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## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

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### **LULO DIAMOND PROJECT, ANGOLA**

#### **Alluvial Diamond Production, Exploration and Sales**

- Mining volumes up 35% to a quarterly record of 81,117 bulk cubic metres, with emphasis on exploring and testing new areas to expand the alluvial resource
- Continued recovery of large high-value Specials including top-colour Type IIa diamonds weighing 114 carats, 85 carats and 62 carats, along with a 17 carat light pink
- US\$4.5m gross sales at US\$893/carats average for year-to-date sales of US\$20.3m at US\$1,384/carats
- Exceptional large, high-value Specials extracted from Q3 sales for sale in Q4 to maximise values under Angola's new diamond marketing policy

#### **Kimberlite Exploration**

- New Mineral Investment Contract gazetted for Lulo kimberlite exploration licence until April 2023
- 50 anomalies now confirmed as kimberlites in ongoing drilling program, with drilling of remaining targets in current campaign on schedule for completion in Q4

### **MOTHAE KIMBERLITE MINE, LESOTHO**

- Construction of new 1.1Mtpa Mothae diamond plant successfully advanced for post-Quarter commissioning, with first commercial diamond recoveries scheduled for early November 2018
- >4,100 carats of diamonds recovered from Mothae bulk sampling program – including 89 carat and 25 carat yellows and 28 carat and 25 carat whites

### **BROOKING LAMPROITE DISCOVERY, WESTERN AUSTRALIA**

- Exceptional results from first follow-up hole at Little Spring Creek discovery, with 1,100 micro- and macro-diamonds recovered from 178kg sample of drill core
- Trenching and bulk sampling of Little Spring Creek lamproite commenced
- 11 new lamproite targets of up to 7ha identified at Brooking from airborne TDEM survey
- Heritage and drilling approvals received to test new lamproite targets

### **CORPORATE**

- US\$3.0m (A\$4.1m) Lucapa Quarter-end cash balance
- US\$7.2m Quarter-end cash balance for Lulo mining company *Sociedade Mineira Do Lulo* (Lucapa 40% and operator)
- 2,272 carat SML diamond inventory, including seven select high-value Specials held over for sale in Q4
- ZAR100m (US\$7.0m) Mothae development facility secured post-Quarter with Industrial Development Corporation of South Africa

SELECTION OF LULO AND MOTHAE SPECIALS HELD FOR SALE IN Q4

*Lulo Specials in inventory*



46 carat pink



114 carats



85 carats



75 carats



70 carats



62 carats



43 carats

*Mothae Specials in inventory*



89 carat yellow



28 carats



25 carat yellow

## INTRODUCTION

Lucapa Diamond Company Limited (ASX: **LOM**) (“Lucapa” or “the Company”) is an emerging global diamond company with a diversified portfolio of high-quality producing, development and exploration assets in Angola (Lulo alluvial mine and kimberlite exploration), Lesotho (Mothae kimberlite mine), Australia (Brooking diamondiferous lamproite discovery) and Botswana (Orapa Area F kimberlite exploration).

The Company’s focus on expanding high-value diamond production from multiple sources is designed to maximise returns in a sector of the global diamond market where both demand and pricing remains robust.

Lucapa, with its respective project partners, made significant advancements across its suite of diamond projects during the September 2018 Quarter (“the Quarter”), including:

- Mining large and premium-value diamonds at **Lulo**, continuing to deliver the world’s highest US\$ per carat alluvial diamond production
- Advancing one of the largest systematic kimberlite exploration programs in the diamond industry at **Lulo** with the aim of discovering the hard-rock source(s) of the exceptional alluvial diamonds
- Advancing to near-completion the construction of a second high-value diamond mine at **Mothae** in Lesotho, while continuing to recover Special diamonds (>10.8 carats) from a concurrent bulk sampling program; and
- Achieving more exceptional exploration results at the **Brooking** diamond discovery in Western Australia’s West Kimberley lamproite province

The progress made during the Quarter has left Lucapa well-positioned to achieve several key milestones in Q4 including:

- Completing the first sale of large, premium-value **Lulo** diamond production under Angola’s new diamond marketing policy, facilitating another annual SML loan repayment and distribution
- Completing the remaining kimberlite targets in the current **Lulo** drilling campaign
- Commissioning the new 1.1Mtpa **Mothae** mine and delivering the first commercial diamond recoveries to complement production from the high-value Lulo mine; and
- Completing the next stage of exploration at the **Brooking** diamond discovery, including bulk sampling of the Little Spring Creek lamproite and drilling of other lamproite targets

**Access to premium-value diamonds from two sources (Lulo and Mothae) in Q4 will also enable Lucapa to advance its diamond value-adding strategy with leading global diamantaires who have approached the Company with cutting & polishing partnership proposals**

## LULO DIAMOND PROJECT, ANGOLA

### Alluvial Diamond Mining (*Sociedade Mineira Do Lulo* - Lucapa 40% associate and operator)

Lulo alluvial diamond mining company *Sociedade Mineira Do Lulo* (“SML”) achieved record treatment volumes of 81,117 bulk cubic metres in the Quarter, an increase of 35% on the previous corresponding period.

Apart from mining and processing gravels from established mining blocks – and due to volumes treated being ahead of target – the focus during the Quarter was on exploring and testing new alluvial areas with potential to add to the Lulo alluvial resource.

This included the first testing of alluvial gravels from the vast flood plains (Iziria areas) along the Caculo River which, as referred to in the Chairman’s AGM address of 24 May 2018, could open extensive new mining areas at Lulo. Ongoing trial mining of these new areas within the flood plains has seen the continued recovery of large Specials. Results from the preliminary testing of these flood plain areas are due to be tabled in Q4.

Source mix, and testing these new resource areas, contributed to the lower overall grade of 5.6 carats per 100 cubic metres (cphm<sup>3</sup>) for the Quarter (6.6cphm<sup>3</sup> year-to-date), resulting in a 14% reduction in production to 4,561 carats. Diamond production for the year remains 4% ahead of the prior year at 14,126 carats (Table 1).

Similarly, while the 46 Specials recovered during the Quarter was lower than the previous corresponding period, year-to-date Special recoveries are up 1% to 164. Specials recovered during the Quarter included a 114 carat top-colour Type IIa diamond – the 11<sup>th</sup> +100 carat diamond recovered from Lulo to date – along with other top-colour white diamonds weighing 85 carats and 62 carats and a 17 carat light pink (Figures 1-2).



Figure 1: 114 carat Type IIa white diamond recovered during the Quarter



Figure 2: 17 carat light pink recovered during the Quarter

### Alluvial Diamond Sales and Inventories

SML achieved gross revenues of US\$4.5m from two diamond sales during the Quarter which averaged US\$893/carat for year-to-date sales of US\$20.3m at US\$1,384/carat (Table 2).

The sales and average price per carat figures for the Quarter and year to date were impacted as a direct result of the decision taken to extract and withhold a number of exceptional, large and premium-value Specials for a later sale.

This parcel (pictured on page 2) includes a 46 carat pink and top-colour Type IIa white diamonds weighing 114 carats, 85 carats, 75 carats, 70 carats, 62 carats and 43 carats.

The sale of these exceptional Specials was held over pending the implementation of Angola's new diamond marketing policy, one of the measures being introduced by the new Angolan President, His Excellency Joao Lourenco, to increase foreign investment in the country's diamond sector.

The new diamond marketing policy was enacted by the Angolan Government in August 2018. The technical regulations for the marketing of diamonds under the new policy are expected to be released in Q4.

The Company believes that significant additional value will accrue to Lucapa and its Lulo partners from marketing these select Specials under the new marketing policy.

As a result of the strong operational performance by SML, a further loan repayment to Lucapa and pro-rata distribution to the Lulo partners will be proposed once the sale of the exceptional parcel of Lulo Specials is completed.

SML had cash of US\$7.2m at Quarter-end, along with a diamond inventory of 2,272 carats (including the exceptional Specials withheld from sale referred to above).

	Q3 17	YTD Q3 17	Q3 18	YTD Q3 18	Var Q3 17 to Q3 18	Var YTD 17 to YTD 18
Actual Treated m <sup>3</sup> (bulked)	60,092	188,342	81,117	215,657	35%	15%
Actual Carats Recovered	5,278	13,580	4,561	14,126	-14%	4%
Actual Grade Recovered (cphm <sup>3</sup> )	8.8	7.2	5.6	6.6	-36%	-9%
Actual No of Stones Recovered	3,187	10,067	3,895	9,838	22%	-2%
Actual Avg Stone Size Recovered	1.7	1.3	1.2	1.4	-29%	6%
Number of Specials Recovered	68	163	46	164	-32%	1%
Specials Carat Weight	1,925	4,252	1,068	3,905	-45%	-8%
Diamond Inventory (carats)	1,710	1,710	2,272	2,272	33%	33%

Table 1: SML production and recoveries for the Quarter and prior year comparatives

	Q3 17	YTD Q3 17	Q3 18	YTD Q3 18	Var Q3 17 to Q3 18	Var YTD 17 to YTD 18
Actual Sales (carats)	5,284	14,815	5,058	14,714	-4%	-1%
Actual Sales (US\$)	8,854,690	24,299,497	4,514,770	20,370,068	-49%	-16%
Actual Price per Carat (US\$)	1,676	1,640	893	1,384	-47%	-16%
Actual Sales (A\$)	11,052,920	31,369,651	6,160,622	26,366,098	-44%	-16%
Actual Price per Carat (A\$)	2,092	2,117	1,218	1,792	-42%	-15%

Table 2: SML revenue for the Quarter and prior year comparatives

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

Lucapa operates one of the largest systematic kimberlite drilling campaigns in the diamond industry at Lulo, in parallel with the alluvial diamond mining operations.

The objective is to discover the hard-rock source(s) of the exceptional and large alluvial diamonds, which show no signs of travel, being recovered across the top of the kimberlite targets. This program is funded from Lucapa’s share of distributions from alluvial mining company SML.

The current drilling campaign will test ~80 kimberlite targets proximal to the alluvial mining blocks within the Cacuilu River valley. By the end of the Quarter, Lucapa had completed the drilling of 69 kimberlite targets, from which 50 were confirmed as kimberlites (Table 3).

Lucapa remains on schedule to drill the remaining planned kimberlite targets in the current drilling campaign by the end of Q4.

While significant progress is being made with the kimberlite drilling program, delays beyond the Company’s control continue to be experienced at the Cape Town laboratory performing the mineral chemistry analysis of the drill core. Lucapa has sent some samples to the Canadian laboratory in order to improve the turnaround times.

<b>Original targets planned in drilling campaign</b>	<b>62</b>
<b>Planned targets drilled</b>	<b>51</b>
<b>Additional proximal targets drilled</b>	<b>18</b>
<b>Planned targets remaining</b>	<b>11</b>
<b>Confirmed kimberlites</b>	<b>50</b>
<b>Kimberlites sampled for mineral chemistry analysis</b>	<b>31</b>
<b>Mineral chemistry results received from laboratory</b>	<b>19</b>

Table 3: Status of current Lulo kimberlite drilling campaign at 30 September 2018

At the end of the Quarter, laboratory results were awaited from core samples from 12 kimberlites. Lucapa began receiving further mineral chemistry results from the laboratory (from both kimberlite core samples and loam, stream and pit samples) during the preparation of this Quarterly Report. These results are now being reviewed by the Company’s Competent Person.

A further batch of core samples from 10 additional kimberlites was logged and exported to the Cape Town laboratory during the Quarter.

**New Kimberlite Licence**

During the Quarter, a new Mineral Investment Contract (“MIC”) was gazetted by the Angolan Ministry of Mineral Resources for the Lulo kimberlite exploration licence (Refer ASX announcement 18 September 2018).

The MIC covers a period of five years through to 30 April 2023.

**MOTHAE KIMBERLITE MINE, LESOTHO (*Mothae Diamonds (Pty) Ltd* - Lucapa 70%; Government of the Kingdom of Lesotho 30%)**

The Mothae kimberlite pipe being developed by Lucapa in Lesotho, southern Africa, is a high-quality diamond resource located within 5km of Letšeng, which produces the world’s highest average US\$ per carat kimberlite diamond production.

Mothae is a known host of large and premium value diamonds, with previous trial mining producing 23,400 carats which achieved individual diamond sale prices of up to US\$57,000 per carat.

During the Quarter, Lucapa made significant progress with two parallel work streams at Mothae including:

- Construction of the new 1.1Mtpa commercial diamond plant and associated mining infrastructure; and
- Bulk sampling sections of the Mothae pipe which had not been previously tested for diamonds, or where previous sampling had been inadequate

### **Construction of New 1.1Mtpa Diamond Plant**

During the Quarter, construction of the new 1.1Mtpa commercial diamond plant continued on schedule, despite the winter snowfall on the Maluti Mountains.

By the end of the Quarter, the plant civils construction, mechanical installation and electrical installation were all close to completion. Significant progress was also made during the Quarter on the water dam construction (Figure 4), development of the tailings impoundments and installation of the power plant.

Subsequent to the Quarter, Lucapa announced that the commissioning phase for the new 1.1Mtpa Mothae plant had commenced, with first commercial diamond recoveries scheduled for early November 2018 (Refer ASX announcement 22 October 2018).

The plant, which incorporates two XRT large-diamond recovery circuits, will be ramped up to its nameplate capacity throughout Q4.



Figure 3: The 1.1Mtpa Mothae diamond plant under construction



Figure 4: Construction of the wall for the 500,000m<sup>3</sup> water dam at Mothae during the Quarter

### **Bulk Sampling Program**

During the Quarter, bulk samples were extracted and processed from three sections of the Mothae kimberlite pipe (Neck, North, and South-East zones) which had not been tested for diamond content during the previous trial mining phase<sup>1</sup>, or had otherwise been inadequately tested. Bulk samples were also taken from the South-West zone.

This bulk sampling program continued to provide evidence that like the neighbouring Letšeng mine, Mothae is a source of large diamonds.

By the end of the Quarter, a total of 14 Specials had been recovered from the four areas of the pipe sampled, with recoveries to date including an 89 carat yellow from the South-East zone, a 25 carat yellow from the previously untested Neck zone, a 28 carat white from the North zone and a 13 carat white from the South-West zone. In addition, two light pink diamonds were recovered from the North zone (Refer ASX announcement 7 August 2018).

Subsequent to the Quarter-end, Lucapa concluded the bulk sampling program as staff were transitioned to the new 1.1Mtpa commercial diamond plant.

Overall recoveries from the bulk sampling campaign totalled >4,100 carats.

During the Quarter, Lucapa exported the first parcel of ~2,500 carats of Mothae bulk sampling diamonds to Antwerp for cleaning and valuation (Refer ASX announcement 14 September 2018). Lucapa plans to export the remainder of the Mothae bulk sampling diamonds to Antwerp for a planned Q4 sale.

<sup>1</sup>Trial mining completed by TSX-listed Lucara Diamond Corp in 2008-2012



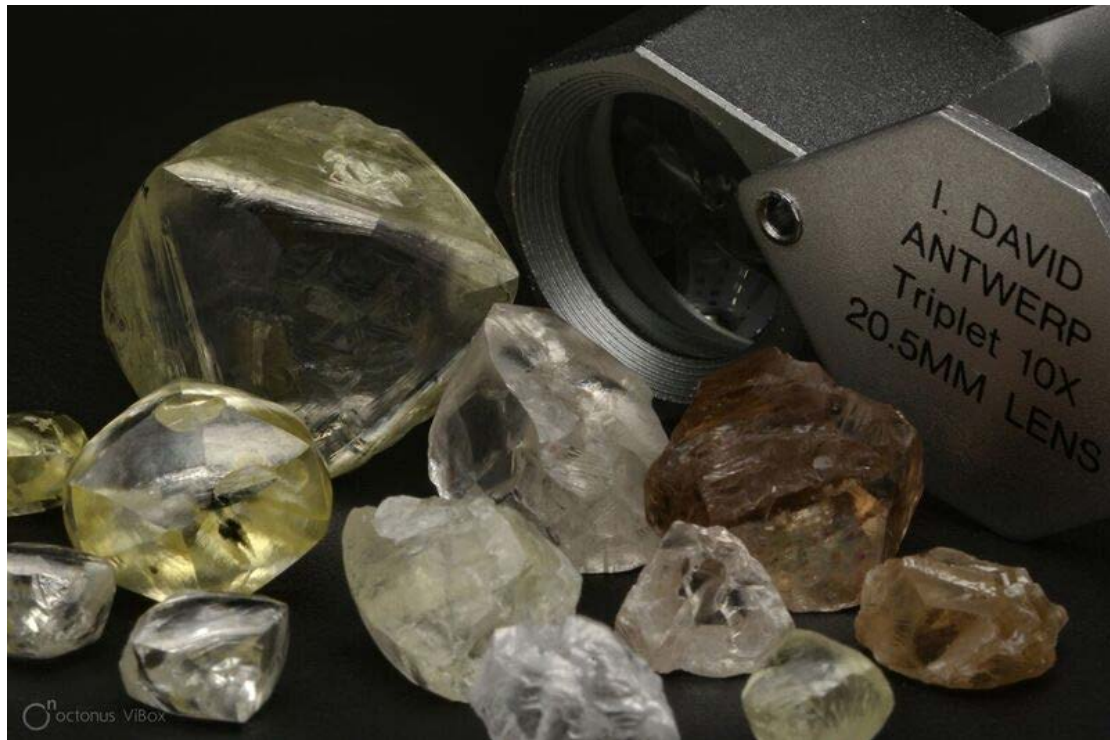


Figure 5: Mothae diamonds from the ~2,500 carat parcel exported to Antwerp during the Quarter

### **BROOKING DIAMOND PROJECT, WESTERN AUSTRALIA**

**Lamproite Exploration (*Brooking Diamonds (Pty) Ltd* - Lucapa 100% subsidiary - project tenements owned 80% Lucapa, 20% Leopold Diamond Company)**

Lucapa's Brooking project is located in the West Kimberley region of Western Australia within 50km of the Ellendale mine which, until its recent closure, produced more than 50% of the world's fancy yellow diamonds.

During the Quarter, Lucapa continued to advance exploration programs at Brooking designed to follow up on the Little Spring Creek lamproitic diamond discovery, from which 119 micro and macro diamonds were recovered from an 86.8kg sample of lamproite core from discovery hole LSC/DH001 (refer ASX announcement 11 January 2018) (Figure 6).

These programs included:

- An eight-hole drilling program at Little Spring Creek to define and test the lamproitic structure identified by ground-based geophysical surveys in the previous quarter; and
- An airborne Time Domain Electromagnetic ("TDEM") survey across the broader 118km<sup>2</sup> Brooking project to define additional lamproitic targets

**As announced to the ASX on 28 August 2018, all eight holes drilled in the Little Spring Creek follow-up program intersected the targeted lamproitic structure.**

**A 178kg core sample from the first of the follow-up drill holes (LSC/DH002) was air-freighted to a specialist laboratory in Canada for detailed micro-diamond analysis.**

**This produced exceptional results, with 1,100 micro- and macro-diamonds recovered. (Refer ASX announcement 28 August 2018) (Figure 6).**

**On a diamonds (macro and micro) per kg of sample basis, the micro-diamond count from LSC/DH002 was approximately three times that of the LSC/DH001 discovery hole, when adjusted for the lower micron cut-off used (106 microns for LSC/DH001 v 75 microns for LSC/DH002).**

Modelling and interpretation of the data from the TDEM survey flown over the broader Brooking project identified 11 new lamproite targets (Figure 7).

These targets include a ~7ha anomaly identified at Katie's Bore, where 20 micro-diamonds and high levels of lamproite indicator minerals were recovered from previous stream sampling<sup>2</sup>.

Other geophysical targets were identified within the North East Creek and Homestead Creek prospects, where diamonds and indicator minerals were also previously recovered<sup>2</sup>.

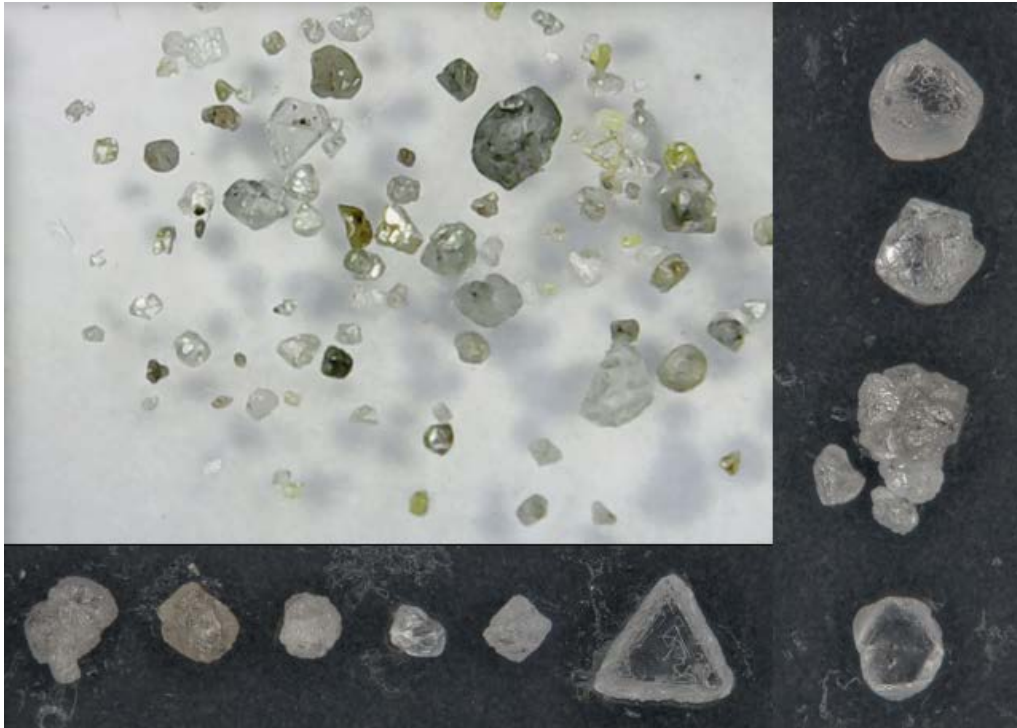


Figure 6: Micro- and macro-diamonds recovered from the LSC drill holes 001 and 002

<sup>2</sup>Brooking Diamond Project (Leopold Diamond Company Pty Ltd) Annual Report, December 2015, Department of Mines and Petroleum WA

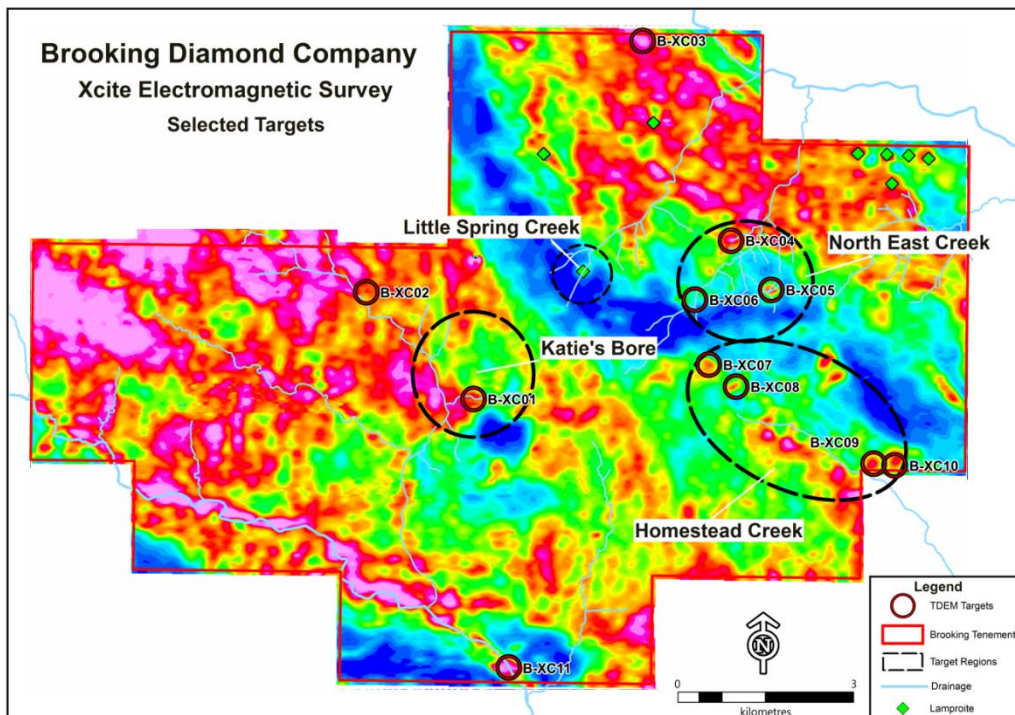


Figure 7: Map showing the 11 new geophysical targets identified at Brooking by the TDEM survey, including those within the Katie's Bore, Homestead Creek and North East Creek areas

These results formed the basis for a new exploration program at Brooking, which was announced to the ASX subsequent to the Quarter on 11 October 2018. This program comprises:

- Trenching and bulk sampling of the Little Spring Creek lamproitic body to test commercial macro-diamond population, value and grade
- Drilling new lamproite targets defined within the broader Brooking project; and
- Re-assessing the known Big Spring Creek lamproites within the Brooking project

This program is scheduled to be completed in Q4.

## **ORAPA AREA F PROJECT, BOTSWANA**

### **Kimberlite Exploration – *Lucapa Diamonds (Botswana) Pty Ltd* (Lucapa 100% subsidiary)**

Lucapa's Orapa Area F project is located ~40km east of the prolific Orapa diamond mine in Botswana. Previous exploration programs completed by Lucapa at Orapa Area F were successful in defining kimberlite drilling targets.

The planned drilling program at Orapa Area F is now scheduled for Q1 2019 due to delays with environmental approvals. Lucapa has applied for an extension of the Orapa Area F tenement.

## **CORPORATE**

Lucapa's Quarter-end cash balance stood at US\$3.0m (A\$4.1m).

In addition, Lulo alluvial mining company SML had Quarter-end cash of US\$7.2m and a 2,272 carat diamond inventory, including the seven large high-value Special diamonds held over for sale in Q4.

As mentioned earlier in this report, a further loan repayment to Lucapa and pro-rata cash distribution to the Lulo partners from SML will be proposed following the sale in Q4 of the extracted exceptional Lulo Specials.

The Mothae diamond inventory from the ongoing bulk sampling program stood at >4,100 carats, with the first sale of Mothae diamonds expected in Q4.

During the Quarter, the Industrial Development Corporation of South Africa Limited ("IDC"), one of the largest development financiers in southern Africa, continued its legal, technical and financial due diligence on the Mothae mine. Subsequent to the Quarter end, the IDC submitted an approved Term Sheet for a ZAR100m (US\$7m) project development facility to Mothae and the Company (See ASX announcement 25 October 2018).

Following approval by GoL and Lucapa as shareholders, Mothae and the IDC are working to finalise the loan and respective security agreements in the next few weeks.

The IDC facility will considerably strengthen Mothae's cash position, which, subject to certain loan covenants being met, will also enable repayments to be made to Lucapa on the shareholder loans advanced to Mothae for the development of the 1.1Mtpa kimberlite mine.

## **Board Changes**

During the Quarter, experienced resources industry figure Mr Ross Stanley joined the Lucapa Board as a non-executive director following the resignations of non-executive directors Mr Gordon Gilchrist and Mr Albert Thamm.

### Diamond Value-Adding Strategy

As outlined in the Company's presentation to the 2018 Africa Down Under Conference during the Quarter (Refer ASX announcement 29 August 2018), Lucapa has received multiple approaches from leading global diamantaires expressing interest in partnering with the Company in the cutting and polishing of select high-value Specials.

This would create an additional revenue stream for Lucapa's producing mines. Lucapa management has significant expertise in this sector of the diamond value chain.

The commencement of diamond production from Mothae, coupled with the sale of Lulo diamonds under Angola's new diamond marketing policy, will enable Lucapa to advance these discussions with diamantaires in Q4.

Schedule of Tenements as at 30 September 2018					
Country	Type	Size (km <sup>2</sup> )	Period	Interest (%)	End date
Angola	Exploration (primary) Kimberlite	3,000	5 years	39	04/2023
Angola	Mining (secondary) and Exploration Alluvial	1,500	10 years	40	07/2025
Lesotho	Mining Licence	47	10 years	70	01/2027
Botswana	Reconnaissance	16	3 years	100	09/2018 <sup>1</sup>
Australia	Exploration Licence	72	5 years	80	12/2020
Australia	Exploration Licence	13	5 years	80	03/2019
Australia	Exploration Licence	29	5 years	80	06/2022
Australia	Exploration Licence	3	5 years	80	06/2023

<sup>1</sup>Application for extension/renewal of the Orapa Area F licence has been submitted

### 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. 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.

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