



LUCAPA  
DIAMOND COMPANY

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ESG  
REPORT

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FOR THE YEAR ENDED 31 DECEMBER 2021

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ENVIRONMENT,  
SOCIAL &  
GOVERNANCE







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# CEO's Letter

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Lucapa is proud to present its inaugural Environment, Social and Governance ("ESG") Report which demonstrates our ongoing commitment to protecting our people, planet, and purpose. As a mining company with two mining operations in Africa, Lucapa has always felt the responsibility and commitment to be an honourable corporate citizen. Although this is the first ESG report that Lucapa has published, we have supported our communities through various programs for many years.

Lucapa strives to ensure that the diamond's journey from our mine to the market is carried out with integrity. This means that our employees, communities, and the environment surrounding our mining operations is protected. We have a zero-injury target in relation to health and safety and zero-tolerance when it comes to child labour, violence, and discrimination.

As we mature as a company and grow our operations, ESG activities are being formalized throughout with budgets and targeted annual programs being introduced to meet various goals. Lucapa has a holistic approach to ESG and in practice we have adopted and will report against the International Council on Mining and Metals ("ICMM") Principles. These principles encompass the United Nations 17 Sustainable Development Goals and are tailored to the mining industry.

As a diamond miner, Lucapa adheres to the Kimberley Process ("KP") which was established in 2003 to eradicate conflict diamonds from the global diamond supply chain. The establishment of the KP was

an important first step for the diamond industry in the sustainability journey. It placed parameters upon governments, miners and manufacturers to adhere to. The KP also introduced conscious consumerism to the diamond purchaser which has continued to evolve. More and more, jewellery buyers are demanding to know the story behind the stone and to trace the origin of their gemstones.

Lucapa operates under the World Diamond Council's System of Warranties which requires the company to keep records of the rough diamonds we sell and is subjected to annual audits by our own auditors. The System of Warranties was introduced in order to comply with, support and strengthen the Kimberley Process Certification Scheme.

Lucapa only operates in countries which are signatories to the Kimberley Process, however we recognize that in recent years consumers are demanding more information about the provenance behind the products they are buying. It is not enough just to recover the diamonds, it's also every company's responsibility to ensure that in the communities and the environment in which we operate, our people and reputation are protected.

Technology has become a major driver for change and transparency in our industry and it has the power to help us to reach our ESG goals. From using blockchain to trace the origin of our diamonds for consumers to using solar power to lower our carbon emissions, Lucapa recognises that introducing technology makes good business sense.

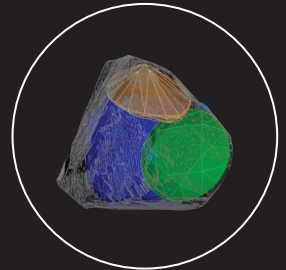
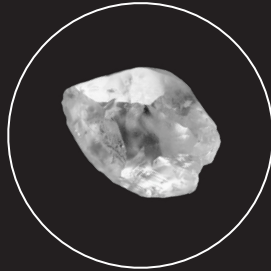
Compared with other mineral extraction industries, diamond mining is low impact, in that the extraction methods used do not require the use of significant quantities of potentially hazardous chemicals. Less than 5 litres of acid is used per year to clean our diamonds at the end of the recovery process – at Lulo, this occurs on site, for Mothae diamonds, the acid wash occurs in Antwerp.

We hope you enjoy reading some of the stories about our communities and this ESG report gives you an insight into how we contribute to the lives of our neighbours and employees. Our ESG journey is young and there is still room for improvement, however we will commit to keeping our shareholders up to date on community and health and safety in our quarterly reports as well as a dedicated annual ESG report so we can chart our progress and performance.

Yours faithfully,  
Stephen Wetherall  
CEO

Lucapa strives to ensure that the diamond's journey from our mine to the market is carried out with integrity.





# MINE TO MARKET





The historical threat to human rights from conflict diamonds is recognised and all diamond mining and sales activities involving the Lucapa Group are performed to the highest standards, in accordance with the Kimberley Process and in adherence to the World Diamond Council's System of Warranties.

### Our Purpose

Lucapa produces natural diamonds sustainably and cares for its people, communities, and the countries in which we operate

### Our Vision

Lucapa's vision is to become a pre-eminent mid-tier diamond company with multiple assets, vertically integrating through the supply chain, to bring greater value to all stakeholders.

### Our Values



#### Safety

We conduct operations in a safe, responsible, and environmentally conscious manner.



#### Integrity

We interact with all stakeholders with integrity, respect, honesty, transparency, and fairness.



#### Teamwork

We attract and employ the best skillsets, encourage teamwork, diversity, and reward performance.



#### Partnership

We partner with the local communities and governments in the countries where we operate, for mutual benefit.

### MINING PRINCIPLES

Lucapa's sustainability program is aligned with the objectives of the United Nations Sustainable Development Goals and has adopted the International Council on Mining and Metals (ICMM) Principles framework.



ETHICAL BUSINESS



DECISION-MAKING



HUMAN RIGHTS



RISK MANAGEMENT



HEALTH & SAFETY



ENVIRONMENTAL PERFORMANCE



CONSERVATION OF BIODIVERSITY



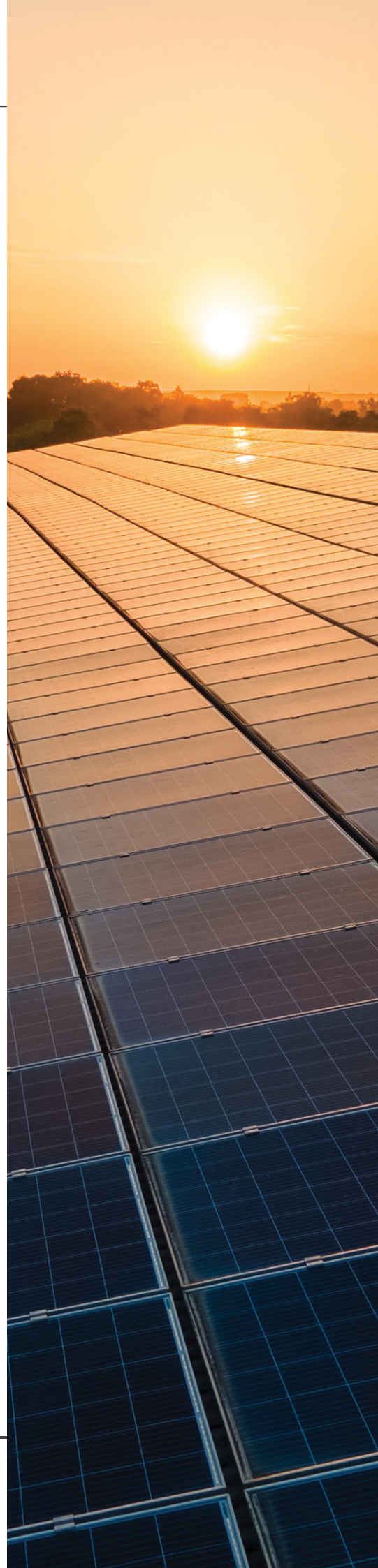
RESPONSIBLE PRODUCTION



SOCIAL PERFORMANCE



STAKEHOLDER ENGAGEMENT





## Governance and ethics

Lucapa is committed to operating in the most ethical, safe and environmentally responsible manner at all times.

Lucapa has a Board of Directors which are ultimately responsible for strategic decisions of the company. Each subsidiary company in the group also has boards with oversight of the respective operations.

Policies and procedures have been put in place to ensure that all businesses within the Group comply with the legislation of host countries and incorporates international best practice in respect of human rights.

The historical threat to human rights from conflict diamonds is recognised and all diamond mining and sales in the Group are performed in accordance with the Kimberley Process and highest ethical standards.



## Employment Cost

**A\$30,605,358**

Lulo and Mothae Total

## Government Royalties and Commissions

**A\$12,201,276**

Lulo and Mothae Total

## People

Lucapa employs more than 1,000 staff and contractors across our operations. The workforce consists of a diverse range of staff and is managed on an ongoing basis to maintain an appropriate balance in terms of gender, age, ethnicity and cultural background.



## Social Impact

2021 financial and in-kind contributions

**A\$290,500**

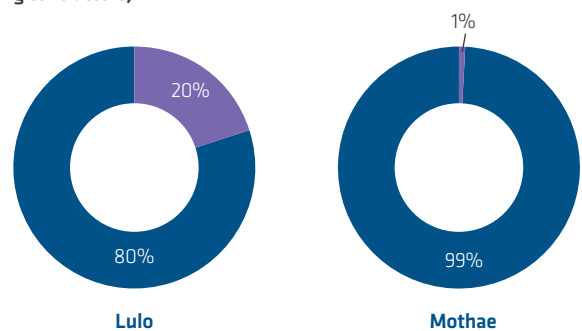
Lulo

**A\$257,550**

Mothae

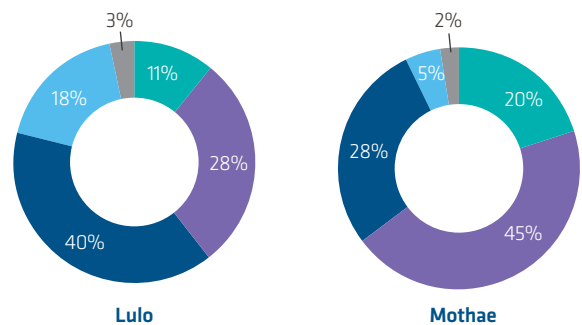
### Workforce (including contractors)

- Nationals
- Expats



### Employees by age

- < 20 years
- 20 - 30
- 30 - 40
- 40 - 50
- 50 - 60
- 60 - 70





# Health and Safety



**2,643**

Number of consultations at clinic Lulo

**2,221**

Number of consultations at clinic Mothae



**98%**

COVID-19 response vaccinations rate - Lulo

**99%**

COVID-19 response vaccinations rate - Mothae



**0.16**

LTIFR - Lulo

**0.21**

LTIFR - Mothae

## Lucapa acknowledges that our mining and processing activities have the potential to expose our employees, contractors and communities to health and safety risks.

Our aim is for zero harm across our sites.

The Company works diligently to identify, control and mitigate these risks and regularly assesses employees' fitness for work.

Due to the inherent security risks associated with diamonds, special safety measures and processes have been implemented to ensure the security of all staff and other stakeholders. The Group continues to encourage and empower its employees to "own" the safety program and to look out for each other.

Lucapa has established a culture of regular education, training, coaching and monitoring at our operations and encourages continuous improvement. To date, the operations have recorded zero operational fatalities.

In 2021, Mothae recorded a Long Term Injury Frequency Rate ("LTIFR") of 0.21 amongst its workforce of 429 employees and contractors. The 12 month rolling LTIFR at Lulo was 0.16 among a workforce of 596 Lulo employees and contractors. There was one Lost Time Injury recorded for the year at Lulo and a total

of 11 minor and serious injuries recorded for 2021. The All-Injury Frequency Rate among employees and contractors at Lulo in 2021 was 1.76.

At Mothae, one lost time injury occurred during the year, and 24 minor injuries which didn't require time off work. Mothae also recorded 231 Health and Safety near misses.

During the COVID-19 pandemic, Lucapa supported the efforts by the Lesotho and Angolan governments to vaccinate the population in the remote areas where we operate. Lucapa provided vaccines and encouraged our employees to visit our on-site health clinics for vaccinations. We also participated in the immunisation programs of the local communities.

Each of our African mines has an on-site health clinic which is staffed by qualified doctors and other medically trained staff. Staff and contractors are free to visit the clinics for consultations and pre-employment checks are also conducted at the clinics.



CASE STUDY

# COVID-19 Response

**Lucapa took an active role in protecting its employees and the local community from COVID-19 from the outset of the pandemic. This involved the daily screening of all employees and contractors at the Lulo and Mothae mine gates and transport pick-up points.**

Protocols were also introduced to minimise the spread of infection of the various strains of the virus in line with government recommendations.

Lulo's team assisted the local municipality in a COVID-19 vaccination program for employees and contractors and the local population in the nearby villages, resulting in more than 98 percent of Lulo personnel being vaccinated.

In Lesotho, more than 99 percent of the Mothae workforce are vaccinated, thanks to the Government of Lesotho sponsored vaccine roll out.

Employees at both mines were given the Johnson & Johnson vaccine. Several mass vaccination events were orchestrated to help protect employees and the local community.

There were cases of the Omicron strain of COVID-19 detected at both of Lucapa's mine sites, however there were no fatalities on site and only mild symptoms were experienced by personnel, who returned to work after a short period of illness and quarantine.





## Environment

Protecting the environment in which we operate is key to the sustainable success of the Company.

Lucapa continues to mitigate against the impacts of mining on the environment by:

- **Protecting Biodiversity** - effectively managing risks and employing both internal and external experts to carry out baseline surveys and monitor the exploration, development and operational areas;
- **Managing Water Responsibly** - water is a critical resource and its effective management is fundamental to the sustainability of our operations, the environment and the communities in which we operate;
- **Tailings Management** - Lucapa recognises that the effective management of tailings facilities incorporates detailed design practises, monitoring and management programs, strict corporate governance and independent auditing;
- **Sustainable Land Rehabilitation** - ensuring that responsible rehabilitation practices are implemented and that the progress is monitored by both internal and external experts.

Water management is one of the main environmental activities on both sites. Both Mothae and Lulo monitor water quality regularly and the tests are conducted by independent laboratories. Average site water consumption at Mothae in 2021 was 0.98 m<sup>3</sup>/ tonne of headfeed while Lulo recorded 1.1 m<sup>3</sup>/ tonne of headfeed.

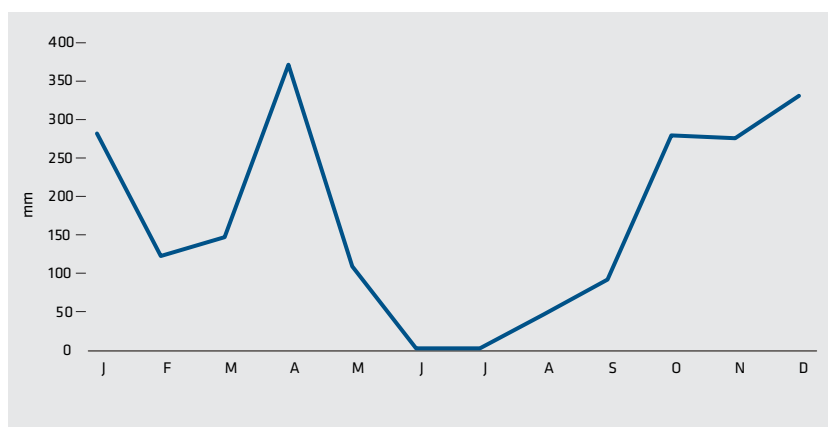
Both sites experience extreme weather events during the year. With temperatures at Mothae dropping to well below freezing with regular snowfall over the winter months.

### Tailings Dams

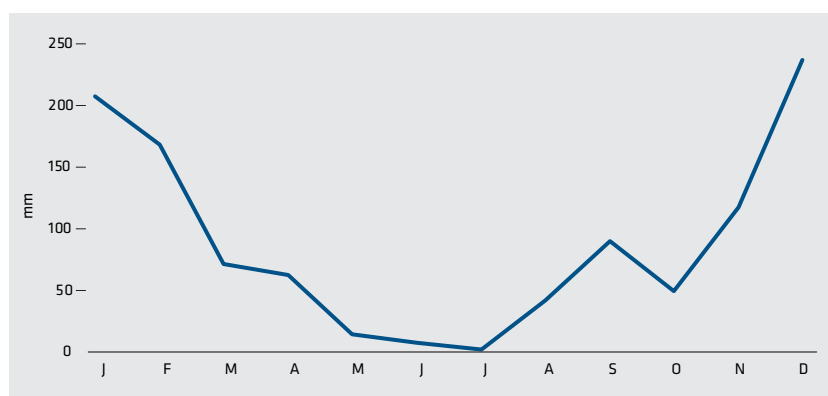
The dams at Mothae have been designed, built and are monitored by a reputable Australian consulting company and comply with the Australian National Committee on Large Dams (ANCOLD) Guidelines on Tailings Dams as well as the International Committee on Large Dams (ICOLD). Besides the onsite operations review of the dam audits, an Annual Dams Audit Report is tabled and reviewed by the Mothae Board of Directors.

The Mothae tailings dam is built using the downstream method and is monitored daily by onsite operators who report any deviations. The logbooks are checked by the external consultant weekly and a monthly report is issued highlighting any remedial actions required.

### Rainfall Lulo 2021



### Rainfall Mothae 2021



**1.1 m<sup>3</sup>/ tonne of headfeed**

Total Water Consumption - Lulo

**1**

Major environmental incidents reported - Lulo

**0.98m<sup>3</sup>/ tonne of headfeed**

Total Water Consumption - Mothae

**0**

Major environmental incidents reported - Mothae

This is followed up and an on-site meeting with the designer's appointed representative is held every quarter.

Drills are carried out and procedures in the case of failure are in place.

As at 31 December 2021, the freeboard between the water elevation and the top of the wall at the Mothae Mine was 12.6 metres.

The tailings dam at Lulo is an impoundment dam which has been placed over an area that has filled up the craters left behind by previous artisanal mining. This was upgraded to a dam, incorporating drains during 2021 and will be raised using the downstream method as well.

# Lucapa is investigating renewable solutions.

## Energy usage

The Lulo and Mothae operations are both in remote areas of their countries which don't have power supply from the grid. Both sites are operated by diesel powered generators. Lucapa is investigating renewable energy solutions to supplement power supply at both sites.

## Mine rehabilitation plan

Mining has a finite lifespan and integrated rehabilitation plans have been developed for both mine sites to ensure the eventual restoration of the land used is in accordance with local legislation and best practice.

Restoration plans are designed to manage the environmental impact of mining in a cost-effective manner and are reviewed annually.





# Agricultural kickstart program

**In 2019, Mothae Mine encouraged local farmers to participate in its agricultural kickstart program as part of its efforts to relieve poverty and engage the community.**

Under the program, the mine supplied seed and fertilizer to farmers to grow fruit and vegetables. The Mothae mine's kitchen then purchases the produce from the farmers. This initiative gives assured financial support and provides certainty for the farmers, in addition to providing fresh and healthy food to feed the Mothae employees. During 2021, Mothae Mine purchased produce for more than one million Lesotho Maloti, which is equivalent to A\$95,000 from local farmers and the program is on-going. Examples of the food produced include, carrots, cabbage and mustard.





# Xamiquelqengue Village and School contributions



**In Angola, SML, which runs the Lulo mine, is focused on enriching the lives of school children and the community. The village of Xamiquelqengue is where some 80% of Lulo's workforce reside.**

As part of a program to upgrade the Xamiquelqengue Primary School, Lulo made in-kind and financial contributions to ensure the children and teachers had access to fresh clean water. The mine supplied and installed a water reticulation system for the use of the students, teachers and wider community. Mine personnel drilled boreholes near the school, connected a solar powered pump to the well and erected a water storage tank to supply the school.

The company also made repairs and upgrades to the Xamiquelqengue Health Clinic and continued to donate and deliver sand to the village for the community to use. Sand is a by-product of operations at the Lulo Mine but is a vital ingredient in bricks and concrete for home building, that is usually expensive and difficult to procure for the local community.







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# Corporate Governance Statement

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## In fulfilling its obligations and responsibilities to its various stakeholders, the Board of Lucapa is a strong advocate of good corporate governance.

The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" ("Recommendations") where considered appropriate for a Company of Lucapa's size and complexity.

Lucapa has implemented the ASX Corporate Governance Council's Fourth Edition Corporate Principles ("Fourth Edition") and Recommendations. Accordingly, this Corporate Governance Statement has been prepared on the basis of disclosure under the Fourth Edition of these principles. Details of the Company's compliance with these principles are summarised in the Appendix 4G announced to the ASX in conjunction with the Annual Report.

This statement describes how Lucapa has addressed the Council's guidelines and eight corporate governance principles and where the Company's corporate governance practices depart from the Recommendations, the Company discloses the reason for adoption of its own practices on an "if not, why not" basis.

Given the size, complexity and development nature of the Group and the cost of strict compliance with all the Recommendations, the Board has adopted a range of modified procedures and practices which it considers appropriate to enable it to meet the principles of good corporate governance. At the end of this statement is a checklist setting out the Recommendations with which the Company does or does not comply. The information in this statement is current as at 20 April 2022.

## Background

Lucapa has a highly experienced and well credentialed Board and management team, with a proven history of developing diamond projects successfully, quickly and cost effectively in a corporately responsible manner.

Lucapa recognises the importance of its people in building a strong and successful organisation. To achieve this, Lucapa has focused on developing the right culture across the organisation, which is strongly based on a vision, mission and values communicated in our teams in Australia and Africa to ensure they know what is expected of them, both operationally and behaviourally, and are recognised for their good work.

## Vision

Lucapa's vision is to become a pre-eminent mid-tier diamond company with multiple assets, vertically integrating through the supply chain, to bring greater value to all stakeholders.

## Mission

Lucapa's mission is to explore and grow our production of niche high-value diamonds in a safe, responsible, innovative and profitable manner for the benefit of all stakeholders.

## Values

### Integrity

We interact with all stakeholders with integrity, honesty, transparency and fairness.

### Safety

We conduct operations in a safe, responsible and environmentally conscious manner.

### Teamwork

We attract and employ the best skillsets, encourage teamwork, diversity and reward performance.

### Partnership

We work with the local communities in which we operate for common benefit.

The Board is targeting the highest standards of corporate governance to continue their track record of delivering this value.

In 2021, the Company remained resilient throughout the COVID-19 crisis. The Company continued to prioritise the health and wellbeing of staff, contractors and stakeholders by maintaining stringent protocols to limit the impact of the COVID-19 pandemic on sites. There were no employees that had to be retrenched as a result of the global pandemic. Employees pivoted to assist local communities with food hampers where possible. Travel between Australia and Africa was restricted but managed through the dedication of key employees on our sites. The Company has achieved significant vaccination rates to assist with managing the pandemic into 2022.

The following governance-related documents can be found on the Company's website at [www.lucapa.com.au](http://www.lucapa.com.au) under the section marked "Corporate Governance".

## Charters

- Board

## Board

- Code of Conduct
- Policy and Procedure for Selection and (Re)Appointment of Directors
- Policy on Assessing the Independence of Directors
- Securities Trading Policy
- Risk Management Policy
- Procedure for the Selection, Appointment and Rotation of External Auditor
- Policy on Continuous Disclosure
- Shareholder Communication Policy
- Diversity Policy
- Whistle Blower Policy
- Anti-Bribery and Corruption Policy
- Anti-Slavery Policy



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## Principle 1

### Lay solid foundations for management and oversight

The main function of the Board is to lead and oversee the management and strategic direction of the Group. The Board regularly measures the performance of management in implementation of the strategy through regular Board meetings.

Lucapa has adopted a formal Board charter delineating the roles, responsibilities, practices and expectations of the Board collectively, the individual Directors and management.

The Board of Lucapa ensures that each member understands their roles and responsibilities and ensures regular meetings so as to retain full and effective control of the Company.

#### Role of the Board

The Board responsibilities are as follows:

- Setting the strategic aims of Lucapa and overseeing management's performance within that framework;
- Making sure that the necessary resources (financial and human) are available to the Group and management to meet its strategic objectives;
- Overseeing and measuring management's performance in delivering the Company's strategic objectives;
- Selecting and appointing a Managing Director with the appropriate experience and skills to help the Group in the pursuit of its strategic objectives;
- Controlling and approving financial and compliance reporting, capital structures and material contracts;
- Ensuring that a sound system of risk management and internal controls is in place;
- Setting the Company's vision, core values and standards;
- Undertaking regular review of the corporate governance policies to ensure adherence to the ASX Corporate Governance Council principles;
- Ensuring that the Company's obligations to shareholders are understood and met;
- Ensuring the health, safety and well-being of employees in conjunction with management, developing, overseeing and reviewing the effectiveness of the Group's occupational health and safety systems to assure the well-being of all employees;
- Ensuring an adequate system is in place for the proper delegation of duties for the effective day to day running of the Group without the Board losing sight of the direction that the Group is taking;
- Establishing a diversity policy and setting objectives for achieving diversity.

#### Delegation to management

Other than matters specifically reserved for the Board, responsibility for the operation and administration of the Company has been delegated to the Managing Director. This responsibility is subject to an approved delegation of authority which is reviewed regularly.

Internal control processes are designed to allow management to operate within the parameters approved by the Board and the Managing Director cannot commit the Group to additional activities or obligations in excess of these delegated authorities without specific approval of the Board.

#### Election of Directors

The Board is responsible for overseeing the selection process of new Directors, and undertakes appropriate checks before appointing a new Director, or putting forward a candidate for election as a Director. All relevant information is provided in the Notice of Meeting seeking the election or re-election of a Director including:

- Biographical details including qualifications and experience;
- Other directorships and material interests;
- Term of office;
- Statement by the Board on independence of the Director;
- Statement by the Board as to whether it supports the election or re-election; and
- Any other material information.

#### Terms of appointment

##### Non-executive Directors

To facilitate a clear understanding of roles and responsibilities all non-executive Directors have signed a letter of appointment. This letter of appointment includes acknowledgement of:

- Director responsibilities under the Corporations Act, Listing Rules, the Company's Constitution and other applicable laws;
- Corporate governance processes and Group policies;
- Board and Board sub-committee (if applicable) meeting obligations;
- Conflicts and confidentiality procedures;
- Securities trading and required disclosures;
- Access to independent advice and employees;
- Confidentiality obligations;
- Directors fees;
- Expenses reimbursement;
- Directors and officers insurance arrangements;
- Other directorships and time commitments; and
- Board performance review.

##### Executive Directors

The Executive Directors have a signed services agreement. For further information refer to the Remuneration Report.

#### Role of Company Secretary

The Company Secretary is accountable to the Board for:

- Advising the Board and committees on corporate governance matters;
  - The completion and distribution of Board and committee papers;
  - Completion of Board and committee minutes; and
  - The facilitation of Director induction processes and ongoing professional development of Directors.
- All Directors have access to the Company Secretary who has a direct reporting line to the Chairman.

#### Diversity

The Board values diversity in all aspects of its business and is committed to creating a working environment that recognises and utilises the contribution of its employees. The purpose of this is to provide diversity and equality relating to all employment matters. The Group's policy is to recruit and manage on the basis of experience, ability and qualification for the position and performance, irrespective of gender, age, marital status, sexuality, nationality, race/ cultural background, religious or political opinions, family responsibilities or disability. The Group opposes all forms of unlawful and unfair discrimination.

The Board comprises four Directors, all of whom are male. The Board has determined that the composition of the current Board represents the best mix of Directors that have an appropriate range of qualifications and expertise in the industries and the jurisdictions in which the Group operates, can understand and competently deal with current and emerging business matters and can effectively assess the performance of management.

The Group's diversity objective is to improve gender diversity at all levels of its business on a year-on-year basis whilst recognising that it operates in very competitive labour markets in remote locations, with strong cultural sensitivities, where positions are sometimes difficult to fill. There is periodic reporting at the Group's operations to measure the gender mix within various levels of the organisation. The Group is committed to continually assessing and proactively monitoring these diversity trends and advocates that every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

During the reporting period several female candidates were considered as part of the Board competencies analysis for the independent Non-executive director position. These candidates were not selected due to their unavailability due to existing commitments, conflicts of interest or concerns in relation to over-boarding

GENDER REPRESENTATION	31 DECEMBER 2021				31 DECEMBER 2020			
	FEMALE		MALE		FEMALE		MALE	
	NO.	%	NO.	%	NO.	%	NO.	%
Board representation	0	0	4	100	0	0	4	100
Group representation	130	16	670	84	103	15.3	571	84.7

The Board is aware that many studies suggest that greater gender diversity at Board and management level creates a positive force for driving corporate performance as qualified and committed directors with different backgrounds, experiences and knowledge will likely enhance corporate performance. In that regard, the Board remains focused on resolving the gender imbalance on the Board by continuing to identify a pipeline of suitably qualified candidates with careful consideration of those who strengthen the Board skills matrix.

The Company continues to support the Australian Institute of Company Director's Board diversity initiatives and will continue to evolve its Board in alignment with the Company's needs and diversity best practice.

## Performance review

### Board and Board committees

A review of the Board's performance and effectiveness is conducted annually and the performance of individual Directors is undertaken regularly. The Board has the discretion for these reviews to be conducted either independently or on a self-assessment basis.

The review focuses on:

- Strategic alignment and engagement;
- Board composition and structure;
- Processes and practices;
- Culture and dynamics; relationship with management; and
- Personal effectiveness.

A review of the Board's performance and effectiveness in respect of the year ended 31 December 2021 was conducted.

### Managing Director and senior executives

Performance evaluations of the Managing Director and senior executives is undertaken annually through a performance appraisal process which involves reviewing and assessment of performance against agreed corporate objectives and individual key performance indicators or deliverables.

A review of the Managing Director and Chief Operating Officer's performance and effectiveness in respect of the year ended 31 December 2021 was conducted.

### Retirement and rotation of directors

Retirement and rotation of directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year, one third of Directors must retire and may offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company. It is intended that Mr Nick Selby will stand for re-election by rotation at the Company's Annual General Meeting, scheduled for 30 May 2022.



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## Independent professional advice

Each Director of the Company or a controlled entity has the right to seek independent professional advice at the expense of the Company or the controlled entity. However, prior approval of the Chairman is required which will not be unreasonably withheld.

## Access to employees

Directors have the right of access to any employee. Any employee shall report any breach of corporate governance principles or Company policies to the Chairman or as outlined under the Whistleblower policy. If the breach is not rectified to the satisfaction of the employee, they shall have the right to report any breach to an independent Director without further reference to senior executives of the Company.

## Directors' and officers' liability insurance

Directors' and officers' liability insurance is maintained by the Company for the Directors and senior executives at the Company's expense.

## Board meetings

The frequency of Board meetings and the extent of reporting from management at Board meetings are as follows:

- A minimum of four scheduled meetings are to be held per each financial year;
- Other meetings will be held as required;
- Meetings can be held where practicable by electronic means;
- Information provided to the Board includes all material information related to the operations of the Group including exploration, evaluation, development and mining operations, budgets, forecasts, cash flows, funding requirements, investment and divestment proposals, new business development activities, investor relations, financial accounts, sales and market information, taxation, external audits, internal controls, risk assessments, people and health, safety and environmental reports, statistics and new business;
- Once established or as necessary, the Chairman of the appropriate Board sub-committee or other meeting will report at the subsequent Board meeting the outcomes of that meeting.

The number of Directors' meetings (including meetings of committees of Directors where applicable) and the number of meetings attended by each of the Directors of the Company during the financial year are set out in the Directors' Report.

## Principle 2

### Structure the Board to be effective and add value

The names of the Directors of the Company and their qualifications are set out in the section headed "Information on Directors" in the Directors' Report.

The ASX Corporate Governance Council guidelines recommend that the Board should constitute a majority of independent Directors and that the Chairperson should be independent. The Board consists of four Directors of whom one is considered independent, being Mr Miles Kennedy (non-executive Chairman - appointed as a director on 12 September 2008 and served as Executive Director until 11 December 2014). The Board considers that whilst Mr Kennedy has served as a Director for a long period, he remains independent from management and substantial shareholders and is therefore able to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company as a whole rather than in the interests of an individual shareholder or other party. Mr Ross Stanley (non-Executive Director - appointed 26 July 2018) has a substantial shareholding in the Company and therefore does not meet the criteria for an independent Director. Mr Stephen Wetherall (appointed 13 October 2014) is Managing Director and therefore does not meet the criteria for an independent Director due to his executive role. Mr Nick Selby (appointed 4 September 2017) is an Executive Director and therefore does not meet the criteria for an independent Director due to his executive role.

### Board skills and experience

The Company objective is to have an appropriate mix of experience and expertise on the Board and Committees so that the Board can effectively discharge its strategic, corporate governance and oversight responsibilities.

The composition of the Board has been structured so as to provide the Company with an adequate mix of non-executive and executive Directors with exploration, development and mining industry knowledge, country specific knowledge, technical, commercial, capital markets and financial skills together with integrity and judgment considered necessary to represent shareholders and fulfil the business objectives of the Group.

The Board acknowledges that it is not comprised by a majority of independent directors. However, the Chairman is independent and the Board comprises Directors who each have extensive exploration, development and mining industry knowledge, country specific knowledge, technical, financial, capital markets and commercial expertise. The Board will address the skills commensurate with the growth and development of the Group's activities to ensure those skill sets are complemented by additional industry or other expertise in the sector.

As the Company transitions from an emerging miner/explorer to mid-tier producer, the Board will set about identifying and assessing suitable independent non-executive director candidates to complement the existing competencies of the Board to drive performance, create shareholder value and lead ethically by example.

This mix is described in the Board skills matrix as follows:

SKILLS	DIRECTORS HOLDING THIS SKILL
Resources industry and Africa experience	4
Diamond industry and marketing	4
Strategy	4
Mergers and acquisitions	4
Finance	4
Risk Management	4
Government relations	4
Capital projects; financing/ project management	4
Sustainable development	4
Previous board experience	4
Governance	4
Policy	4
Executive leadership	4
Remuneration	4

The competencies that the current Board members have formulated their analysis are based upon the criteria judged as important by the Board given the Company's current stage of growth, in conjunction with independent industry guidance as follows:

- **Resources Industry Experience** - experience in the resources industry, including broad knowledge of exploration, operations, project development, markets, shipping and competition.
- **Diamond Industry Experience** - specific experience in the diamond industry, including an in-depth knowledge of exploration, operations, project development, markets, cutting and polishing, competitors and relevant technology.
- **Strategy** - identifying and critically assessing the strategic opportunities and threats to the organisation and developing and implementing successful strategies in context to an organisation's policies and business objectives.
- **Mergers & Acquisition** - experience managing, directing or advising on mergers, acquisitions, divestments and portfolio optimisations.
- **Finance** - senior executive or other experience in financial accounting and reporting, internal financial and risk controls, corporate finance and restructuring corporate transactions.
- **Risk Management** - experience working with and applying broad risk management frameworks in various countries, regulatory or business environments, identifying key risks to an organisation, monitoring risks and compliance and knowledge of legal and regulatory requirements.
- **Government Relations** - senior management or equivalent experience (particularly transactional) working in politically, culturally and regulatory diverse business environments.
- **Capital Projects; Financing / Project Management** - experience with projects involving contractual negotiations, significant capital outlays, procuring project investment and securing partners with long investment horizons.

- **Sustainable Development** - senior management or equivalent experience in economic, social and environmental sustainability and workplace health and safety practices.
- **Previous Board Experience** - serving on boards of varying size and composition in varying industries and for a range of organisations. Awareness of global practices, benchmarking, some international experience.
- **Governance** - implementing the high standards of governance in a major organisation that is subject to rigorous governance standards and assessing the effectiveness of senior management.
- **Policy** - identifying key issues for an organisation and developing appropriate policy parameters within which the organisation should operate.
- **Executive Leadership** - experience in corporate structuring, overseeing strategic human capital planning, evaluating the performance of senior management, industrial relations, organisational change management and sustainable success in business at senior level.
- **Remuneration** - experience in remuneration strategy, remuneration governance frameworks, Corporations Act and employment law, performance and incentive schemes.

The Board Skills Matrix is an important driver to formalise the director nomination processes. It was applied during the reporting period as several candidates were considered for the independent Non-executive director position to complement the existing skill sets on the Board. The Board will continue to seek to identify suitable candidates in alignment with the Company's needs and best practice.

### Nomination of other Board members

Membership of the Board of Directors is reviewed on an on-going basis by the Chairperson of the Board to determine if additional core strengths are required to be added to the Board in light of the nature of the Group's businesses and its objectives and diversity.

As the Company transitions to become a mid-tier producer, the Board will focus on a measured process to ensure it maintains a strong, well-credentialed Board to oversee the Company's next growth phase led by the development of the Merlin Project that is value accretive for shareholders.

The appointment of an independent Non-executive Director was not achieved during this reporting period. However the Board Skills Matrix will form an integral basis in the identification and assessment of suitable candidates based on readily available information on respective backgrounds, current Board positions and visible competencies. The Board currently performs the role of a Nomination Committee given the Company's size and stage of growth. However this will be reviewed to ensure there is a continued emphasis on board membership which aligns with the Company's corporate culture and addresses independence and diversity.

### Director induction and ongoing professional development

The Company does not have a formal induction program for Directors but does provide Directors with information detailing policies, corporate governance and various other corporate requirements of being a director of an ASX listed company. To the extent required, new Directors are provided access to the diamond industry centres and given audiences with key management, industry participants and players as part of the induction. Due to the size and nature of the business, Directors are expected to already possess a level of both industry, technical, corporate and commercial expertise before being considered for a directorship of the Company. Directors are provided with the opportunity to access employees of the business and any information as they require on the business including being given access to regular operational updates, industry update, news articles and publications where considered relevant.



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### Principle 3

#### Instil a culture of acting lawfully, ethically and responsibly

Directors, officers, employees and consultants to the Group are required to observe high standards of behaviour and business ethics in conducting business on behalf of the Group and they are required to maintain a reputation of integrity on the part of both the Group and themselves. The Group does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Lucapa recognises the importance of its people in building a strong and successful organisation. To achieve this, Lucapa has focused on developing the right culture across the organisation, which is strongly based on a vision, mission and values communicated in our teams in Australia and Africa to ensure they know what is expected of them, both operationally and behaviourally, and are recognised for their good work.

#### Code of Conduct

The Company's Code of Conduct policy has been endorsed by the Board and applies to all Directors, officers, employees and consultants.

#### Whistleblower policy

In line with the Code of Conduct, the Company has a Whistleblower policy that ensures that all eligible whistleblowers who make a report in good faith can do so without fear of intimidation, disadvantage or reprisal.

#### Anti-Bribery and Corruption and Anti-Slavery policies

The Company's Anti-Bribery and Corruption and Anti-Slavery policies have been endorsed by the Board and applies to all Directors, Group employees, consultants, contractors and third-parties.

#### Conflicts of interest

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director or the interests of any other party in so far as it affects the activities of the Group and to act in accordance with the Corporations Act if the conflict cannot be removed or if it persists. That involves taking no part in the decision-making process or discussions where a conflict does arise.

#### Trading in Company securities

Directors are required to make disclosure of any trading in the Company's shares. The Company policy in relation to share trading is that Directors, key management personnel, officers, employees, consultants and contractors of the Group ("Staff") are prohibited to trade whilst in possession of unpublished price sensitive information concerning the Group or within a certain period of the release of results i.e. the blackout period. That is information which a reasonable person would expect to have a material effect on the price or value of the Company's shares.

Staff must receive authority to acquire or sell shares from the Chairman or the Company Secretary prior to doing so to ensure that there is no price sensitive information of which Staff might not be aware. The undertaking of any trading in shares by a Director must be notified to the ASX.

### Principle 4

#### Safeguard the integrity of corporate reports

Lucapa has a financial reporting process which includes quarterly, half year and full year reports which are signed off by the Board before they are released to the market.

The Company's Continuous Disclosure policy ensures that any corporate reports that are released to the market that are not audited or reviewed by an external auditor are reviewed by the Board and appointed responsible officers, which are the Managing Director, the Company Secretary and Chief Financial Officer (or equivalent), to verify the accuracy of information before being released.

The Board does not have a separate Audit Committee given the current size of the Board. However it is intended that a committee will be established comprised by a majority of independent directors as the Company transitions to become a mid-tier producer.

In the interim, the four Board members, who each have extensive corporate, commercial and financial expertise, manage the financial oversight as well as advise on the modification and maintenance of the Group's financial reporting, internal control structure, external audit functions, and appropriate ethical standards for the management of the Group.

In discharging its oversight role, the Board is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Group and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The Managing Director and Chief Financial Officer (or equivalent) reports on the propriety of compliance on internal controls and reporting systems and ensures that they are working efficiently and effectively in all material respects.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's and Group's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Company's external auditor attends each Annual General meeting and is available to answer questions from shareholders relevant to the conduct of the external audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company and the independence of the auditor.

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## Principle 5 Make timely and balanced disclosure

The Company has adopted a formal policy dealing with its disclosure responsibilities. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of non-public information:

- Concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The policy also addresses the Company's obligations to prevent the creation of a false market in its securities. The Company also publishes other information to assist investors to make an informed decision on its website.

The Managing Director has ultimate authority and responsibility for recommending market disclosure to the Board which, in practice, is exercised in conjunction with the Board and Company Secretary.

In addition, the Board will also consider whether there are any matters requiring continuous disclosure in respect of each and every item of business that it considers.

## Principle 6 Respect the rights of security holders

The Board's fundamental responsibility to shareholders is to work towards meeting the Company's strategic objectives to add value for them. The Board maintains an investor relation program which will inform shareholders of all major developments affecting the Group by:

- Preparing half yearly and yearly financial reports;
- Preparing quarterly cash flow reports and reports as to activities;
- Making announcements in accordance with the listing rules and the continuous disclosure obligations;
- Posting all the above on the Company's website once released to the ASX;
- Annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report, if requested, together with notice of meeting and proxy form; and
- Voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to discuss the annual report and participate in the meetings either by attendance or by written communication. The Company provides all shareholders with a Notice of Meeting so they can be fully informed and be able to vote on all resolutions at the Annual General Meeting. Shareholders are able to discuss any matter with the Directors and/ or the auditor of the Company who is also invited to attend the Annual General Meeting.

Shareholders have the option to receive all Company and share registry communications electronically and may also communicate with the Company by contacting the Company via email

## Principle 7 Recognise and manage risk

The Board has adopted a Risk Management policy, which sets out the Group's risk profile. Under the policy, the Board is responsible for approving the Group's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegate's day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks with other executive management. The executive is also responsible for updating the Group's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the executive has unrestricted access to Group employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate.

The Board does not have a separate Risk Management Committee as the Board monitors and reviews the integrity of financial reporting and the Group's internal financial control systems. Management assess the effectiveness of the internal financial control on an annual basis and table any concerns and/ or recommendations at Board meetings where required.

In addition, the following risk management measures have been adopted by the Board to manage the Group's material business risks:

- Establishment of financial control procedures and authority limits for management;
- Approval of an annual budget;
- Adoption of a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations;
- Adoption of a corporate governance manual which contains other policies to assist the Group to establish and maintain its governance practices; and
- Compilation, maintenance and review of a risk register to identify the Group's material business and operational risks and risk management strategies for these risks. The risk register is reviewed half yearly and updated as required. The Executive reports to the Board on material business risks at each Board meeting.

The Board has required the executive to design, implement and maintain risk management and internal control systems to manage the material business risks of the Group. The Board also requires management to report to it confirming that those risks are being managed effectively.

The Chief Financial Officer (or equivalent) has provided a declaration to the Board in accordance with section 295A of the Corporations Act and has assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risks.

The Board monitors the adequacy of its risk management framework regularly to ensure that it continues to be sound and deals adequately with contemporary and emerging risks and that the Company is operating with due regard to the risk appetite set by the Board and discloses that reviews have taken place at the end of each reporting period.

### Internal Audit

The Group does not have an internal audit function as the Board believes the business is neither the size nor complexity that requires such a function. The Board is currently responsible for monitoring the effectiveness of internal controls, risk management procedures and governance.





## Sustainability and Industry risks

The Group's operations are and will continue to be subject to a range of the hazards and risks normally incidental to exploring for, evaluating, developing and mining diamond resources.

The Company and its subsidiaries have detailed risk matrices which are regularly reviewed, and which highlight critical risk factors that the Group faces at any particular time. Principal risks to the business include, amongst others, those relating to:

- Macroeconomic factors, sovereign and partner risk, global diamond market and diamond demand and pricing;
- The ability to raise capital and/ or required additional funding for continued exploration, evaluation, development and mining operations;
- Operational issues such as severe weather conditions, supply delays, major equipment breakdowns and labour disputes;
- The ability to replace resource and reserves as they are depleted or become uneconomical and/ or achieve exploration success;
- Environmental, health and safety and social issues (see below); and
- Retention and reliance on key executives.

As the Group expands its activities either within existing projects or with the addition of new projects, it is expected that the sustainability risks will change accordingly.

The Board reviews the overall sustainability of both the diamond business and more specifically, the Group, in its normal course of business.

Details of the Group's sustainability activities and strategic direction are set out in the ESG Report.

## Environmental and Social Risks

The Group strives to operate in accordance with the highest standards of environmental practice and comply in all material respects with applicable environmental laws and regulations. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations.

The Company has adopted a formal Anti-Bribery and Corruption and Anti-Slavery policies which apply to all staff, consultants and contractors that work with the Group. The policies seek to ensure that the Company operates in an ethical and transparent manner in all business dealings and that the Company has a Whistleblower policy and mechanism for staff to alert management should any issues or incidents occur.

The Board monitors the adequacy of its environmental and social risk management to ensure that it continues to be sound and deals adequately with contemporary and emerging risks in the respective jurisdictions the Group operates within.

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## Principle 8

### Remunerate fairly and responsibly

The Company does not have a Remuneration Committee given the size of the Board. However it is intended that a committee will be established comprised by a majority of independent directors as the Company transitions to become a mid-tier producer. In the interim, the Board monitors and reviews the remuneration level and policy of the Group.

Details of the remuneration policy are contained in the Remuneration Report included in the Directors' Report. The Company's policy is to remunerate non-executive Directors at a fixed fee for time, commitment and responsibilities. Any services over and above their agreed responsibility is remunerated separately on normal commercial terms. Remuneration for non-executive Directors is not linked to individual performance. The Company may grant options and performance rights to non-executive Directors. The grant of options and performance is designed to recognise and reward efforts as well as to provide non-executive Directors with additional incentive to continue those efforts for the benefit of shareholders and the Group.

The maximum aggregate amount of fees (including superannuation payments) that can be paid to non-executive Directors is subject to approval by the shareholders at general meeting.

Pay and rewards for executive Directors and senior executives consists of a base salary, performance and retention incentives. Medium and long-term performance incentives may include options and/ or performance rights granted at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options and/ or performance rights is designed to recognise and reward efforts as well as to provide additional incentives and retentions and may be subject to the successful completion of performance hurdles. Executives are offered a competitive level of base pay at market rates (for comparable companies and industry) and are reviewed annually to ensure market competitiveness. The Company's policy is not to allow transactions in associated products which limit the risk of participating in unvested elements of equity-based compensation plans.

The Directors are not entitled to a termination bonus or retirement benefit (other than for superannuation). The Directors' contracts contain a service bonus in the event of a takeover or change of control, subject to shareholder approval where required.

Subsequent to year end, the Board engaged an independent remuneration consultant, BDO Remuneration and Reward Pty Limited, to review the pay and rewards for Directors and senior executives including independent benchmarking as the Company continues to maximise operating performance from its existing mines and moves toward its key strategic objective, which is the development of and ultimately the production from the Company's recently acquired Merlin Project in the Northern Territory, Australia.

The Company is entering an important phase and the Board believes that whilst the remuneration framework is appropriate and fit-for-purpose based on the Company's development and growth profile and to drive and deliver the outcomes desired by all shareholders, it has adopted the recommendations from the independent remuneration consultant which focus on providing directors, key management personnel and senior management with clear short term, project based and long-term incentives to drive alignment of the Company's key objectives.

The FY22 framework for STI's in the form of cash and equity, Project Based Incentives in the form of equity and LTI's in the form of equity, are to be measured against the Company's relevant targets in FY22 such as;

STI;

- Production
- Expenditures/ Capex
- ESG and Safety
- Exploration

PBI;

- Production at the Merlin Project

LTI;

- Absolute shareholder return

The independent review has considered Non-executive directors total fixed remuneration in relation to benchmarked peers in which non-executives are encouraged to hold shares in the Group to partake in the future growth of the Group and, to participate in the Group's profits and dividends that may be realised in future years. In FY22, the non-executive directors will be offered the ability to split their fixed remuneration between cash and equity subject to shareholder approval.



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