LUCAPA
DIAMOND COMPANY

Annual Report
for the year ended 31 December
2020

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History of +100 carat diamond recoveries

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LULO

The Mothae diamond plant commissioned in January 2019

Chairman's letter

Dear Fellow Shareholders,

In writing about the events of calendar year 2020, the phrase from Hamlet comes to mind "when sorrows come, they come not in single spies – but in battalions" - and so it seemed with our Company when the devastating effects of the COVID-19 pandemic stopped production at both our diamond mines in Angola and Lesotho, the latter for over half the year. Throughout this period, we continued to support the over six hundred team members who work for us across our operations as well as ensuring that the diamond plants and mine sites were suitably maintained.

Coupled with these in-country events, the greater diamond community was threatened when diamond markets globally were forced to close. No diamond participant was left unaffected as these border and market closures saw rough and polished diamond prices slump. Many of the world's diamond mines suspended operations with some producers seeking creditor protection from the courts and the manufacturing sector closed its doors. There is no doubt this was a particularly challenging year for the entire diamond sector and even though we generated a profit for the second half of 2020 our Company was not immune, recording a loss of US$9.7 million for the full year ended 31 December 2020 (H1 20: US$12.7 million loss; H2 20: US$3.0 million profit).

These drastic times called for drastic measures. Both of our producing operations were forced to suspend activities. Our Lucapa Board and management and Mothae board and staff volunteered a 60% reduction in salaries, whilst Lucapa's Non-Executive Director's suspended 100% of their fees. Corporate office personnel reduced by 20% and in this regard, I would like to pay tribute to Mark Drummond and and Mariah Suares, both of whom have provided many years of hard, loyal and dedicated service to the Company. It was necessary for us to support our treasury to see us through these unprecedented times and with the strong support of our shareholders and financial advisors we were able to raise A$5.2 million in an entitlement issue.

Whilst both the mines were suspended, we used the downtime to thoroughly review the value drivers and growth opportunities of our producing assets. At the Lulo alluvial mine in Angola, we excavated a trench for over a kilometre, to divert the Cacuilo River, enabling us for the first time to get in and systematically mine the Leziria (floodplain) areas of the river. These Leziria areas contained superior diamond grades to what we have historically mined in the higher lying terraces. The effect of this work manifested itself with record production at Lulo when SML resumed its mining operations, including the recovery of two +100 carat diamonds. To note, the Cacuilo River is over 50km in length and has extensive floodplains.

Sales of Lulo diamonds, following resumption of mining, amounted to A$28.1 million despite diamond prices being impacted adversely by some 25% at the height of the COVID-19 pandemic. SML ended the year with a healthy diamond inventory of 4,324 carats, reflecting a very solid operating performance from SML as it navigated the COVID-19 induced regulations to curb the spread of the virus in Angola.

the 46 carat Lulo pink rough diamond delivered a spectacular 15.2 carat heart shaped fancy intense orangy pink polished diamond

Add to that the great success of the cutting & polishing partnership with Safdico International ("Safdico"), the manufacturing subsidiary of renowned international diamond house Graff International. This partnership is delivering handsomely, and now that the manufacturing sector is back to work following its COVID-19 pandemic closure, we will see the material benefits in 2021. Wonderfully, the 46 carat Lulo pink rough diamond delivered a spectacular 15.2 carat heart shaped fancy intense orangy pink polished diamond and we eagerly await the onward sale by the partnership.

Frustratingly for all of us, the kimberlite exploration project at Lulo was slowed down by the COVID-19 pandemic, but we continued to push the program forward in the Canguige catchment area achieving good results. We too are very encouraged by the recent re-engagement with our Angolan partners for Lucapa to achieve a majority ownership. It would be an historical step as we search for the source of the magnificent alluvial Lulo diamonds with our partners.

At the Mothae kimberlite mine in Lesotho, we also used the interruption productively. Firstly, we utilised the technical and sales data accumulated from over the prior fifteen months of production to update the JORC resource and grew the indicated resource by a significant 280% to 9.2 million tonnes. With this increase in the indicated resource tonnes, we continue to apply our energy as to how best to drive value and returns by increasing the throughput capacity of the diamond processing plant.

You will remember, that in 2018 we had originally scoped a Phase 2 expansion to double the processing

Chairman's letter

capacity from the current 1.1 million tonnes per annum ("Mtpa") to 2.2 Mtpa, but the ~US$50 million price tag in the middle of a global crisis was likely a bridge too far. Through utilisation of additional capacities in certain modules of the processing plant and debottlenecking others, we finalised plans with our Lesotho Government partners to increase plant capacity by 45% to ~1.6 Mtpa, establish additional on-site accommodation and provide working capital support to Mothae – all for a budgeted US$6 million.

Following a strong V-shaped recovery in the diamond sector in the third quarter of 2020, we re-engaged the mining operations at Mothae in October 2020 and moved to secure funding for the value accretive Mothae expansion program via a strongly supported and successful equity raise in November 2020. The expansion activities are progressing well, scheduled to complete by the end of the first quarter of 2021 and we should see the economies of scale benefit for the remainder of the year and beyond.

Similar to the cutting & polishing partnership for the large and high-value production at Lulo, the ability to extract additional value at Mothae by accreting polished returns from Mothae's high-end production was an important value driver. As such, Lucapa formulated a proposal to the Government of Lesotho ("GoL") recommending a new marketing channel for the diamond production from Mothae in addition to tenders or auctions. Following approval from GoL, Mothae concluded an agreement with Safdico, where Safdico would purchase the run-of-mine diamond production from Mothae at rough market value and then will share the post mine gate equally with Mothae.

In a strong showing of the content in the resource and why Lucapa sought to acquire Mothae, soon after mining activities were re-engaged in October 2020, Mothae quickly recovered its fourth and fifth +100 carat diamonds. Firstly, in December 2020, Mothae recovered a 101 carat stone and in February 2021 recovered a 215 carat stone. Both diamonds being rare Type IIa D-colour stones.

Mothae quickly recovered its fourth and fifth +100 carat diamonds

Lucapa have emerged strongly from a very tough 2020 and looking forward, our Board, management and operations teams are acutely focused on continuing to drive value through production and project success.

Once the 45% expansion program at Mothae is completed this month, we will have successfully delivered on our stated 200% production growth target and vision of becoming a leading global producer of large and high-quality diamonds. Let me remind you that our two existing mines rank in the top three of the world's highest price run of mine diamond productions. Add to that the value now being derived from beyond the mine gate, we have developed a truly unique, multi-asset and diverse diamond company.

In keeping with the Company's vision and long-term production plans, we continue to review and identify prospective development projects that offer a pipeline of complementary production and exploration opportunities, both now and well into the future. In this regard, in December 2020 we announced that Lucapa was participating in the acquisition process of the mothballed Merlin Diamond Mine in the Northern Territory, Australia ("Merlin") that has a previously published JORC resource of some 4.4 million carats. Merlin sits on point with our focus on diamond resources containing decent populations of large and higher-value diamonds, 100% or majority ownership and both asset and geographic diversification. We will update the market as this acquisition process progresses. There can be no assurance that the acquisition will finally complete.

Lucapa greatly appreciate the support of our committed and supportive shareholders and financiers, and we are delighted that Ilwella, the diversified family office of the Flannery family, and Safdico, have become substantial shareholders in our Company.

I must end by thanking our untiring Executive Directors and management, in Perth, Angola and Lesotho for their massive efforts in driving production growth over the last two years and leading us out of a severe COVID-19 pandemic affected period and into what must surely be a much brighter future.

With best wishes
MILES KENNEDY
Chairman

Review of operations for the year ended 31 December 2020

Lucapa Diamond Company Limited ("Lucapa" or "the Company") and its subsidiaries (collectively "the Group"), despite the interruptions caused by the COVID-19 pandemic, continued to focus on the growth value drivers at the Company's niche high-value diamond mines in Angola ("SML") and Lesotho ("Mothae"), developing and growing new margin accretive marketing channels and progressing the primary source kimberlite exploration joint venture in Angola ("Project Lulo JV").

With both the expansion program at SML delivered and a strong first year of commercial production behind Mothae in 2019, Lucapa was well poised to deliver solid operational performances, revenues and therefore cash flows in 2020. However, after achieving solid production volumes in a positively trending diamond pricing environment early in the first quarter, the diamond industry all but ground to a halt in late March 2020 as the global COVID-19 pandemic forced border, diamond market and mine closures.

Following the mines re-engaging operations, they continued where they left off. Notwithstanding the COVID-19 pandemic's negative impact on rough diamond demand, pricing and operational capacities in 2020, SML returned to recovering the large and high-value production it is well known for and maintained its status as one of the world's highest US$ per carat run-of-mine diamond productions. The ability to continue to sell diamonds in the height of the shutdowns was a direct consequence of the new marketing regulations implemented in Angola with diamond sales continuing to SML's preferred buyer and cutting & polishing partner, Safdico.

The search for the primary source kimberlite also started the year well, with the excavation and processing of the Canguige tributary bulk sample and recovery of diamonds of up to 3.75 carats in individual size and including Type IIa and D-colour diamonds. The proximity to Mining Block 46, where SML had already recovered large and high-value diamonds resulted in the kimberlites and targets in the Canguige catchment area becoming the near-term focus of the Project Lulo JV. As with the mining operations, the exploration program was also hampered by the COVID-19 pandemic.

Mothae, with the usual commissioning and teething issues now ironed out in its first year of production in 2019, was looking forward to 2020 and building on its strong operational performance in 2019, where despite the teething issues, Mothae surpassed its nameplate processing capacity. Unfortunately, as a consequence of the various country lockdowns and market closures to curb the spread of COVID-19, Mothae's operations were suspended in March 2020 for just over six months.

As mentioned in the Chairman's letter, following a strong V-shaped recovery in the diamond market where demand and prices recovered quickly in the second half of 2020, Mothae resumed mining operations in October 2020 and has since recovered a number of exceptional diamonds. In addition, and similar to the partnership arrangement implemented by SML in 2019, the GoL approved a new additional marketing channel for Mothae, where Mothae will now receive value from the beyond the mine gate.

2020 Group operational highlights:

Lulo

- New earthmoving fleet increases mining and overburden stripping rates
- New Leziria areas produce superior grades and production records
- New records for annual carats recovered and sold[1]
- Four +100 carat stones recovered, including first from MB46 adjacent to Canguige catchment area
- Achieved EBITDA of US$6.2 million[2] in pandemic affected year
- Cutting & polishing partnership delivers further margins despite pandemic impacting prices
- An exceptional 15.2 carat heart shaped pink polished diamond delivered by cutting & polishing partnership
- 25% increase in carats to over 100,000 carats for first time in updated Lulo Alluvial Diamond Resource
- Highly encouraging kimberlite exploration results in the Canguige tributary
- Bulk sampling completed at L071 and L072 recovering 1.33 carats from L071, including a 0.25 carat Type IIa diamond

Mothae

- Resumed mining and processing operations in October 2020 following strong recovery in diamond market
- Exceptional +100 carat stone recovered – Mothae's most valuable diamond sold to date
- US$1.1 million EBITDA loss despite pandemic causing suspension of operations for over six months

1 Rough diamond production only and on a 100% basis

2 Includes SML's share of profit from diamonds sold into the cutting & polishing partnership with Safdico

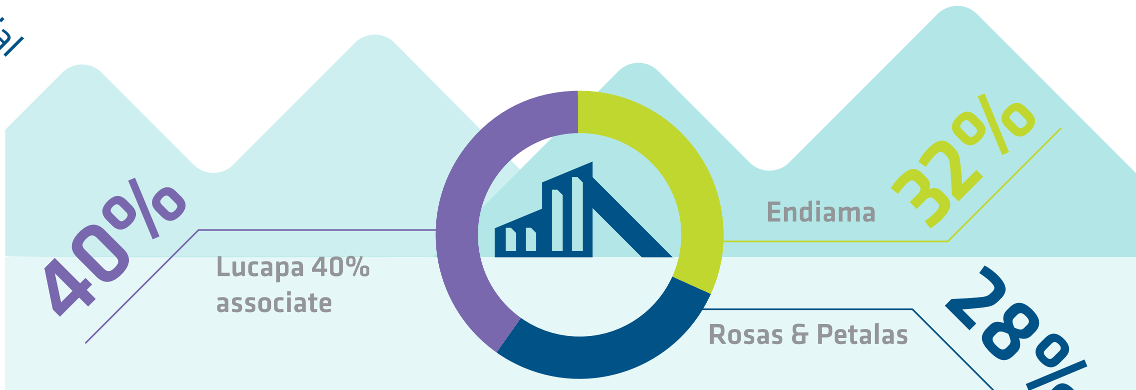
Review of operations for the year ended 31 December 2020

- 280% increase in JORC indicated resource tonnes
- 45% capacity expansion program commenced
- Implemented a new marketing channel including a cutting & polishing partnership

Corporate

- Significant cost reductions implemented during pandemic
- Concluded successful capital raisings and debt restructuring agreements
- Strong V-shaped recovery in diamond market in second half of 2020
- Continued to review and assess growth opportunities organically and acquisitively

Lulo alluvial mine, Angola



Lulo alluvial mine, Angola Conducted by Sociedade Mineira Do Lulo ("SML")

Mining and operations

Considering the market impact and capacity limitations brought on by the COVID-19 pandemic, SML performed admirably for the year. After a record first quarter for volumes processed by SML, greatly aided by the new earthmoving fleet, mining operations at the mine were forced to suspend at the end of March 2020. SML was able to restart operations in May 2020 after a one-month suspension, but at a restricted capacity due to limits on personnel and travel within Angola. Production capacity varied in the second half of 2020 as regulations were amended to manage the COVID-19 pandemic in Angola.

Notwithstanding the suspension and capacity limitations, SML was able to process 271,710 m^3 in 2020, almost on par with 2019. The increased ability to mine gravel and strip overburden as SML re-engaged activities was a clear indication of the successful deployment of the new earthmoving fleet purchased during 2019.

Being able to systematically mine the leziria (floodplain) areas for the first time since commercial mining operations commenced in 2015 due to diverting the Cacuilo River and achieving higher than normal grades, resulted in the recovery of 23,669 carats at a grade of 8.7 cphm^3 for the full year. This was 25% higher than the comparable 2019 year and a new record for annual carat production by SML. Included in the recoveries were 767 +4.8 carat stones and 237 specials of which four were +100 carat stones.

Despite the COVID-19 pandemic's best efforts, SML was able to resume scaled operations after just one-month, benefit from the new earthmoving fleet capacity, access floodplain areas and, continued to recover large

Lulo alluvial mine, Angola (continued)

exceptional diamonds and sell them, allowing SML to report an EBITDA profit of US$ 6.2 million for the full year ended 31 December 2020 (H1 20: US$1.5 million loss; H2 20: US$7.7 million profit).

In March 2020, Lucapa reported an inferred resource for SML of more than 100,000 carats for the first time. Alluvial drilling and pitting continued throughout 2020, both to better define the alluvial resource channels ahead of mining and to update the JORC inferred resource. Notwithstanding the depletion of 23,669 carats in calendar year 2020, the new updated JORC Resource Statement compiled to 31 December 2020 has a total inferred resource of 135,900 carats at an average modelled value of US$1,440/ carat. This is an increase in the inferred resource carats of 35%.

Table 1: SML Production Results and Recoveries

	FY 2019	Q1	Q2	Q3	Q4	FY 2020	% Var 2020 to 2019
Volume processed (m^3 bulked)	**276,313**	88,896	50,779	66,597	65,438	**271,710**	**-2%**
Carats recovered	**19,010**	4,891	2,944	9,387	6,447	**23,669**	**25%**
Grade recovered (cphm^3)	**6.9**	5.5	5.8	14.1	9.9	**8.7**	**26%**
+4.8 carat diamonds recovered	**633**	136	86	314	231	**767**	**21%**
+10.8 carat diamonds (Specials)	**212**	42	30	95	70	**237**	**12%**
Closing diamond inventories (carats)	**955**	3,037	2,647	2,104	4,342	**4,342**	**355%**

Mining at MB 46 during Q4 2020

Lulo alluvial mine, Angola (continued)

Diamond sales

SML held seven sales during the year and sold 20,397 carats, a new annual record, for gross proceeds of US$28.0 million or US$1,371/ carat. As noted in the Chairman's letter, rough diamond prices were impacted by up to 25% during the height of the COVID-19 pandemic. However, as e-commerce sales soared and eroded the high polished inventory levels, countries opened their borders and markets re-opened, the sector rebounded very strongly from the lows and the diamond industry has emerged with a far better balance, enabling diamond pricing to return to pre-pandemic levels, especially in the larger and higher-quality diamonds.

The COVID-19 pandemic also impacted the global diamond manufacturing sector in 2020 and delayed manufacturing and timely onward sale of the SML diamond production sold into the cutting & polishing partnership. Therefore, the majority of the partnership margins that were planned to be received during 2020 will now be received and reported in 2021. For 2020, SML still generated a US$0.5 million profit from the partnership.

As a consequence to the above, the 2021 partnership returns for SML will be abnormal.

One of the many successes of the cutting & polishing partnership, is the 46 carat rough Lulo pink stone which yielded an exceptional 15.2 carat heart shaped fancy intense orangy pink polished diamond as the main stone. We look forward to the onward sale of this spectacular diamond by the partnership.

15.2 carat heart shaped fancy intense orangy pink diamond cut from the from the 47 carat rough diamond sold into the Safdico partnership

Lulo Special diamonds recovered in the last quarter of 2020

Mothae kimberlite mine, Lesotho

Mothae kimberlite mine, Lesotho Conducted by Mothae Diamonds (Pty) Ltd ("Mothae")

Mining and operations

2020 was a disjointed year for Mothae as a consequence of the COVID-19 pandemic, with the mining operations being suspended from the end of March 2020 to the beginning of October 2020. The approximately six-month suspension resulted in an EBITDA loss of US$1.1 million being reported for the full year ended 31 December 2020 (H1 20: US$1 million loss; H2 20: US$0.1 million loss). To note, to benefit from sharply recovering diamond prices, Mothae did not sell any diamonds in the last quarter of 2020.

Whilst in operation for just the first and last quarters of the year, the mine operated to plan, with tonnes processed and recovered grades within expectations, notwithstanding the pandemic induced personnel constraints in the last quarter. The highlight of 2020 was undoubtedly the recovery of the exceptional 101 carat Type IIa D-colour stone soon after operations re-commenced in the final quarter. In a strong showing of what Lucapa expects from its acquisition of Mothae, that recovery was quickly followed up in the first quarter of 2021 by the recovery of another large IIa D-colour stone – this time a 215 carat stone.

Despite the suspension for just over half the year, neither Mothae's nor Lucapa's management teams stood still, continuing to seek cost savings, further the expansion plans and explore marketing opportunities to drive value for when operations were recommenced.

Firstly, on the back of the JORC resource update, expansion plans to bring forward value were finalised and approved. This expansion program would see the processing capacity increase by 45% to 1.6 Mtpa. This is now well advanced and the plant upgrade is due for completion by the end of the first quarter of 2021.

Secondly, a new additional marketing channel was proposed to and approved by the GoL. This would pave the way for Mothae to be able to sell its diamond production at full and transparent rough market value and partner with select diamantaires to ensure Mothae accrues significant additional value. Following approval, Mothae concluded a diamond sale and purchase agreement with Safdico, whereby the mine benefits from a 50% share of the margins made from polishing and trading Mothae diamonds post the mine gate. In addition, the minimum cash flow price implemented for the first 12 months of the contract solidifies the financial returns through 2021 and beyond.

As noted earlier, the Mothae JORC resource was also updated during this suspension period utilising the diamond production and sales data from 2019 and early 2020, resulting in a 280% increase in the JORC indicated resource to 9.2 million tonnes. This resource incorporating 2019 diamond market prices was used to inform the expansion plans and the six-year forecast published in November 2020.

The support of the Industrial Development Corporation of South Africa ("IDC") and Equigold as financiers to Mothae has been exemplary and the postponement of repayments of interest and principal following the pandemic has been greatly appreciated.

Mothae kimberlite mine, Lesotho (continued)

Table 2: Mothae Production Results and Recoveries

	FY 2019	Q1	Q2	Q3	Q4	FY 2020	% Var 2020 to 2019
Tonnes processed	**1,156,093**	289,012	-	-	280,148	**569,160**	**-51%**
Carats recovered	**30,107**	6,853	-	-	6,603	**13,456**	**-55%**
Grade recovered (cpht)	**2.6**	2.4	-	-	2.4	**2.4**	**-9%**
+4.8 carat diamonds recovered	**531**	137	-	-	124	**261**	**-51%**
+10.8 carat diamonds (Specials)	**145**	38	-	-	42	**80**	**-45%**
Closing diamond inventories (carats)	**4,284**	4,780	784	784	7,345	**7,345**	**71%**

Diamond sales

Mothae, as a result of the interrupted operations, only held two diamond sales in early 2020.

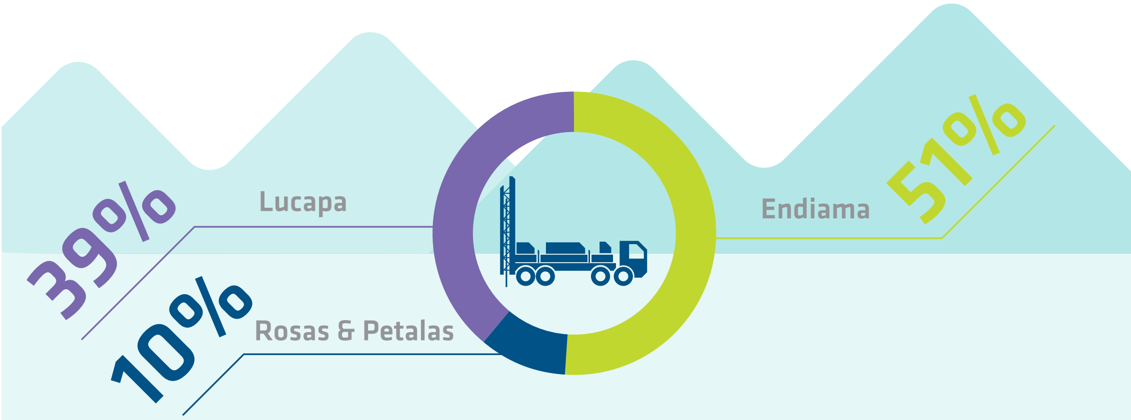
A total of 10,268 carats were sold for gross proceeds of US$4.1 million or US$402/ carat.

As noted above, Mothae chose not to conclude any rough sales following recommencement of operations in the last quarter of 2020 to benefit from quickly recovering diamond prices and as such held a healthy diamond inventory of 7,345 carats at the end of the year, including the exceptional 101 carat diamond.

Post year end, two parcels containg 10,295 carats were sold under the newly signed marketing agreement and partnership with Safdico for US$11.5 million or $1,117/ carat. The additional post mine gate margins anticipated will be received during 2021.

Selection of Mothae Special Type IIa D-colour diamonds recovered in Q4 2020

Kimberlite exploration, Angola



Kimberlite exploration, Angola Conducted by Project Lulo Joint Venture ("Project Lulo JV")

The kimberlite exploration activities of the Project Lulo JV continued with the program formulated following the technical review in 2019. Unfortunately, the planned progress was also adversely impacted by the personnel and travel limitations put in place by the Angolan Government to curb the spread of COVID-19. Notwithstanding the lack of access to exploration personnel during the key dry season, a significant volume of work was still completed.

At the beginning of 2020, a 1,865 m^3 alluvial bulk sample that was excavated from the Canguige tributary to the Cacuilo River was processed and returned 45 diamonds, weighing 30.3 carats in total at a grade of 1.62 $cphm^3$. It contained diamonds of up to 3.75 carats in individual size and analysis of the diamonds confirmed the presence of Type IIa D-colour and light fancy yellow stones. These recoveries and the Canguige tributary's proximity to Mining Block 46, which has produced a number of Special diamonds including three +100 carat diamonds and fancy coloured diamonds, led to the kimberlites and targets within the greater Canguige catchment area becoming the focus of the 2020 campaign (Figure 1).

A total of 111 core holes (4,796m) were completed during the year. The majority of which were focussed on delineation of the high interest kimberlite pipes within the Canguige catchment area, to locate suitable areas for bulk sampling.

Clearing, preparing and building access roads suitable for hauling the bulk samples from the kimberlites identified for bulk sampling within the Canguige catchment area, has formed a major part of the 2020 work program.

Two kimberlite bulk samples totalling 4,891m^3 were taken from L071 and L072. Two diamonds of 1.08 and 0.25 carats were recovered from L071, with the 0.25 carat stone being confirmed as a Type IIa stone.

Preparations for sampling the other kimberlites in 2021 continue, with sites for five bulk samples identified. Clearing of haul roads and sampling site preparations commenced in 2020 and bulk sampling excavation and processing will resume once ground conditions are suitable after the end of the wet season.

Four new kimberlite discoveries were made during the year and designated L157, L179, L403, L432 (Figure 1). Further investigation of these bodies will be undertaken.

Work to identify suitable alluvial bulk sampling sites in the Zavige and Xangando drainages was completed, with mapping, pitting and auger drilling undertaken.

Importantly post year end, Lucapa resumed talks with its Angolan partners to secure a majority stake in Project Lulo JV. Lucapa believes that securing a majority stake in the 3,000km^2 kimberlite exploration licence will open up opportunities to expedite the program that aims to identify the primary kimberlite sources of the exceptional alluvial diamonds being mined by SML at Lulo.

Kimberlite exploration, Angola (continued)

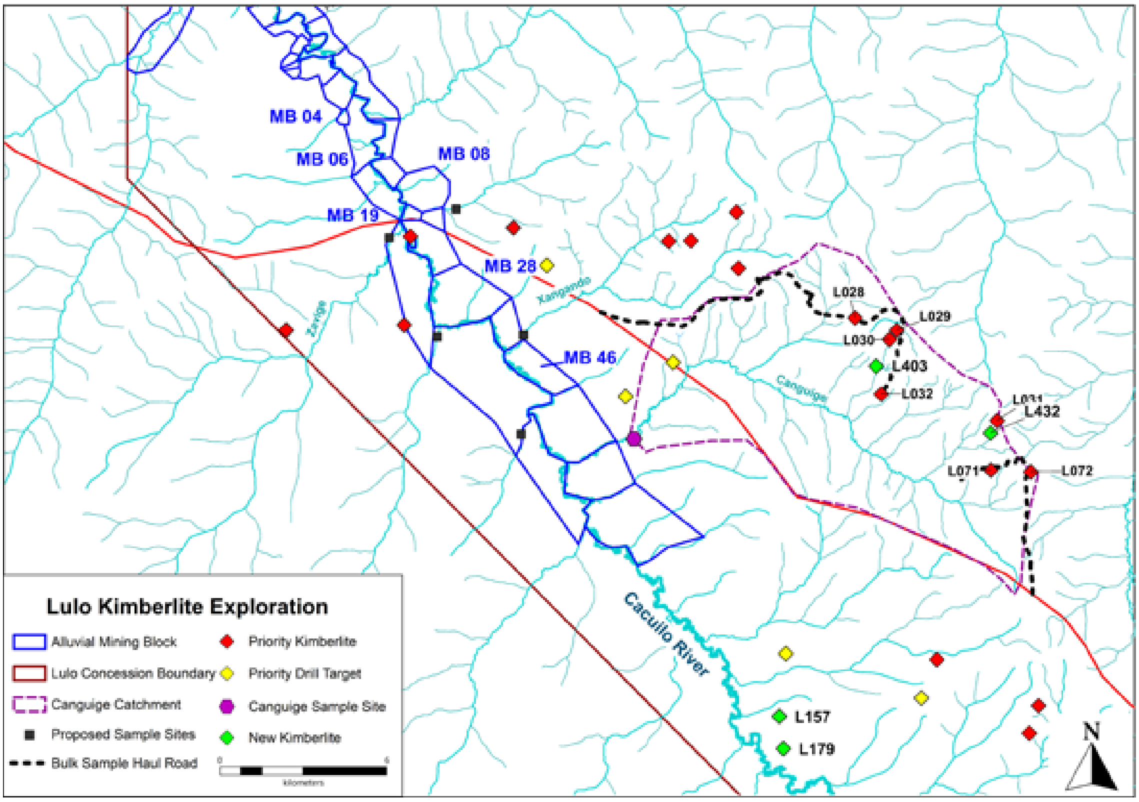


Figure 1: Exploration progress map

Bulk sample excavation at L071 kimberlite during Q2 2020

Other projects

Brooking exploration

A follow up exploration program involving heavy mineral stream and loam sampling, complemented with soil geochemistry sampling, was completed at Brooking in 2020. This resulted in the recovery of 7 diamonds, including two macro-diamonds (>0.5mm diameter) and 72 chromites. The results combined with associated airborne geophysics and satellite imagery, identified two likely lamproite targets and a potential lamproite dyke.

The next phase of exploration will seek to confirm whether the identified targets at Brooking are lamproites.

Orapa exploration

No field work was undertaken at the Orapa Area F project and an application for extension of the prospecting license has been submitted.

The next phase of exploration will seek to confirm whether the identified targets at Orapa are kimberlites.

Refinancing

As announced to the ASX on 14 August 2020, the Company concluded facility refinancing discussions and agreed terms and restructuring payments with its three major financiers.

Lucapa is extremely grateful to Equigold, New Azilian and the IDC for supporting the Group through the COVID-19 pandemic and beyond. The repayment concessions and deferral of approximately US$13 million into 2022 and beyond is a significant show of support for Lucapa and its future aspirations.

Potential acquisition

In December 2020 Lucapa announced its participation in in the sale process being conducted by the liquidators of Merlin Diamonds Limited to acquire the Merlin assets and associated mining and exploration tenements located in the Northern Territory ("Merlin"). Merlin is a multi-pit mine development opportunity with underground mining potential and is home to Australia's largest recovered diamond of 104 carats. Lucapa considers Merlin is complementary to the Company's vision and pipeline of projects and is an opportunity that would significantly benefit from the proven capability of Lucapa's experienced development and operational teams.

We will update the market as this acquisition process progresses. There can be no assurance that the acquisition will finally complete.

Schedule of tenements

Schedule of Tenements as at 31 December 2020

Country	Type	Size (km^2)	Period	Interest (%)	End date
Angola	Exploration (primary) Kimberlite	3,000	5 years	39	05/2024
Angola	Mining (secondary) and Exploration Alluvial	1,500	10 years	40	07/2025
Lesotho	Mining Licence	47	10 years	70	01/2027
Botswana	Reconnaissance	8	2 years	100	09/2020[1]
Australia	Exploration Licence	72	5 years	80	12/2022[2]
Australia	Exploration Licence	13	5 years	80	03/2024
Australia	Exploration Licence	29	5 years	80	06/2022
Australia	Exploration Licence	3	5 years	80	06/2023

1 Application for extension has been submitted
2 Application for extension was submitted and granted post year end

Directors' report for the year ended 31 December 2020

The Directors present their report together with the financial report of Lucapa and the Group for the financial year ended 31 December 2020 and independent auditor's report thereon.

1 Directors

The Directors of the Company at any time during or since the end of the financial period are:

Name	Position	Appointment Date
M Kennedy	Non-Executive Chairman	12 September 2008
S Wetherall	Chief Executive Officer/Managing Director	13 October 2014
N Selby	Chief Operating Officer/Executive Director	4 September 2017
R Stanley	Non-Executive Director	26 July 2018

The qualifications, experience and other directorships of the Directors in office at the date of this report are:

Miles Kennedy

Mr Kennedy has held directorships of Australian listed companies for more than 30 years. He was previously Chairman of companies including Sandfire Resources, Kimberley Diamond Company, Blina Diamonds, Macraes Mining Company, MOD Resources and RNI. He has extensive experience in the management of public companies with specific emphasis in the resources industry. He lives in Quedjinup, Western Australia.

Stephen Wetherall

Mr Wetherall is a qualified chartered accountant and member of the South African Institute of Chartered Accountants with more than 20 years' experience in financial and operational management, corporate transactions and strategic planning, most of which has been in the diamond industry. He has held senior financial and executive roles with diamond major De Beers and London-listed Gem Diamonds. He lives in Perth, Western Australia.

Nick Selby

Mr Selby is an extraction metallurgist with over 35 years' experience in the mining industry. He began his career with De Beers, where he spent 19 years in a range of technical roles. Mr Selby joined Gem Diamonds in 2005, where he was responsible for establishing diamond projects in various countries including Angola, Australia, DRC, Central African Republic, Indonesia, Lesotho and Botswana. He lives in Perth, Western Australia.

Ross Stanley

Mr Stanley has an extensive background in the resources industry in Australia and Africa, specialising in drilling and related exploration and mining services. He was the founder and Managing Director of ASX-listed Stanley Mining Services prior to its merger with Layne Christensen in 1997. Mr Stanley was also a major shareholder and non-executive director of Perth-based gold miner Equigold NL, which was taken over by Lihir Gold for A$1.1 billion in 2008. He is a non-executive director of emerging ASX listed Cambodian gold miner Emerald Resources NL. He lives in Perth, Western Australia.

2 Company Secretary

Mr Clements was appointed Company Secretary on 2 July 2012. Mr Clements holds a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Institute of Chartered Accountants of Australia, a Fellow of the Governance Institute of Australia and member of the Australian Institute of Company Directors. Mr Clements currently holds the position of Company Secretary and/ or director of several publicly listed companies and has experience in corporate governance, finance, accounting and administration, capital raising, ASX compliance and regulatory requirements.

Director's Meeting

3

The number of Directors' meetings and the number of Board meetings attended by each of the Directors of the Company during the financial year are:

Name	Number of meetings attended	Number of meetings held during the time the Directors were in office during the year
M Kennedy	5	5
S Wetherall	5	5
N Selby	5	5
R Stanley	5	5

Nature of operations and principal activities

4

In 2020, the Group was predominantly focussed on its Angolan assets (diamond mining, evaluation and exploration at Lulo), its Lesotho asset (diamond mining and development operations at Mothae) and its Western Australian asset (early-stage diamond exploration at Brooking). No work was undertaken at Lucapa's Botswana asset (early-stage kimberlite exploration at Orapa Area F).

Operating and financial review

5

The Group's financial results for 2020 were significantly impacted by the COVID-19 pandemic that created widespread uncertainty and disruption across the world, affecting all sectors of the global economy, the diamond industry included. Isolation measures and/ or lockdowns, implemented by producer countries and markets that are important to the diamond industry, resulted in many diamond operations across the globe being suspended or curtailed. A second half profit of US$2.9 million in difficult times assisted in reducing the Group's reported loss after tax for the full year ended 31 December 2020 to US$9.7 million (2019: US$3.3 million loss).

The COVID-19 pandemic affected SML's operations with mining activities being suspended from the end of March 2020 until the beginning of May 2020 and operating at varying reduced capacities thereafter. Revenue from rough diamond sales was lower due to the adverse impact of the COVID-19 pandemic on both rough and polished prices. In addition, and as with Mothae, to take advantage of a sharply rising diamond market a decision was taken to defer the planned sales in December 2020 to January 2021.

Cash operating cost per m^3 for the year was favourable at US$75 per m^3 compared to US$81 per m^3 for 2019 and notwithstanding the market turmoil, SML produced an EBITDA profit of US$6.2 million in 2020 (H1 20: US$1.5 million loss; H2 20: US$7.7 million profit) (2019: US$12.9 million profit). The Group's equity accounted share of SML's results (after accounting for depreciation and other below-the-line items) was a US$0.3 million loss (2019: US$0.2 million profit).

Similarly, Mothae's mining and processing operations were also suspended towards the end of March 2020 but remained in suspension and on care and maintenance until the beginning of October 2020. Cash operating costs during production and the care and maintenance costs during suspension were very well managed but with only two sales concluded in the first half and a decision to to defer the planned sale in December 2020 to January 2021, for reasons noted earlier, Mothae produced an EBITDA loss of US$1.1 million (H1 20: US$1.0 million loss; H2 20: US$0.1 million loss) (2019: US$1.2 million profit).

Shortly after the recommencement of operations at Mothae, the Group announced the start of a value accretive expansion program to increase the processing capacity by 45% from 1.1 Mtpa to ~1.6 Mtpa as well as the conclusion of a new GoL approved diamond sales and purchase agreement with Safdico. This new agreement includes a minimum cash flow value per carat to be received for the first 12 months of the contract by Mothae and 50% of the value generated beyond the mine gate.

Other noteworthy items that affected the Group results during the year were:

- A fair value loss on Lucapa's investment loan with SML of US$0.3 million (2019: US$3 million gain) following the decision to expand production capacity and therefore accelerate investment loan repayments back to Lucapa;
- An unrealized foreign exchange loss recognised due to the weakening South African rand against the United States dollar of US$0.6 million on the intergroup development loan (2019: US$0.8 million gain);
- A large saving in Lucapa corporate and Mothae overheads due to cost saving measures implemented.

During the year the Company concluded facility refinancing discussions, agreements and restructuring payments with its three major financiers as per Note 7e to the financial statements.

The Group had net assets of US$70.3 million as at 31 December 2020 (2019: U$67.5 million).

Review of financial condition

The Group's assets, given their various stages of development, will require funding for continued exploration, evaluation, development and/ or mining activities. To the extent that sufficient cash is not generated by the activities or mining operations of the Group for anticipated loan, interest and/ or dividend payments, funding will be required.

Due to the uncertainty caused by the COVID-19 pandemic and the potential unknown future impact on the assumptions contained in the Group's cash flow forecasts over the next 12 months, the Directors recognise that the Group may have to source funding solutions and/ or restructure existing financing facilities in order to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

The ability of the Group to continue to pay its debts as and when they fall due for the 12-month period from the date the financial report is signed is dependent on:

- The Group's staff, operations, partners and the global diamond industry not being adversely impacted by the ongoing COVID-19 pandemic, thereby impacting key forecast assumptions and scheduled loan, interest and/ or dividend payments;
- The Group, as required, successfully sourcing equity, raising new debt and/ or restructuring existing debt facilities with its financiers; and
- The Company continuing to achieve success with the Lulo kimberlite exploration program.

The Directors believe that the going concern basis is appropriate for the following reasons:

- The duration and full impact of the COVID-19 pandemic is still unknown, however the diamond industry has rebounded strongly and with a better balance seeing diamond prices returning to pre-pandemic levels;
- The Group's assets exceed its liabilities by US$70.3 million;
- The Group has historically been successful in raising equity and under ASX Listing Rule 7.1 the Company has the capacity to place securities to raise equity;
- The Group has been successful in restructuring and raising debt facilities:
    - The Company has restructured the facilities with Equigold, New Azilian and the IDC as per the Directors' Report; and
    - The Company continues to review a number of financing possibilities, which have the potential to replace a portion of the Company's existing debt facilities, improve its working capital position and/ or fund strategic initiatives, including acquisitions.

However, despite the Group's previous track record in sourcing new funds or restructuring debt facilities as above for its projects, there remains no assurance the Group in the future will be successful in obtaining funding required or restructuring debt facilities as and when needed.

In these circumstances, there exists a material uncertainty which may cast doubt as to whether the Group will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

As per previous years, the Group's audit report includes an emphasis of matter with respect to the existence of this material uncertainty with the Group's ability to continue as a going concern.

Significant changes in the state of affairs

Angola

Even though activities were impacted by personnel and travel restrictions implemented to curb the spread of COVID-19, the Group continued to focus on expanding the mining and recovery of large and high-value alluvial diamonds at Lulo as well as continuing to advance the kimberlite exploration program aimed at identifying the primary hard-rock sources.

Lesotho

Mining and processing operations at Mothae were suspended and placed on care and maintenance from the end of March 2020 to the beginning of October 2020 and then again for a two-week period in January 2021 as a result of the COVID-19 pandemic.

During the suspension period, plans to increase the plant processing capacity by 45% to ~1.6 Mtpa were developed, finalised and approved. The plant and infrastructure upgrades are currently in progress and are scheduled to be complete by the end of the first quarter of 2021.

In addition, negotiations with the GoL on a proposal to market the Mothae diamond production through a new channel were concluded, paving the way for the new diamond marketing and sales agreement, including a cutting & polishing partnership, as outlined in the Review of operations.

Australia

Western Australia

A follow up exploration program was undertaken at Brooking which resulted in the recovery of 7 diamonds, including two macro-diamonds (>0.5mm diameter) and 72 chromites. The results combined with associated airborne geophysics and satellite imagery, identified two likely lamproite targets and a potential lamproite dyke. The next phase of exploration will seek to confirm whether the identified targets are lamproites.

Northern Territory

Towards the end of the year, Lucapa announced its participation in the sale process being conducted by the liquidators of Merlin to acquire the Merlin assets and associated mining and exploration tenements. Merlin has a JORC compliant diamond resource from multiple pipes and provides additional near-term diamond production and exploration opportunities for Lucapa. There can be no assurance that the acquisition will finally complete.

Botswana

No field work was undertaken at the Orapa Area F project and an application for extension of the prospecting license has been submitted.

Corporate

The Company completed the following share capital transactions during the period.

Transaction	Number	Issue/ exercise price (A$)	Funds raised (US$000)	Option expiry
Issue of shares	25,899,916	0.110	1,852	n/a
Issue of shares	105,102,522	0.050	3,667	n/a
Issue of shares	10,431,284	0.043	308	n/a
Issue of shares	3,252,835	0.058	136	n/a
Issue of shares	188,876,324	0.055	7,627	n/a
Issue of shares on exercise of performance rights	490,267	-	-	1-Apr-22

6 Dividends

No dividends were paid or declared by the Company during the current or prior financial year.

7 Environmental regulation

The Group's mining and exploration activities are subject to various environmental regulations. The respective Company, subsidiary and associate Boards are responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The Group is committed to achieving a high standard of environmental performance and conducts its activities in a professional and environmentally conscious manner and in accordance with applicable laws and permit requirements.

The Board believes the Group has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of those environmental requirements as they apply to the projects.

8 Events subsequent to reporting date

On 4 January 2021 Lucapa announced the recovery by SML of a 113 carat gem-quality white diamond, the 17th +100 carat white diamond recovered to date.

On 11 January 2021 Lucapa announced the first sale of diamonds in 2021 from Mothae. The parcel of 4,676 carats of rough diamonds were sold for a total of US$5.6 million or US$1,198/ carat and includes the 101 carat D colour diamond recovered following re-opening of the mine in the last quarter of 2020 (refer ASX announcement 10 December 2020).

On 13 January 2021 Lucapa announced a decision has been taken to temporarily suspend mining operations at Mothae, following the announcement by the Lesotho Prime Minister that due to a surge in COVID-19 cases in the country the Lesotho Government has imposed a 14-day nation-wide lockdown.

On 18 January 2021 Lucapa announced the recovery by SML of a 104 carat D-colour white diamond from MB46, the 18th +100 carat white diamond recovered to date.

On 29 January 2021 Lucapa announced the recommencement of mining operations at Mothae following the 14-day nationwide lockdown in Lesotho initiated by the GoL.

On 2 February 2021 Lucapa announced the first sale of diamonds in 2021 from SML. The parcel of 4,273 carats of rough diamonds were sold for a total of US$5.9 million or US$1,375/ carat.

On 24 February 2021 Lucapa announced the recovery by Mothae of a 215 carat Type IIa D-colour white diamond, the second +200 carat diamond and the fifth +100 carat diamond recovered to date.

On 25 February 2021 Lucapa announced the second sale of diamonds in 2021 from SML. The parcel of 1,040 carats of rough diamonds were sold for a total of US$3.7 million or US$3,525/ carat.

On 26 February 2021 Lucapa announced the recovery by SML of a 114 carat Type 11a D-colour white diamond, the 3rd from MB46 and 19th +100 carat white diamond recovered to date.

On 22 March 2021 Lucapa announced the completion of the expansion project at the Mothae, which is designed to increase processing capacity by 45% from ~1.1Mtpa to ~1.6Mtpa. The project was completed on-time, within budget and with no safety incidents recorded.

On 23 March 2021 Lucapa announced an updated Lulo Diamond Resource, where in-situ resource carats increased 35% to 135,900 at a modelled value of $1,440/ carat.

Events subsequent to reporting date

On 24 March 2021 Lucapa announced the second sale of diamonds in 2021 from Mothae. The parcel of 5,619 carats of rough diamonds was sold for US$5.9 million or US$1,050/ carat and included the 215 carat D-colour stone (213 carat post-boiling weight) and an 11 carat pink diamond.

Likely developments

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As outlined in the Chairman's letter, Review of operations and this Directors' report, the Directors consider the following as a summary of the likely developments and expected results for the next 12 months.

Lulo, Angola

Lucapa and its partners plan to continue alluvial mining and mine development at Lulo in 2021, while continuing both the kimberlite and alluvial exploration programs. Further sales of Lulo diamonds are planned, with more diamonds expected to be delivered into the cutting & polishing partnership with Safdico.

Discussions with the Angolan partners to secure a majority stake in the Project Lulo JV have commenced and will be furthered during 2021.

Mothae, Lesotho

Lucapa and its Lesotho Government partner plan to complete the plant capacity expansion to ~1.6 Mtpa as well as build on the new marketing agreement and cutting & polishing partnership with Safdico.

Brooking, Western Australia

The scope and timing of future exploration programs at Brooking are being reviewed as Lucapa focuses on maximising revenues from its two operating mines and advancing the Lulo kimberlite exploration program.

Orapa Area F, Botswana

The scope and timing of future exploration programs at the Orapa Area F project are being reviewed as Lucapa focuses on maximising revenues from its two operating mines and advancing the Lulo kimberlite exploration program.

Merlin Diamonds, Northern Territory, Australia

As per ASX announcement of 24 December 2020 Lucapa announced its participation in in the sale process being conducted by the liquidators of Merlin to acquire Merlin's assets and associated mining and exploration tenements located in the Northern Territory. There can be no assurance that the acquisition will finally complete.

Directors' interest

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The relevant interest of each Director in the shares and options over such instruments issued by the Company and other related bodies corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows.

Director	Fully paid ordinary shares	Listed options (ASX code: LOMOC) expiring 5 June 2022 (1)	Options over ordinary shares expiring 7 June 2021 (2)
M Kennedy	2,850,153	525,026	130,000
S Wetherall	2,825,100	445,850	210,000
N Selby	1,787,350	297,892	165,000
R Stanley	55,007,014	9,287,683	–

Note

(1) Options granted to Directors following shareholder approval at the annual general meeting held 30 May 2017;
(2) Options granted to Directors following shareholder approval at the annual general meeting held 24 May 2018.

11 Share options and performance rights

Unissued shares under options and performance rights

At the date of this report unissued ordinary shares of the Company under option and performance rights are set out below. These options and performance rights over unissued shares do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Expiry date	Exercise price (A$)	Number of securities	Quoted
Share options			
7 June 2021	$0.4355	1,301,000	–
5 June 2022	$0.10	113,971,605	113,971,605
18 December 2022	$0.08	54,824,075	–
Preformance rights			
1 April 2022	$0.00	490,263	–

12 Remuneration report (audited)

12.1 Principles of compensation

Key management personnel ("KMP") have authority and responsibility for planning, directing and controlling the activities of the Group, including Directors of the Company and other Executive management. Currently, KMP comprises the Directors of the Company.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Directors of the Company obtain independent advice on the appropriateness of compensation packages of KMP given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures are designed to attract suitably qualified industry experts and candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages include a mix of fixed compensation, equity-based compensation as well as employer contributions to superannuation funds.

Shares, options and performance rights may only be issued to Directors subject to approval by shareholders in general meeting.

Fixed compensation

Fixed compensation consists of base compensation, determined from a market review, to reflect core performance requirements and expectations of the relevant position and statutory employer contributions to superannuation funds. Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

Directors' fees

Total compensation for Directors and Non-Executive Directors is set based on advice from external advisors with reference to fees paid to other Directors of comparable companies. Non-Executive Directors' fees are presently limited to an aggregate total of US$500,000 per annum, excluding the fair value of any options or performance rights granted. Directors' fees cover all main Board activities and membership of any committee and subsidiary Boards. The Board has no established retirement (other than superannuation) or redundancy schemes in relation to Directors. The Directors' contracts contain a service bonus in the event of a takeover or change of control, subject to shareholder approval where required.

Use of remuneration consultants

The Group employed the services of a remuneration consultant during 2018 and the recommendations were implemented in 2019. No remuneration consultants were employed during 2020 due to the adverse markets as a result of the COVID-19 pandemic.

Equity-based compensation (Long term incentive)

The Company has an equity-based incentive plan under which Directors and management are awarded share options and performance rights. The purpose of the plan is to assist in the incentivisation, reward and retention of Directors and management, align their interests with those of the shareholders of the Company and to focus on the Company's development strategy.

Short-term and long-term incentive structure and consequences of performance on shareholder wealth

Given the Group's principal activities during the course of the financial period consisting of exploration, evaluation, development and mining of mineral resources, the Board has again for 2020 given significance to service criteria and performance over market related criteria in setting the Group's incentive and retention schemes.

Accordingly, at this stage the Board does not consider the Group's current earnings or earning measures to be the only appropriate key performance indicator. The issue of options and performance rights as part of the remuneration package of Directors, management, employees and contractors is an established practice for listed exploration and development companies and has the benefit of conserving cash whilst appropriately rewarding the recipient.

In circumstances where cash flow permits, the Board may approve the payment of a discretionary cash bonus as a reward for performance. No discretionary cash bonuses were paid during 2020 or 2019.

In considering the relationship between the Group's remuneration policy and the consequences for the Company's shareholder wealth, changes in the Company's share price are considered.

Service contracts (as at the date of these financial statements)

Stephen Wetherall

Mr Wetherall has been engaged to act as the Company's Chief Executive Officer/ Managing Director. Mr Wetherall is entitled to receive remuneration of A$633,938 (gross, including superannuation) per annum which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic his remuneration was reduced by up to 60% for seven months during 2020. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Nick Selby

Mr Selby has been engaged to act as the Company's Chief Operating Officer/ Executive Director. Mr Selby is entitled to receive remuneration of A$479,588 (gross, including superannuation) per annum which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic his remuneration was reduced by up to 60% for seven months during 2020. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Miles Kennedy

Mr Kennedy has been engaged to act as the Company's non-executive Chairman. Mr Kennedy is entitled to receive Director fees of A$148,838 (gross) per annum, which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic his remuneration was reduced by 100% for seven months during 2020. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Ross Stanley

Mr Stanley has been engaged to act as a non-executive Director of the Company. Mr Stanley is entitled to receive Director fees of A$99,225 (gross) per annum, which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic his remuneration was reduced by 100% for seven months during 2020. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Remuneration report (audited) (continued)

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12.2 KMP remuneration

Details of the nature and amount of each major element of remuneration (in USD) of each KMP of the Company are:

Key management personnel	Period ended	Short-term benefits: Salary & fees	Short-term benefits: Bonus	Post employment benefits: Super-annuation benefits	Equity-settled share based payments: Options and performance rights[1]	Total (US$)
Executive Directors						
Stephen Wetherall, Chief Executive Officer / Managing Director	Dec 20	304,135	-	12,486	1,149	**317,771**
	Dec 19	424,378	-	17,423	15,140	**456,941**
Nick Selby, Chief Operating Officer / Executive Director	Dec 20	227,474	-	12,486	903	**240,863**
	Dec 19	316,809	-	17,423	11,821	**346,053**
Non-Executive Directors						
Miles Kennedy, Non-Executive Chairman	Dec 20	39,470	-	3,750	711	**43,931**
	Dec 19	97,728	-	5,999	8,348	**112,075**
Ross Stanley, Non-Executive Director	Dec 20	26,313	-	2,500	-	**28,813**
	Dec 19	63,152	-	5,999	-	**69,151**
Total	**Dec 20**	**597,393**	**-**	**31,222**	**2,763**	**631,378**
	Dec 19	**902,067**	**-**	**46,845**	**35,309**	**984,220**

(1) These options issued have been valued in accordance with the methodology contained in Note 12 to these financial statements.

12.3 Equity instruments

All options refer to options and performance rights over ordinary shares of the Company, which are exercisable on a one-for-one basis.

12.3.1 Analysis of movements in options, performance rights and shares

Options and performance rights over equity instruments

The movement during the reporting period in the number of options and performance rights over ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

Directors	Held at 1 January or date of appointment	Options acquired	Exercise of options and performance rights	Expired without exercise	Options and performance rights granted	Held at 31 December or date of resignation	Vested & exercisable
2020							
M Kennedy	360,000	525,026	-	(230,000)	-	**655,026**	130,000
S Wetherall	610,000	445,850	-	(400,000)	-	**655,850**	210,000
N Selby	465,000	297,892	-	(300,000)	-	**462,892**	165,000
R Stanley	-	9,287,683	-	-	-	**9,287,683**	-
2019							
M Kennedy	1,119,583	-	(152,625)	(606,958)	-	**360,000**	316,666
S Wetherall	1,805,000	-	(569,250)	(625,750)	-	**610,000**	540,000
N Selby	1,382,917	-	(342,375)	(575,542)	-	**465,000**	410,000
R Stanley	-	-	-	-	-	**-**	-

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

Directors	Held at 1 January or date of appointment	Received upon exercise of options and performance rights	Received as fee for debt restructuring	Sales	Purchases	Held at 31 December or date of resignation
2020						
M Kennedy	2,625,127	-	-	(300,000)	525,026	**2,850,153**
S Wetherall	2,229,250	-	-	-	595,850	**2,825,100**
N Selby	1,489,458	-	-	-	297,892	**1,787,350**
R Stanley	42,092,999	-	4,345,415	-	8,568,600	**55,007,014**
2019						
M Kennedy	2,272,502	152,625	-	-	200,000	**2,625,127**
S Wetherall	1,660,000	569,250	-	-	-	**2,229,250**
N Selby	1,147,083	342,375	-	-	-	**1,489,458**
R Stanley	40,000,436	-	-	-	2,092,563	**42,092,999**

No shares were granted to KMP during the reporting period as compensation in 2020 or 2019.

End of audited section.

13 Indemnification and insurance of officers and Directors

12.2 KMP remuneration

The Company has entered into deeds of indemnity, insurance and access ("Deeds") with each of its Directors. Under these Deeds, the Company indemnifies each Director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties and in successfully defending legal and administrative proceedings and applications for such proceedings. The Company must use its best endeavours to insure a Director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavour to insure a Director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

The Company has, during and since the end of the year, in respect of any person who is an officer of the Company or a related body corporate, paid a premium in respect of Directors and Officer liability insurance which indemnifies Directors, officers and the Company of any claims made against the Directors, officers of the Company and the Company, subject to conditions contained in the insurance policy. The Directors have not included details of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

The Company has not entered into any agreement to indemnify the auditors against any claims by third parties arising from their reports on the financial report for the year ended 31 December 2020 and prior period ended 31 December 2019.

Mothae pit

Auditor independence and non-audit services

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The Directors received the following declaration from the Company's auditors, Elderton Audit Pty Ltd:

ELDERTON
AUDIT PTY LTD

Auditor's Independence Declaration

To those charged with the governance of Lucapa Diamond Company Limited

As auditor for the audit of Lucapa Diamond Company Limited for the year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

i. no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd

Rafay Nabeel

Audit Director

26 March 2021

Perth

During the period Elderton Audit Pty Ltd have not performed any other services for the Company in addition to their statutory audit and as a result the Directors are satisfied that auditors have not compromised the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid to the current auditor of the Company, Elderton Audit Pty Ltd are set out below:

Auditor independence and non-audit services (continued)

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	31 Dec 2020 US$	31 Dec 2019 US$
Audit services	35,194	32,241
Other services	–	–
	35,194	32,241

Directors report

Signed in accordance with a resolution of the Directors, on behalf of the Directors.

MILES KENNEDY
Chairman

Dated this 26 March 2021.

Resource statement for the year ended 31 December 2020

Lulo alluvial diamond resource

LULO CLASSIFIED DIAMOND RESOURCE - 31 December 2020
Lucapa 40% attributable

Resource Classification	Date	Area (m²)	Diluted volume (m³)	Carats per Stone	Stones	Carats	Diluted grade (cphm³)	Modelled value (US$/carat)*
Inferred	31-Dec-20	1,979,200	1,980,000	1.23	110,300	135,900	6.86	1,440
Inferred	31-Dec-19	1,586,000	1,151,200	1.27	79,000	100,700	8.75	1,620

Notes:
(i) m^2 = square metres; m^3 = cubic metres; cphm³ = carats per 100 cubic metres
(ii) Diluted volumes have been estimated based on historical mining production data to better reflect recoverable volumes and grades
(iii) Bottom cut off screen size: effective 1.5mm
* Special stones are not excluded in the modelling stage, in terms of size or assortment

The Lulo Classified Inferred Diamond Resource ("Lulo Diamond Resource") has been independently estimated and reconciled on a depletion and addition basis as at 31 December 2020 by external consultants Z Star Mineral Resource Consultants (Pty) Ltd ("Z Star") of Cape Town, South Africa, updating the previous Lulo Diamond Resource dated 31 December 2019.

Changes in the Lulo Diamond Resource reflect alluvial mining depletion in 2020 and additional resources informed by drilling, mining, processing and sales during 2020. Resources have been reconciled and depleted as at 31 December 2020.

The Lulo partners are continuing an expanded pitting and auger drilling program around the known diamond areas at Lulo, to grow the Lulo Diamond Resource. The exploration program will continue through 2021.

Information included in this report on the Lulo Diamond Resource is based on, and fairly represents, information and supporting documentation prepared, compiled and supervised 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 Joint Ore Reserves Committee ("JORC") Code. 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.

Information included in this report that relates to the stone frequency, grade and size frequency valuation and validation in the Lulo Diamond Resource estimate is based on, and fairly represents, information and supporting documentation prepared and compiled by Sean Duggan (Pri.Sci.Nat 400035/01) and David Bush (Pri.Sci.Nat 400071/00). Messrs. Duggan and Bush are directors and employees of Z Star Mineral Resource Consultants (Pty) Ltd, of Cape Town, South Africa. Both hold qualifications and experience such that both qualify as members of a Recognised Overseas Professional Organisation ("ROPO") under relevant ASX listing rules. Messrs. Duggan and Bush both have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. Messrs. Duggan and Bush both consent to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

Mothae kimberlite diamond resource

MOTHAE CLASSIFIED DIAMOND RESOURCE - 30 September 2020
Lucapa 70% attributable
To 300m Below Surface; 3mm bottom cut off screen (including incidentals)

Resource Classification	Date	Tonnes (Mt)	Grade (cpht)	Carats (million)	Modelled value (US$/ carat)
Indicated	30-Sep-20	9.16	3.1	0.28	635
Inferred		39.35	2.4	0.96	601
TOTAL		**48.51**	**2.6**	**1.24**	**609**
Indicated	31-Dec-19	1.87	2.9	0.055	1,146
Inferred		36.21	2.7	0.956	1,053
TOTAL		**38.08**	**2.7**	**1.011**	**1,059**

Notes:
(i) Table contains rounded figures
(ii) The grade and average modelled value estimates are quoted at a 3mm bottom cut off screen and include incidental diamond recoveries in the +9 and +11 DTC sieves ("incidentals")
(iii) The Resource estimate was originally reported in accordance with JORC 2012 guidelines on March 2017 at a 2mm bottom cut off screen
(iv) The Indicated Resource contains material to 75m below current pit bottom in the South Lobe only. The Inferred Resource contains the remaining material to 300m below surface in the South, Neck and North lobes
(v) The tonnes and grades are quoted as dry tonnes and dry grades
(vi) Exploration targetexists from a depth of 300m to 500m below surface

Resource statement for the year ended 31 December 2020 (continued)

Information included in this report on the Mothae Classified Diamond Resource is based on and fairly represents information and supporting documentation prepared, compiled and supervised 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 JORC Code. Mr. Price consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

Corporate governance statement for the year ended 31 December 2020

Corporate governance statement

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 26 March 2021.

The following governance-related documents can be found on the Company's website at www.lucapa.com.au under the section marked "Corporate Governance".

Charters

- Board

Policies and Procedures

- 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

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;

Principle 1 - Lay solid foundations for management and oversight (continued)

- 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.

The Company, together with its subsidiaries and associates currently have 678 full-time employees and officers of which 575 are male and 103 are female.

	31 December 2020				31 December 2019			
Gender representation	**Female**		**Male**		**Female**		**Male**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Board representation	-	-	4	100	-	-	4	100
Group representation	103	15.3	571	84.7	102	15.5	557	84.5

Principle 1 - Lay solid foundations for management and oversight (continued)

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 2020 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 2020 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 Ross Stanley will stand for re-election by rotation at the Company's Annual General Meeting, expected to be held in May 2021.

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 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.

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

Skill	Number of Directors holding this skill
Resources industry and Africa experience	4
Diamond industry experience	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

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. The Board does not have a separate Nomination Committee and does not believe it is necessary in a Group of Lucapa's size.

Director induction and ongoing professional development

The Company does not have a formal induction program for Directors but does provide Directors with an information pack 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.

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.

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 and does not believe it is necessary in a Group of Lucapa's size. Instead, 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

Principle 4 - Safeguard the integrity of corporate reports (continued)

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.

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;

Principle 6 - Respect the rights of security holders (continued)

- 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 or its website. All shareholders have the ability to request copies of ASX releases, all of which are published and available on the Company's website immediately after they are released to ASX.

The Company regularly reviews its Shareholder Communication policy and endeavours to maintain a program appropriate for a company of its size and complexity.

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

Principle 7 - Recognise and manage risk (continued)

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 and therefore does not produce a separate sustainability 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.

Principle 8 - Remunerate fairly and responsibly

The Company does not have a Remuneration Committee as the Board believes the business is neither the size nor complexity that requires such a function. Instead, the Board monitors and reviews the remuneration level and policy of the Group. The Board does engage an independent remuneration consultant to review the Group's policy on remuneration as and when required.

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.

129 carat diamond

Corporate information

Lucapa Diamond Company Limited ("Lucapa" or "the Company") is a company domiciled and incorporated in Australia. The address of the Company's registered office is 34 Bagot Road, Subiaco WA 6008. The Company, its subsidiaries and associates (collectively "the Group") are primarily involved in the exploration, evaluation, development and mining on diamond projects in Africa and Australia.

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Group complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

The basis of preparation of the financial report is set out below and in the notes to the consolidated financial statements. The financial statements were authorised for issue by the Board of Directors on the date of the Directors' report.

Basis of measurement

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of current liabilities in the ordinary course of business.

Going concern

As detailed in the Directors' report, despite a second half profit of US$2.9 million as the Group's operations emerged from the COVID-19 pandemic, the Group recorded a loss after tax of US$9.7 million for the full year ended 31 December 2020, (2019: US$3.3 million). Whilst the Group achieved operational successes with diamond mining and development, diamond marketing and kimberlite and alluvial exploration, the year's revenues and trading results of both SML and Mothae were materially affected by the challenging economic environment as a result of the COVID-19 pandemic.

As at 31 December 2020, the Group's assets exceeded liabilities by US$70.3 million (2019: US$67.5 million).

Due to the uncertainty being caused by the COVID-19 pandemic and the potential unknown future impact on the material assumptions contained in the Group's cash flow forecasts over the next 12 months, the Directors recognise that the Group may have to source funding solutions and/ or restructure existing financing facilities in order to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

The ability of the Group to continue to pay its debts as and when they fall due for the 12-month period from the date the financial report is signed is dependent on:

- The Group's staff, operations, partners and the global diamond industry not being adversely impacted by the ongoing COVID-19 pandemic, thereby impacting key forecast assumptions and scheduled loan, interest and/ or dividend payments;
- The Group, as required, successfully sourcing equity, raising new debt and/ or restructuring existing debt facilities with its financiers; and
- The Company continuing to achieve success with the Lulo kimberlite exploration program.

The Directors believe that the going concern basis is appropriate for the following reasons:

- The duration and full impact of the COVID-19 pandemic is still unknown, however the diamond industry has rebounded strongly and with a better balance seeing diamond prices returning to pre-pandemic levels;
- The book value of the Group's assets exceed its liabilities by US$70.3 million;
- The Group has historically been successful in raising equity and under ASX Listing Rule 7.1 the Company has the capacity to place securities to raise equity.
- The Group has been successful in restructuring and raising debt facilities:
  - The Company has restructured the facilities with Equigold, New Azilian and the IDC as per the Directors' report; and
  - The Company continues to review a number of financing possibilities, which have the potential to replace a portion of the Company's existing debt facilities and improve its working capital position.

However, despite the Group's previous track record in sourcing new funds or restructuring debt facilities as above for its projects, there remains no assurance the Group in the future will be successful in obtaining funding required or restructuring debt facilities as and when needed.

In these circumstances, there exists a material uncertainty which may cast doubt as to whether the Group will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Basis of preparation (continued)

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Consolidated financial statements

Consolidated statement of profit or loss and other comprehensive income
for the year eneded 31 December 2020

	Note	31 Dec 2020 US$000	31 Dec 2019 US$000
Revenue	2	4,612	15,147
Cost of sales	3	(6,518)	(14,277)
Gross (loss)/ profit		**(1,906)**	**870**
Share of (loss)/ profit of associate	10	(268)	173
Royalties and selling expenses		(302)	(962)
Corporate expenses	3	(1,866)	(3,278)
Share-based payments	12	(47)	(270)
Foreign exchange (loss)/ gain	7	(1,340)	889
Operating loss		**(5,729)**	**(2,578)**
Finance cost	4	(3,753)	(4,554)
Finance income	4	4	53
Fair value adjustments	7	(241)	3,825
Loss before income tax		**(9,719)**	**(3,254)**
Income tax expense	5	(19)	(49)
Loss after income tax		**(9,738)**	**(3,303)**
Other comprehensive (loss)/ income		(343)	36
Total comprehensive loss for the year		**(10,081)**	**(3,267)**
(Loss)/ earnings per share		**Cents**	**Cents**
Basic loss per share (cents)	6	(1.60)	(0.67)
Diluted loss per share (cents)	6	(1.60)	(0.67)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

Consolidated statement of financial position
as at 31 December 2020

	Note	31 Dec 2020 US$000	31 Dec 2019 US$000
Assets			
Cash and cash equivalents	7	4,136	1,705
Trade and other receivables	7	1,737	2,050
Contract assets		-	100
Inventories	8	4,965	2,021
Total current assets		**10,838**	**5,876**
Property plant and equipment	9	62,037	60,570
Non-current financial assets	7	22,739	23,933
Investment in associate	10	4,472	4,741
Total non-current assets		**89,248**	**89,244**
Total assets		**100,086**	**95,120**
Liabilities			
Trade and other payables	7	4,224	3,967
Current borrowings	7	4,755	22,518
Total current liabilities		**8,979**	**26,485**
Non-current provisions	11	1,105	1,064
Non-current borrowings	7	19,672	-
Deferred tax liabilities	5	43	43
Total non-current liabilities		**20,820**	**1,107**
Total liabilities		**29,799**	**27,592**
Net assets		**70,287**	**67,528**
Equity			
Share capital	12	129,716	116,888
Reserves		(5,102)	(4,546)
Accumulated losses		(54,327)	(44,814)
Total equity		**70,287**	**67,528**

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
for the year ended 31 December 2020

	Issued capital US$000	Share based payments reserve US$000	Foreign currency translation reserve US$000	Accumulated losses US$000	Total US$000
Balance at 1 January 2019	112,920	1,683	(5,626)	(41,827)	67,150
Comprehensive income for the period					
Loss for the period	-	-	-	(3,303)	(3,303)
Other comprehensive income	-	-	36	-	36
Total comprehensive loss for the period	**-**	**-**	**36**	**(3,303)**	**(3,267)**
Transactions with owners, in their capacity as owners					
Issue of share capital	3,390	-	-	-	3,390
Issue of options	-	271	-	-	271
Expiry of options	-	(316)	-	316	-
Transfer of reserves on exercise of options	594	(594)	-	-	-
Share issue expenses	(16)	-	-	-	(16)
Total transactions with owners	**3,968**	**(639)**	**-**	**316**	**3,645**
Balance at 1 January 2020	**116,888**	**1,044**	**(5,590)**	**(44,814)**	**67,528**
Comprehensive income for the period					
Loss for the period	-	-	-	(9,740)	(9,740)
Other comprehensive loss	-	-	(343)	-	(343)
Total comprehensive loss for the period	**-**	**-**	**(343)**	**(9,740)**	**(10,083)**
Transactions with owners, in their capacity as owners					
Issue of share capital	13,591	-	-	-	13,591
Issue of options	-	54	-	-	54
Expiry of options	153	(380)	-	227	-
Transfer of reserves on exercise of options	57	(57)	-	-	-
Share issue expenses	(973)	170	-	-	(803)
Total transactions with owners	**12,828**	**(213)**	**-**	**227**	**12,842**
Balance at 31 December 2020	**129,716**	**831**	**(5,933)**	**(54,327)**	**70,287**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated financial statements

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	31 Dec 2020 US$000	31 Dec 2019 US$000
Cash flows from operating activities			
Receipts from products and related debtors		4,678	15,298
Cash paid to suppliers and employees		(9,617)	(16,898)
Interest and finance cost		(1,787)	(2,059)
Interest received		4	53
Net cash used in operating activities		**(6,722)**	**(3,606)**
Cash flows from investing activities			
Payments for exploration costs		(218)	(485)
Proceeds from/ (payments to) associate		-	1,608
Payments for property plant and equipment		(623)	(3,806)
Net cash used in investing activities		**(841)**	**(2,683)**
Cash flows from financing activities			
Proceeds from issue of share capital		12,821	-
Share issue costs		(694)	(16)
Repayment of borrowings		(2,280)	(6,986)
Proceeds from borrowings		-	6,909
Borrowing transaction costs		-	(20)
Net cash generated from/ (used in) financing activities		**9,847**	**(113)**
Net increase/ (decrease) in cash and cash equivalents		**2,284**	**(6,402)**
Cash and cash equivalents at beginning of period		1,705	8,200
Exchange gain/ (loss) on foreign cash balances		147	(93)
Cash and cash equivalents at end of period	7	**4,136**	**1,705**
Reconciliation of loss after tax to cash flows from operations:			
Loss for the period		(9,738)	(3,303)
Adjustments for:			
Depreciation expense		2,922	2,332
Director and employee options		47	270
Exchange gains		(147)	93
Interest received		-	-
Interest and other finance costs paid		2,655	2,497
Fair value loss on financial assets		242	(3,824)
Share of loss/ (profit) of associate		268	(173)
Other non cash items		(740)	(29)
Working Capital adjustments:			
Increase in inventory		(2,944)	(1,808)
Decrease/ (increase) in trade and other receivables		369	(212)
Increase in trade and other payables relating to operating activities		344	551
Net cash used in operating activities		**(6,722)**	**(3,606)**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.
Refer Notes 7e and 12 for details on non-cash financing and investing activities.

1. Segment reporting

Overview

		Exploration & Evaluation			Mining		Corporate & other	Total
		Angola US$000	Botswana US$000	Australia US$000	Angola US$000	Lesotho US$000	Australia US$000	US$000
Year ended 31 December 2020	**Profit or loss**							
	External revenue	-	-	-	-	4,585	27	**4,612**
	Inter-segment	-	-	-	-	-	-	**-**
	Total revenue	**-**	**-**	**-**	**-**	**4,585**	**27**	**4,612**
	Depreciation	-	-	-	156	2,668	98	**2,922**
	Share-based payments	-	-	-	-	29	17	**47**
	Segment operating loss	-	-	-	(268)	(2,563)	(2,898)	**(5,729)**
	Net finance (costs)/ income	-	-	-	-	(5,306)	1,557	**(3,749)**
	Loss before income tax	-	-	-	(617)	(7,869)	(1,233)	**(9,719)**
As at 31 December 2020	**Assets and liabilities**							
	Segment assets	18,518	198	2,184	28,394	46,692	4,100	**100,086**
	Segment liabilities	-	-	-	-	13,386	16,413	**29,799**
	Inter-segment loans	-	144	2,026	-	38,466	(40,636)	**-**
Year ended 31 December 2020	**Other segment information**							
	Capital expenditure	1,451	12	98	-	3,726	2	**5,289**
Year ended 31 December 2019	**Profit or loss**							
	External revenue	-	-	-	-	14,647	500	**15,147**
	Inter-segment	-	-	-	-	350	(350)	**-**
	Total revenue	**-**	**-**	**-**	**-**	**14,997**	**150**	**15,147**
	Depreciation	-	-	-	156	2,072	104	**2,332**
	Share-based payments	-	-	-	-	92	177	**270**
	Segment operating profit/ (loss)	-	-	-	173	707	(3,458)	**(2,578)**
	Net finance (costs)/ income	-	-	-	-	(5,558)	1,057	**(4,501)**
	Profit/ (loss) before income tax	-	-	-	3,131	(4,850)	(1,535)	**(3,254)**
As at 31 December 2019	**Assets and liabilities**							
	Segment assets	17,067	186	1,904	28,674	41,690	5,599	**95,120**
	Segment liabilities	-	-	-	-	10,706	16,886	**27,592**
	Inter-segment loans	-	131	1,927	-	30,042	(32,100)	**-**
Year ended 31 December 2019	**Other segment information**							
	Capital expenditure	1,705	6	185	-	2,724	429	**5,049**

Notes to the consolidated financial statements
for the year ended 31 December 2020

1. Segment reporting (continued)

Further information

The Group engages in business activities within the following business segments: exploration & evaluation projects in Angola, Botswana and Australia, mining in Angola and Lesotho and corporate and other administrative functions in Western Australia to support and promote its activities.

The Group's operating segments are managed by geographical region as the risks and required rates of returns are largely affected by differences in the regions in which they operate.

Accounting policy

Segment disclosures are based on information that is provided to the Board of Directors, which is the Group's chief decision-making body.

An operating segment is a component of the Group that engages in business activities from which it may expend capital and generate revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

All operating segments' operating results, for which discrete financial information is available, are reviewed by the Group's Managing Director and management to assess their performance and make decisions with respect to the allocation of resources to that segment.

2. Revenue

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Revenue from contracts with customers		
Sale of goods	4,612	15,147
	4,612	**15,147**

Further information

The Group's revenue arises mainly from the sale of diamonds.

Accounting policy

To determine whether to recognise revenue, the following 5-step process is followed:

- Identifying the contract with a customer;
- Identifying the performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue when/ as performance obligation(s) are satisfied.

The transaction price is the amount to which the Group expects to be entitled to in exchange for the transfer of goods and services and is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Revenue from the sale of rough diamonds is recognised on a point in time basis.

Revenue from cutting and polishing partnerships:

- is considered to be variable consideration and is recognised to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been resolved. This is generally the case when cutting and polishing work has substantially been completed and relative certainty exists over the quality of the final product or when the polished diamonds have been sold;
- is recognised once a high level of certainty exists regarding factors that influence the sale prices including the size, quality and colour of the final polished diamonds. These factors are considered per individual stone.

If the Group satisfies a performance obligation before it receives the consideration, either a contract asset or a receivable is recognised in the statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Notes to the consolidated financial statements
for the year ended 31 December 2020

3. Expenses

Overview

	Note	31 Dec 2020 US$000	31 Dec 2019 US$000
Breakdown of expenses by nature			
Raw materials, consumables and other input costs		3,919	9,482
Changes in inventories of finished goods and work in progress		(2,911)	(1,333)
Employee benefits expenses (excluding share based payments)		4,089	6,274
Depreciation and amortisation		2,922	2,332
Auditors remuneration		45	38
Mining and short term leases		141	128
Consulting fees and other administrative expenses		179	633
Total cost of sales and coprorate expenses		**8,384**	**17,555**
Employee benefits expenses			
Wages, salaries and director remuneration		4,061	5,988
Superannuation costs		87	127
Share-based payments	12	46	270
Other associated employee expenses		(59)	159
		4,135	**6,544**
Auditors remuneration			
Elderton Pty Ltd (Auditors of parent company & consolidation)			
Audit services		35	32
Other services		-	-
		35	**32**
Other group auditors (for subsidiary companies)			
Audit services		10	6
Other services		-	-
		10	**6**
		45	**38**

Accounting policy

Expenses recognised in profit or loss are classified and presented on a functional basis.

Employee benefits

Short-term employee benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs: that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Share based payments

Refer note 12.

Notes to the consolidated financial statements
for the year ended 31 December 2020

4. Finance cost and income

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Finance cost		
Finance cost on borrowings	3,381	4,453
Interest expense on lease labilities	303	22
Unwinding of discount rate on rehabilitation liability	69	79
	3,753	**4,554**
Finance income		
Interest income on bank deposits	4	53
	4	**53**
Net finance cost on financial instruments	**3,749**	4,501

Accounting policy

Finance income and expenses comprises interest income on funds invested, interest expense on borrowings calculated using the effective interest method and unwinding of discounts on provisions.

Interest income is recognised in the statement of profit or loss and other comprehensive income as it accrues, using the effective interest method. All borrowing costs are recognised in the statement of profit or loss and other comprehensive income using the effective interest method.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Exchange differences arising from foreign currency borrowings used to acquire qualifying assets are regarded as an adjustment to the interest cost and included in the capitalised amount. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Notes to the consolidated financial statements
for the year ended 31 December 2020

5. Income tax

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Current tax expense		
Current income tax charge	19	48
Current income tax adjustments relating to prior years	-	-
Deferred tax expense		
Relating to origination and reversal of temporary differences	-	1
Total income tax expense	**19**	**49**
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate		
Net loss before tax	(9,719)	(3,254)
Income tax benefit using the Australian domestic tax rate of 30%	(2,916)	(976)
Increase in income tax due to tax effect of:		
Non-deductible expenses	460	814
Tax rate differential on foreign income	390	241
Current year tax losses not recognised	2,610	898
Foreign taxes paid	19	48
Share of loss of associate	80	-
Decrease in income tax expense due to:		
Non-assessable income	(35)	(904)
Share of profit of associate		(52)
Impact of movement in unrecognised temporary differences	(258)	-
Utilisation of previously unrecognised tax losses	(303)	-
Differences upon foreign currency conversion	-	-
Deductible equity raising costs	(28)	(20)
Income tax expense	**19**	**49**
Recognised deferred tax assets and liabilities		
Recognised deferred tax assets		
Tax losses	9,501	10,007
Accruals & provisions	408	473
	9,909	**10,480**
Less: Set off of deferred tax liabilities	(9,909)	(10,480)
Net deferred tax assets	**-**	**-**
Recognised deferred tax liabilities		
Property plant and equipment	(8,809)	(9,213)
Capitalised interest and foreign exchange adjustments	-	(759)
Other	(1,143)	(551)
	(9,952)	**(10,523)**
Less: Set off of deferred tax assets	9,909	10,480
Net deferred tax liabilities	**(43)**	**(43)**
Deferred tax assets not recognised		
Tax revenue losses	11,982	12,172
Tax capital losses	5,098	4,561
Deductible temporary differences	644	25
	17,724	**16,758**

5. Income tax (continued)

Further information

The estimated tax losses above may be available to be offset against taxable income in future years. The availability of these losses is subject to satisfying taxation legislative requirements. The deferred tax asset attributable to tax losses has not been brought to account in these financial statements because the Directors believe it is not presently appropriate to regard realisation of the future income tax benefits as probable.

Accounting policy

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit/ (loss) for the period. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit/ (loss) and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit/ (loss) nor the accounting profit/ (loss).

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the consolidated financial statements
for the year ended 31 December 2020

6. (Loss)/ earnings per share

Overview

	31 Dec 2020	31 Dec 2019
	Cents	**Cents**
Basic loss per share (cents per share)	(1.60)	(0.67)
Diluted loss per share (cents per share)	(1.60)	(0.67)
	US$000	**US$000**
Loss used in calculating earnings per share		
Loss attributable to members of the Company used in calculating basic earnings per share	(9,738)	(3,303)
Loss attributable to members of the Company used in calculating diluted earnings per share	(9,738)	(3,303)
	Number	**Number**
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the period used in calculation of basic earnings per share	608,401,126	491,273,918
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	609,176,342	492,567,767

Accounting policy

Basic earnings/ (loss) per share is calculated by dividing the net profit/ (loss) attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares of the Company during the period. Diluted earnings/ (loss) per share is determined by adjusting the net profit/ (loss) attributable to the ordinary shareholders and the number of shares outstanding for the effects of all dilutive potential shares, which comprise share options.

Notes to the consolidated financial statements
for the year ended 31 December 2020

7. Financial instruments and financial risk management

Overview

	Note	31 Dec 2020 US$000	31 Dec 2019 US$000
Summary of carrying value of financial instruments			
Financial assets			
Cash and cash equivalents	7a	4,136	1,705
Trade and other receivables	7b	1,737	2,050
Other current financial assets	7c	-	-
Non-current financial assets	7c	22,739	23,933
		28,612	**27,688**
Financial liabilities			
Trade and other payables	7d	4,224	3,967
Current borrowings	7e	4,755	22,518
Non-current borrowings	7e	19,672	-
		28,651	**26,485**
Summary of amounts recognised in profit or loss			
Fair value adjustments			
(Loss)/ gain in respect of the alluvial project receivable		(349)	2,958
Gain on borrowing embedded derivatives		108	867
		(241)	**3,825**
Foreign exchange gain			
(Loss)/ gain on revaluation of intergroup loans		(574)	789
(Loss)/ gain on other financial instruments		(766)	100
		(1,340)	**889**
Net finance cost on financial instruments	4	3,749	4,501

Further information

Financial risk management

The Group has exposure to market, credit and liquidity risks from the use of financial instruments. This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Notes to the consolidated financial statements
for the year ended 31 December 2020

7. Financial instruments and financial risk management (continued)

Market risk

- **Commodity price risk**
  The Group is focussed on its diamond mining and exploration interests in Africa and Australia. Accordingly, the Group is exposed to the global pricing structures of the diamond market.

- **Foreign exchange risk**
  The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Australian dollar, South African rand and Angolan kwanza. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations that are not in the individual business unit's functional currency. The Group manages its foreign exchange risk by monitoring its net exposures, maintaining an appropriate balance between foreign currency assets and liabilities and making use of hedging instruments. The Group does not speculate with the use of hedging instruments and derivatives. The extent of the Group's exposure to foreign currency risk at balance date is disclosed below for each category of financial instrument.

- **Cash flow interest rate risk**
  Cash flow interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group does not currently use derivatives to mitigate these exposures. The extent of the Group's exposure to interest rate risk at balance date is disclosed below for each category of financial instrument.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's potential concentration of credit risk mainly relates to amounts advanced to SML (Note 7c). The Group's short-term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to the financial assets is represented by their carrying values as at the balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate cash reserves, or from funds raised in the market, or by debt and by continuously monitoring forecast and actual cash flows. The liquidity profile of the Group's financial liabilities are disclosed in the relevant notes below.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, raise debt finance or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity and debt finance to fund exploration, mine development, evaluation activities and corporate overhead.

Fair value hierarchy

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below.

The financial assets and liabilities are classified as follows in terms of the fair value hierarchy:

- the SML receivable (Note 7c): level 3 due to the use of unobservable inputs;
- the Equigold and New Azilian embedded derivatives: level 1 due to the use of market based and observable inputs; and
- other financial assets and liabilities approximate their net fair value, determined in accordance with the accounting policies.

7. Financial instruments and financial risk management (continued)

Accounting policy

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets of the Group are classified into either the amortised cost or fair value through profit or loss ("FVPL") categories. Classifications are determined by both the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held with the objective to hold the assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category.

Subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Leases

Contracts are assessed at inception to determine whether a contract is, or contains, a lease. It is classified as such if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A single recognition and measurement approach is applied for all leases, except for short-term leases, leases of low-value assets and leases to explore for or mine minerals and similar non-regenerative resources. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets are included under Property Plant and Equipment (refer note 9).

Lease liabilities are recognised at the commencement date of the lease and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

The Group uses its incremental borrowing rate at the lease commencement date to calculate the present value of lease payments, if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

7. Financial instruments and financial risk management (continued)

Lease liabilities are included in interest-bearing loans and borrowings.

Lease payments for short-term leases, leases of low-value assets and leases to explore for or mine minerals as well as variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Determination of fair values

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Significant accounting judgements, estimates and assumptions

Financial assets

The Group's financial assets include the receivable in respect of SML that represents the future reimbursement in US dollars of the Group's historic alluvial exploration and development costs incurred at Lulo. The recoverable amount of the receivable is reassessed using calculations which incorporate various key assumptions as per above.

Notes to the consolidated financial statements
for the year ended 31 December 2020

7a. Cash and cash equivalents

	31 Dec 2020 US$000	31 Dec 2019 US$000
Balances on hand		
Bank balances	4,136	1,705
	4,136	**1,705**
Foreign exchange risk		
Cash balances exposed to foreign currency risk, based on notional amounts	1,838	105
Interest rate risk		
Cash balances held at variable interest rates	4,136	1,705
Average rate for 2020: 0.2% (2019: 1.2%)		

7b. Trade and other receivables

	31 Dec 2020 US$000	31 Dec 2019 US$000
Current		
GST/ VAT receivable	1,014	1,316
Prepayments and other receivables	723	734
	1,737	**2,050**
Foreign exchange risk		
Receivable balances exposed to foreign currency risk, based on notional amounts	459	649
Interest rate risk		
Non-interest bearing balances	1,737	2,050

Notes to the consolidated financial statements
for the year ended 31 December 2020

7c. Financial assets

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Non current financial assets		
Receivable in respect of SML		
At 1 January	30,260	32,371
Investment during the period	63	1,515
Repayment received	-	(2,110)
Transferred to Deferred exploration and evaluation costs (note 9)	(908)	(1,516)
	29,415	**30,260**
Fair value adjustment due to discounting	(6,676)	(6,327)
At end of period	**22,739**	**23,933**
Interest rate risk		
Non-interest bearing balances	22,739	23,933

Further information

The receivable in respect of SML was transferred from Alluvial development in 2016 and represents the future reimbursement in US dollars of the Company's historic alluvial exploration and development costs incurred at Lulo. The receivable has been re-measured to its estimated fair value using the income approach, which is a valuation technique that converts future cash flow into a single discounted present value and is classified as level 3 in the fair value hierarchy due to the use of unobservable inputs.

Significant unobservable inputs are the timing and amounts of future repayments which are based on the expected cash flows per the Company's forecast model for SML. Sensitivity factors which could impact the valuation include operational recoveries, prices and delays in the timing of repayments which will decrease the fair value estimate. A discount rate of 12.85% (2019: 11.89%) has been applied in the fair value calculation.

7d. Trade and other payables

	31 Dec 2020 US$000	31 Dec 2019 US$000
Trade payables	1,471	1,251
Mothae deferred purchase consideration	1,125	1,125
Accruals and other payables	1,628	1,591
Total	**4,224**	**3,967**
Foreign exchange risk		
Payable balances exposed to foreign currency risk, based on notional amounts	525	334
Interest rate risk		
Non-interest bearing balances	4,224	3,967
Liquidity risk		
Contractual maturities profile		
Payable within one year	4,224	3,967

Notes to the consolidated financial statements
for the year ended 31 December 2020

7e. Borrowings

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Current borrowings		
Lease liabilities	1,234	255
Other short-term loans	3,521	21,612
Current loans - Embedded derivatives	-	651
Total	**4,755**	**22,518**
Non-current borrowings		
Lease liabilities	1,304	-
Other non-current loans	17,325	-
Other non-current loans - Embedded derivatives	1,043	-
Total	**19,672**	**-**
Foreign exchange risk		
Borrowings exposed to foreign currency risk, based on notional amounts	8,187	7,415
Interest rate risk		
Balances at variable interest rates	7,347	7,136
Average rate for 2020: 14.3% (2019: 18.1%)		
Refer interest rate sensitivity analysis below		
Balances at fixed interest rates	17,079	15,382
Average rate for 2020: 11% (2019: 11.8%)		
Liquidity risk		
Contractual maturities profile, including estimated interest payments and excluding the impact of netting agreements		
Borrowings		
Payable within one year	6,573	15,846
Payable after one year but less than five years	19,389	9,901
Payable after more than five years	-	-
Leases		
Payable within one year	1,446	126
Payable after one year but less than five years	1,384	164
Payable after more than five years	-	-
Other disclosures in respect of leases		
Cash outflow	414	68
Low value lease expense	22	24
Expense relating to variable lease payments not included in the measurement of lease liabilities	409	-
Non-cash financing recognised	3,115	-

Notes to the consolidated financial statements
for the year ended 31 December 2020

7e. Borrowings (continued)

Further information

Terms and conditions

Lease liabilities

The lease liabilities consist of the amounts due in respect of the following:

- Mining equipment and plant at Mothae, leased at monthly payments of ZAR1.6 million (US$0.9 million) until December 2022. During the suspension of operations at Mothae, payments were suspended in terms of a *force majeure* clause in the lease agreement; and
- Various lease contracts for office space, office and other equipment used in its operations. Lease terms vary between 2 and 3 years.

Generally, the Group's obligations under its leases are secured by the lessor's title to the leased assets. Certain lease contracts include extension and termination options.

Other loans

The loan amounts reflect the balances due to Equigold, IDC and New Azilian. In 2019, all loans were reflected as current borrowings as the facility refinancing discussions with the financiers were not concluded at the date of the report. As per the Financial Position review, the refinancing discussions were concluded during 2020 and the borrowings have been re-classified accordingly. The revised terms of the loans include the following:

Equigold

- Loan facility of US$5.9 million (2019: US$7.5 million) fully utilised;
- The principal balance is repayable as follows:
  - Two quarterly payments of US$0.5 million in January 2021 and April 2021; and
  - Four quarterly payments of US$1.2 million commencing October 2022.
- Market related fees were payable on draw down and with interest payments;
- Equigold, at its election, can convert the last two quarterly payments into ordinary shares in the Company at the then market price;
- Interest is payable at 9.75% (previously 13%) pa;
- Fifty percent of quarterly interest and fees can be converted into ordinary shares in the Company at the then market price at Lucapa's election;
- Fifty percent of quarterly interest and fees can be converted into ordinary shares in the Company at the then market price at Lucapa's election after agreement with Equigold;
- The loan is secured by way of a General Security Deed granted by Lucapa in favour of the lender over collateral consisting of the Company's investment in and loan to Mothae Diamonds (Pty) Ltd.

IDC

- Total loan facility of ZAR100m (US$6.9 million), fully utilised at the end of the period;
- The capital balance is repayable in nine quarterly payments commencing January 2021 (previously January 2020). January 2021 capital repayment deferment still subject to IDC internal approval;
- Interest is payable quarterly based on the Johannesburg Interbank Average Rate (JIBAR) plus 8.6%;
- A moratorium on payment of the interest in respect quarters ending June 2020 and September 2020 until 2021;
- The loan is secured by way of:
  - Bonds over Mothae's movable assets, diamond treatment facility and ancillary equipment;
  - Mortgage over the mining right and the land right granted under the mining agreement;
  - A 70% proportional guarantee by Lucapa of all amounts due and payable;
  - A subordination of Lucapa's shareholder claims in and loans to Mothae, back ranking to the Equigold loan agreement;
  - A pledge and session by Lucapa of its shares in Mothae and a cession of all its loans and claims against Mothae, once such are released by Equigold;
  - A cession of insurance policies and proceeds thereof with the Lender's interest noted thereon;
  - Certain negative pledges.
- Certain financial covenants to be maintained.

New Azilian

- New Azilian is an entity associated with non-executive director Ross Stanley;
- Loan facility of A$10.4 million (US$8.0 million), fully utilised at the end of the period;
- The principal balance is repayable as follows in February 2022;
- Interest is payable at 9.75% (previously 10%) pa;
- The loan is secured by way of a General Security Deed granted by Lucapa in favour of the lender over collateral consisting of all of the Company's present and after acquired property, undertaking and rights, excluding the Company's investment in and loan to Mothae.

Notes to the consolidated financial statements
for the year ended 31 December 2020

7e. Borrowings (continued)

Embedded derivative

Equigold – embedded derivative in relation to last two quarterly payments (US$2.5 million) has been recognised at fair value, using a Black Scholes valuation with the following inputs:

- LOM share price at measurement date: A$0.057 (2019: A$0.12);
- Exercise price: A$0.054 (2019: A$0.113);
- Estimated volatility: 67% (2019: 60%);
- Expiry date: 1 April 2023/1 July 2023;
- Risk-free interest rate: 1.01% (2019: 1.21%).

Cash flow sensitivity analysis for variable rate instruments

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant through the impact on floating rate interest rates.

A change of 100 basis points in interest rates at the reporting date would have an estimated impact of US$0.4 million (2019: US$0.2 million) before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to the statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

8. Inventories

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Diamond inventory	4,129	1,254
Ore stockpiles	-	25
Consumables and other inventory	836	742
	4,965	**2,021**

Further information

During the year, US$1.7 million (2019: US$2.0 million) was recognised as an expense under cost of sales for inventories carried at net realisable value.

Accounting policy

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the consolidated financial statements
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9. Property plant and equipment

Overview

	Deferred exploration and evaluation US$000	Mine development US$000	Plant and equipment US$000	Stripping activity assets US$000	Decommissioning assets US$000	Right-of-use assets US$000	Other assets US$000	Total US$000
Cost								
Balance at 1 January 2019	20,502	16,588	21,372	-	54	-	291	58,807
Additions	1,881	1,241	851	177	95	389	415	5,049
Reclassifications	(819)	1,158	(2,506)	-	-	-	819	(1,348)
Disposals	-	-	-	-	-	-	(11)	(11)
Foreign currency movements	71	314	477	6	4	-	119	991
Balance at 31 December 2019	**21,635**	**19,301**	**20,194**	**183**	**153**	**389**	**1,633**	**63,488**
Additions	1,561	66	712	-	10	2,889	51	5,289
Disposals	-	-	-	-	-	-	(3)	(3)
Foreign currency movements	69	(303)	(806)	(9)	(5)	380	(63)	(737)
Balance at 31 December 2020	**23,265**	**19,064**	**20,100**	**174**	**158**	**3,658**	**1,618**	**68,037**
Accumulated depreciation								
Balance at 1 January 2019	-	493	1	-	-	-	41	535
Amortisation/ depreciation charge for the year	-	660	1,218	71	10	86	287	2,332
Disposals	-	-	-	-	-	-	(5)	(5)
Foreign currency movements	-	15	26	3	-	-	12	56
Balance at 31 December 2019	**-**	**1,168**	**1,245**	**74**	**10**	**86**	**335**	**2,918**
Amortisation/ depreciation charge for the year	-	941	564	93	10	1,046	268	2,922
Disposals	-	-	-	-	-	-	-	-
Foreign currency movements	-	23	3	7	-	110	17	160
Balance at 31 December 2020	**-**	**2,132**	**1,812**	**174**	**20**	**1,242**	**620**	**6,000**
Net carrying amounts								
At 31 December 2019	21,635	18,133	18,949	109	143	303	1,298	60,570
At 31 December 2020	**23,265**	**16,932**	**18,288**	**-**	**138**	**2,416**	**998**	**62,037**

9. Property plant and equipment (continued)

Further information

Deferred exploration and evaluation costs

Deferred exploration and evaluation costs represent the cumulative expenditure incurred in relation to the Lulo, Mothae, Orapa Area F and Brooking projects on diamond exploration and evaluation including plant and equipment. The Company continues to explore for the primary kimberlite sources of the alluvial diamonds being recovered on the Lulo concession, evaluate the neck and other areas of the Mothae kimberlite resource, explore for kimberlite in Botswana and for lamproite in Australia.

The Group has a 39% interest in the Project Lulo Venture ("the JV"), an unincorporated entity classified as a joint operation that operates under the terms of a Mineral Investment Contract entered into between the partners. Accordingly, the Group's interest in the assets, liabilities, revenues and expenses attributable to the JV have been included in the appropriate line items in the consolidated financial statements. Deferred exploration and evaluation costs of US$18.5 million (31 December 2019: US$17.1 million) in the schedule above are related to the JV.

Other assets

Other assets comprise vehicles, computer equipment, furniture & fittings and office equipment.

Accounting policy

Recognition and measurement

Items of property plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

Gains and losses on disposal of an item of property plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property plant and equipment and are recognised net within "other income" in the statement of profit or loss and other comprehensive income.

Subsequent costs

The cost of replacing part of an item of property plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense incurred.

Depreciation

Depreciation is recognised in the statement of profit or loss and other comprehensive income on a reducing balance basis over the estimated useful lives of each part of an item of property plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

- Computer equipment: 3-5 years
- Office equipment: 5-10 years
- Mine development: Lesser of life of mine or period of lease
- Mine infrastructure and plant facilities: Based on resources on a unit of production basis

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Mine development

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings, plant and equipment is capitalised as Mine development. Development includes previously capitalised exploration and evaluation costs, pre-production development costs, certain mining assets, development studies and other subsurface expenditure pertaining to that area of interest. On completion, development cost is deprecated as per above. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount is written off to profit and loss.

Deferred exploration and evaluation

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the right to tenure of each identifiable area of interest are current, and either the costs are expected to be recouped through successful development of the area, or activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Exploration assets that are not available for use are not amortised.

Exploration and evaluation assets are initially measured at cost and include acquisition of mining tenements, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation of assets used in exploration activities. General and administrative costs are only included in the measurement of exploration costs where they are related directly to operational activities in a particular area of interest.

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9. Property plant and equipment (continued)

Deferred exploration and evaluation costs in relation to an abandoned area are written off in full against profit or loss in the period in which the decision to abandon that area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Stripping activity assets
Costs associated with removal of waste overburden are classified as stripping costs. Stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future.

Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset' and included as a separate category of Property plant and equipment, if:

- future economic benefits (being improved access to the orebody) are probable;
- the component of the orebody for which access will be improved can be accurately identified; and
- the costs associated with the improved access can be reliably measured.

If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset.

The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. The expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

Right-of-use assets
Right-of-use assets are recognised at the commencement date of a lease (i.e., the date the underlying asset is available for use) and are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Joint operations
A joint arrangement in which the Group has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation.

Interests in joint operations are accounted for by recognising the Group's assets (including its share of any assets held jointly); its liabilities (including its share of any liabilities incurred jointly); its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses (including its share of any expenses incurred jointly).

Significant accounting judgements, estimates and assumptions
Asset useful lives and residual values
Property, plant and equipment are depreciated over its useful life taking into account residual values where appropriate. The actual useful lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re–assessing asset useful lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Notes to the consolidated financial statements
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9. Property plant and equipment (continued)

Valuation of mineral properties
The Group carries the acquisition of its mineral properties at cost less any provision for impairment. The Group undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Group is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Exploration and evaluation assets
The Group assesses the carrying value of exploration and evaluation assets in accordance with the accounting policy noted above. The basis of determining the carrying value involves numerous estimates and judgements resulting from the assessment of ongoing exploration activities, as per the accounting policy note.

Development
Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions, with inherent uncertainty, as to the future events.

Mineral resource, ore reserves and production target estimates*
Ore reserves and production target estimates are estimates of the amount of ore that can be economically and legally extracted from the mineral resources of the Group's mining properties. An ore reserve is the economically mineable part of a measured and/ or indicated resource. A production target may include lower confidence inferred resources under certain circumstances and if there are reasonable grounds to do so. Such production target estimates and changes to them may impact the company's reported financial position and results, in the following way:

- The carrying value of exploration and evaluation assets, mine properties, property plant and equipment, and goodwill may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the unit of production method, or where the useful life of the related assets change;
- Capitalised stripping costs recognised in the statement of financial position, as either part of mine properties or inventory or charged to profit or loss, may change due to changes in stripping ratios;
- Provisions for rehabilitation and environmental provisions may change where reserve estimate changes affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

The Group estimates its *mineral resource, ore reserves and production targets* based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of ore reserves and production targets are based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The Group estimates and reports ore reserves and mineral resources in line with the principles contained in the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012) published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and Minerals Council of Australia ("JORC Code").

*The term "production target" is defined to mean a projection or forecast of the amount of mineral to be extracted from a particular mining tenement or tenements for a period that extends past the current year and the forthcoming year.

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10. Investment in associate

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Summarised financial information of SML		
Current assets	16,340	12,658
Non-current assets	22,598	30,181
Current liabilities	10,648	12,683
Non-current liabilities	22,739	23,933
Equity	**5,551**	**6,223**
Group's carrying amount of the investment	4,472	4,741
Revenue	28,449	39,985
Cost of sales	(21,736)	(23,629)
Administrative and selling expenses	(8,366)	(9,858)
Fair value adjustments	349	(3,028)
(Loss)/ profit before tax	**(1,304)**	**3,470**
Income tax expense	633	(3,035)
(Loss)/ profit for the period	**(671)**	**435**
Total comprehensive (loss)/ income for the period	**(671)**	**435**
Group's share of (loss)/ profit for the period	**(268)**	**173**
SML EBITDA	6,194	12,927
SML contingent liabilities	-	-
SML Capital commitments		
Payable within one year		
- Approved, not yet contracted	10,592	554
- Approved and contracted	-	3,128

Further information

The Group has a 40% ownership in SML and has recognised its share of SML's results since its formal incorporation in May 2016. In accordance with the Group's accounting policy the 2019 dividend declared by SML of US$1.6 million has been set off the carrying amount of the investment. The earnings of SML include fair value adjustments in relation to the discounting of the financial asset of Lucapa reflected under note 7c.

Accounting policy

Associates are those entities over which the Group is able to exert significant influence, but which are not subsidiaries. A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities.

Investments in associates and joint ventures are accounted for using the equity method.

Any goodwill or fair value adjustment attributable to the Group's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Notes to the consolidated financial statements
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11. Non-current provisions

Overview

	31 Dec 2020 US$000	31 Dec 2019 US$000
Provision for environmental rehabilitation		
At 1 January	1,064	860
Increase/ (decrease) during the year	10	95
Unwinding of discount rate	69	79
Foreign exchange difference	(38)	30
At end of period	**1,105**	**1,064**

Further information

The provision for rehabilitation has been recognised in respect of the Mothae kimberlite project. It is based on an independent expert's report produced in 2019 of the expected rehabilitation cost over the life of the mine and discounted back to present value using a pre-tax discount rate that reflects current market assessments. Assumptions include an estimated rehabilitation timing of 12 to 18 years, an annual inflation rate of 5.6% (2019: 4.6%) and a discount rate of 8.9% (2019: 7.96%). The assumptions of the independent expert's report were updated internally during 2020 as there were minimal additional disturbance created due to the suspension of operations.

Accounting policy

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Asset retirement obligations

The Group recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a credit adjusted risk free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the credit adjusted risk free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortised or depleted to operations over the life of the related asset.

Environmental liabilities

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/ or remedial efforts are probable, and the costs can be reasonably estimated.

Significant accounting judgements, estimates and assumptions

Included in liabilities at the end of each reporting period is an amount that represents an estimate of the cost to rehabilitate the land upon which the Group has carried out its exploration and evaluation for mineral resources. Provisions are measured at the present value of management's best estimate of the costs required to settle the obligation at the end of the reporting period. Actual costs incurred in future periods to settle these obligations could differ materially from these estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates, and discount rates could affect the carrying amount of this provision.

Notes to the consolidated financial statements
for the year ended 31 December 2020

12. Share capital and share-based payments

Overview

	Number	31 Dec 2020 US$000
LISTED SECURITIES		
Movement in ordinary shares (ASX code: LOM)		
On issue at beginning of period	499,122,427	116,888
Issue of shares	312,820,620	12,821
Issue of shares on conversion of interest on loans, debt re-structuring and placement fees	20,742,261	770
Issue of shares on exercise of options and performance rights	490,267	57
Transaction costs	-	(820)
On issue at end of period	**833,175,575**	**129,716**
Movement in listed options (ASX code: LOMOC)		
On issue at beginning of period	-	-
Issue of options	113,971,605	-
Exercise of options	-	-
Expiry of options	-	-
On issue at end of period	**113,971,605**	**-**
UNLISTED SECURITIES		
Movement in unlisted options (A$0.08 exercise price; expire 18 December 2022)		
On issue at beginning of period	-	-
Issue of options	54,824,075	-
Exercise of options	-	-
Expiry of options	-	-
On issue at end of period	**54,824,075**	**-**

Further information

Terms and conditions

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share-based payments

	31 Dec 2020	31 Dec 2019
Weighted average remaining contractual life of share options and performance rights in issue (years)	1.63	-
Weighted average Lucapa share price during the period/ year (A$)	0.063	0.16
	US$000	**US$000**
Share-based payments recognised		
Profit or Loss		
Director and employee options	47	270
Non-cash financing and investing activities		
Share issue expenses	125	-
Loan funding	670	3,390
Deferred exploration and evaluation costs	-	2
	842	**3,662**

12. Share capital and share-based payments (continued)

Share options and Performance rights in issue

	Share options							Performance rights		
	Unlisted	**Unlisted**	**Unlisted**	**Unlisted**	**ASX listed (LOMOC)**	**ASX listed (LOMOC)**	**Unlisted**	**Unlisted**	**Unlisted**	
Exercise price (A$)	**$0.45**	**$0.35**	**$0.46**	**$0.44**	**$0.10**	**$0.10**	**$0.08**	**$0.00**	**$0.00**	**Weighted average price (A$)**
Expiry date	**24-May-20**	**20-Apr-20**	**31-May-20**	**07-Jun-21**	**05-Jun-22**	**05-Jun-22**	**18-Dec-22**	**31-May-20**	**01-Apr-22**	
Number on issue at beginning of period	250,000	2,500,000	2,250,000	1,301,000	-	-	-	62,500	1,249,676	0.34
Issue of options/ performance rights	-	-	-	-	8,000,000	869,083	10,754,545	-	-	0.09
Exercise of options/ performance rights	-	-	-	-	-	-	-	-	(490,267)	-
Expiry/ lapsing of options/ performance rights	(250,000)	(2,500,000)	(2,250,000)	-	-	-	-	(62,500)	(269,146)	0.38
On issue at end of period	**-**	**-**	**-**	**1,301,000**	**8,000,000**	**869,083**	**10,754,545**	**-**	**490,263**	0.11
Exercisable at end of period	-	-	-	1,301,000	8,000,000	869,083	10,754,545	-	-	
Assumptions used in estimating fair value of grants in current period:										
Grant date					05-Jun-20	15-Oct-20	18-Dec-20			
LOM share price at grant date (A$)					0.048	0.069	0.059			
Estimated volatility					65%	65%	65%			
Risk-free interest rate					0.89%	0.89%	0.79%			
Fair value per option/ right (A$)					0.007	0.015	0.016			

12. Share capital and share-based payments (continued)

Accounting policy

Share capital

Equity instruments, including preference shares, issued by the Company are recorded at the proceeds received. Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from equity, net of any tax effects.

Share based payments

The fair value of options and rights granted is measured using the Black-Scholes or binomial option pricing models, taking into account the terms and conditions upon which the instruments were granted. The fair value is recognised in employee benefits expense together with a corresponding increase in equity (share-based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/ or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/ or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/ or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The amounts carried under share-based payment reserves are allocated to share capital when underlying shares are issued upon the conversion of options or rights, and to accumulated income/ losses upon the expiry of option or rights.

Determination of fair values

The fair value of options issued is measured using the Black-Scholes or binomial option pricing models. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Significant accounting judgements, estimates and assumptions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Where required, the fair value of options granted is measured using valuation models, taking into account the terms and conditions as set out above. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period, but may impact expenses and reserves.

Notes to the consolidated financial statements
for the year ended 31 December 2020

13. Commitments and contingencies

	31 Dec 2020 US$000	31 Dec 2019 US$000
Operating lease commitments iro mining and exploration rights		
Minimum lease payments under non-cancellable operating lease agreements		
Payable within one year	153	108
Payable after one year but less than five years	641	484
Payable after more than five years	230	319
	1,024	**911**
Capital commitments		
Payable within one year		
Approved, not yet contracted	2,234	1,709
Approved and contracted	932	-

Contingencies
The Group did not have any contingent liabilities as at 31 December 2020 (2019: Nil).

14. Parent entity information

	31 Dec 2020 US$000	31 Dec 2019 US$000
Current assets	3,674	792
Total assets	103,690	93,294
Current liabilities	2,285	20,246
Total liabilities	16,371	16,843
Share capital	129,716	116,888
Reserves	(4,824)	(4,581)
Accumulated losses	(37,573)	(35,856)
	87,319	**76,451**
(Loss)/ profit for the period	(1,944)	1,518
Total comprehensive (loss)/ income for the period	(1,944)	1,518

15. Related party disclosures

Overview

	31 Dec 2020 US$	31 Dec 2019 US$
Key management personnel compensation		
Short-term employee benefits	597,393	902,067
Post-employment benefits	31,222	46,845
Share-based payments	2,763	35,309
	631,378	**984,220**
Other related party transactions		
The following payments, relating to office rent and associated costs were made to entities associated with director Miles Kennedy:		
Kennedy Holdings (WA) Pty Ltd	115,559	115,150
Loan facility agreement with an entity associated with non-executive Director Ross Stanley:		
Amount due to New Azilian Pty Ltd (refer Note 7)	8,036,262	7,182,635
Finance cost for period	774,961	551,541

Further information

Individual Directors' and executives' compensation disclosures

Information regarding individual Directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' report. Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no other material contracts involving Director's interests at period-end.

Key management personnel and director transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

Notes to the consolidated financial statements
for the year ended 31 December 2020

16. Group information

	31 Dec 2020 %	31 Dec 2019 %
The consolidated financial statements of the Group include the following subsidiaries:		
Lucapa Diamonds (Botswana) (Proprietary) Limited		
Incorporated in Botswana		
Equity interest held	100	100
Brooking Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	100
Mothae Diamonds (Pty) Ltd		
Incorporated in the Kingdom of Lesotho		
Equity interest held	70	70
Lucapa (Mauritius) Holdings Limited		
Incorporated in Mauritius		
Equity interest held	100	100

Notes to the consolidated financial statements
for the year ended 31 December 2020

17. Other significant accounting policies

The financial statements have been prepared using consistent accounting policies to those used for the prior year, except as set out below.

New or revised accounting policies

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2020:

- AASB 2018-7 Amendments to Australian Accounting Standards Definition of Material (AASB 101 and AASB 108);
- AASB 2018-6 Amendments to Australian Accounting Standards Definition of a Business (AASB 3);
- AASB 2019-3 Amendments to Australian Accounting Standards Interest Rate Benchmark Reform (AASB 7, AASB 9 and AASB 139);
- AASB 2019-5 Amendments to Australian Accounting Standards Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia (AASB 1054);
- AASB 1059 Service Concession Arrangements: Grantors;
- AASB 2018-5 Amendments to Australian Accounting Standards Deferral of AASB 1059;
- AASB 2019-2 Amendments to Australian Accounting Standards Implementation of AASB 1059;
- Revised Conceptual Framework for Financial Reporting. AASB 2019-1 Amendments to Australian Accounting Standards References to the Conceptual Framework.

The adoption of these standards has not resulted in any material changes to the Group's financial statements.

The following new/ amended standards have been issued, but are not yet effective:

- AASB 17 Insurance contracts. AASB 2020-5 Amendments to Australian Accounting Standards Insurance Contracts (AASB 4 and AASB 17);
- AASB 2020-4 Amendments to Australian Accounting Standards COVID-19-related Rent Concessions (AASB 16);
- AASB 2020-7 Amendments to Australian Accounting Standards COVID-19-related Rent Concessions: Tier 2 Disclosures (AASB 16 & AASB 1060);
- AASB 2020-8 Amendments to Australian Accounting Standards Interest Rate Benchmark Reform Phase 2 (AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16);
- AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities;
- AASB 2020-2 Amendments to Australian Accounting Standards Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities;
- AASB 2020-3 Amendments to Australian Accounting Standards Annual Improvements 2018–2020 and Other Amendments (AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 & AASB 141);
- AASB 2020-3 Amendments to Australian Accounting Standards Annual Improvements to IFRS Standards 2018–2020 and Other Amendments (AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 & AASB 141);
- AASB 2020-1 Amendments to Australian Accounting Standards Classification of Liabilities as Current or Non-current (AASB 101);
- AASB 2020-6 Amendments to Australian Accounting Standards Classification of Liabilities as Current or Non-current – Deferral of Effective Date (AASB 101);
- AASB 2014-10 Amendments to Australian Accounting Standards: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture;
- AASB 2015-10 Amendments to Australian Accounting Standards Effective Date of Amendments to AASB 10 and AASB 128; and
- AASB 2017-5 Amendments to Australian Accounting Standards Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.

The requirements of these standards are currently being reviewed, but it is not currently expected to have a material impact on the Group's financial statements.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

17. Other significant accounting policies (continued)

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed where relevant in the individual notes above.

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Principles of consolidation
The Group financial statements consolidate those of the Company and all its subsidiaries as at the end of the period. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Functional and presentation currency
An entity's functional currency is the currency of the primary economic environment in which it operates. All items included in the financial statements of entities in the Group are measured and recognised in the functional currency of the entity. The Group's presentation currency is US dollars, which is also the functional currency of the Company.

Foreign currency transactions and balances
Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on retranslation are recognised in the statement of profit or loss and other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to US dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

When a foreign operation is disposed of in part or in full, the relevant amount in equity is transferred to the statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognised directly in equity.

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there a risk of default. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of profit or loss and other comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of profit or loss and other comprehensive income.

17. Other significant accounting policies

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Significant accounting judgements, estimates and assumptions

The Group assesses impairment at the end of each reporting year by evaluating specific conditions that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using calculations which incorporate various key assumptions, including estimating diamond prices.

Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value. If the information to project future cash flows is not available or could not be reliably established, management uses the best alternative information available to estimate a possible impairment.

Goods and services tax/ value added tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") or value added tax ("VAT"), except where the amount of GST or VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Receivables and payables are stated with the amount of GST or VAT included.

The net amount of GST and VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST and VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Determination of fair values

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market or, in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Notes to the consolidated financial statements
for the year ended 31 December 2020

17. Other significant accounting policies (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Rounding of amounts
The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

18. Events subsequent to reporting date

On 4 January 2021 Lucapa announced the recovery by SML of a 113 carat gem-quality white diamond, the 17th +100 carat white diamond recovered to date.

On 11 January 2021 Lucapa announced the first sale of diamonds in 2021 from Mothae. The parcel of 4,676 carats of rough diamonds were sold for a total of US$5.6 million or US$1,198/ carat and includes the 101 carat D colour diamond recovered following re-opening of the mine in the last quarter of 2020 (refer ASX announcement 10 December 2020).

On 13 January 2021 Lucapa announced a decision has been taken to temporarily suspend mining operations at Mothae, following the announcement by the Lesotho Prime Minister that due to a surge in COVID-19 cases in the country the Lesotho Government has imposed a 14-day nation-wide lockdown.

On 18 January 2021 Lucapa announced the recovery by SML of a 104 carat D-colour white diamond from MB46, the 18th +100 carat white diamond recovered to date.

On 29 January 2021 Lucapa announced the recommencement of mining operations at Mothae following the 14-day nationwide lockdown in Lesotho initiated by the GoL.

On 2 February 2021 Lucapa announced the first sale of diamonds in 2021 from SML. The parcel of 4,273 carats of rough diamonds were sold for a total of US$5.9 million or US$1,375/ carat.

On 24 February 2021 Lucapa announced the recovery by Mothae of a 215 carat Type IIa D-colour white diamond, the second +200 carat diamond and the fifth +100 carat diamond recovered to date.

On 25 February 2021 Lucapa announced the second sale of diamonds in 2021 from SML. The parcel of 1,040 carats of rough diamonds were sold for a total of US$3.7 million or US$3,525/carat.

On 26 February 2021 Lucapa announced the recovery by SML of a 114 carat Type 11a D-colour white diamond, the 3rd from MB46 and 19th +100 carat white diamond recovered to date.

On 22 March 2021 Lucapa announced the completion of the expansion project at the Mothae, which is designed to increase processing capacity by 45% from ~1.1Mtpa to ~1.6Mtpa. The project was completed on-time, within budget and with no safety incidents recorded.

On 23 March 2021 Lucapa announced an updated Lulo Diamond, where in-situ resource carats increased 35% to 135% to 135,900 at a modelled value of $1,440/carat.

On 24 March 2021 Lucapa announced the second sale of diamonds in 2021 from Mothae. The parcel of 5,619 carats of rough diamonds was sold for US$5.9 million or US$1,050/ carat and included the 215 carat D-colour stone (213 carat post-boiling weight) and an 11 carat pink diamond.

No other matters or circumstances have arisen since the end of the financial period, which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

Director's declaration
for the year ended 31 December 2020

1. In the opinion of the Directors of Lucapa Diamond Company Limited:

   (a) the financial statements and notes, and the remuneration report in the Directors' Report, as set out on pages 16 to 77, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial period ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in the Statement of compliance on page 36; and

   (c) Subject to the material uncertainty outlined in the Directors' report and basis of measurement sections, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 for the financial year ended 31 December 2020.

Signed in accordance with a resolution of the Directors.

MILES KENNEDY
Chairman

Dated this 26 March 2021

ELDERTON
AUDIT PTY LTD

Independent Auditor's Report
To the members of Lucapa Diamond Company Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lucapa Diamond Company Limited ("Lucapa" or "the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatements. Our responsibilities under those standards are further described as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Basis of Preparation note on page 40 of the financial report, which describes that the ability of the Group to continue as a going concern is dependent on cash generation from its mining projects, cash management, and/or the use of debt finance. Without such sources, further equity issues to the market may be required. As a result, there is material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a

Independent auditor's report
for the year ended 31 December 2020

whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described under "Material uncertainty related to going concern" section, we have determined the matters described below to be key audit matters to be communicated in our report.

Valuation of receivable from Sociedade Mineira do Lulo, Lda
Refer to Note 7c Financial Assets

Key Audit Matter	How our audit addressed the key audit matter
The Group has a balance receivable as at 31 December 2020 of US$22.73 million from its associated entity, Sociedade Mineira do Lulo, Lda ("SML"). This balance has been presented at its fair value, in accordance with the provisions of AASB 13 *Fair Value Measurement*. To take account of this requirement, Management of the Group has discounted the gross value receivable at an annual discount rate of 12.85%, taking account of the time value of money, based on estimated dates of cashflows from SML to Lucapa.	Our audit work included, but was not restricted to, the following: • We obtained a loan confirmation of the gross value receivable from SML to Lucapa; • We obtained the Group's calculation of the discounted cashflows from SML to Lucapa, and re-tested the workings to ensure the discounting process had been accurately performed; • We obtained third party verification of the discount rate applied by Management, and evaluated the reliability of the source data; and • We evaluated the board's application of estimates and judgements, with reference to AASB 13, to ensure that the accounting applied was fully compliant with accounting standards.

Deferred Exploration and Evaluation Costs
Refer to Note 9 Property Plant and Equipment

Key Audit Matter	How our audit addressed the key audit matter
At 31 December 2020, the Group has significant exploration and evaluation expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditures represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset may exceed its recoverable amount. Management of the Group considered whether there were any indicators of impairment. The Group capitalises exploration and evaluation expenditure in line with AASB 6 *Exploration for and Evaluation of Mineral Resources*. The assessment of each asset's future perspectivity requires significant judgement. There is a risk that amounts are capitalised which no longer meet the recognition criteria of AASB 6.	Our audit work included, but was not restricted to, the following: • We obtained evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditures by obtaining valid contracts giving the Group rights to explore, for a sample of capitalised exploration costs; • We enquired with management and reviewed budgets to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the Group's area of interest were planned; • We enquired with management, reviewed announcements made and reviewed minutes of directors' meetings to ensure that the company had not decided to discontinue activities in any of its areas of interest; and • We enquired with management to ensure that the Group had not decided to proceed with development of a specific area of interest, yet the carrying amount of the exploration and evaluation asset was unlikely to be recovered in full from successful development or sale.

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Impairment of PPE
Refer to Note 9 Property Plant and Equipment

Key Audit Matter	How our audit addressed the key audit matter
As at 31 December 2020, the group has property, plant and equipment amounting to US$38.77 million related to it's Mothae operations (Mothae PPE). Loss of US$7.9 million was incurred from Mothae operations during the year ended 31 December 2020 mainly because of temporary curtailment in operations for most part of the year due to COVID-19. We assessed this as impairment indicator for the Mothae PPE and recoverable amount was assessed to ensure Mothae PPE is not impaired. The assessment of the recoverable amount requires significant judgment, in particular relating to estimated cash flow projections and discount rates. Due to the level of judgment, market environment and significance to the Group's financial position, this is considered to be a key audit matter.	Our audit work included, but was not restricted to, the following: • Reviewed the management's impairment assessment of PPE in accordance with AASB 136. • Checked the mathematical accuracy of management's computation of the value in use. • We have critically evaluated management's methodologies in preparing impairment model and documented basis for key assumptions. • Assessed the reasonableness of the key assumptions such as diamond price, Carat quantities, discount rate etc by evaluating under-lying data and work on other audit areas. • Reviewed adequacy of the related disclosures in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Review of Operations and Directors Report and other information included in the Group's annual report for the year ended 31 December 2020 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report
for the year ended 31 December 2020

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report
for the year ended 31 December 2020

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 22-25 of the directors' report for the year ended 31 December 2020.

In our opinion the Remuneration Report of Lucapa Diamond Company Limited for the year ended 31 December 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd

Rafay Nabeel

Audit Director

26 March 2021

Perth
Perth

Definitions and abbreviations

A$	Australian dollar
AIFRS	Australian International Financial Reporting Standards
AGM	Annual general meeting of shareholders
EBITDA	Earnings before interest, taxation, depreciation & amortisation and other non-trading items
Endiama	Endiama E.P. (Angola's national diamond mining company)
Equigold	Equigold Pte Ltd (registered in Singapore)
GoL	Government of the Kingdom of Lesotho
JIBAR	Johannesburg Interbank Agreed Rate
June half, the Half or H1 20	The six months ended 30 June 2020
Lucapa, the Company or LOM	Lucapa Diamond Company Limited (ASX code: LOM)
MB	Mining block
Mothae	Mothae Diamonds (Pty) Ltd (Lucapa 70% subsidiary, GoL 30% and registered in the Kingdom of Lesotho)
Mtpa	Million tonnes per annum
New Azilian	New Azilian Pty Ltd
Rosas & Petalas	Rosas & Petalas S.A. (Private venture partner in Lulo, registered in the Republic of Angola)
QX 20XX	Reference to one of the quarter periods in each of the calendar years of 2019 or 2020
Safdico	Safdico International, a subsidiary of Graff International
SFD	Size frequency distribution
SML	Sociedade Mineira Do Lulo Lda, (Lucapa 40% asscociate, Endiama 32% and Rosas & Petalas 28% and registered in the Republic of Angola)
SOE	State of Emergency declared in Angola
Specials	Diamonds weighing in excess of 10.8 carats
the Board	The Lucapa Board of Directors
the Group	The Company and its subsidiaries and associates
the IDC	the Industrial Development Corporation of South Africa Limited
the Second Half or H2 20	The six months ended/ ending 31 December 2020
US$	United States dollar
VK	Volcaniclastic kimberlite
Z Star	Z Star Mineral Resource Consultants Pty Ltd
ZAR, R or Rand	South African rand

ASX additional information

Additional information current as at 16 March 2021 required by Australia Securities Exchange Limited Rules and not disclosed elsewhere in this Report.

Capital structure

Ordinary Share Capital
833,175,575 ordinary fully paid shares held by 5,732 shareholders.

Spread			Number of Holders	Number of Shares
1	to	1,000	128	33,922
1,001	to	5,000	1,476	4,599,342
5,001	to	10,000	1,002	8,051,595
10,001	to	100,000	2,340	84,957,527
100,001 and above			786	735,533,189

As at 16 March 2021 there were 2,071 fully paid ordinary shareholders holding less than a marketable parcel.

Listed $0.10 Options expiring 5 June 2022
113,971,605 listed options held by 984 shareholders.

Spread			Number of Holders	Number of Shares
1	to	1,000	154	94,596
1,001	to	5,000	235	659,204
5,001	to	10,000	151	1,202,290
10,001	to	100,000	309	11,977,599
100,001 and above			135	100,037,916

Voting rights

Ordinary Shares
On a show of hands, every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options and Performance Rights
Options and performance rights carry no voting rights and convert to one ordinary share upon exercise.

On-market buy-back

There is no current on-market buy back.

Substantial shareholders

As at 16 March 2021, substantial shareholder notices had been lodged with ASX by the following shareholders:

Fully Paid Ordinary Shares Name	Number Held	% of Issued Capital
Ilwella Pty Ltd	61,394,405	7.62%
Equigold Pte Ltd	55,145,047	6.84%
Tazga Two Pty Ltd as trustee For Tazga Two Trust	55,007,014	6.83%
Safdico International Limited	49,609,592	5.95%

Note: The above details may not reconcile to the information in the Top 20 holders of quoted securities list as the shares may be held across multiple associated holdings or if updated substantial shareholder notices have not been required to be lodged with ASX.

ASX additional information

Top 20 holders of quoted securities

Fully Paid Ordinary Shares Name	Number Held	% of Issued Capital
CITICORP NOMINEES PTY LIMITED	73,010,648	8.76%
TAZGA TWO	55,007,014	6.60%
ILWELLA PTY LTD	52,349,091	6.28%
SAFDICO INTERNATIONAL LIMITED	49,609,592	5.95%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	24,045,971	2.89%
PULLINGTON INVESTMENTS PTY LTD	14,085,463	1.69%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	13,827,396	1.66%
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	13,554,116	1.63%
SAGILI PTY LTD	9,090,909	1.09%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	8,934,694	1.07%
PS SUPER NOMINEE PTY LTD <SHADBOLT FUTURE FUND A/C>	8,934,224	1.07%
IMPALA SUPERANNUATION NOMINEES PTY LTD <IMPALA SUPER FUND A/C>	8,500,000	1.02%
MR BARNABY COLMAN CADDICK	8,169,328	0.98%
GREGORACH PTY LTD <GRIGOR SUPERFUND A/C>	7,466,908	0.90%
NATIONAL NOMINEES LIMITED <DB A/C>	7,087,172	0.85%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	6,458,702	0.78%
MR PETER RICHARD ROBINSON & MRS TOBEY TERESA ROBINSON & MISS KIMBERLEY JANE HOLMAN <ROBINSON HOLMAN SUPER A/C>	6,382,913	0.77%
CARRINGTON CORPORATE PTY LTD	5,900,000	0.71%
SLADE TECHNOLOGIES PTY LTD <EMBREY FAMILY SUPERFUND A/C>	5,722,803	0.69%
PROF TERRY STIRLING WALTER	5,100,000	0.61%
	383,236,944	**46.00%**

Listed $0.10 Options Expiring 5 June 2022 Name	Number Held	% of Issued Capital
TAZGA TWO	9,287,683	8.15%
PROF TERRY STIRLING WALTER	6,000,000	5.26%
MR ALFRED RALPH PEARMAN CADDICK	5,585,683	4.90%
MR DEREK DECLAN BRUTON	4,000,000	3.51%
MR CHRISTOPHER PAUL LAWRENCE	3,500,000	3.07%
GREGORACH PTY LTD <GRIGOR SUPERFUND A/C>	3,000,000	2.63%
MR BARNABY COLMAN CADDICK	2,734,679	2.40%
MR ROSS JAMES MULLER	2,300,000	2.02%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,240,365	1.97%
MR EARL EDWARD DUFFY & MR JOSEPH DUFFY <EARLS NEW LIFE SUPER A/C>	2,180,000	1.91%
GOLDFIRE ENTERPRISES PTY LTD	2,100,000	1.84%
MR ANDREW THOMAS ALLAN	2,000,000	1.75%
STONERIDGE MINING PTY LTD <STONERIDGE MINING UNIT A/C>	2,000,000	1.75%
FAR EAST CAPITAL LIMITED	1,839,000	1.61%
MR NORMAN COLBURN MAYNE <N C MAYNE FAMILY FUND A/C>	1,600,000	1.40%
DEBT MANAGEMENT ASIA CORPORATION	1,500,000	1.32%
SOLEQUEST PTY LTD	1,500,000	1.32%
CITICORP NOMINEES PTY LIMITED	1,372,391	1.20%
NINE ONE FOUR PTY LTD <THE SUPER VIDA FUND A/C>	1,281,200	1.12%
GREGORACH PTY LTD <GRIGOR SUPERFUND A/C>	1,254,775	1.10%
	57,275,776	**50.25%**

ASX additional information

Unlisted option holders

There are 13 holders of $0.4355 unlisted options expiring 7 June 2021.
There are 93 holders of $0.08 unlisted options expiring 18 December 2022.

Performance rights

There are 10 holders of Performance Rights expiring 1 April 2022.

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.

Information included in this report that relates to the stone frequency, grade and size frequency valuation and validation in the Lulo Diamond Resource estimate is based on, and fairly represents, information and supporting documentation prepared and compiled by Sean Duggan (Pri.Sci.Nat 400035/01) and David Bush (Pri.Sci.Nat 400071/00). Messers. Duggan and Bush are directors and employees of Z Star Mineral Resource Consultants (Pty) Ltd, of Cape Town, South Africa. Both hold qualifications and experience such that both qualify as members of a Recognised Overseas Professional Organisation (ROPO) under relevant ASX listing rules. Messers. Duggan and Bush both have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Code. Messers. Duggan and Bush both consent 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 this 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 relating to Mothae, that all material assumptions and technical parameters underpinning the estimates in the market announcement dated 15 October 2020 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.

This announcement may not be distributed in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. Recipients should inform themselves of the restrictions that apply in their own jurisdiction. A failure to do so may result in a violation of securities laws in such jurisdiction.

This document does not constitute investment advice and has been prepared without taking into account the recipient's investment objectives, financial circumstances or particular needs and the opinions and recommendations in this representation are not intended to represent recommendations of particular investments to particular persons.

Recipients should seek professional advice when deciding if an investment is appropriate. All securities transactions involve risks, which include (among others) risks associated with mining, exploration, operations, resource, environment, funding and adverse or unanticipated market, financial, currency or political developments.

No responsibility for any errors or omissions from this document arising out of negligence or otherwise is accepted. This document does include forward-looking statements. Forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions which are outside the control of the Company. Actual values, results, outcomes or events may be materially different to those expressed or implied in this announcement. Given these uncertainties, recipients are cautioned not to place reliance on forward-looking statements. Any forward-looking statements in this announcement speak only at the date of issue of this announcement. Subject to any continuing obligations under applicable law and ASX Listing Rules, the Company does not undertake any obligation to update or revise any information.

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