

Kimberlite exploration is heating up for Lucapa at Lulo

The following is a commentary on an ASX release made by Lucapa Diamond Company on 19/2/20

Background to the kimberlite program

Going back 4-5 years, when Lucapa was developing its highly profitable alluvial diamond mining operation at Lulo in Angola, most investors were actually more excited about the prospects of finding the hard rock, source kimberlite. The size and shape of the diamonds being recovered suggested that the pipes weren't far away. At one point there was even speculation that one of the alluvial mining sites lay directly over the pipe, but drilling wasn't able to confirm this. As punters realised that there wasn't going to be instant gratification on the kimberlite exploration front, they gradually moved their money into other speculative stories and the share price drifted lower.

Exploration continued while mines were developed

Fast forward to today and Lucapa now has two profitable diamond mines; the Lulo alluvial mine in Angola, and the Mothae hard rock kimberlite in Lesotho. However, the kimberlite exploration story hasn't gone away. In fact, as the announcement yesterday has indicated, it is just starting to hot up again. You need to look beyond mundane heading, "*Positive Lulo Kimberlite Exploration Results*", to appreciate what is really happening.

Zeroing on the source of the diamonds

In recent years, Lucapa has identified more than 100 kimberlite pipes near its alluvial mining blocks at Lulo. It has drill tested target anomalies to depths that range from 50-100m in most cases, to get to levels below the tropical weathering zone and beyond contamination. Follow-up mineral chemistry analysis and technical reviews involving expert consultants have narrowed down the numbers to achieve a priority kimberlite list. Five of the 16 kimberlites on that priority list, and two other prospective targets, are located in the Canguige catchment area, which feeds into the Cacuilo River valley where Lucapa has been mining some of the world's most valuable alluvial diamonds for the past five years.

Wednesday's announcement included a map (see below) of the Canguige catchment area, highlighting those five priority kimberlites and the two other targets. Lucapa has bulk sampled the Canguige tributary which feeds into the Cacuilo River valley with some highly encouraging results, recovering 45 diamonds of up to 3.75 carats in weight, including top D-colour gems.

There is added significance to these diamond recoveries because the sample site is only 3 km upstream of alluvial Mining Block 46, which has produced high value and Type Ila diamonds of 88, 68, 60, 59, 35, 33, 32 and 31 carat sizes, along with fancy pink and yellow diamonds.

The next step is to hit each of these chemically favourable targets with a number of drill holes to sample different facies and and to start to determine the geometric shape of the pipes. Subsequent bulk sampling programs can then be undertaken to find which of the pipes are diamondiferous and to get an early indication of commercial grades and diamond values. Speculative interest will be building throughout this process as shareholders keenly await news flow that may confirm that the pipes are indeed potential sources of the exceptional Lulo alluvial diamonds.

What Does all this mean? Plenty of Upside.

Well, after many years of methodical and systematic exploration, Lucapa is closer than ever to potentially holding a majority stake in the kimberlite venture and to finding the hard rock source of the fantastic quality diamonds that have been coming from the Lulo alluvial diamond field – diamonds which have achieved average sale prices of US\$1,900/carat. This has the potential to be a significant discovery.

You can define indicated JORC resources for a kimberlite mine which then allows you to calculate a value. There is much greater certainty with hard rock deposits and the opportunity to develop mines that could easily extend beyond 20 years. Perhaps more significantly though, is that Lucapa could find itself gobbled up by major diamond producers who want to control new supply to the market, particularly in light of recent media reports suggesting the diamond majors are keen to get into Angola due to its prospectivity for new discoveries.

Obviously shareholders could receive huge premiums over the current share price in such an event. Maybe those earlier speculators should be getting back on board.

Disclosure: Interests associated with the author own shares in Lucapa, and have received corporate fees in past years.

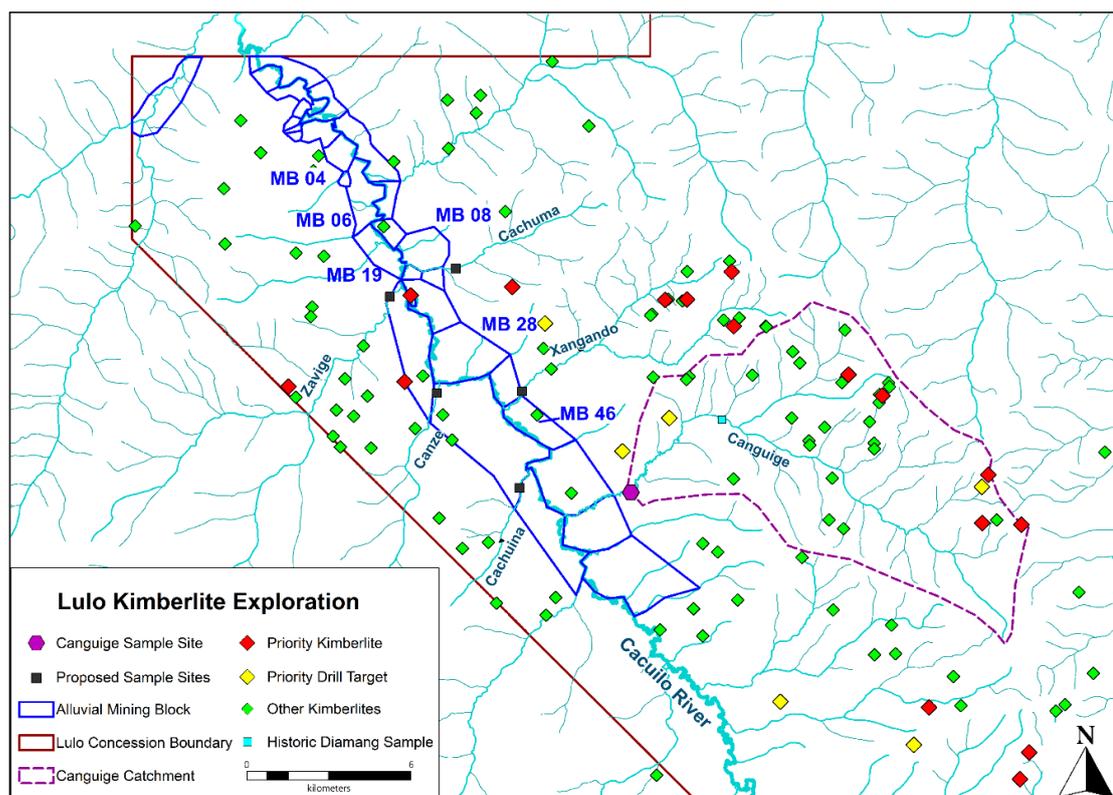


Figure 1: Location of the Canguige tributary sampling site, proximity to Mining Block 46 and kimberlites within the Canguige catchment, including five of the 16 pipes rated most prospective by a technical review to host diamonds and two priority drilling targets

FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. In this week's publication FEC discloses that interests associated with the the author hold shares in and Lucapa Diamond Company. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.

Disclaimer: This Research Report has been prepared exclusively for Far East Capital clients and is not to be relied upon by anyone else. In compiling this Commentary, we are of necessity unable to take account of the particular investment objectives, financial situation and needs of any of our individual clients. Accordingly, each client should evaluate the recommendations obtained in this Commentary in the light of their own particular investment objectives, financial situation and needs. If you wish to obtain further advice regarding any recommendation made in this Commentary to take account of your particular investment objectives, financial situation and needs, you should contact us. We believe that the advice and information herein are accurate and reliable, but no warranty of accuracy, reliability or completeness is given and (except insofar as liability under any statute cannot be excluded) no responsibility arising in any other way for errors or omissions or in negligence is accepted by Far East Capital Limited or any employee or agent. For private circulation only. This document is not intended to be an offer, or a solicitation of an offer, to buy or sell any relevant securities (i.e. securities mentioned herein or of the same issuer and options, warrant, or rights with respect to or interests in any such securities). We do not guarantee the accuracy or completeness of the information herein, or upon which opinions herein have been based. At any time we or any of our connected or affiliated companies (or our or their employees) may have a position, subject to change, and we or any such companies may make a market or act as principal in transactions, in any relevant securities or provide advisory or other services to an issuer of relevant securities or any company therewith. Unless otherwise stated all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice. This document may not be reproduced or copies circulated without authority. Copyright © Far East Capital Ltd 2020.

This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.