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## **AGM - CHAIRMAN'S ADDRESS**

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"Ladies and Gentlemen.

Thank you very much for attending this now belated 2019 Annual General Meeting of Lucapa Diamond Company Limited. I am Miles Kennedy, the non-executive Chairman of the Company and I am joined today by my fellow board members, Ross Stanley my fellow non-executive director, with our Executive director and Chief Operating Officer Nick Selby and our Managing Director and Chief Executive Officer, Stephen Wetherall. Our Company Secretary Mark Clements is also with us today.

We have a quorum present and I accordingly declare this meeting open.

Before we get to the Resolutions to be considered today, I would like to take a few minutes of your time discussing, for what now seems some considerable time ago, the events of both 2019 and in the 7 months of this year and I will be followed by Stephen who will address you on why we are both realistic and extremely optimistic about our Company's future.

Let me start by reminding us all of what we have achieved in these periods under discussion. Until our operations were closed down in March 2020, our company had the singular distinction of operating and producing diamonds from 2 of the world's highest \$ per carat diamond mines, namely the alluvial diamond mining operation on the 1,500 square kilometre concession at Lulo in Angola, and the Mothae kimberlite mine in Lesotho which we brought into commercial production in January 2019. I hope you all realise that when the Argyle diamond mine sadly ceases mining in October this year, that we will then become Australia's only diamond production company.

We are extremely experienced in our space and develop projects at a fraction of costs of other players. The 1.1 million tonne per annum diamond processing plant and infrastructure at Mothae was built for a total cost of circa. US\$30 million and it may interest you to learn that one of the world's biggest diamond companies also commissioned a plant of similar size last year, boasting that it done so at a cost of only \$150 million.

In addition to successfully developing Mothae, which is snow and ice bound for the winter months as it sits at an altitude of 3,200 metres, we also successfully expanded the alluvial diamond mining operations in Angola with the Angolan operating company known as SML - investing ~US\$12 million in new mining equipment which arrived late in 2019 and will enable us to increase production capacity by ~50%. In addition, we further invested in what is now a total of 5 drill rigs enabling us to substantially lift the alluvial resources so that at the increased production rate we maintain a minimum of 3 to 4 years of resource ahead of us. Because of the way the kimberlite exploration has been funded and the recent production expansion investment made in Angola, our kimberlite exploration spending was constrained at just under US\$2 million in 2019. And, as long ago as it now seems, we were able to report a group profit for the 6 months to June 2019, bearing in mind we did not yet have the benefit of our increased mining fleet in Angola and as we were ironing out the expected early stage bugs from commissioning the new diamond mine at Mothae.

By the second half of 2019, the effects of the trade war between the USA and China, higher than normal polished inventories and low liquidity in our space, badly impacted the diamond world, as did the political upheaval in Hong Kong. The biggest manufacturing jeweller and diamond retailer in Hong Kong, the listed Chow Tai Fook was forced to close more than half of its 3,600 plus outlets.

The price of the Mothae diamonds, which had an estimated sales price averaging >US\$1,000 a carat per the resource statement fell to an average of ~US\$560 dollars a carat. Even the wonderful Lulo diamonds lost over 20% of their average value during this period. Notwithstanding the worldwide downturn operationally we produced and still sold ~A\$79 million worth of diamonds in 2019.

At Mothae, above budget tonnes treated and grade recovered for the year resulted in carats recovered being 45% above budget. Combined with lower than budgeted cash operating costs per tonne, this enabled Mothae to achieve a full year EBITDA of US\$1.2 million despite launching a new mine in a very soft market.

Similarly, at Lulo, production results were largely in line with the prior year despite a record wet season impacting Q4 operations and SML reported full year EBITDA of US\$12.9 million.

The group definitely felt the soft diamond market in 2019, but we still ended the 2019 financial year with net assets of ~US\$67 million (~A\$96 million) equating to a net asset backing at that time of \$0.19 cents a share.

We did more.

Through Stephen's long experience in the diamond industry, particularly and by hundreds of hours of work with the Angolan Government, the way diamonds are sold in Angola changed and indeed value has been immediately evident. We formed a partnership with Safdico, a subsidiary of the top end diamond jewellery company Graff International, whereby our Lulo rough diamonds are sold for immediate value and payment, with SML getting 50% of the enhanced sale price after polishing the stones. This diamond polishing and selling process takes a few months but the benefits are beginning to flow as was seen with the first US\$1.5m cheque received by SML this year. Long may they continue. 60% of our Angolan production is now allowed to be sold through this preferred buyer structure, whereas previously we were required to sell them in rough form only.

So, we have successfully transformed ourselves into somewhat of a Jewellery Box, exploring for, finding, building, mining, producing, selling, cutting and polishing some of the world's best diamonds. We are partners through a significant part of the diamond value chain.

At the beginning of 2020 we began to see an uplift in the world diamond prices and strong sentiment beginning to return to the diamond market. We saw good early sales and it was interesting to note that the very last diamonds exported from the Mothae diamond site, before it was shut down due to the Coronavirus Epidemic, were valued at our highest export price to date. As a result of Covid-19, Stephen leveraged his relationships and we sold these to a high-end diamantaire for \$505 per carat – Stephen also managed to ensure Mothae maintained a 50% share in any polished margins as well.

By the end of March 2020 both our mines were closed or slowed due to Covid-19, but we continued to wear the cost of caring for and paying some 780 persons in our group who work for us. All agreed to a pay cut where legislation allowed. Havoc has since been reaped in the diamond world. De Beers sales fell by 94% in the last 3 sights. Antwerp, one of the world's biggest diamond bourses closed completely for the first time in hundreds of years. Dominion, the largest diamond company in Canada, filed for creditor protection. Petra Diamonds, a top 5 diamond producer with mines in Africa, is seeking expressions of interest for the purchase of its business or assets. Gem Diamonds, which owns the prolific Letšeng Mine in Lesotho, has seen its share price fall to record lows, as has the previous market darling, the Canadian company Lucara. And of course, as you all well know, our Company has suffered the same fate, with our share price falling to record lows because of the aftermath of the pandemic.

It could be totally disheartening, but this is not a view your board takes. I will touch very briefly on why not.

Firstly, you will all know that after 12 years of long, patient, and various exploration programs we have identified the Canguige Catchment as one of the possible sources of the incredible diamonds we mine alongside the Cacuilu River in Angola. We have identified 16 high interest kimberlites, of which 5 are within this Canguige catchment, ranging in size up to 30 hectares in surface area. It is quite possible that one of these kimberlite pipes, like Letšeng and Mothae in Lesotho, might be low-grade high-value diamond pipes and any single one of them could rank amongst the most significant discoveries, of which there have been none, since the early 1990's.

I had hoped that by now we would have had the first results from bulk sampling of Pipe 71, where we have removed about 4,000 tonnes of kimberlite material from 2 sample pits. I am sure we will get the first results within the next couple of weeks. So, a discovery of the diamond bearing kimberlites here, after a 12-year search, would be a major cause for celebration. Whilst we might not get lucky in the first pipe, there are several high-priority pipes to sample.

There too are other causes for optimism.

Our operations in Angola are now back up and running and we are working 3 shifts a day. Diamond grades in the newly defined lizeria areas alongside the Cacuilu River are recording good grades as we have reported. For the first time are mining in the river flats and seeing what diamonds are to be found there. So far, the results are very encouraging.

We have completely revised and replanned the future mining operations at Mothae, catering for a world of softer diamond prices. We are in advanced discussions with our Lesotho Government partners re a significant marketing proposal, and we hope to be able to re-open Mothae as soon as possible to show Mothae's value. Neither mine has had any reported cases of Covid-19 we are pleased to say, but the borders of both Angola and Lesotho remain largely closed at this stage.

There is also good news out of diamond sales in Hong Kong and China, where diamond sales are above pre pandemic levels especially in the top end diamonds like that which we produce.

My personal view is that our share price is now well oversold. By any yardstick - our net asset value or backing per share or our internal discounted cash flow projections or net present value estimates, we are worth multiples more than our current ASX trading prices and we look forward to proving that and delivering on that to you in the months ahead.

Before I hand over to Stephen, I want to pay special tribute to our in-country teams, especially the expatriate workforce at Lulo in Angola. Some of our team have now been on site since December 2019 unable to leave because of border closures. They have experienced worrying times especially when supplies became critically low, but throughout this they kept the plant and infrastructure in excellent condition and continued the kimberlite exploration activities as best they could.

I salute and thank all our teams around the world. As we old Africans like to say, when the going gets tough - the tough get going, and we have.

Thank you for listening to me."

**MILES KENNEDY**  
**CHAIRMAN**

## ABOUT LUCAPA

Lucapa is a niche diamond producer with high-value mines in Angola (Lulo) and Lesotho (Mothae).

The Lulo alluvial mine and Mothae kimberlite mine both produce large and high-value diamonds, with >75% of revenues generated from the recovery of +4.8 carat stones.

Lulo has produced 15 +100 carat diamonds to date and is one of the highest average US\$ per carat alluvial diamond producers in the world. Lucapa and its *Project Lulo* partners have also received highly encouraging results from their search to discover the primary hard-rock source of the high-value Lulo alluvial diamonds.

The new 1.1 Mtpa Mothae kimberlite mine in diamond-rich Lesotho commenced commercial mining operations in January 2019. It produced > 30,000 carats in its first year of production, including 3 +100 carat diamonds. The mine operations have been suspended as a result of COVID-19.

Lucapa's Board and management team have decades of diamond industry experience across the globe with companies including De Beers and Gem Diamonds.

### 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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