



QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2019

Lucapa Diamond Company Limited (ASX: LOM) (“Lucapa” or “the Company”) achieved record production of diamonds at the high-value Mothae and Lulo mines in the December 2019 Quarter (the “Quarter” or “Q4”) and calendar 2019 (FY 19) while continuing to drive operational efficiencies.

Significantly, the Quarter also marked a positive change in sentiment in the global rough diamond market after challenging conditions throughout 2019, with a pick-up in mid-stream demand and prices evident across the sector.

Lucapa’s operational highlights in the Quarter and FY 19 included:

- Record quarterly production of 9,834 carats from the new Mothae kimberlite mine for a 2019 total of 30,107 carats in its first year of production – 45% ahead of plan
- Combined production of 14,004 carats of diamonds from the Mothae and Lulo operations for a record 2019 total of 49,117 carats¹
- Combined gross sales of US\$16.8m (A\$24.4m) for record 2019 total of US\$55m (A\$79m)¹
- Record recovery of 287 individual diamonds from Mothae and Lulo weighing +4.8 carats for a combined 2019 total of 1,164
- Delivery of diamonds from both mines into value-adding cutting & polishing partnerships
- Plans in place to continue increasing combined group production to >60,000 carats in 2020¹

DIAMOND PRODUCTION & SALES¹				
DECEMBER 2019 QUARTER & FY 2019				
	Mothae²	Lulo³	Q4 Total	FY 19
Tonnes treated	308,917	106,051*	414,968	1,625,826
Carats recovered	9,834	4,170	14,004	49,117
+4.8 carat diamonds recovered	167	120	287	1,164
+10.8 carat diamonds recovered	46	39	85	357
Sales (US\$m)	7.1	9.7	16.8	55.0
Price per carat (US\$)	597	1,185	837	1,127

¹On a 100% basis; ²70% subsidiary; ³40% associate. *Converted from bulk cubic metres to tonnes

Managing Director Stephen Wetherall commented: “Lucapa achieved its key operational goals during the Quarter and FY 19, delivering record group production and sales while focusing on reducing unit operating costs at both Lulo and Mothae. It was particularly pleasing to see our new Mothae mine exceed its first-year production targets by such a healthy margin, while the advancements made with our cutting & polishing strategy have established new profit streams for Lulo and Mothae.”

“Unfortunately, these operational achievements at our high-value mines provided only some protection against the decline in global rough diamond demand experienced during 2019, which impacted sale prices and revenues for diamond producers across the sector.”

“The distinct pick-up in mid-stream demand and prices evident towards the end of the year means we go into 2020 on a much more positive note as Lucapa looks to leverage off the investments made in recent years to develop a second producing mine at Mothae and to expand production at Lulo.”



Selection of Lulo diamonds sold during the Quarter

Group diamond production growth

The production results achieved by the Mothae and Lulo mines during the Quarter contributed to record annual group production of 49,117 carats in 2019 (on a 100% basis). Lucapa will continue to prioritise production growth in 2020 as demand and sentiment improve in the global diamond sector, targeting annual group production of >60,000 carats.

The US\$12m capital investment program implemented at Lulo in 2019 is on track to deliver a ~50 per cent increase in carat production in 2020 (Refer Lulo mining and operations section). Lulo alluvial mining company *Sociedade Mineira Do Lulo* (“SML”) has already funded US\$9m and is scheduled to complete the capital cost of this expansion program in Q1 2020.

The increase in production, coupled with new revenue streams generated from diamond cutting & polishing partnerships (Refer Cutting & polishing partnerships section), will enable SML to increase returns and distributions to the Lulo partners and make more regular repayments throughout 2020 on the ~US\$30m in development loans due to Lucapa.

At Mothae, the new plant has regularly operated above its 1.1Mtpa nameplate capacity in its first year of operation. Lucapa believes there is further scope to optimise plant throughput and thus increase carat production in 2020.

The planned production increases at Lulo and possibly Mothae will also generate additional economies of scale benefits at both mines.

Mothae kimberlite mine, Lesotho

(Mothae Diamonds (Pty) Ltd - Lucapa 70%; Government of the Kingdom of Lesotho 30%)

Mining and operations

Diamond mining and processing operations continued to perform well ahead of plan at Mothae during the Quarter, capping off a strong operational performance in its first year of operations.

Record volumes processed (up 15% on plan to 308,917 tonnes) and record diamond grades (up 54% to 3.18 carats per hundred tonnes) combined to produce 9,834 carats in the Quarter and a new production record. This resulted in a 2019 total of 30,107 carats – 45% ahead of plan (Table 1).

Mothae’s production mix for the Quarter included a record 167 diamonds +4.8 carats in weight, including 46 Specials (+10.8 carat diamonds) and two +100 carat diamonds. While not of high quality, the 220 carat and 127 carat stones provided further evidence that Mothae is a very large diamond producing resource.

As referred to earlier in the Group diamond production growth section of this report, Lucapa believes there is further scope to optimise plant throughput at Mothae and thus increase carat production in 2020.

MOTHAE DIAMOND PRODUCTION						
	Q1	Q2	Q3	Q4	FY 19	FY 19 v Plan
Tonnes treated	283,042	265,408	298,726	308,917	1,156,093	11%
Carats recovered	6,918	6,349	7,007	9,834	30,107	45%
Recovered grade (cpht)	2.44	2.39	2.35	3.18	2.60	31%
+4.8 carat diamonds recovered	138	91	135	167	531	
+10.8 carat diamonds	42	18	39	46	145	
Closing diamond inventories	4,552	3,855	6,378	4,284	4,284	131%

Table 1: Mothae treatment and recovery results



Gem-quality Mothae diamonds sold during the Quarter – 25 carat white and 22 carat yellow

Diamond Sales

A total of 11,888 carats of Mothae diamonds were sold at tender during the Quarter for gross sale proceeds of US\$7.1m (A\$10.4m). This took total sales concluded in 2019 to US\$16.5m (A\$23.8m) at an average price per carat of US\$575 (A\$830) (Table 2).

Mothae had a diamond inventory of 4,284 carats at the end of the Quarter. The next tender of Mothae diamonds is scheduled for February 2020.

MOTHAE DIAMOND SALES					
	2019				
	Q1	Q2	Q3	Q4	FY
Carats sold	5,411	7,008	4,412	11,888	28,720
Sales (US\$m)	3.8	3.5	2.1	7.1	16.5
Price per carat (US\$)	707	495	476	597	575

Table 2: Mothae diamond sales

Note: Q1 and FY 19 totals include revenues from diamonds recovered during the pre-production phase which, under International Financial Reporting Standards ("IRFS"), are to be recognised as a reduction in the development asset and not in 2019 revenue (Refer ASX announcements 15 July 2019 and 3 September 2019)

Lulo alluvial mine, Angola

(Sociedade Mineira Do Lulo ("SML") - Lucapa 40% associate and operator)



Lucapa Managing Director Stephen Wetherall meets with Angolan President, His Excellency Joao Lourenco and Minister of Mineral Resources and Petroleum, the Honourable Diamantino Azevedo, during the Quarter at the inaugural 2019 Angolan Mining Conference held in Luanda, Angola

Mining and operations

Production at Lulo during the Quarter was disrupted by near record rainfall and an interruption in operations late in the Quarter due to industrial action, which has since been resolved.

A total of 4,170 carats were produced during the Quarter for annual production of 19,010 carats, within 1% of the previous year's result, notwithstanding the above events.

The production mix for the Quarter included 120 diamonds +4.8 carats in weight for a 2019 total of 633. This included 39 Specials for a 2019 total of 212 (Table 3).

The largest diamond recovered during the Quarter was an 84 carat gem-quality stone. Post-Quarter, the Lulo partners recovered a 117 carat gem-quality stone – the 14th +100 carat diamond recovered to date (Refer ASX announcement 9 January 2019).

LULO DIAMOND PRODUCTION						
	Q4 18	FY 18	Q4 19	FY 19	Q4 19 v Q4 18	FY 19 v FY 18
M³ treated (bulked)	70,047	285,704	62,383	276,313	-11%	-3%
Carats recovered	5,070	19,196	4,170	19,010	-18%	-1%
Recovered grade (cphm)	7.2	6.7	6.7	6.9	-8%	2%
+4.8 carat diamonds recovered	164	648	120	633	-27%	-2%
+10.8 carat diamonds	50	214	39	212	-22%	-1%
Closing diamond inventories	1,935	1,935	955	955	-51%	-51%

Table 3: SML treatment and recovery results



84 carat Lulo gem (right) recovered during the Quarter and 117 carat gem (left) recovered post-Quarter

The full fleet of new earthmoving equipment was operational at Lulo throughout the Quarter. This new Volvo and Caterpillar fleet – comprising six excavators, eight trucks, two tracked dozers and a wheel dozer – is part of a US\$12m SML-funded expansion of the alluvial mining operations which is planned to deliver a ~50% increase in carat production in 2020 (Refer Group diamond production growth section).

Alluvial drilling programs continued during the Quarter, in tandem with the mining operations, to delineate additional diamond-bearing gravels in both the terraces and flood plain (leziria) areas along the Caculo River.

These drilling results will be included in an updated JORC resource scheduled for 2020. The number of holes drilled in this ongoing resource delineation program is set to increase from 6,000 in 2019 to >10,000 in 2020 following the delivery of two new auger rigs.

Diamond Sales

SML completed the sale of 8,198 carats of run of mine Lulo diamonds during the Quarter for gross revenues of US\$9.7m (A\$14.4m). This took total sales concluded in 2019 to US\$38.5m (A\$55.2m), at an average price per carat of US\$1,918 (A\$2,751), further evidencing Lulo's status as one of the world's highest average US\$ per carat diamond producers (Table 4).

LULO DIAMOND SALES						
	Q4 18	FY 18	Q4 19	FY 19	Q4 19 v Q4 18	FY 19 v FY 18
Sales (carats)	5,407	20,121	8,198	20,061	52%	0%
Sales (US\$m)	6.0	26.4	9.7	38.5	61%	46%
Price per carat (US\$)	1,118	1,313	1,185	1,918	6%	46%

Table 4: SML (Lulo) diamond sales

SML held a diamond inventory of 955 carats at the end of the Quarter, which included the 46 carat pink (Refer Cutting & polishing partnerships section).

Kimberlite exploration

(Project Lulo – Lucapa 39% JV partner and operator)

The *Project Lulo* partners launched a new 12-month kimberlite exploration program during the June 2019 quarter, based on the recommendations of a technical review of all previous results.

During the Quarter, work continued to define stream bulk sampling locations with a focus on the Canguige tributary feeding from high-interest kimberlite areas into the Cacuilu River upstream of the prolific alluvial Mining Blocks 8 and 6 (Figure 1).

Drilling and pitting was carried out in this area to identify sufficient gravel resources for bulk sampling through the SML alluvial treatment plant. A total of 176 auger holes were drilled and 44 pits excavated during the Quarter. This, combined with the 577 auger holes drilled and 42 pits excavated in the previous quarter, defined sufficient quantities of gravels for a sample to be processed through the treatment plant to test for diamonds.

The near record rainfalls experienced during the Quarter (Refer Mining and operations section above) caused delays in excavating and transporting these tributary gravel samples. Processing of these tributary gravels through the Lulo plant is now scheduled for February 2020.

Gravels have also been identified within the Xangando tributary (Figure 1), where drilling and pitting will continue to define material for sampling.

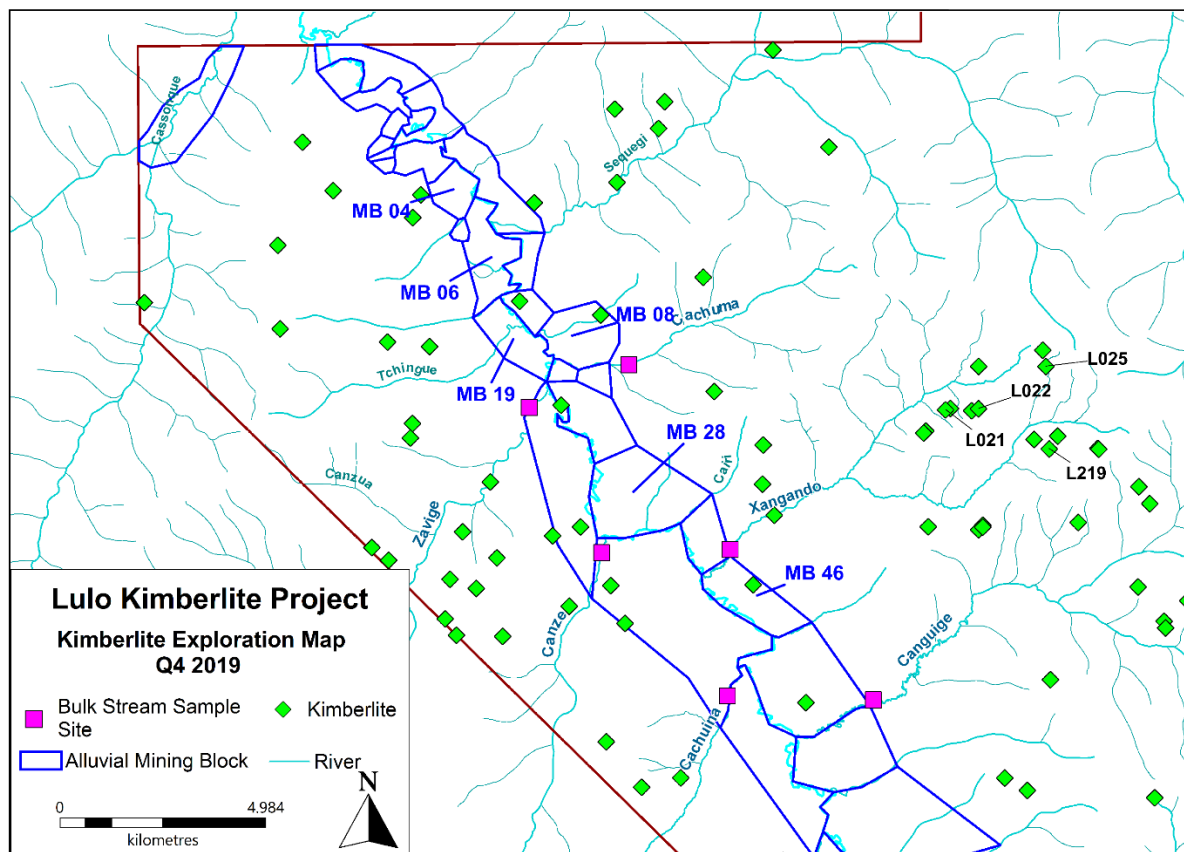


Figure 1: Six stream bulk sampling sites and identified kimberlites within the Cacuilu valley

Delineation drilling also continued during the Quarter on the 16 kimberlite pipes rated in the technical review as the most prospective for hosting diamonds. A total of 16 core holes (1,430 metres) were completed in this ongoing program at L021, L022, L025 and L219, with kimberlite material intersected in all holes.

Kimberlite licence

During the Quarter, Lucapa continued discussions with the Angolan Ministry of Mineral Resources and Petroleum and Angola's national diamond company Endiama E.P. to potentially secure a majority stake in the *Project Lulo* joint venture, which holds the primary (kimberlite) exploration licence for the 3,000km² Lulo diamond concession.

Lucapa believes that securing a majority stake in the kimberlite exploration licence will potentially open up additional funding solutions to expedite the kimberlite exploration program, which aims to identify the primary hard-rock sources of the exceptional alluvial diamonds being mined at Lulo.

Cutting & polishing partnerships

During the Quarter, Lucapa made significant advancements with its cutting & polishing strategy to enable SML and Mothae to share in profits generated from the manufacturing of rough diamonds into polished retail goods.

Lulo diamonds were sold by SML into a cutting & polishing partnership with leading international manufacturing group Safdico International ("Safdico"), a subsidiary of Graff International, one of the world's finest high-end jewellery houses.

By the end of the Quarter, ~4,900 carats had been sold into the Safdico partnership for cutting & polishing, with the first share of profits due to be paid to SML in Q1 2020.

Safdico, as a Preferred Buyer, can purchase up to 60% of Lulo's annual rough production from SML, as is permitted under Angola's transformative new diamond marketing regulations (Refer ASX announcement 29 January 2020).

The 46 carat Lulo pink diamond continued to be evaluated during the Quarter (Refer ASX announcement 24 October 2019) and a decision on the most optimal solution to realise best value will be taken by SML in Q1 2020.

The manufacture of the first Mothae diamond delivered into a cutting & polishing partnership was completed subsequent to the Quarter end, producing an exceptional result (Refer ASX announcement 14 January 2019). The 36 carat diamond was manufactured into six polished D-colour diamonds including an exceptional 8.88 carat Flawless Pear brilliant.

Other projects

No work was undertaken at the Brooking (Western Australia) or Orapa Area F (Botswana) lamproite and kimberlite exploration projects during the Quarter, in line with Lucapa's focus on maximising revenue generation at its operating mines.

Corporate

During the Quarter, Lucapa amended the repayment terms of its US\$7.5m corporate debt facility with Equigold Pte Ltd, the Company's second biggest shareholder (Refer ASX announcement 4 November 2019). The amendments included extending the repayment term and reducing the scheduled capital repayments from four quarterly instalments of US\$1.9m to eight quarterly instalments of US\$0.9m, the final of which is due in January 2022.

The Lucapa board continues to review refinancing proposals which have the potential to reduce the costs of the Company's existing debt facilities. This includes discussions with the Industrial Development Corporation of South Africa ("IDC") on the payment restructure plan on the IDC Mothae project facility.

Lucapa increased its cash balance to US\$1.7m (A\$2.5m) at Quarter end and held 4,284 carats in diamond inventory at Mothae. In addition, SML held a closing cash balance of US\$4.0m and a 955 carat diamond inventory (including the 46 carat pink).

For and on behalf of the Lucapa Board.

STEPHEN WETHERALL
MANAGING DIRECTOR

Competent Person's Statement

Information included in this announcement that relates to exploration results and resource estimates is based on and fairly represents information and supporting documentation prepared and compiled by Richard Price MAusIMM who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Price is an employee of Lucapa Diamond Company Limited. Mr Price 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 Price consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

No New Information

To the extent that announcement contains references to prior exploration results and Mineral Resource estimates, which have been cross referenced to previous market announcements made by the Company, unless explicitly stated, no new information is contained. The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant market announcements and, in the case of estimates of Mineral Resources that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

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.

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SCHEDULE OF TENEMENTS AS AT 31 DECEMBER 2019					
Country	Type	Size (km²)	Period	Interest (%)	End date
Angola	Exploration (primary) Kimberlite	3,000	5 years	39	Apr-23
Angola	Mining (secondary) and Exploration Alluvial	1,500	10 years	40	Jul-25
Lesotho	Mining Licence	47*	10 years	70	Jan-27
Botswana	Reconnaissance	8	2 years	100	Sep-20
Australia	Exploration Licence	72	5 years	80	Dec-20
Australia	Exploration Licence	13	5 years	80	Mar-24
Australia	Exploration Licence	29	5 years	80	Jun-22
Australia	Exploration Licence	3	5 years	80	Jun-23

Table 5: Schedule of tenements

* Area includes the protection area and production area