepared and 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. 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 2012 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.

Some of the information in this report may relate to previously released exploration data disclosed under the JORC Code 2004. It has not been updated to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported and is based on and fairly represents information and supporting documentation prepared and 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. 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 2012 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.

Forward-Looking Statements

This document has been prepared by Lucapa Diamond Company Limited. This document contains background information about Lucapa Diamond Company Limited and its related entities current at the date of this document. This is in summary form and does not purport to be all inclusive or complete. Recipients should conduct their own investigations and perform their own analysis in order to satisfy themselves as to the accuracy and completeness of the information, statements and opinions contained in this document. This document is for information purposes only. Neither this document nor the information contained in it constitutes an offer, invitation, solicitation or recommendation in relation to the purchase or sale of shares in any jurisdiction.

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Any forward-looking statements in this document speak only at the date of issue of this document. Subject to any continuing obligations under applicable law and ASX Listing Rules, Lucapa Diamond Company Limited does not undertake any obligation to update or revise any information or any of the forward-looking statements in this document or any changes in events, conditions or circumstances on which any such forward-looking statement is based.

The directors present their report together with the financial report of Lucapa Diamond Company Limited (the **Company** or **Lucapa**) for the financial period ended 31 December 2013 and independent auditor's report thereon. The Company changed its financial year end to 31 December to synchronise with that of its operations in Angola, effective 1 March 2013.

1. Directors

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

Name	Position	Date of appointment
M Kennedy	Chief Executive Officer	12 September 2008
D Jones	Technical Director	26 February 2010
G Gilchrist	Non-executive Chairman	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
Technical 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.

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.

3. Directors' meetings

There were 6 directors' meetings held during the period 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 Company's principal activity during the course of the financial period was the exploration of diamond projects in Angola.

5. Operating and financial review

The total comprehensive loss for the period attributable to owners of the Company for the period ended 31 December 2013 was $1,173,029 (28 Feb 2013: $2,327,826).

Overview

Lucapa Diamond Company Limited is exploring for diamonds within the Lulo Diamond Concession in Angola. The Lulo Project 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 and extensive diamond-bearing alluvials occurring along the Cacuilo and Lulo Rivers. The concession is located about 150km west of the world-class Catoca diamond mine operated by the world's biggest diamond miner, Alrosa, and on the same favourable geological structure.

Lucapa has recovered alluvial diamonds of up to 131.4 carats from Lulo and is now testing priority kimberlite targets to find the source, or sources, of these rare diamonds.

New DMS plant commissioned

Lucapa achieved another significant milestone during the period with the long-awaited commissioning of the Company's new Dense Media Separation (DMS) diamond plant in November 2013.

The new DMS plant has operated well above its nameplate capacity of 50 tonnes per hour (tph), enabling Lucapa to significantly increase the amount of material the Company can test for diamonds.

New DMS diamond plant

Lucapa had been stockpiling gravels from the BLK_18 composite bulk sample to use as commissioning material for the new DMS plant. The BLK_18 commissioning sample comprised Calonda gravels from four separate pits excavated from the northern part of the priority Se251 kimberlite pipe.

As announced to the ASX on 29 November 2013, Lucapa recovered diamonds from the first day of processing of the commissioning sample through the new DMS plant. The plant operated at throughput rates of up to 70tph, with no difficulties encountered.

In addition to the BLK_18 commissioning sample, Lucapa also treated alluvial material from the BLK_19 bulk sample during December 2013. Lucapa began processing this sample to directly compare the treatment results and metallurgical parameters for gravel treated through the new DMS plant and the old plant previously used by Lucapa. BLK_19 is located ~1,600m south-east of Se251.

The processing of this sample through the new DMS plant produced some exceptional results. This included the recovery of a 32.2 carat Type 2A diamond, the fourth biggest gem recovered from Lulo.

Subsequent to the 31 December balance date, Lucapa announced the recovery of a 94.45 carat Type 2A diamond from BLK_19, the second largest stone recovered behind the 131.4 carat stone discovered in 2012.

As at 28 January 2014, Lucapa had recovered 66 diamonds weighing 206 carats from 335m^3 of material from BLK_19 and 110 diamonds weighing 74.5 carats from 1,555m^3 of the BLK-18 commissioning sample.

32.2 carat Type 2A diamond from BLK_19

E46 alluvial diamond area

Earlier in the reporting period, Lucapa completed processing of BLK_14, a bulk sample located in an area of gravels known as the E46 alluvial area, proximal to the Se046 kimberlite. The E46 alluvial area is located ~12km south-east of the priority Se251 kimberlite pipe.

BLK_14 was the second sample processed from the E46 alluvial area. The smaller BLK_11 sample was collected from around garimpeiro workings and returned an exceptional grade of 27.7 cphm (carats per 100 cubic metres).

A larger sample was excavated to determine whether diamonds occurred throughout the gravels in this area. A total of 256m^3 of sample from BLK_14 yielded 52 diamonds weighing 52.45 carats.

The exceptional grades from BLK_14 and BLK_11 encouraged Lucapa to complete a detailed review of the E46 alluvial area. This review highlighted extensive old terraces of the Cacuilo River at elevations similar to those recorded from the known diamond mineralisation at E46.

Lucapa considered those terraces could represent extensions and/or repetitions of the known diamond deposits, covering hundreds of hectares.

In addition, the area covered by the terraces contains many magnetic targets that are likely to be kimberlites. More than 10 of these magnetic targets occur within the map area alone and many more occur within the headwaters of the creeks that drain into the Cacuilo River.

These kimberlites targets include Se19, where Lucapa recovered a 0.6 carat kimberlite diamond in early 2013.

Subsequent to the December 31 balance date, Lucapa announced it had received approval from its Joint Venture partners to apply for an alluvial Mining Lease over an area of 218km^2 within the Lulo concession.

This area encompasses both Lucapa's main alluvial area and the E46 alluvial area.

Kimberlite diamond program

Lucapa's kimberlite evaluation program aims to find the kimberlite source, or sources, of the valuable alluvial diamonds being recovered from within the Lulo concession. Magnetic surveys over the concession have identified more than 250 anomalies with magnetic signatures similar to known kimberlite pipes. To date, Lucapa has classified ~70 of the anomalies as confirmed or probable kimberlite pipes. This work is ongoing.

The priority Se251 pipe remained the focus of Lucapa's kimberlite exploration program during the period. With an estimated surface area of ~220ha, Se251 is the largest kimberlite pipe identified within the Lulo field to date. Se251 is strategically located adjacent to, and within, the main alluvial diamond workings of the Cacuilo Valley.

Lucapa believes Se251 is a likely source for many of the alluvial diamonds the Company has been recovering from gravels on, or adjacent to, the kimberlite pipe.

Lucapa has commenced a systematic drilling, pitting and bulk sampling program over the Se251 kimberlite to establish the internal geometry and locate all the eruptive phases within the pipe.

By late 2013, Lucapa has drilled 19 core holes in Se251 to establish the internal geometry of the kimberlite. In general Se251 is covered by a blanket of sandy re-sedimented volcaniclastic kimberlite (SRVK).

During the reporting period Lucapa processed the KIM-4 bulk sample – the first of several large bulk samples Lucapa will excavate from Se251 and process through the Company's new DMS plant. KIM-4 is located on the west central section of Se251 and was initially logged as pyroclastic kimberlite (PK) in test pits. Better exposures in the bulk sample pit suggested that the lithology is more likely to be SRVK, which is generally fine-grained and considered an unlikely source for the coarse alluvial diamonds.

Lucapa decided to proceed with the processing of the sample because SRVK is widespread over the Se251 pipe and it was thought prudent to determine whether this material contained commercial sized diamonds.

No diamonds were recovered from the 236m^3 of SRVK material processed from KIM-4. While this result was not unexpected, it has reinforced Lucapa's view that if diamonds have been weathered from Se251, they are likely to have weathered from the coarser PK material identified along the southern margin of the Se251 kimberlite pipe.

Lucapa plans to test one or two other sites on Se251 in 2014. The Company will begin excavating and processing these PK kimberlite samples as soon as the ground conditions allow for the safe excavation of deeper pits.

In addition, Lucapa also plans to bulk sample the Se248 kimberlite as soon as ground conditions permit. Se248 sits strategically between the BLK_6/19 pits - which produced the 95.45 carat and 32.2 carat diamonds - and BLK_08, which produced the 131.4 carat gem.

Lucapa also plans to test several kimberlites in the broader E46 alluvial area.

New kimberlite province

Early in 2013, Lucapa completed a detailed aeromagnetic survey that covered about 2000km^2 of the northern part of the Lulo concession. A number of magnetic targets suggestive of kimberlites were recognised in the area. During the period, Lucapa geologists visited one of these targets (D30) and collected alluvial samples from tributaries of the Lulo River which drain the area.

Samples were processed in the field and were found to contain significant concentrations of coarse (+1mm) kimberlitic indicator minerals (picroilmenite and chrome spinel). Many of these indicator minerals retained primary surface textures suggesting they were coming from a very close source.

Based on the indicator mineral results, Lucapa has classified D30 as a probable kimberlite. The cluster of magnetic anomalies that include D30 is geographically distinct from the main kimberlite cluster and, as such, this could indicate a new kimberlite province at Lulo.

Lulo diamonds included in 371.35 carat parcel approved for sale

Review of financial condition

For the period ended 31 December 2013 the Company recorded a loss of $1,173,029 and had net assets of $27,276,644.

The Company 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
Expiry of options	30,000,000	$0.02	-	1 August 2013
Issue of shares	318,000,000	$0.004	$1,272,000	-
Issue of options	159,000,000	$0.01	-	29 August 2015
Issue of shares	216,112,236	$0.004	$864,449	-
Issue of options	216,112,236	$0.01	-	29 August 2015
Issue of shares	134,124,421	$0.004	$536,498	-
Issue of options	134,124,421	$0.01	-	29 August 2015
Expiry of options	1,658,701,535	$0.02	-	2 December 2013
Issue of options	286,200,000	$0.01	$63,600	29 August 2015

6. Dividends

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

7. Environmental regulation

The Company'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 Company 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 Company 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.

8. Events subsequent to reporting date

On 3 January 2014 the Company announced the recovery of a 32.2 carat Type 2A diamond from its Lulo concession in Angola. The diamond measured 32x10x8mm and is the largest recovered by Lucapa through the new Dense Media Separation (DMS) plant which the Company commissioned in November 2013 and is the fourth largest diamond recovered at Lulo to date.

On 10 January 2014 the Company released an updated investor presentation highlighting progress at the Lulo Diamond Project in Angola. The presentation was given to brokers and fund managers in London on 14-16 January 2014.

On 13 January 2014 the Company announced that an additional 410 cubic metres of gravel from BLK_18 had been processed and an additional 32 diamonds weighing 25.35 carats had been recovered.

On 28 January 2014 the Company announced the recovery of more large, valuable diamonds from its Lulo diamond concession in Angola, including a 95.45 carat Type 2A gem. It is the second largest diamond recovered by Lucapa from Lulo behind the 131.4 carat Type 2A stone discovered in 2012.

On 31 January 2014 the Company confirmed that the 95.45 carat Type 2A stone was a D colour gem.

On 25 February 2014 the Company announced that the Lulo Project Joint Venture approved the sale of a second parcel of diamonds weighing 371.35 carats which were independently valued by Jaguar Consultants Limited at $US3.164 million ($A3.52 million). This equates to an exceptional price of $US8,521 ($A9,500) per carat.

On 3 March 2014, the Company announced that its diamond inventory totalled 533.1 carats (including the 371.35 carat parcel valued at $A3.52 million), taking total diamond recoveries at Lulo to more than 1,000 carats.

On 5 March 2014 the Company announced that it had received the support of its Joint Venture partners to apply for an alluvial diamond mining lease over part of the Lulo diamond concession in Angola. The Mining Lease Application (MLA) will cover an area of ~218km^2 and will include the recent alluvial and terrace deposits associated with Cacuilo River.

Other than the above, there has not arisen in the interval between the end of the period 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 Company, the results of those operations, or the state of affairs of the Company, in future financial years.

9. Likely developments

As outlined in the Review of Operations and Events subsequent to reporting date sections of the Directors' Report, the directors consider the following as a summary of the likely developments and expected results for the next 12 months.

As previously announced, Lulo hosts a major kimberlite field and extensive diamond-bearing alluvials occurring along the Cacuilo and Lulo Rivers. The concession is located about 150km west of the world-class Catoca diamond mine operated by the world's biggest diamond miner, Alrosa, and on the same favourable geological structure.

Lucapa has recovered alluvial diamonds of up to 131.4 carats from Lulo and is now testing priority kimberlite targets to find the source, or sources, of these rare diamonds.

Subsequent to the 31 December balance date, Lucapa announced the recovery of a 94.45 carat Type 2A diamond from BLK_19, the second largest stone recovered behind the 131.4 carat stone discovered in 2012. As at 28 January 2014, the Company announced that it had recovered 66 diamonds weighing 206 carats from 335m^3 of material from BLK_19 and 110 diamonds weighing 74.5 carats from 1,555m^3 of the BLK-18 commissioning sample.

The exceptional grades from BLK_14 and BLK_11 have encouraged the Company to complete a detailed review of the E46 alluvial area which highlighted extensive old terraces of the Cacuilo River at elevations similar to those recorded from the known diamond mineralisation at E46. The Company considers those terraces could represent extensions and/or repetitions of the known diamond deposits, covering hundreds of hectares.

In addition, the area covered by the terraces contains many magnetic targets that are likely to be kimberlites. More than 10 of these magnetic targets occur within the map area alone and many more occur within the headwaters of the creeks that drain into the Cacuilo River.

Subsequent to the December 31 balance date, Lucapa announced it had received approval from its Joint Venture partners to apply for an alluvial Mining Lease over an area of 218km^2 within the Lulo concession. This area encompasses both Lucapa's main alluvial area and the E46 alluvial area.

Lucapa intends to continue the kimberlite evaluation program which aims to find the kimberlite source, or sources, of the valuable alluvial diamonds being recovered from within the Lulo concession. Magnetic surveys over the concession have identified more than 250 anomalies with magnetic signatures similar to known kimberlite pipes. To date, Lucapa has classified ~70 of the anomalies as confirmed or probable kimberlite pipes. This work is ongoing.

Lucapa believes Se251 is a likely source for many of the alluvial diamonds the Company has been recovering from gravels on, or adjacent to, the kimberlite pipe and a systematic drilling, pitting and bulk sampling program is continuing over the Se251 kimberlite to establish the internal geometry and locate all the eruptive phases within the pipe.

Lucapa plans to test one or two other sites on Se251 in 2014. The Company will begin excavating and processing these PK kimberlite samples as soon as the ground conditions allow for the safe excavation of deeper pits.

In addition, Lucapa also plans to bulk sample the Se248 kimberlite as soon as ground conditions permit. Se248 sits strategically between the BLK_6/19 pits - which produced the 95.45 carat and 32.2 carat diamonds - and BLK_08, which produced the 131.4 carat gem.

Lucapa also plans to test several kimberlites in the broader E46 alluvial area.

Based on the indicator mineral results, Lucapa has classified D30 as a probable kimberlite. The cluster of magnetic anomalies that include D30 is geographically distinct from the main kimberlite cluster and, as such, this could indicate a new kimberlite province at Lulo.

10. Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the Company 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 29 August 2015	Expiring 2 Dec 2014
M Kennedy	38,550,000	2,050,000	-
D Jones	3,312,500	-	-
G Gilchrist	6,462,500	587,500	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 options	Quoted
2 December 2014	$0.03	25,000,000	-
25 September 2014	$0.019	125,000,000	-
29 August 2015	$0.01	795,436,657	795,436,657

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 period, the Company has not granted options to directors of the company other than pursuant to their participation in the entitlements issue dated 27 September 2013.

Share options

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

Expiry date	Exercise price	Number of shares	Quoted
29 August 2015	$0.01	795,436,657	795,436,657

Exercise of options

No options over ordinary shares were exercised during or since the end of the financial period.

Lapse of options

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

Expiry date	Exercise price	Number of shares
1 August 2013	$0.02	30,000,000
2 December 2013	$0.02	1,658,701,535

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, including directors of the Company and other executives. Currently, KMP only comprises the directors of the Company.

Compensation levels for KMP 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 Company.

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 A$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 period ended 31 December 2013.

Equity-based compensation (Long term incentive)

None

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 period 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 Technical 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 Gilchirst was engaged on 22 March 2012 to act as the Company's Non-executive Chairman and has a fixed term contract for 3 years, expiring on 23 March 2015, subject to the provisions of the Company's Constitution and Corporations Act. Mr Gilchrist is entitled to a gross annual remuneration package of $120,000 (inclusive of all benefits and superannuation) and this is subject to annual CPI increases upon the anniversary of the commencement of his employment. To date, no CPI increases have been implemented.

The appointment may be terminated by the Company for various causes of a standard nature and Mr Gilchrist may terminate the Agreement by resigning as Chairman and director of LOM in accordance with Corporations Act and the Company's Constitution. Total payments to Mr Gilchrist on retirement or termination may not exceed any limits imposed by the Corporations Act and ASX Listing Rules.

In addition, if a takeover announcement is made at any time prior to 23 March 2015, the total annual remuneration package that would have become payable to Mr Gilchrist to the end of his full 3 year term (to 23 March 2015), will, to the fullest extent permitted by law, immediately become due and payable in full by the Company to Mr Gilchrist in advance.

12. Remuneration report – audited (continued)

12.2 KMP Remuneration

Details of the nature and amount of each major element of remuneration (in AUD) of each key management person of the Company are:

Key management personnel	Period ended	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, Chief Executive Officer	Dec 2013	165,800	-	-	**165,800**	-	-
	Feb 2013	182,532	16,428	-	**198,960**	-	-
Mr David Jones, Technical Director	Dec 2013	40,000	-	-	**40,000**	-	-
	Feb 2013	48,000	-	-	**48,000**	-	-
Non-executive director							
Mr Gordon Gilchrist , Non-executive Chairman (appointed 27 March 2012)	Dec 2013	91,617	8,383	-	**100,000**	-	-
	Feb 2013	103,877	9,349	172,991	**286,217**	-	60.44%
Former directors							
Mr D Lenigas, Chairman (resigned 27 March 2012)	Dec 2013	-	-	-	**-**	-	-
	Feb 2013	69,703	-	-	**69,703**	-	-
Mr G White (resigned 27 March 2012)	Dec 2013	-	-	-	**-**	-	-
	Feb 2013	50,693	-	-	**50,693**	-	-
Total	**Dec 2013**	**297,417**	**8,383**	**-**	**305,800**	**-**	**-**
	Feb 2013	**454,805**	**25,777**	**172,991**	**653,573**	**-**	**-**

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.

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

There was no movement of options over ordinary shares in the Company held by each key management person relating to remuneration.

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 period, 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 period ended 31 December 2013 and 28 February 2013.

14. Non-audit services

During the period Somes Cooke, the Company's auditors, have not performed any other services for the Company 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:

In AUD	31 Dec 2013	28 Feb 2013
Audit services:		
Audit and review of financial reports	38,000	33,250
	38,000	**33,250**

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 period ended 31 December 2013.

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

MILES A KENNEDY
CHIEF EXECUTIVE OFFICER

Dated at Subiaco this 31st day of March 2014

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Profit from our Resources

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Chartered Accountants (Aus)
Business Consultants
Financial Advisors

Auditor's Independence Declaration

To those charged with the governance of Lucapa Diamond Company Limited

As auditor for the audit of Lucapa Diamond Company Limited for the ten months ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Somes Cooke

Kevin Somes
Perth
31 March 2014

In AUD	Note	31 Dec 2013 (10 months)	28 Feb 2013 (12 months) (restated)
Finance income	7	2,223	30,273
Consulting expenses		(51,331)	(15,515)
Depreciation expense		(2,347)	(3,579)
Employee benefits expenses	5	(698,517)	(1,587,811)
Other expenses	6	(423,057)	(751,194)
Loss before income tax		(1,173,029)	(2,327,826)
Income tax expense	9	-	-
Loss after income tax for the period		(1,173,029)	(2,327,826)
Other comprehensive income		-	-
Total other comprehensive income for the period		-	-
Total comprehensive income for the period attributable to owners of the company		(1,173,029)	(2,327,826)
Loss per share			
Basic (loss) per share (cents)	10	(0.035)	(0.09)
Diluted (loss) per share (cents)	10	(0.035)	(0.09)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

In AUD	Note	31 Dec 2013	28 Feb 2013 (restated)
Assets			
Cash and cash equivalents	16a	305,960	2,356,247
Trade and other receivables	11	78,819	65,018
Total current assets		384,779	2,421,265
Deferred exploration and evaluation costs	12	28,344,568	23,634,079
Property, plant and equipment	13	10,601	12,948
Total non-current assets		28,355,169	23,647,027
Total assets		28,739,948	26,068,292
Liabilities			
Trade and other payables	14	1,463,304	294,114
Total current liabilities		1,463,304	294,114
Total liabilities		1,463,304	294,114
Net assets		**27,276,644**	**25,774,178**
Equity			
Share capital	15	64,130,565	61,836,670
Reserves	15	1,896,623	1,815,963
Accumulated losses		(38,750,544)	(37,878,455)
Total equity		**27,276,644**	**25,774,178**

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

In AUD	Share capital	Reserves	Accumulated losses	Total
Balance at 1 March 2012 (restated)	**48,472,073**	**3,075,189**	**(38,403,207)**	**13,144,055**
Total comprehensive income for the year				
Loss for the year	-	-	(2,327,826)	(2,327,826)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(2,327,826)	(2,327,826)
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	-	(2,852,578)	2,852,578	-
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	(1,259,226)	2,852,578	14,957,949
Closing balance at 28 Feb 2013 (restated)	61,836,670	1,815,963	(37,878,455)	25,774,178
Balance at 1 March 2013 (restated)	61,836,670	1,815,963	(37,878,455)	25,774,178
Total comprehensive income for the period				
Loss for the period	-	-	(1,173,029)	(1,173,029)
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(1,173,029)	(1,173,029)
Transactions with owners, recorded directly in equity				
Issue of share capital	2,672,947	-	-	2,672,947
Expiry of options	-	(300,940)	300,940	-
Share issue expenses	(379,052)	-	-	(379,052)
Share based payments	-	381,600	-	381,600
Total transactions with owners	2,293,895	80,660	300,940	2,675,495
Closing balance at 31 Dec 2013	64,130,565	1,896,623	(38,750,544)	27,276,644

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

In AUD	Note	31 Dec 2013	28 Feb 2013 (restated)
Cash flows from operating activities			
Cash paid to suppliers and employees		(1,109,507)	(1,875,903)
Interest received		2,223	30,273
Net cash used in operating activities	16b	(1,107,284)	(1,845,630)
Cash flows from investing activities			
Payments for exploration costs		(3,618,498)	(12,363,036)
Net cash used in investing activities		(3,618,498)	(12,363,036)
Cash flows from financing activities			
Proceeds from investors for share capital	15,16c	2,672,947	10,761,805
Proceeds from exercise of options		-	600
Proceeds from issue of options		63,600	30,000
Share issue costs	15,16c	(61,052)	(252,308)
Net cash from financing activities		2,675,495	10,540,097
Net decrease in cash and cash equivalents		(2,050,287)	(3,668,569)
Cash and cash equivalents at beginning of period		2,356,247	6,024,816
Cash and cash equivalents at end of period	16a	305,960	2,356,247

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 Company 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 financial report of the Company complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

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

(b) Basis of measurement

The 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 financial statements have been prepared on the going concern basis.

Going concern basis

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. Whilst the Company has achieved exploration success at the Lulo Project, the directors recognise that the Company will have to seek additional funding in order to continue to exploit and develop the Lulo Project.

During the period the Company recorded a loss of $1,173,029 and had net assets of $27,276,644 (Feb 2013: loss of $2,327,826 and net assets of $25,774,178).

However, the ability of the Company to continue to pay its debts as and when they fall due for a twelve month period from the date the financial report is signed is dependent upon:

- continued cash management according to exploration success; and
- the placement of securities under the ASX Listing Rule 7.1, or otherwise

The Directors believe that the above funding strategies can be achieved and the going concern basis is appropriate for the following reasons:

- The Company operates on a program of income and expenditure designed to ensure that there are at all times sufficient funds in hand to continue operations for the foreseeable future, whilst at the same time continuing the exploration at Lulo in an effective manner; and
- The historical ability of the Company to raise capital via equity placements and capital raisings given the prospectivity of the Lulo Project.

However, should the Company be unable to obtain sufficient funding as advised above, there is a material uncertainty which may cast doubt as to whether or not the Company will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

(c) Functional and presentation currency

These financial statements are presented in Australian Dollars, which is the Company's functional currency.

(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.

3. Significant accounting policies

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

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

The Company changed one of its accounting policies as a result of new or revised accounting standards that became effective for reporting periods commencing on 1 January 2013.

Previously the Company accounted for the Lulo Joint Venture ('JV') using proportional consolidation under AASB 131 *Interests in Joint Ventures*. Proportional consolidation is no longer allowed for for-profit entities under Australian Accounting Standards. AASB 131 has been superseded by AASB 11 *Joint Arrangements*. However, the JV does not fall within the scope of AASB 11. Therefore, the Company now accounts for assets and liabilities relating to its interest in the JV in accordance with the standards applicable to the particular assets and liabilities.

The aggregate effect of the change in accounting policy on the Statement of Profit or Loss and Other Comprehensive Income for the period ended 28 February 2013 is as follows:

	Previous Policy $	Adjustment $	Revised Policy $
Finance income	30,273	-	30,273
Consulting expenses	(15,945)	-	(15,945)
Depreciation expense	(3,579)	-	(3,579)
Employee benefits expense	(1,587,811)	-	(1,587,811)
Other expenses	(750,764)	-	(750,764)
Loss before income tax	(2,327,826)	-	(2,327,826)
Income tax expense	-	-	-
Loss after income tax for the year	(2,327,826)	-	(2,327,826)
Other comprehensive income			
Items that may be re-classified to profit or loss			
Exchange differences on translation of foreign jointly controlled entity	314,137	(314,137)	-
Total other comprehensive income for the year	314,137	(314,137)	-
Total comprehensive income for the year attributable to owners of the company	**(2,013,689)**	**(314,137)**	**(2,327,826)**

The aggregate effect of the change in accounting policy on the Statement of Financial Position as at 28 February 2013 is as follows:

	Previous Policy $	Adjustment $	Revised Policy $
Assets			
Cash and cash equivalents	2,623,512	(267,265)	2,356,247
Trade and other receivables	65,018	-	65,018
Other Assets	702,918	(702,918)	-
Total current assets	3,391,448	(970,183)	2,421,265
Other receivables	13,517,632	(13,517,632)	-
Deferred exploration and evaluation costs	7,248,046	16,386,033	23,634,079
Property, plant and equipment	2,606,044	(2,593,096)	12,948
Total non-current assets	23,371,722	275,305	23,647,027
Liabilities			
Trade and other payables	988,992	(694,878)	294,114
Total current liabilities	988,992	(694,878)	294,114
Equity			
Share capital	61,836,670	-	61,836,670
Reserves	1,700,013	115,950	1,815,963
Accumulated losses	(37,762,505)	(115,950)	(37,878,455)
Total Equity	**25,774,178**	-	**25,774,178**

The aggregate effect of the change in accounting policy on the Statement of Cash Flows for the period ended 28 February 2013 is as follows:

	Previous Policy $	Adjustment $	Revised Policy $
Cash flows from operating activities			
Cash paid to suppliers and employees	(1,875,903)	-	(1,875,903)
Interest received	30,273	-	30,273
Net cash used in operating activities	(1,845,630)	-	(1,845,630)
Cash flows from investing activities			
Payments for exploration costs	(2,370,021)	(9,993,015)	(12,363,036)
Purchases of property, plant and equipment	(2,578,639)	2,578,639	-
Net cash used in investing activities	(4,948,660)	(7,414,376)	(12,363,036)
Cash flows from financing activities			
Proceeds from investors for share capital	10,761,805	-	10,761,805
Proceeds from exercise of options	600	-	600
Proceeds from issue of options	30,000	-	30,000
Share issue costs	(252,308)	-	(252,308)
Funds advanced to Lulo JV	(7,155,023)	7,155,023	-
Net cash from financing activities	3,385,074	7,155,023	10,540,097
Net decrease in cash and cash equivalents	(3,409,216)	(259,353)	(3,668,569)
Cash and cash equivalents at beginning of period	6,032,728	(7,912)	6,024,816
Cash and cash equivalents at end of period	2,623,512	(267,265)	2,356,247

The Company adopted all new or revised accounting standards that became effective for reporting periods commencing on 1 January 2013. Other than as outlined above, adoption of these standards has not resulted in any material changes to the Company's accounting policies.

Other standards that have been issued but are not yet effective are considered to have no significant effect on the financial statements.

(a) Foreign currency

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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 profit or loss and other 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 profit or loss and other 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.

(b) 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 Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company 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 Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company'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 Company'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(k).

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.

(c) 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 profit or loss and other 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 Company 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 profit or loss and other comprehensive income as an expense incurred.

Depreciation

Depreciation is recognised in the statement of profit or loss and other 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:

Computer equipment	3 years
Office equipment	5-10 years

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

(d) Deferred exploration and evaluation costs

Exploration and evaluation 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 are 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 and evaluation 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 and evaluation 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.

(e) 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.

(f) 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 profit or loss and other 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 profit or loss and other comprehensive income.

Non-financial assets

The carrying amounts of the Company'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 profit or loss and other 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.

(g) 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 profit or loss and other 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 Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Long-term employee benefits

The Company'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 Company's obligations.

Termination benefits

Termination benefits are recognised as an expense when the Company 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.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

(i) Revenue

Provision of services

Revenue from services rendered is recognised in the statement of profit or loss and other 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).

(j) Leases

Leases in terms of which the Company 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 Company's balance sheet.

Payments made under operating leases are recognised in the statement of profit or loss and other 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.

(k) 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 profit or loss and other comprehensive income as it accrues, using the effective interest method. All borrowing costs are recognised in the statement of profit or loss and other comprehensive income using the effective interest method.

(l) 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 period. Taxable profit differs from net profit as reported in the statement of profit or loss and other 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 Company'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 Company 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 profit or loss and other 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 Company intends to settle its current tax assets and liabilities on a net basis.

(m) 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.

(n) Segment reporting

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

An operating segment is a component of the Company 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 Company's other components. All operating segments' operating results are regularly reviewed by the Company'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 Company engages in business activities within one segment, being the exploration of diamond projects in Africa. The Company maintains an administrative office in Western Australia to support and promote the exploration activities in Africa.

(o) Adoption of new and revised accounting standards

The Company has chosen not to early-adopt any accounting standards and interpretations that have been issued, but are not yet effective. The Company has carefully considered each accounting standard that has been issued but is not yet effective and does not consider any of the pronouncements to have a material impact on the financial statements. Furthermore, these changes in standards and interpretations are not expected to have a material impact on the accounting treatment in the current or future reporting periods and on foreseeable future transactions.

(p) 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.

(q) Accounting estimates and judgements

Management discusses with the Board the development, selection and disclosure of the Company'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 and evaluation assets

The Company assesses the carried value of exploration and evaluation 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 Company 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 15. 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.

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

An operating segment is a component of the Company 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 Company's other components. All operating segments' operating results are regularly reviewed by the Company'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 Company engages in business activities within one segment, being the exploration of diamonds in Angola. The Company maintains an administrative office in Western Australia to support and promote the exploration activities in Angola.

All transactions disclosed in the statement of profit or loss and other comprehensive income during the period to 31 December 2013, and the year to 28 February 2013, relate to the administration and management of the Company, in Western Australia. Assets and Liabilities of the business are split as follows:

As at 31 December 2013:

In AUD	**Australia (Overhead)**	**Angola (Exploration and Evaluation)**	**Total**
Assets			
Cash and cash equivalents	305,960	-	305,960
Trade and other receivables	78,819	-	78,819
Total Current Assets	*384,779*	-	*384,779*
Deferred exploration costs	-	28,344,568	28,344,568
Property, plant & equipment	10,601	-	10,601
Total Non-Current Assets	*10,601*	*28,344,968*	*28,355,169*
Liabilities			
Trade and other payables	371,313	1,091,997	1,463,304
Total Liabilities	*371,313*	*1,091,997*	*1,463,304*

As at 28 February 2013:

In AUD	**Australia (Overhead)**	**Angola (Exploration and Evaluation)**	**Total**
Assets			
Cash and cash equivalents	2,356,247	-	2,356,247
Trade and other receivables	65,018	-	65,018
Total Current Assets	*2,421,265*	-	*2,421,265*
Deferred exploration costs	-	23,634,079	23,634,079
Property, plant & equipment	12,948	-	12,948
Total Non-Current Assets	*12,948*	*23,634,079*	*23,647,027*
Liabilities			
Trade and other payables	294,114	-	294,114
Total Liabilities	*294,114*	-	*294,114*

5. Employee benefits expenses

In AUD	Note	31 Dec 2013	28 Feb 2013
Wages, salaries and director remuneration		687,215	1,009,987
Superannuation costs		11,302	30,463
Equity settled share-based payment transactions	15	-	547,361
		698,517	1,587,811

6. Other expenses

In AUD	31 Dec 2013	28 Feb 2013
Administrative expenses	336,378	654,333
Operating lease rental expense	86,679	96,861
	423,057	751,194

7. Finance income and expense

In AUD	31 Dec 2013	28 Feb 2013
Finance income		
Interest on bank deposits	2,223	30,273
	2,223	30,273

8. Auditors remuneration

In AUD	31 Dec 2013	28 Feb 2013
Audit services:		
Audit and review of financial reports (Somes Cooke)	38,000	33,250
	38,000	33,250

9. Income tax (benefit) expense

In AUD	31 Dec 2013	28 Feb 2013
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	31 Dec 2013	28 Feb 2013
Loss for the period	(1,173,029)	(2,327,826)
Total income tax (benefit) expense	-	-
Loss excluding income tax	(1,173,029)	(2,327,826)
Income tax benefit using the Company's domestic tax rate of 30% (Feb 2013: 30%)	(351,909)	(698,348)
Non-deductible expenses	25,804	386,428
Recognition of previously unrecognised prior year tax losses	877,801	435,358
Movement in unrecognised temporary differences	(524,159)	(92,698)
Deductible equity raising costs	(27,537)	(30,740)
Income tax (benefit) / expense	-	-

Deferred tax assets not brought to account

As at 31 December 2013, the Company had estimated tax losses of approximately $9,421,713 (28 Feb 2013: $10,186,950), which may be available to be offset against taxable income in future years. The availability of these losses is subject to satisfying Australian 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	31 Dec 2013	28 Feb 2013
Deductible temporary differences	80,963	644,384
Tax revenue losses	2,727,168	2,928,983
Tax capital losses	6,613,582	6,613,582
	9,421,713	10,186,950

10. Loss per share

Basic loss per share

	31 Dec 2013	28 Feb 2013
Basic loss per share (cents)	0.035	0.09

The calculation of basic loss per share at 31 December 2013 was based on the loss attributable to ordinary shareholders of $1,173,029 (28 Feb 2013: $2,327,826) and a weighted average number of ordinary shares outstanding of 3,381,961,721 (2012: 2,645,185,932), calculated as follows.

Weighted average number of shares

	31 Dec 2013	28 Feb 2013
Issued ordinary shares at beginning of period	3,184,366,555	1,674,540,206
Effect of shares issued on weighted average	197,595,166	970,645,726
Weighted average number of ordinary shares held during the period	3,381,961,721	2,645,185,932

Diluted loss per share

	31 Dec 2013	28 Feb 2013
Diluted loss per share (cents)	0.035	0.09

The Company 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

In AUD	31 Dec 2013	28 Feb 2013
Current		
GST receivable	30,598	24,886
Other current receivables	48,221	40,132
	78,819	65,018

The Company's exposure to credit and currency risks related to trade and other receivables are disclosed in Note 19.

12. Deferred exploration and evaluation costs

In AUD	31 Dec 2013	28 Feb 2013
Cost		
Balance at beginning of period	23,634,079	10,080,786
Lulo Project	-	13,553,293
Exploration costs incurred in the period	4,710,489	-
Balance at end of period (i)	28,344,568	23,634,079

Note

(i) This balance represents the cumulative amount of costs incurred by the Company in relation to the Lulo Project. All of the funds advanced to the Lulo Project have been spent on diamond exploration and evaluation and the purchase of plant and equipment required for these activities. The recoupment of funds advanced to the Lulo Project carried forward is dependent upon the successful development and commercialisation of the areas being explored and evaluated. Should a profitable diamond mining operation be established from the Lulo Project in the future, the Angolan government has agreed that, prior to any profits being distributed between the joint venture parties, all of the funds the Company has transferred to the Lulo Project will be reimbursed to the Company.

13. Property, plant and equipment

In AUD	Computer Equipment	Office Equipment	Total
Cost			
Balance at 1 March 2012	7,518	17,716	25,234
Additions	-	-	-
Balance at 28 February 2013	7,518	17,716	25,234
Balance at 1 March 2013	7,518	17,716	25,234
Additions	-	-	-
Balance at 31 December 2013	7,518	17,716	25,234
Depreciation			
Balance at 1 March 2012	4,136	4,572	8,708
Depreciation for the year	1,033	2,545	3,578
Balance at 28 February 2013	5,169	7,117	12,286
Balance at 1 March 2013	5,169	7,117	12,286
Depreciation for the period	612	1,735	2,347
Balance at 31 December 2013	5,781	8,852	14,633
Carrying amounts			
At 1 March 2012	3,382	13,144	16,526
At 28 February 2013	2,349	10,599	12,948
At 31 December 2013	1,737	8,864	10,601

14. Trade and other payables

In AUD	31 Dec 2013	28 Feb 2013
Trade payables	107,617	91,113
Accruals and other payables (i)	1,355,687	203,001
	1,463,304	294,114

Note

(i) Included within other payables is an amount of $1,091,991, which represents the value of the Company's liability on behalf of the Lulo Project, of which it is operator. The majority of the payable amount relates to historical payroll tax on staff salaries at Lulo, owed to the Angolan government.

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 19.

15. Issued capital and reserves

In AUD	31 Dec 2013	28 Feb 2013
Issued and ordinary fully paid shares	64,130,565	61,836,670

Movement in ordinary shares

In shares		Ordinary shares		AUD	
	Note	**31 Dec 2013**	**28 Feb 2013**	**31 Dec 2013**	**28 Feb 2013**
On issue at beginning of period		3,184,366,555	1,674,540,206	61,836,670	48,472,073
Issue of shares for cash	(i)	668,236,657	1,509,796,349	2,672,947	14,459,305
Issue on exercise of options		-	30,000	-	600
Transaction expenses	(ii)	-	-	(379,052)	(1,095,308)
On issue at end of period		3,852,603,212	3,184,366,555	64,130,565	61,836,670

(i) The Company issued the following shares and options during the period to 31 December 2013.

Transaction	Number	Issue/exercise price	Funds raised	Option expiry
Expiry of options	30,000,000	$0.02	-	1 August 2013
Issue of shares	318,000,000	$0.004	$1,272,000	
Issue of options	159,000,000	$0.01	-	29 August 2015
Issue of shares	216,112,236	$0.004	$864,449	
Issue of options	216,112,236	$0.01	-	29 August 2015
Issue of shares	134,124,421	$0.004	$536,498	
Issue of options	134,124,421	$0.01	-	29 August 2015
Expiry of options	1,658,701,535	$0.02	-	2 December 2013
Issue of options	286,200,000	$0.01	63,600	29 August 2015

All options issued were free-attaching and hence had no value ascribed to them, except the final tranche of 286,200,000 options, of which 127,200,000 were issued in exchange for consideration of $0.0005 per option and settlement of costs for capital raising. These options were accounted for at their fair value, based on their publicly listed price at grant date.

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 31 December 2013 were:

Expiry date	Exercise price	Number of shares
29 August 2015	$0.010	795,436,657
2 December 2014	$0.030	25,000,000
25 September 2014	$0.019	125,000,000

Lapse of options

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

Expiry date	Exercise price	Number of shares
2 December 2013	$0.020	1,658,701,535
1 August 2013	$0.020	30,000,000

(ii) Transaction expenses comprise:

In AUD	**31 Dec 2013**
Fair value of listed options issued to CPS Capital Group as consideration for their role in equity issues during the period	318,000
Other transaction costs	61,052
	379,052

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 period:

	31 Dec 2013 No.	31 Dec 2013 WAEP
Outstanding at 1 March 2013	1,838,701,535	$0.02
Granted during the period	795,436,657	$0.01
Exercised during the period	-	-
Expired during the period	(1,688,701,535)	$0.02
Outstanding at 31 December 2013	945,436,657	$0.012
Exercisable at 31 December 2013	945,436,657	$0.012

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is 1.53 years.

Reserves

In AUD	Share-based payments reserve	Option premium reserve	Total
Balance at 1 March 2012	2,889,227	185,962	3,075,189
Expiry of options	(2,666,616)	(185,962)	(2,852,578)
Share based payments	720,352	873,000	1,593,352
Balance at 28 February 2013	942,963	873,000	1,815,963
Expiry of options	(300,940)	-	(300,940)
Share based payments	-	381,600	381,600
Balance at 31 December 2013	642,023	1,254,600	1,896,623

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.

16a. Cash and cash equivalents

In AUD	31 Dec 2013	28 Feb 2013
Bank balances	305,960	2,356,247

The Company's exposure to interest rate risk is discussed in Note 19.

16b. Reconciliation of cash flows from operating activities

In AUD	31 Dec 2013	28 Feb 2013
Loss for the period	(1,173,029)	(2,327,826)
Adjustments for:		
Depreciation expense	2,347	3,579
Share based payments	-	720,352
Operating loss before changes in working capital and provisions	(1,170,682)	(1,603,895)
(Increase) in trade and other receivables	(13,801)	32,175
Increase/(decrease) in trade and other payables	77,199	(273,910)
Net cash used in operating activities	(1,107,284)	(1,845,630)

16c. Non cash financing activities

There were no non-cash financing activities during this period.

17. Contingent liabilities

The Company did not have any contingent liabilities as at 31 December 2013 (28 Feb 2013: Nil).

18. Commitments

Capital commitments

In AUD	31 Dec 2013	28 Feb 2013
Approved, not yet contracted for:		
Less than one year	-	-
Between one and five years	-	-
	-	-

19. Financial risk management

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

This note presents information about the Company'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 Company, 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 Company's activities. The Company, 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 Company is focused on its Angolan diamond exploration interests in the Lulo Project. Accordingly, the Company is exposed to the global pricing structures of the diamond market.

Foreign exchange risk

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

	31 Dec 2013	28 Feb 2013
In AUD		
Financial liabilities		
Trade and other payables	(1,463,304)	(294,114)
Other financial liabilities	-	-
Net balance sheet exposure	(1,463,304)	(294,114)

The potential returns from exploration and evaluation activities (see Note 12), should there be successful development of a profitable diamond mine in the future at the Lulo Project, are liable to foreign exchange fluctuations as the monies advanced are denominated in United States Dollars, which continues to fluctuate against the Australian Dollar.

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

The following table details the Company's exposure to interest rate risk on its interest-bearing financial instruments at 31 December 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	2.65	305,960	-	-	-	-	305,960
Trade and other receivables	-	-	-	-	-	78,819	78,819
		305,960	**-**	**-**	**-**	**78,819**	**384,779**
Financial Liabilities							
Trade and other payables	-	-	-	-	-	1,463,304	1,463,304
		-	**-**	**-**	**-**	**1,463,304**	**1,463,304**

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

	Average Interest Rate %	Variable Interest Rate A$	Fixed Interest Rate Maturity: Less than 1 Year A$	Fixed Interest Rate Maturity: 1 to 5 Years A$	Fixed Interest Rate Maturity: More than 5 Years A$	Non-Interest Bearing A$	Total A$
Financial Assets							
Cash	3.15	2,356,247	-	-	-	-	2,356,247
Trade and other receivables	-	-	-	-	-	65,018	65,018
		2,356,247	**-**	**-**	**-**	**65,018**	**2,421,265**
Financial Liabilities							
Trade and other payables	-	-	-	-	-	294,114	294,114
		-	**-**	**-**	**-**	**294,114**	**294,114**

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 profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the year ended 28 February 2013.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Company'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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Company 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.

In AUD	31 Dec 2013	28 Feb 2013
Trade and other payables		
- Within one year	1,463,304	294,114
- One to five years	-	-
- Greater than five years	-	-
Total	1,463,304	294,114

Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company may return capital to shareholders, issue new shares or sell assets to reduce debt. The Company'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 Company approximate net fair value, determined in accordance with the accounting policies disclosed in Note 3 to the financial statements.

20. Related parties

Key management personnel compensation

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

In AUD	31 Dec 2013	28 Feb 2013
Short-term employee benefits	297,417	454,805
Post-employment benefits	8,383	25,777
Share-based payments	-	172,991
	305,800	653,573

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 since the end of the previous financial year and there were no other material contracts involving directors interests at period-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 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 2013 or date of appointment	Granted as compensation	Rights Issue	Expired without Exercise	Held at 31 December 2013	Released from escrow during the period	Vested during the period	Vested & Exercisable
Directors								
Mr M Kennedy	16,000,000	-	2,050,000	(16,000,000)	2,050,000	-	-	2,050,000
Mr D Jones	10,000,000	-	-	(10,000,000)	-	-	-	-
Mr G Gilchrist	50,000,000	-	587,500	(25,000,000)	25,587,500	-	-	25,587,500

	Held at 1 March 2012 or date of appointment	Granted as compensation	Rights Issue	Held at resignation	Held at 28 February 2013	Released from escrow during the year	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
Mr D Lenigas	11,000,000	-	-	11,000,000	-	-	-	-
Mr G White	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 2013 or date of appointment	Purchases	Rights Issue	Sales	Held at resignation	Held at 31 December 2013
Directors						
Mr M Kennedy	36,500,000	-	2,050,000	-	-	38,050,000
Mr D Jones	3,312,500	-	-	-	-	3,312,500
Mr G Gilchrist	875,000	5,000,000	587,500	-	-	6,462,500

	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

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 $93,416 (28 Feb 2013: $160,546) 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 $495,573 (28 Feb 2013: $699,477) was paid to The Bagot Road Group Pty Ltd, associated with director Miles Kennedy, relating to the provision of contract staff (including a director), 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 Tunicate Consulting, entities associated with director David Jones.

21. Subsequent events

On 3 January 2014 the Company announced the recovery of a 32.2 carat Type 2A diamond from its Lulo concession in Angola. The diamond measured 32x10x8mm and is the largest recovered by Lucapa through the new Dense Media Separation (DMS) plant which the Company commissioned in November 2013 and is the fourth largest diamond recovered at Lulo to date.

On 10 January 2014 the Company released an updated investor presentation highlighting progress at the Lulo Diamond Project in Angola. The presentation was given to brokers and fund managers in London on 14-16 January 2014.

On 13 January 2014 the Company announced that an additional 410 cubic metres of gravel from BLK_18 had been processed and an additional 32 diamonds weighing 25.35 carats had been recovered.

On 28 January 2014 the Company announced the recovery of more large, valuable diamonds from its Lulo diamond concession in Angola, including a 95.45 carat Type 2A gem. It is the second largest diamond recovered by Lucapa from Lulo behind the 131.4 carat Type 2A stone discovered in 2012.

On 31 January 2014 the Company confirmed that the 95.45 carat Type 2A stone was a D colour gem.

On 25 February 2014 the Company announced that the Lulo Project Joint Venture approved the sale of a second parcel of diamonds weighing 371.35 carats which were independently valued by Jaguar Consultants Limited at $US3.164 million ($A3.52 million). This equates to an exceptional price of $US8,521 ($A9,500) per carat.

On 3 March 2014, the Company announced that its diamond inventory totalled 533.1 carats (including the 371.35 carat parcel valued at $A3.52 million), taking total diamond recoveries at Lulo to more than 1,000 carats.

On 5 March 2014 the Company announced that it had received the support of its Joint Venture partners to apply for an alluvial diamond mining lease over part of the Lulo diamond concession in Angola. The Mining Lease Application (MLA) will cover an area of ~218km^2 and will include the recent alluvial and terrace deposits associated with Cacuilo River.

Other than the above, there has not arisen in the interval between the end of the period 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 Company, the results of those operations, or the state of affairs of the Company, in future financial years.

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

   (a) the financial statements and notes, and the remuneration report in the Directors' Report, as set out on pages 8 to 11, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of its performance for the financial period 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 1; 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 period ended 31 December 2013.

Signed in accordance with a resolution of the directors

MILES A KENNEDY
CHIEF EXECUTIVE OFFICER

Dated at Subiaco this 31st day of March 2014

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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 statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the ten months then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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(a), 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 entity's financial position as at 31 December 2013 and of its performance for the ten months 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(a).

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

Without modifying our opinion, we draw attention to Note 2b to the financial report, which indicates that the company made a net loss of $1,173,029 in the ten months ended 31 December 2013, and that the ability of the company to continue as a going concern is dependent on the company securing additional funding through the issue of further shares or options, and continued cash management according to exploration success.

As a result there is 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 realise its assets 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 8 to 11 of the directors' report for the period ended 31 December 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 ten months ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Somes Cooke

Somes Cooke

Kevin Somes
31 March 2014
Perth