



Lesedi La Rona & Lucara

Big Rocks, Big Dreams and Small Companies

On the eve of the highly anticipated auction at Sotheby's London of the largest gem-quality rough diamond in the world – the 1,109-carat Lesedi La Rona – the Diamond Loupe brings you our in-depth discussion with Lucara Diamond CEO William Lamb. During the Antwerp leg of the Lesedi's world tour, we sat down with William Lamb to discuss Lucara's management strategy, decision-making process, use of innovative technology and, of course, the magnificent Lesedi La Rona. What lies in store for Lucara's historic stone?



The Karowe Mine, former owner De Beers' vs. current owner Lucara's approach

It is all about scale and approach. De Beers sold the mine because it did not fit with their large-mine process. De Beers would call it 'elephant hunting'. They are out there looking for mines that would have 30 to 40-year life spans, and would implement a more 'Rolls Royce' type technical solution. This type of sheer volume involves much more costly capital expenditure, and is precisely why we finally relinquished the Mothae Mine. Believe me, we looked at it six ways of Sunday, at all the alternatives ... small scale, large scale, new technology, old technology ... and we couldn't get it to work. Whereas a number of junior companies like us are now implementing what we call a 'fit-for purpose' solution that is not a Rolls Royce, but a sort of VW-type solution that can extract value from smaller deposits that the majors would not consider economical.

We also have a different way of thinking. Instead of putting in massive amounts of crushing capacity, we were the first Western company to implement autogenous milling because it was a more efficient, gentler process. We were also the first to use XRT as a bulk sorter, replacing DMS (Dense Media Separation) on the larger size fractions. DMS has been the mainstay of the diamond industry for the better part of 40 years, but it is expensive. It uses lots of water, lots of power, and lots of ferrous silicon. We can do the same work as a 1.1 megawatt, DMS processing stream with one machine. So we see a number of advantages in the implementation of new technology. It comes down to returns to the shareholder.

Management by Magic 8-Ball: decision-making, risk management and making your own luck

It is true that implementing XRT technology is one of the reasons we find these large diamonds, but it is our size, as a company, that gives us the ability to make the innovative adaptations we deem necessary. Working for a very large company, bureaucracy gets in the way of making decisions and trying new things and it stifles innovation. In a smaller company, you have the ability to make decisions within a certain risk profile.

For example, we recovered the very first large stone, 239 carats, back in April 2013. We recovered a 123-carat and a 76-carat stone within three days of that one. So suddenly we had something we hadn't quite expected. And straightaway we made changes to the process plant. We didn't wait to have a committee decide. Lucara has a very small team in the corporate office. So if a decision needs to be made, it can be made in 5-10 minutes. We are very proactive in how we make decisions. I call it management by Magic 8-Ball. Everybody has a Magic 8-Ball in their office. It's not that we use the Magic 8-Ball, but the 8-Ball represents the mechanism we use for risk management.



If you are going to make a decision, understand that there are a number of outcomes that follow from it. You need to consider what the outcomes are, make sure you have a plan in place to mitigate them, so you can always get it back to what you thought or planned it to be, and that's how we do it. We look at it in a very similar way as the polished sector. It's about maximizing the value of the rough.

We also focus on things we can control. We don't have control over what people are going to pay for our diamonds, but we do have control over how much it costs to recover them, over the overall efficiency the plant, how we manage the processing facilities so as not to break the stones. We do everything as efficiently and effectively as possible, hoping that if there is volatility in the diamond market, our own internal processes will mitigate and smooth out that volatility.

So, once the stones started getting larger and larger, and the technology was available, we implemented the XRT solution. Our management team's proactive approach, which enabled us to deploy the new technology quickly and effectively, is ultimately what led to the recovery of those stones. We integrated the XRT machines into the process plant in July last year, and within four months we had the recovery of a thousand-carat stone.

Luck did play a role, in that the 374-ct stone that we recovered the day after the Lesedi La Rona was part of the original stone. If it hadn't cleaved off, the whole stone would have been too large to go through the sieves and it would have ended up in the crusher. We wouldn't be sitting here today with the Lesedi. Management, for the recovery of large stones, on the other hand, is something we have done proactively. It is actually the culmination of a general philosophy: there is no such thing as trying. Either you take the steps necessary to enable you to succeed and then act on them or you don't. To say you will 'try' says that you are setting yourself up for failure. So you either say, I have the resources and am going to get it done, or you determine that it is not feasible and you look for another solution. The freedom to take this stance, and to pursue alternatives, sets us apart.



We are ridiculously frugal

Certainly our recent discoveries have put us in a stronger position financially, and that brings new opportunities as well as fresh challenges. The diamond industry is exceptionally small. The relationships people have in the diamond industry are very good because it is such a small community. So when people say, 'We have X project', there is a good chance that we have already looked at it. When you have a large amount of cash on hand - and I think we are the only diamond company that has no debt, and our bank balance continues to grow even though we are paying a dividend - the big concern, especially from the shareholder side, is that we are just going to waste the money. This is a very common trend - not just in diamonds, but also in the mining industry in general. We at Lucara are ridiculously frugal.

In 2012 when we first started selling diamonds, it was an original production. The market had never seen diamonds from the AK6 kimberlite. So it took 6 to 9 months to get fully realized value. The culture on site during those first nine months was: focus on cost. And the focus on site is still: let's do things within our area of control. Again, you can control the costs, but you can't control the revenue. And I think that culture has helped us going forward, even though we have more money than we had originally planned.



Ambition

No matter how well it is going right now, we will always keep pushing ourselves. The one thing about the Lucara management is that we are very, very competitive. Why would we settle for number two? Is there an opportunity where we could actually put systems in place and achieve the status of being number one?

As a company, we sit down on a regular basis and reevaluate the company's money blueprint. Our new blueprint is quarter of a billion dollars. Will we achieve that quicker than we think? Let's see how the sale of the Lesedi goes. But we continuously evaluate where we are. If you don't, then discretionary spending starts to play a much bigger role in how you make decisions. And it is about always striving for the next point, always moving the goalposts. Because if you reach the goalpost and suddenly you are satisfied, that's when things start to go wrong.

Options for growth: is one mine enough?

That is the challenge in the diamond industry. It is always very difficult because there are so few mines in the diamond industry. We are currently doing deep-drilling (at Karowe) to extend the indicated resource to below 600 meters, which gives us another potential 10-15 years of life of mine on the asset we are currently mining. Fortunately, all of it is in the south lobe, where the large stones come from. And then we have two exploration licenses.

It would be nice to discover something that is a stand-alone operation, and we know that the one we just completed contains diamonds. Are they going to be present in economic quantities to generate the mine? Maybe not. Will it provide additional feed stock for the operation we already have? Very possibly. These are two of the three potential outcomes, the other being that it is not going to be economic at all. So we have two potential opportunities for success, and I would rather have a 2 out of 3 chance than zero.

That one phone call



Around 4 a.m. I saw I missed a phone call at 1:28 a.m. So I phoned Paul [C.O.O. Paul Day] back at five past four. For most of the next three or four weeks I would wake up at 4 a.m. in a cold sweat trying to figure out what we were going to do with a 1,109 carat diamond.

The first thing that goes through your mind when you get a call at 1:28 is: something has gone wrong, normally an accident. It's bad news. When Paul said, "Are you sitting down?" my heart just sank. He said "Congratulations, Lucara is the first company in a hundred years to recover a stone over a thousand carats." It goes quiet for a while and you think, 'what does it look like, how do we get it to Gaborone, is it a gem-quality stone, were there others?' I already had a trip planned down to Botswana, so I saw it eight days later. It was something to behold.



Lesedi La Rona: to cut or not to cut?

From the competitive side, it is the largest gem-quality stone in existence. Why would you polish it? My personal viewpoint is: get a full analysis done. Get the diamond scanned so you know what the potential solutions are. Put the solutions into a nice leather-bound book: the 20 best solutions for the world's largest stone. Get all that documented. It adds value to the stone. It actually epitomizes the value of the stone. So you know what is potentially contained within it, but don't polish it yet ... because then it is lost.

One of the things we are looking at is: how do you develop a new diamond investment class? The biggest problem is ... say hypothetically you cut three 200-carat D polished stones, because that is the maximum yield if you go that route. You then have three of the same. This is the reason why it is so difficult to establish a new asset class for D-flawless 100-carat stones. Ten years ago I don't think there was a single hundred carat D-flawless diamond. Now there are between 15-20. We don't know whose hands they are in. But they are not yet at that stage where they are traded almost as an exchange of money, similar to what you see with gold. That is what we would like to see. It is going to take quite a bit of active marketing to reach that. But again, partnering with Sotheby's actually gives us access to those people that can potentially make it happen.



Exceptional rarity: Nature in its purest form

Colored stones are very quickly achieving investment-class status. Take the Oppenheimer Blue. Do you know what the probability is of recovering a blue diamond? The probability of having boron in place when diamonds are formed is so remote that there is a better chance of having life on another planet than recovering a blue stone. That's why they are so rare.

This goes for the Lesedi as well. A little bit of math: new studies have shown that the gas cloud that created the Earth only started to consolidate four and a half billion years ago. The Lesedi is estimated at 2.5 to 3 billion years old, which means that the crystal must have started growing very early on during the creation of the earth. People simply do not understand how long it takes to grow a stone, especially one of this size, or anything that is going to be polished into 100 carats for that matter.

Another reason for not polishing the Lesedi? It is nature in its purest form. You cannot replicate it by any means, not by synthetic manufacturing or anything else. It will never be exactly the same. It won't have the same inclusions, it won't have a little gap somewhere, it won't have this growth plane and it won't be that large. It is an absolute 'once in a lifetime' stone. But as soon as you polish it, and you polish it into something that somebody else might have, it loses its rarity. Everybody asks me now, with all the new technology, is there going to be a wealth of big stones being recovered? There is not. You can put the technology there, but it doesn't guarantee that you are going to recover large stones. This is solely dependent on the resource.

The Lesedi La Rona will be sold through auction on Wednesday June 29, 6:30 p.m. BST and can be followed live via [Sotheby's](#).