Lucapa Diamond Company Limited
Annual Report for the year ended 31 December 2016

ASX Code: LOM

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Contents	**Page**

Dear Shareholder

I am very pleased to announce that our Company has recorded a maiden profit of US$2,763,920 and our net assets have now increased to US$52,928,894.

By any measure, 2016 was a transformational year for Lucapa Diamond Company Limited which has positioned the Group for an extremely exciting 2017.

Of all the Group's achievements in 2016, perhaps the most significant was that the flagship Lulo Diamond Project in Angola which we commenced development of just one year earlier delivered the highest US$ per carat run of mine production of any diamond mine in the world.

That exceptional average price per carat of US$2,983 was achieved on record gross diamond sales of more than US$51 million by the Lulo alluvial venture and mining company Sociedade Mineira Do Lulo, which was officially incorporated during the year with Lucapa as its 40% owner and operator.

We have long claimed Lulo to be one of the best new diamond fields in the world – and in 2016 we proved it beyond any doubt.

Our diamonds have made international headlines. In February 2016, Lulo produced Angola's biggest recorded diamond, the 404 carat *4th February Stone,* which sold for US$16 million.

The sale of the record 404 carat diamond resulted in a distribution being declared to the Lulo partners, with Lucapa receiving a net share of US$5.6 million (A$8.3 million).

The *4th February Stone* was one of five +100 carat diamonds recovered in 2016, along with Lulo's biggest fancy coloured stone, a 39 carat pink.

Lulo's ability to produce large valuable diamonds has continued into 2017, with the recovery in February of Angola's second biggest recorded diamond, a spectacular 227 carat Type IIa D-colour gem.

The sale of this diamond has contributed to a great start to 2017, with the sale of the first two parcels of Lulo diamonds for the year generating ~US$11 million in gross proceeds. Overall sales of Lulo diamonds now exceed A$100 million. In March 2017, the Lulo alluvial operations declared US$8 million in distributions and capital repayments, with Lucapa's share totalling US$5.6 million (A$7.3 million).

Significantly, the 227 carat diamond was recovered by our new XRT large-diamond recovery circuit. This XRT circuit, which enables Lulo to recover diamonds of up to 1,100 carats, was part of the successful plant improvement program we completed in 2016.

It was also significant that the 227 carat diamond was recovered from one of the new alluvial diamond areas, Mining Block 28, identified during the year by the geological team. This has given us further confidence that the ~80% of the Cacuilo River system within Lulo which remains unexplored could also host large, valuable diamonds.

The recovery of these large valuable diamonds – which continue to attract solid prices from international buyers - also reinforces the game-changing potential of the Lulo kimberlite exploration program.

While mining the alluvials at Lulo continues to generate strong cash flows, identifying the primary hard-rock source(s) of these exceptional alluvial diamonds remains the main prize for us and our partners in the Lulo Diamond Project, Endiama E.P (the State diamond mining company) and Rosas & Petalas (our local private partner).

The focus of this program is a cluster of kimberlite targets in the areas we are frequently recovering the large valuable diamonds. This cluster of priority kimberlite targets centres around the large (~100 hectare) 259 body.

Drilling during the Angolan wet season has been limited to areas where access is possible and where ground conditions permit. Since the year end, we have welcomed the arrival on site from Korea of a third drill rig, our new all-terrain Hanjn D&B35.

This high-capability rig, which can drill deeper holes, will provide a significant boost to our exciting kimberlite exploration program, which will continue in parallel with our alluvial diamond mining operations throughout 2017.

Our success in developing Lulo and the strong cash flows generated from the alluvial mining operations throughout 2016 put Lucapa in a position to assess other diamond opportunities which offered the potential to provide continued growth, near term cash flows for the Group and interest from institutional investors.

The cross bar was always going to be set high trying to find anything with the potential to match that of Lulo, which remains Lucapa's flagship project.

In January 2017, we announced a deal to acquire a 70% interest in Mothae Diamonds (Pty) Ltd, the holder of an advanced, high-quality kimberlite project in Lesotho ("Mothae"), another well-established African diamond mining jurisdiction.

Mothae, which is within 5km of the rich Letšeng diamond mine, meets our criteria. It is very complementary to Lulo as it has also been proven to host large and premium-value diamonds. Lucapa has targeted that high-end production because it is the segment of the diamond market which remains robust.

Our Mothae partner, the Government of the Kingdom of Lesotho, has publicly acknowledged that Lucapa's successful track record developing Lulo helped the Company secure Mothae in a competitive international tender process.

As was the case at Lulo, Lucapa is planning a staged lower-risk development at Mothae which will deliver early diamond production and cash flows within 12 months.

Lucapa also completed preliminary exploration programs during the year at its earlier-stage Brooking and Orapa Area F projects in Western Australia and Botswana respectively. These programs were successful in defining priority lamproite/kimberlite drilling targets – both in the heart of known diamond provinces – which we plan to drill in the near future.

Lucapa finished 2016 in an extremely strong position with a balanced portfolio of high-quality diamond production and exploration assets which have huge potential. The Company has also spent much effort and cost investigating an AIM Admission and positioning itself to be able to dual list on AIM as well as on the Mothae acquisition.

The results we have produced in 2016 – and the growth plans put in place for 2017 and beyond - are a credit to a talented, energetic and dedicated team headed by our Managing Director Stephen Wetherall, who is without doubt one of the true emerging corporate leaders in the diamond space.

MILES KENNEDY
Chairman

Lucapa Diamond Company Limited (ASX: **LOM**) ("Lucapa" or "the Company") and its subsidiaries (collectively "the Group") is a growing diamond producer and explorer with a quality, high-value diamond portfolio with operations in Angola, Australia, Botswana and Lesotho. Lucapa's flagship asset is the Lulo Diamond Project ("Lulo") – a 3,000km^2 concession in Angola's Lunda Norte diamond heartland.

Lucapa operates Lulo in partnership with Empresa Nacional da Diamantes E.P. ("Endiama") and Rosas & Petalas. Lulo, through the joint venture and more recently the mining company Sociedade Mineira Do Lulo ("SML"), generates strong cash flows from alluvial mining where it recovers large and premium-value diamonds.

"Since the start of 2016, Lulo has produced Angola's two biggest diamonds on record weighing 404 carats and 227 carats, along with four other +100 carat stones."

Lulo has produced Angola's two biggest recorded diamonds – 404 carats (left) and 227 carats. Both are Type IIa D-colour

"**SML in 2016 achieved annual diamond sales of more than US$51 million at an exceptional average price per carat of US$2,983 – making Lulo the highest $ per carat production in the world."**

2017 has also started strongly, with the first two sales of Lulo diamonds for the year generating gross proceeds of ~US$11 million. Overall sales of Lulo diamonds now exceed A$100 million.

Lucapa and its Lulo partners are also well-advanced in their search to identify the primary kimberlite source(s) of these exceptional alluvial diamonds.

To add to the high-value production from Lulo, Lucapa announced in January 2017 it was acquiring a 70% interest in the advanced, high-quality Mothae kimberlite project, which Lucapa plans to bring into production within 12 months of getting on the ground under a staged, low-risk development plan.

"Mothae is located within 5km of the Letšeng, the highest $ per carat kimberlite diamond mine in the world."

Mothae is complementary to Lulo in that it hosts large and premium-value diamonds.

"Lucapa has targeted that high-end production because it is a segment of the diamond market where pricing remains robust."

Lucapa has also identified drilling targets at two earlier-stage projects - Orapa Area F in Botswana's Orapa diamond field and Brooking in the West Kimberley lamproite province in Western Australia.

Lucapa has a primary listing on the ASX and was included in the All Ordinaries Index on 20 March 2017. Lucapa has a secondary listing on the Frankfurt Stock Exchange. The Company has appointed Panmure Gordon & Co as its UK adviser and Hartleys as its Australian advisor.

Selection of Lulo diamonds recovered during 2016

Lucapa undertook multiple work streams throughout 2016. These included:

At Lulo, Angola:

- Development of the alluvial mining operations:
  - installed the new wet front-end to the 150 tonne per hour diamond plant that now feeds dry and wet material seamlessly
  - expanded the mining fleet to increase overall capacity in the dry and wet and to cater for mining further from the plant
  - invested and installed an XRT large diamond recovery circuit - latest technology solutions to cater for larger material processing and improved recovery of low-luminescing Type IIa diamonds
  - invested in a new secure and larger recovery and sort house which included a deep diamond boiling facility to clean the diamonds
  - extensive pitting, trenching and auger drilling to increase the alluvial diamond resource
  - expanded the camp accommodation and catering facilities to cater for larger work force
- Development of the kimberlite exploration program:
  - commenced drilling of priority kimberlite targets with Sedidrill rig
  - developed a new 3-year exploration program to accompany the application to extend or renew kimberlite exploration licence
  - negotiated, together with its partners, Endiama and Rosas and Petalas, the award of a new 5-year licence from the Ministry of Geology and Mines
  - purchased a larger core drilling rig and, following delays to the delivery of the this rig, engaged contract drillers to commence drilling priority kimberlite targets

At Orapa, Botswana:

- Completed earlier stage exploration programs at the Orapa Area F project, identifying kimberlite target for drilling

At Brooking, Western Australia:

- Acquired 80% of Brooking tenements held by Leopold Diamond Company (Pty) Ltd
- Completed sampling and earlier stage exploration programs, recovering micro and macro diamonds and identifying lamproite targets for drilling

Corporate, Australia

- Continued marketing of the Group's asset portfolio and development strategy locally and abroad
- Continued assessment of diamond projects with the potential to deliver continued growth for Lucapa, resulting in:
  - The acquisition of the Brooking tenements noted above
  - Planned and successfully bid for a 70% interest in the advanced, high-value Mothae kimberlite project in Lesotho (signed in January 2017)

LULO DIAMOND PROJECT, ANGOLA

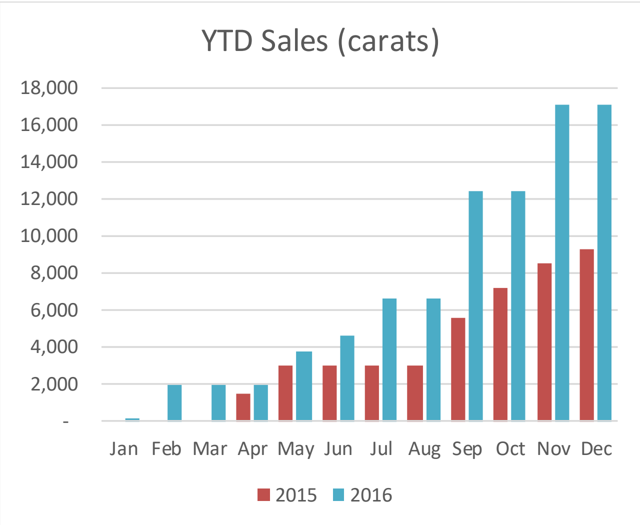
Alluvial Diamond Sales

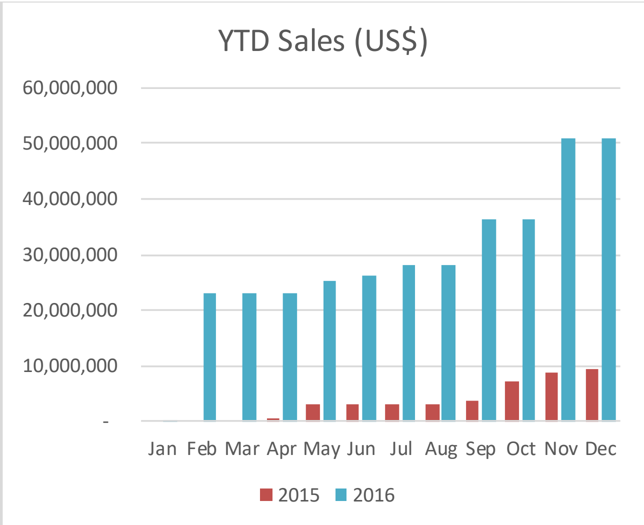
In 2016, gross revenues from the sale of Lulo diamonds increased 440% to a record US$51 million (Table 1).

This represented an exceptional average price per carat of US$2,983, making Lulo the highest $ per carat run-of-mine production in the world in 2016. The strong cash flows generated from diamond sales left SML with a cash balance of US$14.1 million at year end, along with an unsold diamond inventory, at the time, of 2,921 carats.

This cash balance was after a special distribution was paid to the Lulo partners during the year following the US$16 million sale of the *4th February Stone*, with Lucapa receiving a net share of US$5.6 million (A$8.3 million).

Subsequent to the year end, SML completed further diamond sales generating gross revenues of ~US$11 million. In March 2017, SML declared US$8 million in distributions and capital repayments, with Lucapa's share totalling US$5.6 million (A$7.3 million).





	FY 15	FY 16	Var % FY 16 vs FY 15
Actual Treated m³ (bulked)	**112,586**	**189,334**	**68**
Actual Carats Recovered	**8,394**	**19,832**	**136**
Actual Grade Recovered (cphm³)	**7.5**	**10.5**	**40**
Actual Avg Stone Size Recovered	**1.1**	**1.7**	**54**
Specials Recovered	**86**	**269**	**213**
Actual Sales (U$)	**9,445,063**	**51,048,891**	**440**
Actual Price per Ct (U$)	**1.013**	**2,983**	**195**

Table 1: 2015 and 2016 Lulo production and sales results

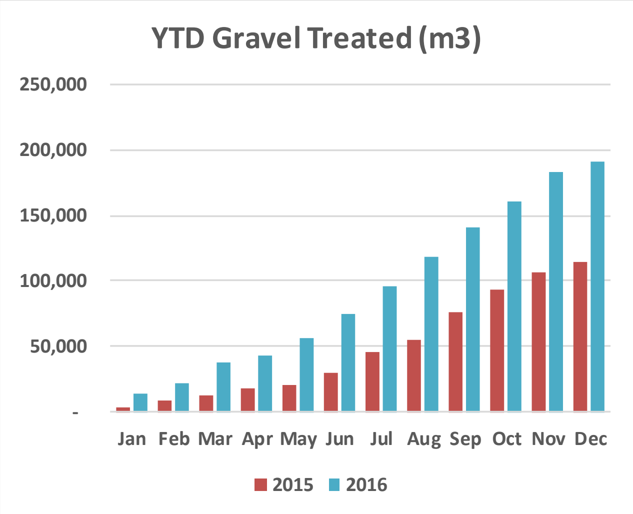
Alluvial Diamond Mining

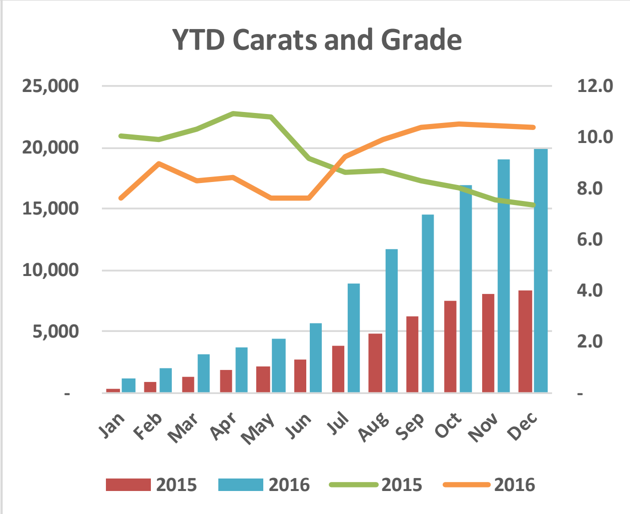
SML achieved record production of 19,832 carats of Lulo alluvial diamonds in 2016, an increase of 136% over 2015 (Table 1).

This included a record 269 specials (individual diamonds weighing more than 10.8 carats), up 213% on the previous year. These specials included Angola's biggest recorded diamond, the 404 carat named the *4th February Stone,* and four other +100 carat stones weighing 173 carats, 133 carats, 120 carats and 104 carats. In addition, 2016 also saw the biggest fancy coloured Lulo diamond recovered to date, a 39 carat pink.

Subsequent to the year end, Lulo produced a 227 carat Type IIa D-colour diamond, Angola's second biggest diamond on record and the seventh +100 carat stone recovered from Lulo.

The tonnes of alluvial gravels processed through the diamond plant (up 68% to 189,334 bulk cubic metres); average grade (up 40% to 10.5 carats per 100 cubic metres) and average size of the diamonds recovered (up 54% to 1.7 carats) were also records over 2015 (Table 1).





Sample of diamond production from Lulo including the record 404 carat diamond named the "*4th February Stone*" (bottom right)

Alluvial Development and Improvement Program

The record 2016 production and sales results flowed from a significant alluvial development and improvement program which was completed during the year.

This program included the successful commissioning of a new wet front-end module at the 150 tonne per hour Lulo diamond plant, the installation of a new XRT large diamond recovery circuit, a larger diamond sort house, a diamond deep boiling facility to improve the cleaning of the diamonds before sale and an expansion of the earth moving fleet.

The XRT technology and larger screens will, as part of the new coarse recovery stream, provide capacity to recover individual diamonds up to 1,100 carats. The XRT is also more effective in recovering higher quality low-luminescing Type IIa diamonds.

SML began stockpiling all oversize material in February 2016 following the recovery of the record 404 carat *4th February Stone*.

New XRT large diamond recovery and new sorting house (left) and new wet front-end installed at the 150 tonne per hour Lulo diamond plant during 2016

Kimberlite Exploration

The Lulo partners continued to advance the Lulo kimberlite exploration program during 2016 in tandem with the alluvial mining operations.

The kimberlite exploration program aims to locate the primary hard-rock source(s) of the large and premium-value alluvial diamonds being recovered at Lulo.

This program has focused on a series of kimberlite targets in the areas where the largest and most valuable alluvial diamonds have been recovered, including Angola's two largest recorded diamonds, the 404 carat *4th February Stone* and the 227 carat Lulo diamond.

The priority kimberlite targets centre on the large (~100 hectare) L259 (Figure 1) and Mining Block 8.

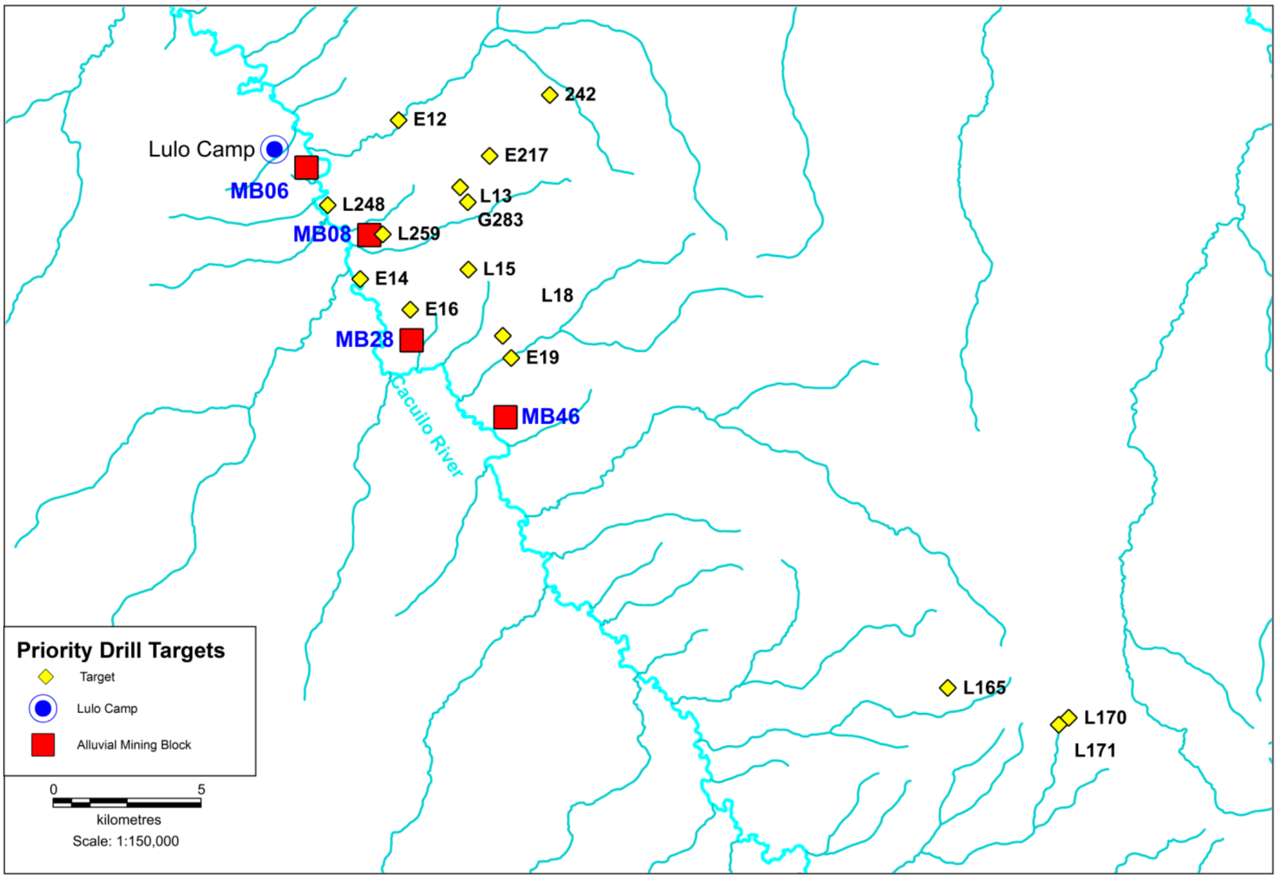


Figure 1: Priority Lulo kimberlite targets scheduled for ongoing drill testing

In addition, the smaller cluster of kimberlite targets around the diamond-bearing L170 (Figure 1) has also been prioritised for drilling.

Drilling of priority kimberlite targets commenced mid-2016 using a mobile Sedidrill rig, which has also been used for alluvial resource expansion auger drilling. In late 2016 a second contracted (Rosanstroi) rig was mobilised to site, enabling other priority targets to be drilled concurrently.

Drilling during the Angolan wet season in the fourth quarter of 2016 was restricted to areas where access was possible and where ground conditions permitted.

During the year, a new Hanjin D&B35 all-terrain, high-capability rig capable of drilling deeper holes was purchased and shipped from Korea to Angola.

This rig has now arrived on site at Lulo and is scheduled to commence drilling soon.

The delineation of drilling targets will be assisted by a helicopter-borne Time-Domain Electromagnetic ("TDEM") survey flown in the March 2017 Quarter over the Cacuilo River and valley area. This TDEM survey will also help identify any additional non-magnetic kimberlite targets.

The new high-capability Hanjin drilling rig was shipped from Korea to Angola during the year

Kimberlite Exploration Licence

Following the expiry of the original kimberlite exploration licence in May 2016, an application was submitted for a 3-year extension or new licence. In November 2016, the Angolan Minister of Mines and Geology, the Honourable Francisco Manuel Monteiro de Queiroz, approved a new kimberlite exploration licence for the Lulo project.

The new licence is for a period of five years and covers the entire 3,000km^2 Lulo concession. The Ministerial approval enables the Lulo partners to finalise a Ministerial Investment Contract, which will include a program of kimberlite exploration activities for the five year period.

Exploration to Expand and Update the JORC Alluvial Resource

Alluvial pitting, trenching and auger drilling programs were also conducted at Lulo in 2016 to open up new mining blocks and expand and update the JORC alluvial resource from that announced to the ASX on 15 December 2015.

A total of 488 exploration pits and 130 auger drill holes were completed by the end of the Quarter.

The main focus of the program was to prove up extensions to Mining Blocks 6 and 8 and establish a new area of alluvial gravels at Mining Block 28 (Figure 1), where the 227 carat diamond was subsequently recovered in February 2017.

This drilling and sampling information has been provided to ZStar Mineral Resource Consultants, for the purposes of updating the Lulo JORC alluvial diamond resource.

OTHER DIAMOND PROJECTS

Brooking Diamond Project, Western Australia

The Brooking project is located within ~40km of the Ellendale diamond field in Western Australia's Kimberley region, which was formerly the world's leading producer of rare, fancy yellow diamonds.

Detailed ground EM surveys were conducted at Brooking during the year over key target areas defined by earlier sampling and exploration work, which validated positive historic results including the recovery of macro and micro diamonds and lamproite indicator minerals.

The EM surveys successfully identified four well-defined conductors potentially associated with lamproite, a host rock for diamonds. The conductors are all located in drainage basins where diamonds and indicator minerals were recovered from field sampling programs, while two conductors were also coincident with positive results from Mobile Metal Ion ("MMI") geochemical analysis for nickel and other rare earth elements, which are also associated with lamproite bodies.

Lucapa is planning to drill all four conductors, as well as the previously-identified Katie's Bore and Santa Fe Dam targets, once heritage clearances have been secured and ground conditions permit.

Orapa Area F Diamond Project, Botswana

Orapa Area F is located ~40km east of the prolific Orapa diamond mine in Botswana and within 4km of the BK02 kimberlite being bulked sampled by TSX-listed Lucara Diamond Corp.

During 2016, Lucapa completed a preliminary exploration program at Orapa Area F, which involved ground magnetic, EM and gravity surveys, along with EM soundings and MMI soil geochemical analysis. This work was successful in defining a doubled-lobed coincident gravity/ magnetic feature at the AN01 anomaly.

This well-defined magnetic anomaly measures approximately 350m x 150m and represents a drilling target within the prolific Orapa diamond field. A reverse circulation drilling program will commence at the AN01 anomaly when suitable weather and ground conditions permit.

Mothae Kimberlite Project, Lesotho

As mentioned earlier, Lucapa continued to assess growth opportunities during the year in known diamond provinces around the world.

This resulted in a bid being submitted for Mothae Diamonds (Pty) Ltd ("Mothae"), the holder of a mining lease over the advanced Mothae kimberlite project, in an international tender run by the Government of the Kingdom of Lesotho.

Subsequent to the year end, Lucapa announced it had been awarded a 70% interest in Mothae. Details are set out in the ASX announcement of 31 January 2017.

Mothae holds a mining lease over an advanced and well-defined kimberlite pipe with an existing Canadian NI43-101 resource of more than one million carats of diamonds.


Layout of the Mothae Kimberlite Project in Lesotho

Mothae is among a cluster of kimberlite diamond mines in Lesotho and is located within 5km of Letšeng, the highest value per carat kimberlite mine in the world.

Like both Lulo and Letšeng, the trial mining conducted at Mothae produced large and premium-value diamonds, including Type IIa stones which sold for up to US$41,500 per carat.

Lucapa is planning a staged low-risk development of Mothae which will enable diamond production and cash flow to be achieved within 12 months. This plan involves upgrading and refurbishing the existing plant and infrastructure at Mothae, which was part of an historic ~US$36 million investment in the project.

Lucapa and the Ministry of Mining are in the process of completing the conditions precedent to the acquisition.

The Lesotho Ministry of Mining has advised Lucapa that they have received a legal challenge against the award of the tender for Mothae Diamonds. The Lesotho Ministry of Mining has advised Lucapa that the challenge is unfounded, without merit and is being vigorously defended.

Schedule of Tenements

Schedule of Tenements as at 31 December 2016					
Country	**Type**	**Size (km^2)**	**Period**	**Interest (%)**	**End date**
Angola	Exploration (primary) Kimberlite	3,000	5 years	39	*
Angola	Exploration (secondary) Alluvial	1,500	5 years	40	*
Angola	Mining (secondary) Alluvial	1,500	10 years	40	07/2025
Botswana	Reconnaissance	16.2	3 years	75	09/2018
Australia	Exploration License	120.99	5 years	80	12/20
Australia	Exploration License	13.08	5 years	80	03/19
Australia	Exploration License (Application)	29.44	5 years	80	-

** These five-year licences were approved in November 2016 by the Angolan Minister of Geology and Mines and require the Mining Investment Contract to be finalised. This is currently underway.*

The directors present their report together with the financial report of Lucapa Diamond Company Limited for the financial year ended 31 December 2016 and independent auditor's report thereon.

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	Non-Executive Chairman	12 September 2008
S Wetherall	Chief Executive Officer/Managing Director	13 October 2014
G Gilchrist	Non-Executive Director	27 March 2012
A Thamm	Non-Executive Director	9 May 2014

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

Miles Kennedy
Non-Executive Chairman

Mr Kennedy has held directorships of Australian listed resource companies for the past 30 years. He is Chairman of RNI NL. Mr Kennedy was Chairman of Sandfire Resources NL, Kimberley Diamond Company NL, Blina Diamonds NL, Macraes Mining Company Ltd and MOD Resources Limited and has extensive experience in the management of public companies with specific emphasis in the resources industry. He lives in Perth, Western Australia.

Stephen Wetherall
Chief Executive Officer / Managing Director

Mr Wetherall is a qualified chartered accountant and member of the South African Institute of Chartered Accountants with more than 20 years' experience in financial and operational management, corporate transactions and strategic planning. He has held senior financial and executive roles with global diamond giant De Beers and London-listed Gem Diamonds. He lives in Perth, Western Australia.

Gordon Gilchrist
Non-Executive Director

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, 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.

Albert Thamm
Non-Executive Director

Mr Thamm is a senior geologist with broad industry experience spanning 28 years. His experience includes kimberlite diamond exploration in Russia, alluvial and kimberlite development in Angola, alluvial mining in South Africa and diamond exploration and mining in Australia. He was previously Chief Geologist and Alternate Registered Manager at the Ellendale diamond mine in Western Australia. He holds a M.Sc. from the University of Cape Town and is both a Fellow of the Society of Economic Geologists and the Australian Institute of Mining and Metallurgy. He is a JORC Competent Person for diamond exploration results, resources and reserves. 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

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings	
	A	**B**
M Kennedy	6	6
S Wetherall	6	6
G Gilchrist	6	6
A Thamm	6	6

A: number of meetings attended;
B: number of meetings held during the time the directors were in office during the year.

4. Nature of operations and principal activities

The Group's principal activities during the course of the financial period were the exploration and mining of diamond projects in Angola, Botswana and Australia. Post the year end, the Company acquired the Mothae kimberlite development project in Lesotho.

5. Operating and financial review

The Group delivered its maiden full year profit in 2016. The profit after tax for the year ended 31 December 2016 was US$2,763,920 (31 December 2015: Loss of US$2,696,909). The Group had net assets of U$52,928,894 as at 31 December 2016 (31 Dec 2015: US$34,870,815).

Review of financial condition

The Group was predominately focused on its Angolan diamond mining, evaluation and exploration interests in the Lulo Project. This project together with its early stage exploration assets in Botswana and Australia require ongoing development, evaluation and exploration work and funding to the extent mining operations do not produce sufficient cash flows to sustain the development activities. Based on (i) the potential of the Lulo diamond concession (alluvial mining, exploration expenditure and the projected cash flows), (ii) the Mothae development and its projected cash flows and (iii) the Company's other strategic initiatives, the directors are satisfied that the going concern basis of preparation is appropriate.

Significant changes in the state of affairs

Angola
On 16 May 2016, the Company announced to the ASX the execution of the documents to incorporate SML, the new alluvial mining company for the Lulo project. During the current year, the Company continued to focus on the development of the alluvial mining operations, the plant, the camp and other infrastructure.

The Company in conjunction with Lulo developed a new 3-year exploration program to accompany the application to extend or renew its kimberlite exploration licence and negotiated, together with its partners the award of a new 5-year licence from the Angolan Ministry of Geology and Mines.

Botswana
During the year, the Company completed earlier stage exploration programs at the Orapa Area F project in Botswana, identifying kimberlite target for drilling.

Western Australia
The Company concluded an agreement to acquire 80% of tenements held by Leopold Diamond Company (Pty) Ltd at Brooking, Western Australia and completed sampling and earlier stage exploration programs, recovering micro and macro diamonds and identifying lamproite targets for drilling.

Corporate

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

Transaction	Number	Issue/exercise price ($)	Funds raised (U$)	Option expiry
Issue of options	8,734,607	0.30	6,759	29 April 2016
Issue of options	10,100,346	0.20	-	30 September 2017
Exercise of options	(64,694,704)	0.30	14,172,155	N/A
Exercise of options	(300,000)	0.20	60,000	N/A
Expiry of options	(2,848,039)	0.30	-	29 April 2016
Issue of options	2,925,000	0.53	-	2 June 2019
Issue of performance rights	4,275,000	0.00	-	2 June 2019
Exercise of performance rights	(1,887,500)	0.00	-	N/A

6. Dividends

No dividends were paid or declared by the Company during the current or prior financial year. The Lulo joint venture declared a special distribution to its partners in February 2016 following the recovery and sale of the 404 carat *4th February Stone*. The Company's share of US$5.6m has been recorded in income in 2016.

7. Environmental regulation

The Company's mining exploration activities are subject to various environmental regulations. The Board and Lulo Diamond Project Board are 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 material breach of those environmental requirements as they apply to the project.

8. Events subsequent to reporting date

On 31 January 2017, Lucapa announced it had been awarded a 70% interest in Mothae Diamonds (Pty) Ltd, the holder of an advanced, high-quality kimberlite project, by the Government of the Kingdom of Lesotho following a competitive international tender process.

On 9 February 2017, Lucapa and its Lulo partners announced that alluvial mining company SML had generated gross proceeds of US$3.8 million from the first sale of Lulo diamonds for 2017.

On 13 February 2017, Lucapa and its Lulo partners announced the recovery of a 227 carat Type IIa D-colour diamond, the second biggest recorded diamond recovered in Angola.

On 23 February 2017, Lucapa and its Lulo partners announced the recovery of a 62 carat Type IIa diamond from another new area, Mining Block 25, adjacent to Mining Block 8.

On 1 March 2017, Lucapa announced that the Government of the Kingdom of Lesotho had issued a new 10-year mining licence to Mothae Diamonds (Pty) Ltd, thus completing one of the conditions precedent for Lucapa to acquire its 70% interest. Lucapa also notified the market that the Lesotho Ministry of Mining had received a legal challenge to the award of the tender to Lucapa.

On 3 March 2017, Lucapa and its Lulo partners announced that alluvial mining company SML had generated gross proceeds of US$6.9 million from the second sale of Lulo diamonds for 2017.

On 8 March 2017, Lucapa and its Lulo partners announced that the Lulo alluvial diamond venture had declared US$8 million in a combined distribution and capital repayment, with Lucapa's share totalling US$5.6 million (A$7.3 million).

On 10 March 2017, S&P Dow Jones Indices announced that Lucapa would be included in the All Ordinaries Index, effective 20 March 2017.

On 21 March 2017, Lucapa announced it had been registered as the 70% owner of Mothae Diamonds (Pty) Ltd ("Mothae"), had appointed its representatives to the Mothae Board and paid the first US$400,000 payment to the Government of the Kingdom of Lesotho for its 70% interest.

On 24 March 2017, Lucapa announced an independent maiden JORC classified Indicated and Inferred Diamond Resource for the Mothae kimberlite pipe of more than one million carats valued at US$1,063 per carat.

On 27 March 2017, Lucapa announced an updated JORC classified Inferred Diamond Resource for the Lulo Diamond Project in Angola.

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.

Lulo:

The primary goal for Lucapa is to generate sustainable long-term revenues from the mining and sale of alluvial diamonds at Lulo and provide a return on investment, while advancing our efforts to locate the primary kimberlite sources of these exceptional gems. The following are the main focus areas:

- Continue assessing options to expand mining and production rates;
- Regular sale of Lulo diamonds by SML;
- Alluvial exploration to upgrade the JORC diamond resource;
- Kimberlite drilling and exploration program over priority targets; and
- Finalisation of Mining Investment Contract for 5-year kimberlite exploration licence.

Brooking/Orapa Area F:

- Drilling of identified kimberlite/lamproite targets.

Mothae:

- Complete transaction to acquire 70% of Mothae; and
- Advance Phase 1 development with the aim to commence production in early 2018.

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.

Director	Fully paid ordinary shares	Options over ordinary shares expiring 28 May 2017 [(1)]	Options over ordinary shares expiring 2 June 2019 [(2)]	Performance rights expiring 2 June 2019 [(3)]
M Kennedy	1,627,085	1,000,000	500,000	250,000
S Wetherall	565,000	1,250,000	500,000	500,000
G Gilchrist	624,041	500,000	250,000	125,000
A Thamm	136,970	500,000	250,000	187,500

Note
[(1)] Options granted to directors following shareholder approval at the annual general meeting held 28 May 2015;
[(2)] Options granted to directors following shareholder approval at the annual general meeting held 26 May 2016.
[(3)] Performance rights granted to directors following shareholder approval at the annual general meeting held 26 May 2016.

11. Share options and Performance Rights

Unissued shares under options and performance rights

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

Expiry date	Exercise price (Aud)	Number of options	Quoted
Share options			
30 September 2017	$0.20	46,460,607	46,460,607
24 April 2017	$0.30	3,750,000	-
28 May 2017	$0.30	3,250,000	-
2 June 2019	$0.53	2,925,000	-
Performance rights			
2 June 2019	$0.00	2,387,500	-

These options and performance rights over unissued shares do not entitle the holder to participate in any share issue of the Company or any other body corporate.

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 Group, including directors of the Company and other executive management. Currently, KMP comprises the directors and operations management 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 Group'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, options and performance rights 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 Board through a process that considers individual, segment and overall performance of the Group.

Directors' fees

Total compensation for directors and non-executive directors is set based on advice from external advisors with reference to fees paid to other directors of comparable companies. Directors' fees are presently limited to a total of US$826,560 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 Group did employ the services of a remuneration consultant during the financial year ended 31 December 2016 and the recommendations will be implemented in 2017.

Equity-based compensation (Long term incentive)

The Company has an Equity-based incentive plan in place under which directors are awarded share options and performance rights. The purpose of the plan is to assist in the reward and retention of directors, align their interest with those of the Shareholders of the Company and to focus on the Company's longer term goals.

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

Given the Group's principal activities during the course of the financial period consisting of mining, development, exploration and evaluation of mineral resources, the Board has again for 2016 given more significance to service criteria and performance instead of market related criteria in setting the Group's incentive schemes. Accordingly, at this stage the Board does not consider the Group's earnings or earning measures to be the only appropriate key performance indicator. The issue of options and performance rights as part of the remuneration package of directors, employees and contractors is an established practice for listed exploration and development companies and has the benefit of conserving cash whilst appropriately rewarding the recipient. In circumstances where cash flow permits, the Board may approve the payment of a discretionary cash bonus as a reward for performance. During the current year, the Board resolved to the payment of a bonus to the Managing Director of US$309,960 (2015: Nil) following the significant advancement and development of the Group's operations since the Managing Director's employment. In considering the relationship between the Group's remuneration policy and the consequences for the Company's shareholder wealth, changes in share price are analysed.

Service contracts (as at the date of these financial statements)

Stephen Wetherall

Mr Wetherall has been engaged to act as the Company's Chief Executive Officer/Managing Director. Mr Wetherall is entitled to receive director fees of US$287,820 (gross, including superannuation) per annum which is subject to review by the Board from time to time. He will be eligible to participate in any future incentive plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due.

Miles Kennedy

Mr Kennedy has been engaged to act as the Company's Non-Executive Chairman. Mr Kennedy is entitled to receive director fees of U$88,560 (gross) per annum, which is subject to review by the Board from time to time. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due.

Gordon Gilchrist

Mr Gilchrist has been engaged to act as the Company's Non-Executive Director. Mr Gilchrist is entitled to receive director fees of U$53,918 (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.

Albert Thamm

Mr Thamm has been engaged to act as the Company's Non-Executive Director. Mr Thamm is entitled to receive director fees of U$53,918 (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. Mr Thamm also provides services as Competent Person to the Company.

12. Remuneration report – audited (continued)

12.2 KMP Remuneration

Details of the nature and amount of each major element of remuneration (in USD) of each KMP of the Company are:

Key management personnel	Period ended	Short-term benefits: Salary & fees	Short-term benefits: Bonus	Post employment benefits: Superannuation benefits	Equity-settled share based payments: Options and performance rights[1]	Total (USD)
Executive Director						
Stephen Wetherall, Chief Executive Officer / Managing Director	Dec 16	287,820	309,960	22,140	208,720	**828,640**
	Dec 15	316,874	-	24,375	106,892	**448,141**
Non-Executive Directors						
Miles Kennedy, Non-Executive Chairman	Dec 16	88,560	-	-	121,058	**209,618**
	Dec 15	123,755	-	-	85,514	**209,269**
Gordon Gilchrist, Non-Executive Director	Dec 16	53,918	-	5,122	60,529	**119,569**
	Dec 15	61,644	-	5,856	42,757	**110,257**
Albert Thamm, Non-Executive Director	Dec 16	53,918	-	5,122	60,529	**119,569**
	Dec 15	55,365	-	4,826	42,757	**102,948**
Total	**Dec 16**	**484,216**	**309,960**	**32,384**	**450,836**	**1,277,396**
	Dec 15	**557,638**	**-**	**35,057**	**277,920**	**870,615**

(1) These options issued have been valued in accordance with the methodology listed in Note 19 to these financial statements.

12. Remuneration report – audited (continued)

12.3 Equity instruments

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

12.3.1 Analysis of movements in options, performance rights and shares

Options and performance rights over equity instruments

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

Directors	Held at 1 January or date of appointment	Options acquired	Exercise of options and performance rights	Expired without exercise	Options and performance rights granted	Held at 31 December	Vested & exercisable
2016							
M Kennedy	1,000,000	-	(605,417)	-	1,355,417	**1,750,000**	1,166,667
S Wetherall	1,250,000	-	(500,000)	-	1,500,000	**2,250,000**	1,416,667
G Gilchrist	500,000	-	(183,750)	-	558,750	**875,000**	583,334
A Thamm	500,000	-	(107,500)	-	545,000	**937,500**	645,834
2015							
M Kennedy	710,835	-	-	(710,835)	1,000,000	**1,000,000**	1,000,000
S Wetherall	-	-	-	-	1,250,000	**1,250,000**	1,250,000
G Gilchrist	117,501	-	-	(117,501)	500,000	**500,000**	500,000
A Thamm	40,001	49,999	-	(90,000)	500,000	**500,000**	500,000

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 KMP, including their related parties, is as follows.

Directors	Held at 1 January or date of appointment	Received upon exercise of options and performance rights	Sales	Purchases	Held at 31 December
2016					
M Kennedy	751,668	575,417	-	300,000	**1,627,085**
S Wetherall	65,000	500,000	-	-	**565,000**
G Gilchrist	440,291	125,000	-	58,750	**624,041**
A Thamm	29,470	62,500	-	45,000	**136,970**
2015					
M Kennedy	751,668	-	-	-	**751,668**
S Wetherall	65,000	-	-	-	**65,000**
G Gilchrist	295,001	-	-	145,290	**440,291**
A Thamm	26,136	-	-	3,334	**29,470**

No shares were granted to KMP during the reporting period as compensation in 2016 or 2015.

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 a director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

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

The Company has not entered into any agreement to indemnify the auditors against any claims by third parties arising from their reports on the Financial Report for the year ended 31 December 2016 and period ended 31 December 2015.

14. Auditor independence and Non-audit services

The directors received the following declaration from the Company's auditors, Greenwich & Co:

Greenwich & Co

Greenwich & Co Audit Pty Ltd | ABN 51 609 542 458
Level 2, 35 Outram Street, West Perth WA 6005
PO Box 983, West Perth WA 6872
T 08 6555 9500 | F 08 6555 9555
www.greenwichco.com

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 year ended 31 December 2016, 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.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens

Managing Director

27 March 2017

Perth

During the period Greenwich & Co 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, Greenwich & Co are set out below:

	31 Dec 2016 USD	31 Dec 2015 USD
Auditors remuneration		
Audit services - Greenwich & Co.	32,675	21,583
Other services	-	-
	32,675	**21,583**

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

MILES KENNEDY

Chairman

Dated this 27 March 2017.

Lulo Inferred alluvial diamond resource:

Total Classified, Depleted & Reconciled Lulo Alluvial Diamond Resource								
Inferred	**Area (m^2)**	**Insitu volume (m^3)**	**Grade (stns/m^3)**	**cts/stn**	**Stones**	**Carats**	**Insitu grade (cphm^3)**	**Modelled value (USD)***
31 Dec 16	1,167,300	606,600	0.07	1.07	45,200	48,200	7.95	$1,246
31 Oct 15	1,187,275	550,200	0.09	1.02	52,100	51,000	9.27	$806
Note: Cphm^3: carats per 100 cubic metres; Stns/m^3: stones per cubic metre								
*Special stones are not excluded in the modelling stage, in terms of size or assortment.								
Average realised sales may be significantly higher in value than the modelled values shown above								
Bottom screen size: effective -1.5mm								

Changes in the resource reflect mining depletion in part of FY15 as well as FY16 (see Table 1 in main body of report above) as well as ongoing grade control auger drilling and bulk sampling that controls gravel mining.

The alluvial resource is independently estimated and reconciled on a depletion and addition basis by external consultants, Z Star Mineral Resource Consultants (Pty) Ltd, of Cape Town, South Africa at least annually. The data that informs such reconciling is compiled by independent consultants Foundation Resources (Pty) Ltd, of Perth, Australia based on survey, production and sales data provided by Lucapa.

Information included in this report on the Lulo Inferred Alluvial Resource is based on and fairly represents information and supporting documentation prepared, compiled and supervised by Albert Thamm MSc FAusIMM (CP), who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm is a Director of Lucapa Diamond Company Limited. Mr Thamm 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 Thamm and consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

Information included in this announcement that relates to the stone frequency, grade and size frequency valuation and validation in the alluvial resource estimate is based on and fairly represents information and supporting documentation prepared and compiled by Sean Duggan (Pri.Sci.Nat 400035/01) and David Bush (Pri.Sci.Nat 400071/00). Messers Duggan and Bush are Directors and employees of Z Star Mineral Resource Consultants (Pty) Ltd, of Cape Town, South Africa. Both hold qualifications and experience such that both qualify as members of a Recognised Overseas Professional Organisation (ROPO) under relevant ASX listing rules. Mr Duggan and Mr Bush have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are 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. Both Mr Duggan and Mr Bush consent to the inclusion in the announcement of the matters based on this information in the form and context in which it appears

CORPORATE GOVERNANCE STATEMENT

In fulfilling its obligations and responsibilities to its various stakeholders, the Board of Lucapa Diamond Company Limited is a strong advocate of good corporate governance. The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" (Recommendations) where considered appropriate for a company of Lucapa's size and complexity.

The 3rd edition of the ASX Corporate Governance Principles and Recommendations was introduced on 27 March 2014 and took effect for a listed entity's first full financial year ending on or after 1 July 2014. Accordingly, this Corporate Governance Statement has been prepared on the basis of disclosure under the 3rd edition of these principles. Details of the Company's compliance with these principles are summarised in the Appendix 4G announced to ASX in conjunction with the Annual Report.

This statement describes how Lucapa has addressed the Council's guidelines and eight corporate governance principles and where the Company's corporate governance practices depart from a Recommendation, the Company discloses the reason for adoption of its own practices on an "if not, why not" basis.

Given the size and stage of development of the Group and the cost of strict compliance with all the recommendations, the Board has adopted a range of modified procedures and practices which it considers appropriate to enable it to meet the principles of good corporate governance. At the end of this statement is a checklist setting out the recommendations with which the Company does or does not comply. The information in this statement is current as at 27 March 2017.

The following governance-related documents can be found on the Company's website at www.lucapa.com.au under the section marked "Corporate Governance".

Charters

- Board

Policies and Procedures

- Code of Conduct
- Policy and Procedure for Selection and (Re)Appointment of Directors
- Policy on Assessing the Independence of Directors
- Securities Trading Policy
- Risk Management Policy
- Procedure for the Selection, Appointment and Rotation of External Auditor
- Policy on Continuous Disclosure
- Shareholder Communication Policy
- Diversity Policy

Principle 1 – Lay solid foundations for management and oversight - Role and Responsibilities of the Board and Management

The main function of the Board is to lead and oversee the management and strategic direction of the Group. The Board regularly measures the performance of management in implementation of the strategy through regular Board meetings.

Lucapa has adopted a formal board charter delineating the roles, responsibilities, practices and expectations of the Board collectively, the individual directors and management.

The Board of Lucapa ensures that each member understands its roles and responsibilities and ensures regular meetings so as to retain full and effective control of the Company.

Role of the Board

The Board responsibilities are as follows:

- Setting the strategic aims of Lucapa and overseeing management's performance within that framework;
- Making sure that the necessary resources (financial and human) are available to the Group and management to meet its objectives;
- Overseeing and measuring management's performance of the Company's strategic plan;
- Selecting and appointing a Managing Director with the appropriate skills to help the Group in the pursuit of its objectives;
- Controlling and approving financial reporting, capital structures and material contracts;
- Ensuring that a sound system of risk management and internal controls is in place;
- Setting the Company's values and standards;

- Undertaking regular review of the Corporate Governance policies to ensure adherence to the ASX Corporate Governance Council principles;
- Ensuring that the Company's obligations to shareholders are understood and met;
- Ensuring the health, safety and well-being of employees in conjunction with management, developing, overseeing and reviewing the effectiveness of the Group's occupational health and safety systems to assure the well-being of all employees;
- Ensuring an adequate system is in place for the proper delegation of duties for the effective day to day running of the Group without the Board losing sight of the direction that the Group is taking;
- Establishing a diversity policy and setting objectives for achieving diversity.

Delegation to Management

Other than matters specifically reserved for the Board, responsibility for the operation and administration of the Company has been delegated to the Managing Director. This responsibility is subject to an approved delegation of authority which is reviewed regularly and at least annually.

Internal control processes are designed to allow management to operate within the parameters approved by the Board and the Managing Director cannot commit the Group to additional activities or obligations in excess of these delegated authorities without specific approval of the Board.

Election of Directors

The Board is responsible for overseeing the selection process of new directors, and will undertake appropriate checks before appointing a new director, or putting forward a candidate for election as a director. All relevant information is to be provided in the Notice of Meeting seeking the election or re-election of a director including:

- biographical details including qualifications and experience;
- other directorships and material interests;
- term of office;
- statement by the Board on independence of the director;
- statement by the Board as to whether it supports the election or re-election; and
- any other material information.

Terms of appointment

Non-Executive Directors

To facilitate a clear understanding of roles and responsibilities all non-executive directors have signed letter of appointment. This letter of appointment letter includes acknowledgement of:

- director responsibilities under the Corporations Act, Listing Rules, the Company's Constitution and other applicable laws;
- corporate governance processes and Group policies;
- Board and Board committee meeting obligations;
- conflicts and confidentiality procedures;
- securities trading and required disclosures;
- access to independent advice and employees;
- confidentiality obligations;
- directors fees;
- expenses reimbursement;
- directors and officers insurance arrangements;
- other directorships and time commitments; and
- Board performance review.

Managing Director

The Managing Director has a signed executive services agreement. For further information refer to the Remuneration Report.

Role of Company Secretary

The Company Secretary is accountable to the Board for:

- advising the Board and committees on corporate governance matters;
- the completion and distribution of Board and committee papers;
- completion of Board and committee minutes; and
- the facilitation of director induction processes and ongoing professional development of directors.

All directors have access to the Company Secretary who has a direct reporting line to the Chairman.

Diversity

The Board values diversity in all aspects of its business and is committed to creating a working environment that recognises and utilizes the contribution of its employees. The purpose of this is to provide diversity and equality relating to all employment matters. The Group's policy is to recruit and manage on the basis of ability and qualification for the position and performance, irrespective of gender, age, marital status, sexuality, nationality, race/cultural background, religious or political opinions, family responsibilities or disability. The Group opposes all forms of unlawful and unfair discrimination.

The Board comprises four directors, all of whom are male. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

The Company has disclosed measurable diversity objectives for the current period in the Remuneration Report included in the Annual Report for the year ended 31 December 2016. The Group is continuing to assess and proactively monitor gender diversity at all levels of Lucapa's business and recognizes that it operates in a very competitive labour market where positions are sometimes difficult to fill. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

	31 December 2016				**31 December 2015**			
Gender representation	**Female**		**Male**		**Female**		**Male**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Board representation	-	-	4	100	-	-	4	100
Group representation	5	1.9	268	98.1	8	4.6	163	95.4

The Company, together with its subsidiaries and associates currently has 273 full-time employees of which 268 who are male and 5 who are female.

Performance review

Board and Board committees

A review of the Board's performance and effectiveness is conducted annually and the performance of individual directors is undertaken regularly. The Board has the discretion for these reviews to be conducted either independently or on a self-assessment basis.

The review focuses on:

- strategic alignment and engagement;
- Board composition and structure;
- processes and practices;
- culture and dynamics; relationship with management; and
- personal effectiveness.

A review of the Board's performance and effectiveness in respect of the year ended 31 December 2016 was conducted.

Managing Director and senior executives

Performance evaluation of the Managing Director, senior executives and employees is undertaken annually through a performance appraisal process which involves reviewing and assessment of performance against agreed corporate and individual key performance indicators and deliverables.

For further information refer to the Remuneration Report.

Retirement and rotation of directors

Retirement and rotation of directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year, one third of directors must retire and may offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company. It is intended that Mr Thamm will stand for re-election by rotation at the Company's 2017 Annual General Meeting.

Independent Professional Advice

Each director of the Company or a controlled entity has the right to seek independent professional advice at the expense of the Company or the controlled entity. However prior approval of the Chairman is required which will not be unreasonably withheld.

Access to employees

Directors have the right of access to any employee. Any employee shall report any breach of corporate governance principles or Company policies to the Chairman who shall remedy the breach. If the breach is not rectified to the satisfaction of the employee, they shall have the right to report any breach to an independent director without further reference to senior executives of the Company.

Directors' and officers' liability insurance

Directors' and officers' liability insurance is maintained by the Company for the directors and senior executives at the Company's expense.

Board meetings

The frequency of Board meetings and the extent of reporting from management at Board meetings are as follows:

- a minimum of four scheduled meetings are to be held per year;
- other meetings will be held as required;
- meetings can be held where practicable by electronic means;
- information provided to the Board includes all material information related to the operations of the Group including exploration, development and production operations, budgets, forecasts, cash flows, funding requirements, investment and divestment proposals, business development activities, investor relations, financial accounts, taxation, external audits, internal controls, risk assessments, people and health, safety and environmental reports and statistics;
- once established, the Chairman of the appropriate Board committee will report to the next subsequent Board meeting the outcomes of that meeting and the minutes of those committee meetings are also tabled.

The number of directors' meetings (including meetings of committees of directors where applicable) and the number of meetings attended by each of the directors of the Company during the financial year are set out in the Directors' Report.

Principle 2 - Structure the Board to add value - Composition of the Board

The names of the directors of the Company and their qualifications are set out in the section headed "Information on Directors" in the Director's Report.

The composition of the Board has been structured so as to provide Lucapa with an adequate mix of directors with industry knowledge, technical, commercial and financial skills together with integrity and judgment considered necessary to represent shareholders and fulfill the business objectives of the Group.

The ASX Corporate Governance Council guidelines recommend that the Board should constitute of a majority of independent directors and that the Chairperson should be independent. The Board consists of four directors of whom two are considered independent, being Mr Albert Thamm (Non-Executive Director - appointed 9 May 2014) and Mr Gordon Gilchrist (Non-Executive Director – appointed 27 March 2012). Mr Miles Kennedy (Non-executive Chairman - appointed as a director on 12 September 2008 and served as Executive Director until 11 December 2014) does not meet the criteria for an independent director having held an executive position within the last three years and Mr Stephen Wetherall (appointed 13 October 2014) is Managing Director and therefore does not meet the criteria for an independent director due to his executive role.

The Company has an adequate representation of independent directors and the Board considers the current balance of skills and expertise is appropriate for the Group. The detailed skills matrix of the Board for a group of Lucapa's size and complexity is not considered necessary. The principal business of the Group at present is alluvial diamond mining operations and kimberlite mine development which therefore require a technical skillset of geological, geophysical and engineering expertise, executive and project management, financial and commercial skills.

The Board comprises directors who each have extensive technical, financial and commercial expertise. The Board will address the skills commensurate with the growth and development of the Group's activities to ensure those skill sets are complemented by additional industry expertise in the sector pursued as required.

Nomination of other Board Members

Membership of the Board of directors is reviewed on an on-going basis by the Chairperson of the Board to consider diversity and to determine if additional core strengths are required to be added to the Board in light of the nature of the Group's businesses and its objectives. The Board does not have a separate Nomination Committee and does not believe it is necessary in a Group of Lucapa's size.

Director induction and ongoing professional development

The Company does not have a formal induction program for directors but does provide directors with an information pack detailing policies, corporate governance and various other corporate requirements of being a director of an ASX listed company. Due to the size and nature of the business, directors are expected to already possess a level of both industry, technical and commercial expertise before being considered for a directorship of the Company. Directors are provided with the opportunity to access employees of the business and any information as they require about the business including being given access to regular news articles and publications where considered relevant.

Principle 3 - Promote ethical and responsible decision-making - Code of Conduct

Directors, officers, employees and consultants to the Group are required to observe high standards of behaviour and business ethics in conducting business on behalf of the Group and they are required to maintain a reputation of integrity on the part of both the Group and themselves. The Group does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Conflicts of Interest

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Group and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Trading in Company Securities

Directors are required to make disclosure of any share trading. The Company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the Group or within a period of the release of results i.e. the blackout period. That is information which a reasonable person would expect to have a material effect on the price or value of the Company's shares. An officer must receive authority to acquire or sell shares with the directors or the Company Secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the ASX.

Principle 4 - Safeguard integrity in financial reporting

Lucapa has a financial reporting process which includes half year and full-year results which are signed off by the Board before they are released to the market.

The Board does not have a separate Audit Committee and does not believe it is necessary in a Group of Lucapa's size. Instead, the four Board members, who each have extensive commercial and financial expertise, manage the financial oversight as well as advise on the modification and maintenance of the Group's financial reporting, internal control structure, external audit functions, and appropriate ethical standards for the management of the Group.

In discharging its oversight role, the Board is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Group and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The Managing Director reports on the propriety of compliance on internal controls and reporting systems and ensures that they are working efficiently and effectively in all material respects.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Company's external auditor attends each Annual General meeting and is available to answer questions from shareholders relevant to the conduct of the external audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company and the independence of the auditor.

Principle 5 - Make timely and balanced disclosure

Lucapa has adopted a formal policy dealing with its disclosure responsibilities. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The policy also addresses the Company's obligations to prevent the creation of a false market in its securities. Lucapa ensures that all information necessary for investors to make an informed decision is available on its website.

The Managing Director has ultimate authority and responsibility for approving market disclosure which, in practice, is exercised in consultation with the Board and Company Secretary.

In addition, the Board will also consider whether there are any matters requiring continuous disclosure in respect of each and every item of business that it considers.

Principle 6 - Respect the rights of shareholders

The Board's fundamental responsibility to shareholders is to work towards meeting the Company's objectives so as to add value for them. The Board maintains an investor relation program which will inform shareholders of all major developments affecting the Group by:

- preparing half yearly and yearly financial reports;
- preparing quarterly cash flow reports and reports as to activities;
- making announcements in accordance with the listing rules and the continuous disclosure obligations;
- posting all of the above on the Company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report, if requested, together with notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to discuss the annual report and participate in the meetings either by attendance or by written communication. The Company provides all shareholders with a Notice of Meeting so they can be fully informed and be able to vote on all resolutions at the Annual General Meeting. Shareholders are able to discuss any matter with the directors and/or the auditor of the Company who is also invited to attend the Annual General Meeting.

Shareholders have the option to receive all Company and share registry communications electronically, and may also communicate with the Company by emailing the Company via its website. All shareholders have the ability to request copies of ASX releases, all of which are published and available on the Company's website immediately after they are released to ASX.

The Company regularly reviews its stakeholder communication policy and endeavours to maintain a program appropriate for a company of its size and complexity.

Principle 7 - Recognise and Manage Risk

The Board has adopted a Risk Management Policy, which sets out the Group's risk profile. Under the policy, the Board is responsible for approving the Group's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegate's day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Group's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Group employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate.

The Board does not have a separate Risk Management Committee as the Board monitors and reviews the integrity of financial reporting and the Group's internal financial control systems. Management assess the effectiveness of the internal financial control on an annual basis and table concerns and recommendations at Board meetings were required.

In addition, the following risk management measures have been adopted by the Board to manage the Group's material business risks:

- Establishment of financial control procedures and authority limits for management;
- Approval of an annual budget;
- Adoption of a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- Adoption of a corporate governance manual which contains other policies to assist the Group to establish and maintain its governance practices;
- Maintenance and review of a risk register to identify the Group's material business risks and risk management strategies for these risks. The risk register is reviewed half yearly and updated as required. Management reports to the Board on material business risks at each Board meeting.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the material business risks of the Group. The Board also requires management to report to it confirming that those risks are being managed effectively. The Board has received a report from management as to the effectiveness of the Group's management of its material business risks for the financial year ended 31 December 2016.

The Chief Financial Officer has provided a declaration to the Board in accordance with section 295A of the Corporations Act and has assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risks.

Internal Audit

The Group does not have an internal audit function as the Board believes the business is neither the size nor complexity that requires such a function. The Board is currently responsible for monitoring the effectiveness of internal controls, risk management procedures and governance.

Sustainability Risks

The Group has a detailed risk matrix which it regularly reviews and which highlights critical risk factors the Group faces at any particular time. The principal risks highlighted are what would typically be expected for a small listed mining and exploration company and include;

- Reliance on key executives;
- Inability to access new exploration and development capital;
- Unsuccessful exploration results;
- Exposure to other operators, be it through Joint Venture agreements or actions of those operators in an operational sense;
- Legislature changes in the jurisdiction the Group operates in.

As the Group expands its activities either within existing projects or with the addition of new projects, it is expected that the sustainability risks will change accordingly. The Board reviews the overall sustainability of both the diamond business and more specifically, the Group , in its normal course of business and therefore does not produce a separate sustainability report.

Principle 8 - Remunerate fairly and responsibly

The Company does not have a Remuneration Committee. Instead, the Board monitors and reviews the remuneration policy of the Group. The Board will engage an independent remuneration consultants to review the Group's policy on remuneration as and when required.

Details of the remuneration policy are contained in the Remuneration Report included in the Directors' Report. The Company's policy is to remunerate non-executive directors at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance. The Company may grant options and performance rights to non-executive directors. The grant of options and performance is designed to recognise and reward efforts as well as to provide non-executive directors with additional incentive to continue those efforts for the benefit of the Group.

The maximum aggregate amount of fees (including superannuation payments) that can be paid to non-executive directors is subject to approval by the shareholders at general meeting.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options and / or performance rights granted at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options and / or performance rights is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles. Executives are offered a competitive level of base pay at market rates (for comparable companies) and are reviewed annually to ensure market competitiveness. The Company's policy is not to allow transactions in associated products which limit the risk of participating in unvested elements of equity-based compensation plans.

There are currently no termination or retirement benefits for non-executive directors (other than for superannuation).

	Note	31 Dec 2016 USD	Restated* 31 Dec 2015 USD
Distribution from Lulo Joint Venture	5	5,907,172	-
Share of profit of associate	14	4,050,385	-
Fair value adjustment on Lulo receivable	11	(1,541,896)	-
Finance income	5	52,629	2,780
Consulting expenses		(1,145,673)	(303,780)
Depreciation expense		(169,455)	(3,169)
Employee benefits expenses	6	(2,207,554)	(1,162,157)
Director and employee options	6	(936,892)	(554,519)
Finance expense		(48,794)	(1,297)
Foreign exchange losses		(319,343)	(6,704)
Other expenses		(876,659)	(668,063)
Profit/ (loss) before income tax		**2,763,920**	**(2,696,909)**
Income tax expense	7	-	-
Profit/ (loss) after income tax for the period		**2,763,920**	**(2,696,909)**
Other comprehensive income/ (loss)		(4,865)	(3,027,550)
Total comprehensive income/ (loss) attributable to members of the Company		**2,759,055**	**(5,724,459)**
Earnings/ (loss) per share			
Basic earnings/ (loss) per share (cents)	8	0.91	(1.24)
Diluted earnings/ (loss) per share (cents)	8	0.82	(1.24)

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

** Refer to Note 3(b) for more information regarding prior year restatement*

	Note	31 Dec 2016 USD	Restated* 31 Dec 2015 USD
Assets			
Cash and cash equivalents	9	4,349,142	622,208
Trade and other receivables	10	83,242	33,119
Financial assets	11	236,975	21,882
Total current assets		**4,669,359**	**677,209**
Deferred exploration and evaluation costs	12	9,667,065	8,279,406
Alluvial development	13	1,821,093	28,483,587
Financial assets	11	33,285,531	-
Investment in associate	14	4,050,385	-
Property, plant and equipment	15	27,417	7,489
Total non-current assets		**48,851,491**	**36,770,482**
Total assets		**53,520,850**	**37,447,691**
Liabilities			
Trade and other payables	16	184,723	1,773,400
Provisions	17	-	803,476
Borrowings	18	407,233	-
Total current liabilities		**591,956**	**2,576,876**
Total liabilities		**591,956**	**2,576,876**
Net assets		**52,928,894**	**34,870,815**
Equity			
Share capital	19	89,114,329	74,882,174
Reserves		(1,923,581)	(2,895,387)
Accumulated losses		(34,261,854)	(37,115,972)
Total equity		**52,928,894**	**34,870,815**

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

* *Refer to Note 3(b) for more information regarding prior year restatement*

	Issued capital USD	Options reserves USD	Foreign currency translation USD	Accumulated losses USD	Total USD
Balance at 1 January 2015 - Restated*	66,892,917	592,773	(2,836,296)	(34,419,063)	30,230,331
Comprehensive income for the year					
Loss for the period	-	-	-	(2,696,909)	(2,696,909)
Other comprehensive income	-	-	(3,027,550)	-	(3,027,550)
Total comprehensive income for the year	**-**	**-**	**(3,027,550)**	**(2,696,909)**	**(5,724,459)**
Transactions with owners, recorded directly in equity					
Issue of share capital	10,651,114	-	-	-	10,651,114
Issue of options	-	2,375,686	-	-	2,375,686
Share issue expenses	(2,661,857)	-	-	-	(2,661,857)
Total transactions with owners	**7,989,257**	**2,375,686**	**-**	**-**	**10,364,943**
Balance at 31 December 2015 - Restated*	**74,882,174**	**2,968,459**	**(5,863,846)**	**(37,115,972)**	**34,870,815**
Comprehensive income for the period					
Profit for the period	-	-	-	2,763,920	2,763,920
Other comprehensive income	-	-	(4,865)	-	(4,865)
Total comprehensive income for the period	**-**	**-**	**(4,865)**	**2,763,920**	**2,759,055**
Transactions with owners, recorded directly in equity					
Issue of share capital	14,492,901	-	-	-	14,492,901
Issue of options	-	970,451	-	-	970,451
Expiry of options	-	(2,107)	-	2,107	-
Transfer of reserves on exercise of options	47,870	(323,129)	331,456	88,091	144,288
Share issue expenses	(308,616)	-	-	-	(308,616)
Total transactions with owners	**14,232,155**	**645,215**	**331,456**	**90,198**	**15,299,024**
Balance at 31 December 2016	**89,114,329**	**3,613,674**	**(5,537,255)**	**(34,261,854)**	**52,928,894**

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

* *Refer to Note 3(b) for more information regarding prior year restatement*

	Note	31 Dec 2016 USD	Restated* 31 Dec 2015 USD
Cash flows from operating activities			
Proceeds of distribution from Lulo Joint Venture		6,563,532	-
Cash paid to suppliers and employees		(4,373,296)	(1,394,800)
Interest and finance cost		(44,132)	-
Interest received		50,198	2,829
Withholding tax paid		(656,360)	-
Net cash generated/ (used in) operating activities	9	**1,539,942**	**(1,391,971)**
Cash flows from investing activities			
Payments for exploration costs		(1,416,147)	(9,370,717)
Payments for development		(6,630,505)	-
Payments to associate		(3,005,095)	-
Payments for property, plant and equipment		(22,634)	-
Net cash used in investing activities		**(11,074,381)**	**(9,370,717)**
Cash flows from financing activities			
Proceeds from issue of share capital		14,539,654	10,810,600
Proceeds from issue of options		-	44,470
Share issue costs		(275,055)	(576,492)
Repayment of borrowings		(986,347)	-
Net cash generated from financing activities		**13,278,252**	**10,278,578**
Net increase/ (decrease) in cash and cash equivalents		**3,743,813**	**(484,110)**
Cash and cash equivalents at beginning of period		622,208	1,226,111
Exchange loss on foreign cash		(16,879)	(119,793)
Cash and cash equivalents at end of period		**4,349,142**	**622,208**

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

** Refer to Note 3(b) for more information regarding prior year restatement*

1. Corporate information

Lucapa Diamond Company Limited ("Lucapa" or "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 and its subsidiaries (collectively "the Group") is primarily involved in the mining and exploration of diamond projects in Africa and Australia.

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 Group 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 Group has achieved diamond exploration, alluvial development and mining success at the Lulo Diamond Project, the directors recognise that the Group may have to seek funding in the future in order to continue to exploit and develop the Lulo diamond project and the Mothae Kimberlite Project.

The Group recorded a maiden profit after tax of US$2,763,920 for the year ended 31 December 2016 and had net assets of US$52,928,894 as at 31 December 2016 (Dec 2015: loss of US$2,696,909 and net assets of US$34,870,815).

On 15 February 2016, the Company, Endiama E.P, Angola's national diamond company, and private local partner Rosas & Pétalas announced the recovery of a spectacular 404 carat diamond from the Lulo Diamond Project and on 29 February 2016, the Company announced that the 404 carat Lulo alluvial diamond sold for gross proceeds of US$16 million (A$22.5 million). On 2 March 2016, the Company announced that a special distribution had been made to the Lulo Diamond Project partners following the sale of the 404 carat Lulo alluvial diamond. Lucapa's net share of the special distribution totalled US$5.9 million (A$8.3 million).

The Company raised US$14,232,155 from the conversion of options and subsequent issue of shares during the period, further bolstering the Company's position to invest in projects as needed. In addition, the Group may also raise up to approximately US$8.7 million should option holders currently holding 46,460,607 options which are exercisable up to 30 September 2017, 3,750,000 options which are exercisable up to 24 April 2017 and 3,250,000 options which are exercisable up to 28 May 2017, exercise these options prior to expiry. As at the last trading day of the financial year, the closing share price of the Company's fully paid ordinary securities was A$0.42.

The ability of the Group 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 successful development of the alluvial mine to generate cash;
- continued cash management and successful exploration; and
- the continued successful placement of securities under the ASX Listing Rule 7.1, or otherwise (including the conversion of share options in 2017).

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

- The Group 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 alluvial mining development and other diamond exploration projects in an effective manner; and
- The successful historical ability of the Group to raise capital via equity placements and capital raisings given the prospectivity of the Lulo Diamond Project and the recent acquisition of the Mothae Kimberlite Project.

However, should the Group be unable to obtain sufficient funding as advised above, there is a material uncertainty which may cast doubt as to whether or not the Group 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as noted in (b) below.

(a) New or revised accounting policies

The Group adopted all new or revised accounting standards that became effective for reporting periods commencing on 1 January 2016. The adoption of these standards has not resulted in any material changes to the Group'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.

(b) Functional and presentation currency

An entity's functional currency is the currency of the primary economic environment in which it operates. During 2015 the Group commenced the development of an alluvial diamond mining operation on the Lulo concession which continued during the current period and an alluvial mining company for the Lulo Project, Sociedade Mineira do Lulo ("SML"), was incorporated in May 2016, in which the Group has a 40% interest. Diamond mining activities resulted in regular recovery of diamonds during the current period. As all its revenue and the majority of its expenditures are US dollar based, the functional currency of the Lulo Project is US dollars.

During the current period the Company received a US dollar denominated distribution from the Lulo Project of US$5.9 million, net of withholding tax. In addition, following the incorporation of SML, the Company has become entitled to the reimbursement of its historic US dollar denominated exploration and development costs as detailed in note 12. Based on this the directors have determined that the Company's functional currency has changed from Australian dollars to US dollars with effect from the beginning of the current reporting period. The change has been applied prospectively in accordance with the requirements of the accounting standards.

Following the change in functional currency of the Company, the presentation currency of the Group has been changed from Australian dollars to US dollars in line with the directors' view that it will enhance comparability with its industry peer group. The change in presentation currency represents a voluntary change in accounting policy and has been applied retrospectively.

To give effect to the change in functional and presentation currency, the assets and liabilities of the Company, which had an Australian dollar functional currency at 31 December 2015 were converted into US dollars at a fixed exchange rate on 1 January 2016 of A$1:US$0.7294 and the contributed equity, reserves and retained earnings were converted at applicable historical rates. The Australian dollar functional currency assets and liabilities at 1 January 2015 were converted at the rate of A$1:US$0.8181 in order to derive US dollar opening balances. Revenue and expenses for the twelve months ended 31 December 2015 were converted at the exchange rates ruling at the date of the transaction to the extent practicable (at an average of A$1:US$0.7552 for the reporting period), and equity balances were converted at applicable historical rates.
The above stated procedures resulted in the recognition of a foreign currency translation reserve of US$5,863,846 on 1 January 2016, as set out in the statement of changes in equity.

(c) Foreign currency

Foreign currency transactions and balances

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

(d) Financial instruments

Non-derivative financial instruments

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

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

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

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

Accounting for finance income and expense is discussed in Note 3(m).

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.

(e) 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced 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.

(f) Development, deferred exploration and evaluation costs

Exploration and Evaluation

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. Exploration assets that are not available for use 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.

Development

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings, plant and equipment is capitalised as development. Development includes previously capitalised exploration and evaluation costs, pre-production development costs, certain mining assets, development studies and other subsurface expenditure pertaining to that area of interest. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount is written off to profit and loss.

(g) 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.

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of 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.

(i) Employee benefits

Short-term employee benefits

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

Long-term employee benefits

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

Termination benefits

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

Share-based payment transactions

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes and binomial option pricing models, 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.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(k) Revenue

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).

(l) Leases

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

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

Payments made under operating leases are recognised in the statement of 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.

(m) 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.

(n) 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of 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 Group 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 Group determines and presents operating segments based on the information that internally is provided to the Board of directors, which is the Group's chief decision making body.

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

(o) Earnings/Loss per share

Basic earnings per share is calculated by dividing the net profit/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 profit/loss attributable to the ordinary shareholders and the number of shares outstanding for the effects of all dilutive potential shares, which comprise share options.

(p) Significant accounting judgements, estimates and assumptions

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

Exploration and evaluation assets

The Group assesses the carrying value of exploration and evaluation assets in accordance with the accounting policy noted above. The basis of determining the carrying value involves numerous estimates and judgements resulting from the assessment of ongoing exploration activities, as per the accounting policy note.

Development

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions, with inherent uncertainty, as to the future events.

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. Where required, the fair value of options granted is measured using valuation models, taking into account the terms and conditions as set out within Note 19. 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 reserves.

Provisions for rehabilitation

Included in liabilities at the end of each reporting period is an amount that represents an estimate of the cost to rehabilitate the land upon which the Group has carried out its exploration and evaluation for mineral resources. Provisions are measured at the present value of management's best estimate of the costs required to settle the obligation at the end of the reporting period. Actual costs incurred in future periods to settle these obligations could differ materially from these estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates, and discount rates could affect the carrying amount of this provision.

Impairment

The Group assesses impairment at the end of each reporting year by evaluating specific conditions that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using calculations which incorporate various key assumptions.

Financial assets

The Group's financial assets include the receivable in respect of the alluvial project that was transferred from Alluvial development as per note 11. The receivable represents the future reimbursement in US dollars of the Group's historic alluvial exploration and development costs incurred at Lulo. The recoverable amount of the receivable is reassessed using calculations which incorporate various key assumptions as per note 11.

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

4. Segment reporting

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

Assets, Liabilities and Profit/ (Loss) of the business are split as follows:

	Africa - Exploration & Evaluation, Development and Mining		Australia - Exploration & Evaluation and Head Office		Total	
	31 Dec 2016 USD	31 Dec 2015 USD	31 Dec 2016 USD	31 Dec 2015 USD	31 Dec 2016 USD	31 Dec 2015 USD
Assets						
Cash and cash equivalents	-	-	4,349,142	622,208	4,349,142	622,208
Trade and other receivables	-	-	83,242	33,119	83,242	33,119
Financial assets	204,570	-	32,405	21,882	236,975	21,882
Total current assets	**204,570**	**-**	**4,464,789**	**677,209**	**4,669,359**	**677,209**
Deferred exploration and evaluation costs	9,571,535	8,279,406	95,530	-	9,667,065	8,279,406
Alluvial development	1,821,093	28,483,587	-	-	1,821,093	28,483,587
Investment in associate	4,050,385	-	-	-	4,050,385	-
Property, plant and equipment	-	-	27,417	7,489	27,417	7,489
Financial assets	33,285,531	-	-	-	33,285,531	-
Total non-current assets	**48,728,544**	**36,762,993**	**122,947**	**7,489**	**48,851,491**	**36,770,482**
Total assets	**48,933,114**	**36,762,993**	**4,587,736**	**684,698**	**53,520,850**	**37,447,691**
Liabilities						
Trade and other payables	-	1,518,776	184,723	254,624	184,723	1,773,400
Provisions	-	803,476	-	-	-	803,476
Borrowings	407,233	-	-	-	407,233	-
Total current liabilities	**407,233**	**2,322,252**	**184,723**	**254,624**	**591,956**	**2,576,876**
Total liabilities	**407,233**	**2,322,252**	**184,723**	**254,624**	**591,956**	**2,576,876**
Profit or loss						
Profit/ (loss) before income tax	8,415,661	-	(5,656,606)	(5,724,459)	2,759,055	(5,724,459)

	Note	31 Dec 2016 USD	31 Dec 2015 USD
5. Income			
Distribution received			
Distribution from Lulo Joint Venture		6,563,532	-
Withholding tax paid		(656,360)	-
		5,907,172	**-**
Finance income			
Interest on bank deposits		52,629	2,780
		52,629	**2,780**
6. Expenses			
Auditors remuneration			
Audit services - Greenwich & Co.		32,675	21,583
Other services		-	-
		32,675	**21,583**
Employee benefits expenses			
Wages, salaries and director remuneration		1,951,949	1,026,458
Superannuation costs		93,231	79,364
Share-based payments	19	936,892	554,519
Other associated employee expenses		162,374	56,335
		3,144,446	**1,716,676**
Operating lease rental		57,968	90,351
7. Income tax expense			
Current tax expense			
Current income tax charge		-	-
Current income tax adjustments relating to prior years		-	-
Deferred tax expense			
Relating to origination and reversal of temporary differences		-	-
Total income tax expense		**-**	**-**
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate			
Net profit/(loss) before tax		2,763,920	(2,696,909)
Income tax benefit using the Australian domestic tax rate of 30%		829,176	(809,073)
Increase in income tax due to tax effect of:			
Non-deductible expenses		1,288,968	254,316
Current year tax losses not recognised		885,567	569,627
Impact of unrecognised temporary differences		7,592	8,087
Decrease in income tax expense due to:			
Non-assessable income		(1,772,151)	-
Share of profit of associate		(1,215,116)	-
Deductible equity raising costs		(24,036)	(22,957)
Income tax expense		**-**	**-**

7. Income tax (benefit) expense (continued)

Deferred tax assets not brought to account

As at 31 December 2016, the Group had estimated tax losses of approximately US$9,139,262 (31 Dec 2015: US$7,930,248), 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:

	31 Dec 2016 USD	31 Dec 2015 USD
Deferred tax asset not recognised		
Tax revenue losses	4,293,687	3,024,948
Tax capital losses	4,762,441	4,823,947
Deductible temporary differences	83,134	81,353
	9,139,262	**7,930,248**

8. Earnings/ (loss) per share

	Cents	Cents
Basic earnings/ (loss) per share (cents per share)	0.91	(1.24)
Diluted earnings/ (loss) per share (cents per share)	0.82	(1.24)
	USD	**USD**
Earnings/ (loss) used in calculating earnings per share		
Profit/ (loss) attributable to members of the Company used in calculating basic earnings per share	2,763,920	(2,696,909)
Profit/ (loss) attributable to members of the Company used in calculating diluted earnings per share	2,763,920	(2,696,909)
	Number	**Number**
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the period used in calculation of basic earnings per share	304,991,400	216,780,941
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	336,758,055	216,780,941

	31 Dec 2016 USD	31 Dec 2015 USD
9. Cash and cash equivalents		
Balances on hand		
Bank balances	4,349,142	622,208
	4,349,142	**622,208**
Cash flow reconciliation		
Reconciliation of profit after tax to cash flows from operations:		
Loss for the period	2,763,920	(2,696,909)
Adjustments for:		
Depreciation expense	169,455	3,169
Director and employee options	936,892	-
Exchange gains/ (losses)	16,880	-
Interest received	-	-
Fair value loss on financial assets	1,541,896	-
Share of profit of associate	(4,050,385)	-
Other non cash items	292,878	-
Working Capital adjustments:		
Increase/Decrease in trade and other receivables	(30,530)	14,392
Increase/Decrease in trade and other payables relating to operating activities	(101,064)	1,287,377
Net cash generated/(used in) operating activities	**1,539,942**	**(1,391,971)**

The Group's exposure to interest rate risk is discussed in Note 20. There were no non-cash financing and investing activities during this period.

	31 Dec 2016 USD	31 Dec 2015 USD
10. Trade and other receivables		
Current		
GST receivable	30,114	-
Other current receivables	53,128	33,119
	83,242	**33,119**

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in Note 20.

	31 Dec 2016 USD	31 Dec 2015 USD
11. Financial assets		
Current financial assets		
Short term receivables	236,975	21,882
Total	**236,975**	**21,882**
Non current financial assets		
Receivable in respect of the alluvial project		
At 1 January	-	-
Transfer from Alluvial development	30,586,883	-
Investment during the period	4,240,544	-
Fair value gain on foreign exchange	4,607,322	-
	39,434,749	**-**
Fair value adjustment due to discounting	(6,149,218)	-
At end of period	**33,285,531**	**-**

11. Financial assets (continued)

The receivable in respect of the alluvial project was transferred from Alluvial development as per note 13 and represents the future reimbursement in US dollars of the Company's historic alluvial exploration and development costs incurred at Lulo. The receivable has been re-measured to its estimated fair value using the *Income approach*, which is a valuation technique that converts future cash flow into a single discounted present value, and is classified as level 3 in the fair value hierarchy due to the use of unobservable inputs.

Significant unobservable inputs are the timing and amounts of future repayments which are based on the expected cash flows per the Company's forecast model for SML. Sensitivity factors which could impact the valuation include delays in the timing of repayments which will decrease the fair value estimate. A discount rate of 10.87% has been applied in the fair value calculation.

	31 Dec 2016 USD	31 Dec 2015 USD
12. Deferred exploration and evaluation costs		
Kimberlite exploration		
At 1 January	8,279,406	9,032,661
Exploration expenditure during the period	1,387,659	240,042
Foreign exchange differences	-	(993,297)
At end of period	**9,667,065**	**8,279,406**
Alluvial exploration		
At 1 January	-	21,076,209
Exploration expenditure during the period	-	10,282,459
Foreign exchange differences	-	(2,875,081)
Transfer to Alluvial development (refer Note 13)	-	(28,483,587)
At end of period	**-**	**-**

Deferred exploration costs represent the cumulative expenditure incurred by the Company in relation to the Lulo and Botswana projects on diamond exploration and evaluation including plant and equipment. The Company continues to explore for the primary kimberlite source of the alluvial diamonds being recovered on the Lulo concessions and explore for kimberlite in Botswana.

	31 Dec 2016 USD	31 Dec 2015 USD
13. Alluvial development		
At 1 January	28,483,587	-
Transfer from Deferred exploration and evaluation	-	28,483,587
Development expenditure during the period	4,091,138	-
Transfer to Financial assets	(30,586,883)	-
Amortisation	(166,749)	-
At end of period	**1,821,093**	**28,483,587**

During the previous financial year, the Company developed an alluvial diamond mining operation on the Lulo concession, under a mining license granted by the Angolan Ministry of Geology and Mines and under the permission of Endiama, the national diamond mining company of Angola. Previous expenditure for this project had been capitalised as deferred exploration and evaluation.

During that year, the Company continued to capitalise expenditure on the alluvial project as deferred exploration and evaluation, awaiting the creation of the new alluvial mining company which is to hold the gazetted mining license. As at 31 December 2015, the creation of this new company had not yet been completed. However, given that the Group had commenced alluvial diamond mining activities at Lulo, all alluvial project expenditure was reclassified to Alluvial Development at 31 December 2015.

During the current year the Company continued with development as well as alluvial diamond mining activities. On 16 May 2016, the Company announced to the ASX the execution of the documents to incorporate Sociedada Mineira do Lulo ("SML"), the new alluvial mining company for the Lulo project.

13. Alluvial development (continued)

In accordance with the Mining Investment Contract, the JV partners agreed that in the event of commercial diamond mining operations being established on the Lulo diamond project, all alluvial and kimberlite exploration and development funds and assets that the Company has transferred to the project should be reimbursed to the Company from each of the respective mining operations when commercialised. As such and following the incorporation of SML, the net cumulative balance of the Alluvial Development cost was transferred to Financial assets as a receivable (note 11).

	31 Dec 2016 USD	31 Dec 2015 USD
14. Investment in Associate		
Summarised financial information of SML		
Current assets	20,565,909	-
Non-current assets	32,231,269	-
Current liabilities	(8,865,492)	-
Non-current liabilities	(39,434,749)	-
Equity	**4,496,937**	**-**
Group's carrying amount of the investment	**4,050,385**	**-**
Revenue	25,768,711	-
Cost of sales	(8,912,869)	-
Administrative and selling expenses	(3,670,650)	-
Profit before tax	**13,185,192**	**-**
Income tax expense	(2,826,532)	-
Profit for the period	**10,358,660**	**-**
Total comprehensive income for the period	**10,358,660**	**-**
Group's share of profit for the period	**4,050,385**	**-**

The Company has a 40% interest in SML and has recognised its share of SML's results since its incorporation in May 2016. SML had no contingent liabilities or capital commitments as at 31 December 2016.

15. Property, plant and equipment

	Computer Equipment USD	Office Equipment USD	Total USD
Cost			
Balance at 1 January 2015	10,342	15,246	25,588
Additions	-	-	-
Disposals	(4,290)	(775)	(5,065)
Foreign currency movements	(974)	(1,660)	(2,634)
Balance at 31 December 2015	**5,078**	**12,811**	**17,889**
Additions	18,104	4,530	22,634
Disposals	-	-	-
Balance at 31 December 2016	**23,182**	**17,341**	**40,523**
Accumulated depreciation			
Balance at 1 January 2015	5,696	8,037	13,733
Depreciation charge for the year	1,674	1,495	3,169
Disposals	(3,632)	(212)	(3,844)
Foreign currency movements	(1,176)	(1,482)	(2,658)
Balance at 31 December 2015	**2,562**	**7,838**	**10,400**
Depreciation charge for the year	1,666	1,040	2,706
Disposals	-	-	-
Balance at 31 December 2016	**4,228**	**8,878**	**13,106**
Net carrying amounts			
At 31 December 2015	2,516	4,973	7,489
At 31 December 2016	**18,954**	**8,463**	**27,417**

	31 Dec 2016 USD	31 Dec 2015 USD
16. Trade and other payables		
Trade payables	59,819	1,464,977
Accruals and other payables	124,904	308,423
Total	**184,723**	**1,773,400**
The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.		
17. Provisions		
Provision for environmental rehabilitation	-	803,476
Total	**-**	**803,476**

The prior period provision represented the estimated environmental rehabilitation liability of Lulo. This is offset by an equal and opposite asset to be reimbursed from free cash flows of any established mining operations. The provision is measured at the present value of management's best estimate of the costs required to settle the obligation at the end of the reporting period. Actual costs incurred in future periods to settle the obligations could differ materially from these estimates.

After the establishment of commercial diamond operations and the incorporation of SML in the current period, the environmental rehabilitation asset and liability have been recognised by SML in its own financial statements, and is no longer the Company's direct financial responsibility.

	31 Dec 2016 USD	31 Dec 2015 USD
18. Borrowings		
Finance lease liability for earthmoving fleet	407,233	-
Total	**407,233**	**-**
Finance lease commitments		
Minimum payments		
Payable within one year	412,191	-
Payable after one year but less than five years	-	-
Payable after more than five years	-	-
Total minimun lease payments	412,191	-
Less: finance charges	(4,958)	-
Present value of minimum lease payments	**407,233**	**-**
Present value of payments		
Payable within one year	407,233	-
Payable after one year but less than five years	-	-
Payable after more than five years	-	-
Present value of minimum lease payments	**407,233**	**-**

The above liability is in respect of new Caterpillar earthmoving equipment acquired during the period. It is payable over a term of 2 months and is interest-bearing at an annual rate of 9%.

	31 Dec 2016 Number	31 Dec 2016 USD
19. Share capital		
Listed securities		
Movement in ordinary shares		
On issue at beginning of period	258,089,435	74,882,174
Issue of shares on exercise of options	66,882,704	14,540,771
Transaction costs	-	(308,616)
On issue at end of period	**324,972,139**	**89,114,329**
Movement in listed options		
ASX code: LOMOB		
Expiry date: 29 April 2016		
Exercise price: A$0.30		
On issue at beginning of period	58,808,136	43,218
Issue of options	8,734,607	6,759
Exercise of options	(64,694,704)	(47,870)
Expiry of options	(2,848,039)	(2,107)
On issue at end of period	**-**	**-**
ASX code: LOMOA		
Expiry date: 30 September 2017		
Exercise price: A$0.20		
On issue at beginning of period	36,660,261	-
Issue of options	10,100,346	-
Exercise of options	(300,000)	-
Expiry of options	-	-
On issue at end of period	**46,460,607**	**-**

19. Share capital (continued)

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.

Share-based payments

Exercise price (Aud) Expiry date	Share options $0.30 24 April 2017	Share options $0.30 28 May 2017	Share options $0.53 2 June 2019	Performance rights $0.00 2 June 2019	Weighted average price (Aud)
Number on issue at beginning of period	3,750,000	3,250,000	-	-	0.30
Issue of options/ Performance rights	-	-	2,925,000	4,275,000	0.22
Exercise of options/ Performance rights	-	-	-	(1,887,500)	-
Expiry of options	-	-	-	-	
On issue at end of period	**3,750,000**	**3,250,000**	**2,925,000**	**2,387,500**	0.30
Exercisable at end of period	3,750,000	3,250,000	975,004	250,000	

	31 Dec 2016	31 Dec 2015
Weighted average remaining contractual life (years)	1.25	0.9
Weighted average LOM share price during the year (A$)	0.41	0.34

Assumptions used in estimating fair value of options and performance rights granted

	Share options	Performance rights
Grant date	3 June 2016	3 June 2016
LOM share price at grant date (A$)	0.345	0.345
Estimated volatility	80%	80%
Risk-free interest rate	2.1%	2.1%
Fair value per option/right (A$)	0.145	0.338

	31 Dec 2016 USD	31 Dec 2015 USD
Share-based payment expense		
Director and employee options	936,892	554,519
Share issue expenses	33,559	2,088,702
	970,451	**2,643,221**

20. Financial risk management

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

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

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

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

Market risk

Commodity price risk

The Group is focused on its diamond mining and exploration interests in Africa and Australia. Accordingly, the Group is exposed to the global pricing structures of the diamond market.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Australian dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations that are not in the individual business unit's functional currency. The Group manages its foreign exchange risk by monitoring its net exposures and maintaining an appropriate balance between foreign currency assets and liabilities.

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

	31 Dec 2016 USD	31 Dec 2015 USD
Financial assets		
Cash and cash equivalents	1,307,014	-
Trade and other receivables	44,297	-
Financial liabilities		
Trade and other payables	153,560	2,431,313
Provisions	-	1,101,558

Cash flow interest rate risk

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

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

20. Financial risk management (continued)

The following table details the Group's exposure to interest rate risk on its interest-bearing financial instruments at 31 December.

	31 Dec 2016 USD	31 Dec 2015 USD
Financial assets		
Variable interest rates		
Cash and cash equivalents	4,349,142	622,208
Average rate for 2016: 1.3% (2015: 1.8%)		
Fixed interest rates		
Trade and other receivables (payable in less than one year)	320,217	55,001
Average rate for 2016: 2.95% (2015: 2.8%)		
Non-interest bearing		
Trade and other receivables	33,285,531	-
Financial liabilities		
Fixed interest rates		
Borrowings (payable in less than one year)	407,233	-
Average rate for 2016: 9% (2015: n/a)		
Non-interest bearing		
Trade and other payables	184,723	1,773,400

Cash flow sensitivity analysis for variable rate instruments

A sensitivity analysis 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 period ended 31 December 2015.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's potential concentration of credit risk mainly relates to amounts advanced to the Lulo Diamond Project (Notes 11 & 12). The Group's short term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to the financial assets is represented by their carrying values as at the balance sheet date.

Liquidity risk

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

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

20. Financial risk management (continued)

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

	31 Dec 2016 USD	31 Dec 2015 USD
Trade and other payables		
Payable within one year	184,723	1,773,400
Borrowings		
Payable within one year	412,191	-

Capital risk management

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

Fair value

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

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

21. Commitments and contingencies

Capital commitments

	31 Dec 2016 USD	31 Dec 2015 USD
Payable within one year		
Approved, not yet contracted	-	1,591,677
Approved and contracted	330,048	-

Contingencies
The Group did not have any contingent liabilities as at 31 December 2016 (31 Dec 2015: Nil).

22. Related party disclosures

Key management personnel compensation

The key management personnel compensation included in employee benefits expense (see Note 6) is as follows:

	31 Dec 2016 USD	31 Dec 2015 USD
Short-term employee benefits	484,216	557,638
Post-employment benefits	32,384	35,057
Share-based payments	450,836	277,920
	967,436	**870,615**

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.

22. Related party disclosures (continued)

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 director's 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.

Other related party transactions

	31 Dec 2016 USD	31 Dec 2015 USD
The following payments, relating to office rent and associated costs were made to entities associated with director Miles Kennedy:		
Kennedy Holdings (WA) Pty Ltd	46,816	-
The Bagot Road Property Partnership	11,231	87,073
Bagot Road Group Pty Ltd	-	693
The following payments, relating to professional services supplied were made to director Albert Thamm:		
Competent Person services	27,052	-

23. Parent entity disclosures

The consolidated financial statements of the Group include the following relating to the parent entity.

	31 Dec 2016 USD	31 Dec 2015 USD
Current assets	4,839,360	677,209
Total assets	53,524,667	37,447,691
Current liabilities	590,907	2,576,876
Total liabilities	590,907	2,576,876
Share capital	89,114,329	74,882,174
Reserves	(1,918,716)	(2,895,387)
Accumulated losses	(34,261,853)	(37,115,972)
	52,933,760	**34,870,815**
Profit/ (loss) for the period	2,763,918	(2,696,909)
Total comprehensive income/ (loss) for the period	2,763,918	(5,724,459)

24. Group information

The consolidated financial statements of the Group include the following subsidiaries.

	31 Dec 2016 %	31 Dec 2015 %
Lucapa Diamonds (Botswana) (Proprietary) Limited		
Incorporated in Botswana		
Equity interest held	100	N/A
Brooking Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	N/A

25. Events Subsequent to Year End

On 31 January 2017, Lucapa announced it had been awarded a 70% interest in Mothae Diamonds (Pty) Ltd, the holder of an advanced, high-quality Mothae kimberlite project by the Government of the Kingdom of Lesotho following a competitive international tender process.

On 9 February 2017, Lucapa and its Lulo partners announced that alluvial mining company SML had generated gross proceeds of US$3.8 million from the first sale of Lulo diamonds for 2017.

On 13 February 2017, Lucapa and its Lulo partners announced the recovery of a 227 carat Type IIa D-colour diamond, the second biggest recorded diamond recovered in Angola.

On 23 February 2017, Lucapa and its Lulo partners announced the recovery of a 62 carat Type IIa diamond from another new area, Mining Block 25, adjacent to Mining Block 8.

On 1 March 2017, Lucapa announced that the Government of the Kingdom of Lesotho had issued a new 10-year mining licence to Mothae, thus completing one of the conditions precedent for Lucapa to acquire its 70% interest in Mothae. Lucapa also notified the market that the Lesotho Ministry of Mining had received a legal challenge to the award of the tender to Lucapa.

On 3 March 2017, Lucapa and its Lulo partners announced that alluvial mining company SML had generated gross proceeds of US$6.9 million from the second sale of Lulo diamonds for 2017.

On 8 March 2017, Lucapa and its Lulo partners announced that the Lulo alluvial diamond venture had declared US$8 million in a combined distribution and capital repayment, with Lucapa's share totalling US$5.6 million (A$7.3 million).

On 10 March 2017, S&P Dow Jones Indices announced that Lucapa would be included in the All Ordinaries Index, effective 20 March 2017.

On 21 March 2017, Lucapa announced it had been registered as the 70% owner of Mothae Diamonds (Pty) Ltd ("Mothae"), had appointed its representatives to the Mothae Board and paid the first US$400,000 payment to the Government of the Kingdom of Lesotho for its 70% interest.

On 24 March 2017, Lucapa announced an independent maiden JORC classified Indicated and Inferred Diamond Resource for the Mothae kimberlite pipe of more than one million carats valued at US$1,063 per carat.

On 27 March 2017, Lucapa announced an updated JORC classified Inferred Diamond Resource for the Lulo Diamond Project in Angola.

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

   (a) the financial statements and notes, and the remuneration report in the Directors' Report, as set out on pages 14 to 58, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 31 December 2016 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 2; and

   (c) there are reasonable grounds to believe that the Group 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 for the financial year ended 31 December 2016.

Signed in accordance with a resolution of the directors.

MILES KENNEDY
Chairman

Dated this 27 March 2017

Greenwich & Co

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lucapa Diamond Company Limited ("Lucapa" or "the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 2 to the financial report, which describes that the ability of the Group to continue as a going concern is dependent on cash generation from its mining project, cash management, option conversions in 2017 and successful exploration programs. Without such success, further equity issues to the market may be required. As a result, there is material uncertainty related to events or conditions that may cast significant doubt on the Group'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. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Change in reporting currency

The Group decided to change its functional and reporting currency from Australian Dollars ("AUD") to United States Dollars ("USD") from 1 January 2016. The Group completed this change with reference to AASB 121 *The Effects of Changes in Foreign Exchange Rates*, to calculate the appropriate opening balances and effects on historical balances.

Our audit work included, but was not restricted to, the following:

- We obtained year end foreign exchange rates from third party sources to ensure that management has used the correct and appropriate rates in their calculations;
- We obtained the Group's change of functional and reporting currency calculations and checked the application of AASB 121 in the translations performed, to ensure the balances were calculated correctly;
- We evaluated management's approach on this subject with reference to a wide range of industry examples, to ensure the application and interpretation of AASB 121 was comparable to other industry entities.

Note 3.b) to the financial statements contains the accounting policy and details related to the procedures applied for the change in reporting currency.

Classification of SML receivable

In May 2016, Sociedad Miniera do Lulo ("SML") was incorporated, with responsibility for alluvial mining operations in Angola. Lucapa is a part owner of SML, holding 40% of the share capital in the company.

Lucapa has reclassified the balance previously treated as an Alluvial Mining asset to be a Financial Asset receivable from SML. This decision reflected the contractual provision that, on establishment of a profitable mining operation, governed under a mining license granted to an Angolan company and appropriately gazetted by the Angolan government, monies previously advanced to fund exploration and mining activities would become repayable to Lucapa, by SML.

Our audit work included, but was not restricted to, the following:

- We obtained the incorporation documents of, and share certificates in, SML, to confirm Lucapa's legal ownership and entitlement to dividends.
- We reviewed the provisions of the original JV contract to ensure compliance with all clauses required to allow repayment of funds from Angola, back to Lucapa.
- We tested potential alternative accounting treatments to Lucapa's specific circumstances, to ensure the selected treatment best captured the substance of this particular transaction.

Notes 3.p), 11, and 13 to the financial statements contain the accounting policy and disclosures in relation to the reclassification of this balance from Alluvial Mining asset to financial asset.

Potential impairment of exploration and evaluation ("E&E") assets

At 31 December 2016, the Group has incurred significant exploration and evaluation expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditures represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset may exceed its recoverable amount. Management of the Group considered whether there were any indicators of impairment.

The Group capitalises exploration and evaluation expenditure in line with AASB 6 *Exploration for and Evaluation of Mineral*

Resources. The assessment of each asset's future prospectivity requires significant judgement. There is a risk that amounts are capitalised which no longer meet the recognition criteria of AASB 6.

Management has performed a full review of the E&E portfolio of assets.

Our audit work included, but was not restricted to, the following:

- We obtained evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditures by obtaining independent searches of a sample of the company's tenement holdings;
- We enquired with management and reviewed budgets to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the Group's area of interest were planned;
- We enquired with management, reviewed announcements made and reviewed minutes of directors' meetings to ensure that the company had not decided to discontinue activities in any of its areas of interest;
- We enquired with management to ensure that the Group had not decided to proceed with development of a specific area of interest, yet the carrying amount of the exploration and evaluation asset was unlikely to be recovered in full from successful development or sale.

Notes 3.f) and 12 to the financial statements contain the accounting policy and disclosures in relation to exploration and evaluation expenditures.

Going Concern Assessment

The financial statements are prepared on the going concern basis in accordance with AASB 101 *Presentation of Financial Statements*. Because the directors' assessment of the group's ability to continue as a going concern is an area subject to judgement, we identified the Group's assessment of going concern as an area for detailed review during our audit work.

Our audit work included, but was not restricted to, the following:

- An evaluation of the directors' assessment of the Group's ability to continue as a going concern. In particular, we reviewed cash flow forecasts for the coming periods, evaluated and challenged the directors' assumptions, including future sales of diamonds, expected market diamond price, and the timeline for remittance of funds from Angola back to Australia.
- An evaluation of the directors' plans for future actions in relation to its going concern assessment, taking into account any relevant events subsequent to the year-end through discussion with the management and review of public announcements made by the Company.

The Group's assessment of going concern is included in Note 2.b) to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Review of Operations and Directors Report and other information included in the Group's annual report for the year ended 31 December 2016 but does not include the financial report and our auditor's report thereon.

The other information obtained at the date of this auditor's report is included in the annual report (but does not include the financial report and our auditor's report thereon).

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 18-21 of the directors' report for the year ended 31 December 2016.

In our opinion the Remuneration Report of Lucapa Diamond Company Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens

Managing Director

27 March 2017

Perth

Additional information current as at 15 March 2017 required by Australia Securities Exchange Limited Rules and not disclosed elsewhere in this Report.

1. CAPITAL STRUCTURE

Ordinary Share Capital

325,097,139 ordinary fully paid shares held by 7,160 shareholders.

Spread			Number of Holders	Number of Shares
1	to	1,000	444	194,664
1,001	to	5,000	2,455	6,923,321
5,001	to	10,000	1,227	9,884,682
10,001	to	100,000	2,512	84,290,334
100,001 and above			522	223,804,138

As at 15 March 2017 there were 748 fully paid ordinary shareholders holding less than a marketable parcel.

2. VOTING RIGHTS

Ordinary Shares

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

Options and Performance Rights

Options and performance rights carry no voting rights and convert to one ordinary share upon exercise.

3. ON-MARKET BUY-BACK

There is no current on-market buy back.

4. SUBSTANTIAL SHAREHOLDERS

Fully Paid Ordinary Shares Name	Number Held	% of Issued Capital
CARRINGTON CORP PL, JITARNING NOM PL, SINED UNIT TRUST, HARRADEN PTY LTD	19,580,000	6.06%

5. TOP 20 HOLDERS OF QUOTED SECURITIES

Fully Paid Ordinary Shares Name	Number Held	% of Issued Capital
CARRINGTON CORP PL	13,700,000	4.21%
J P MORGAN NOM AUST LTD	7,246,809	2.23%
CITICORP NOM PL	5,602,873	1.72%
GREGORACH PL	4,101,967	1.16%
SLADE TECHNOLOGIES PL	4,066,668	1.13%
ONE DOG ONE BONE PL	3,770,000	1.12%
LAWRENCE CHRISTOPHER P	3,650,000	1.06%
JITARNING NOM PL	3,350,000	1.03%
NATIONAL NOM LTD	3,112,613	0.96%
BRAUN PETER KARL	3,000,000	0.92%
ADAMS PETER DANIEL	2,775,001	0.85%
GREGORACH PL	2,708,251	0.83%
COXON ANNA	2,500,000	0.77%
PULLINGTON INV PL	2,482,600	0.76%
HSBC CUSTODY NOM AUST LTD	2,401,530	0.74%

ROXTEL PL	2,051,272	0.63%
SCOTT-HAYWARD KERRY V	1,900,000	0.58%
BAYNES ROSS SPENCE	1,814,612	0.56%
BNP PARIBAS NOMS PL	1,754,555	0.54%
AVANTEOS INV LTD	1,628,801	0.50%
	73,617,552	**22.62%**

6. OPTIONS – QUOTED (ASX: LOMOA)

As at 15 March 2017 there were 46,460,607 listed options expiring 30 September 2017 exercisable at $0.20 held by 167 option holders.

Spread			Number of Holders	Number of 30 September 2017 Options
1	to	1,000	4	1,663
1,001	to	5,000	17	51,649
5,001	to	10,000	21	178,045
10,001	to	100,000	71	4,011,180
100,001 and above			54	42,218,070

As at 15 March 2017 there were 12 $0.20 30 September 2017 option holders holding less than a marketable parcel.

7. TOP 20 HOLDERS OF OPTIONS - QUOTED (ASX: LOMOA)

Options (ASX: LOMOA) Name	Number Held	% of Issued Capital
CARRINGTON CORPORATE PTY LTD	19,000,000	40.89%
JITARNING NOMINEES PTY LTD	3,500,000	7.53%
GREGORACH PTY LTD	2,546,195	5.48%
MS ANNA COXON	2,500,000	5.38%
NUTSVILLE PTY LTD	1,270,000	2.73%
CITICORP NOMINEES PTY LIMITED	1,000,000	2.15%
ONE DOG ONE BONE PTY LTD	660,000	1.42%
MR JAMIE PHILIP MYERS	569,961	1.23%
MS PAOLA ANDREA BARRENA	555,555	1.20%
MRS KYLIE-ANNE DRUMMOND	500,000	1.08%
GOLDFIRE ENTERPRISES PTY LTD	500,000	1.08%
TISCO AUSTRALIA PTY LTD	500,000	1.08%
GREAT EASTERN HOLDINGS PTY LTD	450,000	0.97%
MR DEREK DECLAN BRUTON	438,500	0.94%
MR PETER DANIEL ADAMS	400,000	0.86%
J P MORGAN NOMINEES AUSTRALIA	400,000	0.86%
MR BERNARD FRIEND	400,000	0.86%
HUMMOCK TRADING PTY LTD	384,500	0.83%
C W JOHNSTON PTY LTD	360,000	0.77%
ROXTEL PTY LTD	341,413	0.73%

8. UNLISTED OPTIONHOLDERS

There are 7 holders of 3,750,000 unlisted $0.30 options exercisable on or before 24 April 2017. There are 4 holders of 3,250,000 unlisted $0.30 options exercisable on or before 28 May 2017.

Competent Person's Statement

Information included in this announcement that relates to previously released exploration data was disclosed under JORC Code 2012. That 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 Albert Thamm MSc FAusIMM (CP), who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm is a Director of Lucapa Diamond Company Limited. Mr Thamm 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 Thamm consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

Forward-Looking Statements

This announcement has been prepared by the Company. This document contains background information about the Company and its related entities current at the date of this announcement. 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 announcement. This announcement 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.

This announcement may not be distributed in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. Recipients should inform themselves of the restrictions that apply in their own jurisdiction. A failure to do so may result in a violation of securities laws in such jurisdiction.

This document does not constitute investment advice and has been prepared without taking into account the recipient's investment objectives, financial circumstances or particular needs and the opinions and recommendations in this representation are not intended to represent recommendations of particular investments to particular investments to particular persons. Recipients should seek professional advice when deciding if an investment is appropriate. All securities transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments.

No responsibility for any errors or omissions from this document arising out of negligence or otherwise is accepted. This document does include forward-looking statements. Forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions which are outside the control of the Company. Actual values, results, outcomes or events may be materially different to those expressed or implied in this announcement. Given these uncertainties, recipients are cautioned not to place reliance on forward-looking statements.

Any forward-looking statements in this announcement speak only at the date of issue of this announcement. Subject to any continuing obligations under applicable law and ASX Listing Rules, the Company 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.