Financial Report

for the year ended 31 December 2022

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The Directors present their report together with the financial report of Lucapa and the Group for the financial year ended 31 December 2022 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 Auris. He has extensive experience in the management of public companies with specific emphasis in the resources industry. He lives in Dunsborough, Western Australia.

Stephen Wetherall
Mr Wetherall is a 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 ASX listed Cambodian gold miner Emerald Resources NL. He lives in Dunsborough, 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.

3. Directors' meetings

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

	Board Meetings	
	a	**b**
M Kennedy	5	5
S Wetherall	5	5
N Selby	5	5
R Stanley	5	5

a: Number of meetings attended;
b: Number of meetings held during the time the Directors were in office during the year.

4. Nature of operations and principal activities

In 2022, the Group continued to focus on its Angolan assets (alluvial diamond mining, resource extension and kimberlite exploration at Lulo), its Lesotho asset (kimberlite diamond mining and capacity expansion at Mothae) and its Australian assets (completing the transformative acquisition of Merlin in the Northern Territory and lamproite diamond exploration at Brooking in Western Australia). Limited work was also undertaken at Lucapa's Botswana asset (kimberlite exploration at Orapa Area F).

5. Operating and financial review

Overview

Lucapa is a unique integrated multi-asset diamond company listed on the ASX with activities spanning exploration, evaluation, mine development, production, rough sales & marketing and cutting & polishing.

Lucapa's Board and management team have decades of global experience across all facets of the diamond industry and have successfully advanced Lucapa's vision to become a leading global producer of large and high-quality diamonds.

The company has two operating diamond mines – the Lulo alluvial mine in Angola ("SML") and the Mothae kimberlite mine in Lesotho ("Mothae"). Both mines attract some of the highest average US$/ carat prices for their production and are regular producers of exceptional, large and high-value diamonds. Recovered diamonds which are larger than 4.8 carats account for approximately 75% of Lucapa's rough revenues.

In 2022, Lucapa continued to achieve its growth objectives against its goals:

- Previous years capital investment in an infield processing plant, the main plant and new mining fleet had a positive impact, resulting in increased production and operational efficiencies in 2022 at Lulo;
- Investment in Mothae's processing plant in 2021, resulted in record throughput in 2022;
- Following the commissioning of the stand-alone Kimberlite Bulk Sampling Plant at Lulo, the kimberlite exploration program ramped up. Two bulk samples every six weeks on average are processed. The samples are excavated from the diamondiferous kimberlite province lying directly beneath the mining blocks where the large and high-value Lulo alluvial diamonds are being recovered by SML;
- Advanced the Feasibility Study for the 100% owned Merlin Diamond Project in the Northern Territory of Australia following the completion of a scoping study in 2022;
- Advanced through the diamond value chain with both operating mines generating returns from beyond the mine gate. The cutting & polishing partnerships with a high-end diamantaire sees both mines share in the additional margins generated by the sale of polished stones; and
- Advanced our blue-sky projects through exploration activities in Angola, Australia and Botswana.

2022 Group highlights include:

- Record full year revenues of A$149 million @ A$2,309/ carat (on a 100% project basis);
- Record full year Attributable revenues of A$69.1 million @ A$1,950/ carat;
- Attributable EBITDA generated of A$14.9 million;
- Record operational performance from SML with volumes processed, carats recovered & sold and exceptional diamond recoveries;
- Settled A$18.6 million of debt;
- Repatriated A$22.9 million from Angola in capital loan repayments and SML dividends;
- Advanced the Feasibility Study for the Merlin Diamond Project and Publication of the Updated Scoping Study for Merlin demonstrating strong economics for a long-life mine (refer ASX announcement 3 March 2022);
- Extended Merlin Mineral Lease for 25 years to 2047;
- Extended Exploration Licence for Orapa Area F in Botswana for two years;
- Six bulk samples from 5 kimberlite targets at Lulo were treated during the year;
- 41 diamonds weighing a total of 66.05 carats recovered from the L164/01 bulk sample, including two diamonds larger than 10.8 carats; and
- Strong balance sheet with US$6.9 million cash balance and interest-bearing debt down to US$6.4 million.

Following the positive 2022 performance, Lucapa achieved an attributable EBITDA for the year ended 31 December 2022 of US$9.9 million (A$14.9 million) (2021: US$16.6 million (A$22.3 million)). The Group reported a loss after tax of US$15.1 million for the year (2021: profit of US$2.8 million) after recognising a non-cash impairment charge of US$10.6 million in respect of Mothae and a US$3.0 million unrealized foreign exchange loss on the intergroup loan from Lucapa to Mothae due to the weakening of the South African rand against the United States dollar.

SML, Lucapa's 40% held alluvial diamond mining operation in Angola, performed exceptionally well in 2022, with records being achieved for both gravel processed and carats recovered. Cash operating cost/ m^3 (excluding royalties and selling costs) for the year of US$69 per m^3 compared reasonably with the prior year of US$62 per m^3 in the current environment.

5. Operating and financial review (continued)

The first quarter of 2022, saw a quick return of and growth in consumer demand in the key diamond consumption market of North America and the emerging markets of China and India. With polished inventory levels in the industry being severely depleted through the pandemic, both rough and polished diamond prices rose steeply, with the rough price index increasing by over 30% on average at the beginning of 2022, before retracting as a result of macro-economic factors. The rough price index stabilized in the last quarter to end approximately 7% up for the year.

As a consequence of solid operational performance, high volumes of large diamond recoveries and an overall better pricing environment, SML achieved an EBITDA of US$35.2 million (A$53.0 million) in 2022 (2021: US$37.2 million (A$50.0 million)). Lucapa's attributable portion amounted to US$14.1 million (A$21.2 million).

The Group's equity accounted share of SML's results (after accounting for depreciation and other below-the-line items) was a US$7.7 million (A$11.1 million) profit (2021: US$7.6 million (A$10.1million).

Additionally, Mothae, Lucapa's 70% held kimberlite mine in Lesotho, achieved record throughput for 2022. However, overall performance and margins were impacted by mass balancing constraints, input cost inflation and waste stripping profile. Cash operating costs increased year-on-year to US$19.3/ tonne (2021: US$15.3/ tonne).

Mothae booked a EBITDA loss of US$2.4 million (A$3.7 million) for 2022 (2021: a positive US$5.6 million (A$7.6 million). Lucapa's attributable portion amounted to a US$1.7 million loss (A$2.6 million).

The impairment charge for Mothae has been estimated based on the uncertainties surrounding:

- inflated medium/ long-term costs for material inputs, such as diesel, explosives and consumables;
- critical equipment availability and spares supply, such as drill rigs; and
- local currency movement compared to the United States dollar.

The Company and mine management are exploring various options to restore cash operating margins.

Fewer stones were allocated to the polishing partnership in 2022 from Lulo due to a number of high-value stones being tendered through Sodiam. SML accrued US$1.4 million (A$2.3 million) (2021: US$2.5 million (A$3.4 million)) from the polishing partnership while Mothae accrued US$0.8 million (A$1.2 million) (2021: US$1.6 million (A$2.1million)) for the year.

The Group results for the year also includes a fair value gain on Lucapa's investment loan with SML of US$2.5 million (A$3.6 million) (2021: US$2.4 million (A$3.2 million) following the decision to expand production capacity and thereby accelerate investment loan repayments back to Lucapa.

During the year the Company strengthened its balance sheet by repaying A$17.9 million in interest bearing debt. At 31 December, 2022, Lucapa's interest-bearing debt sat at US$6.4 million (A$9.4 million) (2021: US$19.9 million (A$27.3 million)).

As at 31 December 2022, after taking into account the Mothae impairment charge of US$10.6 million, the Group's assets exceeded liabilities by US$85.3 million (A$125.2 million) (2021: US$90.2 million (A$124.1 million)).

Review of financial condition

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

As a result of the current global inflationary environment, supply chain constraints and general economic uncertainties, 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 economic environment or Russia/ Ukraine conflict, 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 its exploration and development projects, such as the Lulo kimberlite exploration program in Angola and Merlin mine development in Australia.

5. Operating and financial review (continued)

The Directors believe that the going concern basis is appropriate for the preparation of the financial statements due to the following reasons:

- The diamond market is stable for higher value productions and has rebounded strongly after COVID-19 resulting in diamond prices returning to above pre-pandemic levels;
- The book value of the Group's assets exceeds its liabilities by US$85.3 million (post the Mothae impairment charge);
- All approvals for SML to repay Lucapa's alluvial investment loan are in place and should follow directly following SML shareholder approval;
- Lucapa should be able to provide the necessary interim financial support to Mothae whilst it assesses a revision to the mining methodology to improve margins. Alternate strategic options also exist;
- As per the Updated Scoping Study (refer ASX announcement on 3 March 2022), the Merlin acquisition and mine development is likely to significantly increase Lucapa's earnings and cash flow generation once developed. To note, the development is subject to a positive feasibility due for publication in 2023 and successfully securing project development funding;
- The Group has historically been successful in raising equity for the furtherance of its projects and under ASX Listing Rule 7.1 the Company has the capacity to place securities to raise equity: and
- The Group has historically been successful in raising and restructuring debt facilities.

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 it will in the future be successful in obtaining funding required or restructuring debt facilities as and when needed.

Attributable performance measures

The table below reconciles the Attributable EBITDA of US$9.9 million (A$14.9 million) for the year to the Operating loss as per the Consolidated statement of profit or loss and other comprehensive income:

	US$000	A$000
Operating (loss)/ profit as per statement of profit or loss	**(15,381)**	**(23,192)**
Adjust for non-attributable entries:		
Mothae - 30% minority share	728	1,097
Add back non-cash items:		
AASB16 lease payments & foreign exchange translation	2,365	3,566
Mothae depreciation & impairment and LOM depreciation	15,750	23,748
SML depreciation, tax and fair value adjustments	6,404	9,657
Attributable EBITDA	**9,866**	**14,876**

Below is a breakdown of the attributable EBITDA by business unit:

	SML (40% attributable)		Mothae (70% attributable)		Corporate & other (100% attributable)		Group	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
US$000s								
Rough revenue & polished margin	32,400	32,240	16,040	18,524	-	-	**48,440**	**50,764**
Royalty & selling costs	(3,320)	(3,349)	(1,047)	(1,165)	-	-	**(4,367)**	**(4,514)**
Operating costs	(15,016)	(14,016)	(16,691)	(13,433)	(2,500)	(2,185)	**(34,207)**	**(29,634)**
EBITDA	**14,064**	**14,875**	**(1,698)**	**3,926**	**(2,500)**	**(2,185)**	**9,866**	**16,616**
A$000s								
Rough revenue & polished margin	48,854	43,235	24,186	24,841	-	-	**73,040**	**68,076**
Royalty & selling costs	(5,006)	(4,491)	(1,579)	(1,562)	-	-	**(6,585)**	**(6,053)**
Operating costs	(22,642)	(18,796)	(25,167)	(18,014)	(3,770)	(2,930)	**(51,579)**	**(39,740)**
EBITDA	**21,206**	**19,948**	**(2,560)**	**5,265**	**(3,770)**	**(2,930)**	**14,876**	**22,283**

Notes

Mothae - Rough revenue*: As per ASX announcement on 24 January 2023, management completed and implemented optimisation modelling to improve plant throughput – a trial has been running for ~5 weeks to date and the results are very positive. Management are also investigating a solution to add ~250,000 tonnes p.a. additional treatment capacity. This investigation will be completed shortly, but likely only be implemented following the formal withdrawal of the VAT Amendment Bill by the Lesotho Government.*

Mothae - Operating costs*: Costs increased 24% as a direct result of significant inflationary pressure on energy and blasting costs (average diesel price up 56%) in 2022 and an increase in total ore and waste tonnes mined from 1.2mt in 2021 to 1.9mt in 2022. Diesel price inflation alone added ~US$2.2m to annual costs. Management are investigating cleaner hybrid solutions, with the purpose of reducing carbon emissions and energy costs.*

5. Operating and financial review (continued)

Significant changes in the state of affairs

General
In 2022, the global diamond market recovered from the pandemic related downturn, with rough diamond prices rising more than 30 percent in the first quarter. During the year, diamond prices normalised, ending the year 7% above December 2021 prices.

However, the positive movement in diamond prices was somewhat offset by inflationary pressures and supply constraints impacting margins at both operations.

Angola
Capital investment at Lulo of approximately US$20 million carried out over three years is bearing fruit. The In-Field Screening Plant and new earthmoving fleet and other equipment is making operations more efficient and increasing throughput.

The commissioning of the dedicated Kimberlite Bulk Sampling Plant in the third quarter of 2022 has been a gamechanger for the kimberlite exploration program.

In 2022, six samples from 5 kimberlites were tested, with kimberlite L164/01 resulting in the recovery of 41 diamonds weighing a total of 66.05 carats. The sample also included two Special sized diamonds, confirming that Lulo primary source kimberlites host special sized diamonds.

Lesotho
Throughput at the Mothae plant in 2022 was a record. However, Mothae operations had a challenging year, with price inflation of diesel and explosives impacting margins. A review into the mining methods as well as strategic options are being considered to improve margins. The passing of the previous Lesotho government's Value Added Tax Amendment Bill which will effectively abolish the 15 percent VAT refund for goods, services and capital items has been paused.

Australia
Western Australia
In 2022, samples were taken over high interest targets at Brooking. The Heritage survey was also completed in advance of planned drilling program in 2023.

Northern Territory
The Merlin Diamond Project Feasibility Study was advanced in 2022, following the publishing of an updated Scoping Study of the preliminary technical and economic viability of Merlin in March.

Historic hyperspectral data covering Merlin was interpreted with seven new kimberlite targets identified at Merlin.

Botswana
The Exploration licence for the 100% owned Orapa Area F project in Botswana was renewed for a further two years, ahead of planned drilling in 2023.

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	166,666,668	0.075	9,056	n/a
Issue of shares on exercise of options	61,729	0.100	4	18-Dec-22

Business Risks

Diamond prices and marketability
The ultimate profitability of the Company's operations will be dependent upon the market price and marketability of diamonds. There is a risk that a profitable market may not exist for the sale of diamonds produced by the Company.

Commodity prices, including diamond prices fluctuate widely and are affected by numerous factors beyond the control of the Company. General economic factors as well as the world supply of mineral commodities in general, the stability of exchange rates and political developments can all cause significant fluctuations in diamond prices. The prices of mineral commodities have fluctuated widely in recent years and future diamond price declines could cause commercial production to be uneconomic, thereby having a material adverse effect on the Company's business, financial condition and results of operations.

Moreover, resource and reserve estimates and studies using different diamond prices than the prevailing market price could result in material write-downs of the Company's investment in the assets and even a reassessment of the economic feasibility of the Company's projects which could result in putting one or more projects on care and maintenance and slowing down operations until there is a change in diamond prices. Despite the high quality of the diamond production from the Company's operations, an increase in the acceptance of manufactured (synthetic or lab-grown) gem-quality diamonds for the jewellery industry could negatively affect the market for natural stones.

Sovereign risks
In addition to its activities in Australia, the Company is also involved in operations in Angola, Botswana and Lesotho and may explore other opportunities in other countries in the future.

5. Operating and financial review (continued)

Whilst the Directors are of the opinion that the democratic and regulatory systems in those countries are relatively stable, the Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors. There can be no assurance that the political environment in these jurisdictions will continue and this could materially adversely affect the Company's prospects, operations, financial condition and results of operations.

The Company's projects and businesses may be adversely impacted by acts of terrorism or war. While the Company will undertake all reasonable due diligence in assessing the risks of terrorism and war in the countries and regions in which it invests, the risks of acts of terrorism and war cannot be fully mitigated.

Other risks and uncertainties include, but are not limited to, high rates of inflation, labour unrest, mass migration, pandemics, shortages of food, water, currency exchange fluctuations, limitations or delays in repatriation of profits, renegotiation or nullification of existing licences, changes in taxation policies, currency controls and regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens, or purchase supplies from, a particular jurisdiction.

The occurrence of any of these risks or any material changes in government policies, attitude or legislation that affect foreign investment, repatriation of foreign currency, taxation or mineral exploration, development or mining activities, may adversely affect the viability and profitability of the Company's assets and operations in Angola, Botswana and Lesotho or other southern African jurisdictions in a highly material manner. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral tenure and development, could result in loss, reduction or expropriation of entitlements.

Industry profitability can be affected by changes in government within Angiola, Botswana, Lesotho, South Africa, Australia and elsewhere, which are not within the control of the Company. The Company's activities are subject to extensive laws and regulations controlling not only the activities of the Company, and the possible effects of those activities on the environment and on the interests of local inhabitants, among other things.

Licences and permits from regulatory authorities are required for many aspects of the Company's activities. There is no guarantee that the required licences in Anolga, Botswana, Lesotho or Australia will continue to be extended past the current expiry dates could materially affect the Company's prospects, operations, financial condition and results of operations.

Whilst the Company is satisfied that it has taken reasonable measures to ensure an unencumbered right to explore, develop its licence areas in Angola, Australia, Lesotho and Botswana, some of these countries are subject to greater risks than more developed markets, including significant legal, economic and political risks. Title to mining properties in Angola, Australia, Lesotho and Botswana is subject to potential litigation by third parties claiming an interest in them and the failure to comply with all applicable laws and regulations, including failure to pay taxes, meet minimum expenditure requirements or carry out and report assessment work may invalidate title to mineral rights held by the Company.

Regulatory delays
The business of mineral exploration, project evaluation, development, mining and processing is subject to various national and local laws and plans relating to, amongst others, licencing and maintenance of title; environmental consents; taxation; employee relations; heritage or historic matters; health and safety; royalties; land acquisition and other matters.

Although the board believe that the Company is well placed to have all of its licences issued or renewed in relation to its material assets, should the Company identify future development opportunities or operations there is a risk that the necessary concessions, permits, licences, consents, titles, authorisations and agreements to implement planned exploration, project development, or mining may not be obtained or renewed under conditions or within time frames that make such plans economic, that applicable laws, regulations or the governing authorities will change or that such changes will result in additional material expenditures or time delays could materially adversely affect the Company's prospects, operations, financial condition and results of operations.

Risks and hazards inherent in exploration, development and mining
Exploration, evaluation, development and mining generally involves a high degree of risk. The Company's operations are and will continue to be subject to all the hazards and risks normally incidental to exploring for, evaluating, developing and mining diamond resources.

Whilst the Company has taken, and will continue to take, all precautions necessary to minimise risk, the Company's operations will be exposed to hazards including, but not limited to: environmental hazards, periodic interruptions due to bad or hazardous weather conditions, unusual or unexpected geology or grade problems, unanticipated changes in the gravels or ore-body characteristics and diamond recovery, difficulties in sourcing, commissioning and operating plant and equipment, mechanical failure or plant breakdown, unexpected shortages, delays or increases in the sourcing or cost of consumables, spare parts, plant and equipment, industrial or labour disputes, seismic activity, flooding, fire, equipment failure, pit wall failure and other conditions involved in the exploration, evaluation, development and mining activities.

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 16 January 2023, Lucapa announced the recovery of 41 diamonds from the kimberlite bulk sample L164/01.

On 24 January 2023, Lucapa announced:

- it had received a total of A$23 million was repatriated from its associate SML in 2022; and
- SML shareholders approved a A$5.9 million capital repayment and A$2.3 million dividend to be paid to Lucapa in 2023.

On 16 February 2023, Lucapa announced the following recoveries of diamonds from two Lulo kimberlite exploration bulk samples:

- 23 diamonds from 365m^3 kimberlite sample L164/02; and
- 13 diamonds from 902m^3 kimberlite sample L056.

Both targets will be subject to further sampling.

On 23 February 2023, Lucapa announced:

- the recovery by SML of a 150 carat Type IIa white diamond from Mining Block 28; and
- the receipt of the dividend from SML referred to above, amounting to A$2.1 million (net of withholding tax).

9. Likely developments

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 2023, while continuing both the kimberlite and alluvial exploration programs. Further sales of Lulo diamonds are planned, with more diamonds continuing 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 will continue.

Mothae, Lesotho
Lucapa and its Lesotho Government partner plan to continue kimberlite mining activities and carry on investigations into mass balance constraints. Lucapa will continue to build on its marketing activities and cutting and polishing partnership.

Brooking, Western Australia
Planning a drilling campaign in 2023, following heritage survey which was completed in 2022 and the forthcoming submission of program of works.

Merlin Diamonds, Northern Territory, Australia
The Merlin Feasibility study will be completed in 2023. The development of Merlin is dependent on the Company structuring and securing an appropriate funding solution to maximise the benefits for all stakeholders.

There is also a plan to carry out further exploration activities on the Merlin orbit tenement in 2023.

Orapa Area F, Botswana
The Exploration licence for the 100% owned Orapa Area F project in Botswana was renewed for a further two years, ahead of planned drilling in 2023.

10. Directors' interest

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	Performance rights - various expiry dates [1]
M Kennedy	3,116,819	-
S Wetherall	4,425,100	14,234,220
N Selby	2,187,350	7,644,300
R Stanley	80,940,347	-

[1] Performance rights issued following shareholder approval at the annual general meeting held 30 May 2022, subject to various vesting conditions.

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			
30 July 2025	$0.00	5,000,000	-
Performance rights			
Various expiry dates [1]	$0.00	56,693,481	-

[1] Performance rights issued following shareholder approval at the annual general meeting held 30 May 2022, subject to various vesting conditions.

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 and retain 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 generally reviewed annually by the Board through a process that considers individual, segment, comparable peers and overall performance of the Group.

12. Remuneration report (audited) (continued)

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 services of a remuneration consultant were procured during 2022 and the recommendations were incorporated into the Group's Incentive and Retention Plan which was approved at the annual general meeting held on 30 May 2022.

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, successful expansion and acquisition workstreams, the Board has for 2022 given significance to service criteria, performance criteria and overall market related criteria in setting the Group's incentive and retention schemes.

The Board does not consider the Group's earnings to be the only appropriate key performance indicator for setting remuneration packages. In addition, 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, development and mining companies and has the benefit of conserving cash whilst appropriately rewarding and retaining the recipient.

In circumstances where cash flow permits, the Board may approve the payment of a discretionary cash bonus as a reward for performance.

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.

Remuneration outcomes
Details of the remuneration outcomes for the year ended 31 December 2022 are summarised below.

Executive fixed remuneration
Mr Wetherall's and Mr Selby's total fixed remuneration for FY21 was A$633,938 and A$479,588 respectively. Following the recommendations from BDO Reward WA Pty Limited (**BDO**) as an independent remuneration consultant in relation to the pay and rewards for directors and senior executives, including independent benchmarking, Mr Wetherall's and Mr Selby's total fixed remuneration was adjusted in FY22 to A$714,417 and A$500,352 respectively based upon the 62.5 percentile quartile, peer group market analysis and rating.

Executive incentives
Short-term incentives ('STI')
A new STI framework was established following the recommendations from BDO whereby performance measures set for the KMP and key staff in FY22 based upon the Company's relevant targets in relation to production, operating & capital expenditure, ESG/safety and exploration. Performance rights were issued to Mr Wetherall (2,858,220) and Mr Selby (1,668,300) and key staff. Seventy two percent of the STI measures were achieved in FY22 and a cash bonus was paid to the executive directors, Mr Wetherall (A$101,303) and Mr Selby (A$59,129) and key staff and 2,056,751 and 1,200,751 performance rights were determined to vest for Mr Wetherall and Mr Selby respectively subject to a further 12-month retention vesting condition.

Project Based Incentive ('PBI')
Following shareholder approval at the Company's annual general meeting held 30 May 2022, performance rights with various vesting conditions and performance milestones relating to the commissioning of and production at the Merlin Project were issued to Mr Wetherall (8,532,000) and Mr Selby (4,482,000) and key staff. The resolution received more than 99% of 'Yes' votes.

Long-term incentives ('LTI')
Following shareholder approval at the Company's annual general meeting held 30 May 2022, performance rights with various vesting conditions and performance milestones relating to the Company's Absolute Shareholder Return, were issued to Mr Wetherall (2,844,000) and Mr Selby (1,494,000) and key staff.

Non-executive director remuneration
Following the recommendations from BDO as an independent remuneration consultant in relation to the pay and rewards for non-executive directors the total fixed remuneration of Mr Kennedy and Mr Stanley was adjusted in FY22 to A$193,877 and A$118,871 respectively based upon peer group market analysis and rating.

12. Remuneration report (audited) (continued)

Remuneration in 2022
The Board currently monitors and reviews the remuneration level and policy of the Group as the Company does not have a Remuneration Committee given the size of the Board. However it is intended that a Remuneration Committee will be established comprised by a majority of independent Directors as the Company transitions to become a mid-tier producer and explorer.

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

The Company, as well as the diamond industry generally, have emerged from a difficult period. The Company is entering an important phase and the Board believes that whilst the remuneration framework was largely appropriate and fit-for-purpose based on the Company's development and growth profile and to drive and deliver the outcomes desired by all Shareholders, it has adopted the recommendations from BDO as an independent remuneration consultant which focus on providing Executive Directors, key management personnel and senior management with clear short term incentives, project based incentives and long term incentives to drive alignment of the Company's key objectives in a cost-effective way.

The FY22 framework for STI's in the form of cash and equity, PBI's in the form of equity and LTI's in the form of equity, are to be measured against the Company's relevant targets and individual key performance indicators (KPI's) in FY22 such as:

STI's
- Company Targets
  - Production
  - Operating and Capital Expenditures
  - ESG/ Safety
  - Exploration
- Individual KPI's for participants in the Incentive Plan

PBI's
- Commissioning of and production at the Merlin Project

LTI's
- Absolute Shareholder return

A Performance Right is exercisable, at no cost, on satisfaction of relevant performance hurdles, into a Share. The Performance Rights proposed to be granted to the Executive Directors will vest based on the achievement of short term, project based and long term incentive performance hurdles respectively and as a key staff retention mechanism, employment with the Company at time of vesting.

The results of the FY22 STI incentive are as follows:

		Actual for FY22		
Milestones	**% weighting**	**% of target achieved**	**Vesting %**	**Final award %**
Production (carats)	**25.00%**			
- SML	*12.50%*	97.9%	100.0%	12.50%
- Mothae	*12.50%*	72.4%	0.0%	0.00%
Operating expenditure	**12.50%**			
- SML	*6.25%*	106.27%	62.3%	3.89%
- Mothae	*6.25%*	105.26%	72.4%	4.53%
Capital expenditure	**12.50%**			
- SML	*6.25%*	87.3%	100.0%	6.25%
- Mothae	*6.25%*	83.5%	100.0%	6.25%
ESG	**25.00%**			
Social - ESG plan implemented				
- SML	*3.13%*		100%	3.13%
- Mothae	*3.13%*		100%	3.13%
Environmental - zero major incidents				
- SML	*3.13%*		100%	3.13%
- Mothae	*3.13%*		100%	3.13%
Safety - LTIFR				
- SML	*4.17%*		0%	0.00%
- Mothae	*4.17%*		0%	0.00%
Corporate	*4.17%*		100%	4.17%
Exploration plans implemented	**25.00%**			
- Lulo	*12.50%*		100%	12.50%
- Merlin	*6.25%*		100%	6.25%
- Brooking	*6.25%*		50%	3.13%
	100%			**72%**

The Company did not set individual KPI's for participants in the Incentive Plan in FY22. However it intends to implement these KPI's in FY23.

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$714,417 (gross, including superannuation) per annum which is subject to review by the Board from time to time. 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.

12. Remuneration report (audited) (continued)

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$500,352 (gross, including superannuation) per annum which is subject to review by the Board from time to time. 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$193,877 (gross) per annum, which is subject to review by the Board from time to time. 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$118,871 (gross) per annum, which is subject to review by the Board from time to time. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

12. Remuneration report (audited) (continued)

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: Superannuation benefits	Equity-settled share based payments: Options and performance rights[1]	Total (US$)
Executive Directors						
Stephen Wetherall, Chief Executive Officer / Managing Director	Dec 22	462,837	70,330	19,092	17,700	**569,958**
	Dec 21	602,166	-	21,454	-	**623,620**
Nick Selby, Chief Operating Officer / Executive Director	Dec 22	324,648	41,050	19,092	9,597	**394,388**
	Dec 21	449,823	-	21,454	-	**471,277**
Non-Executive Directors						
Miles Kennedy, Non-Executive Chairman	Dec 22	111,798	-	14,950	-	**126,748**
	Dec 21	165,222	-	15,957	-	**181,179**
Ross Stanley, Non-Executive Director	Dec 22	71,741	-	7,361	-	**79,102**
	Dec 21	110,147	-	10,638	-	**120,785**
Total	**Dec 22**	**971,024**	**111,380**	**60,494**	**27,297**	**1,170,197**
	Dec 21	**1,327,358**	**-**	**69,503**	**-**	**1,396,861**

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

12. Remuneration report (audited) (continued)

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	Options acquired	Exercise of options and performance rights	Expired without exercise	Options and performance rights granted	Held at 31 December	Vested & exercisable
2022							
M Kennedy	525,026	-	-	(525,026)	-	**-**	-
S Wetherall	445,850	-	-	(445,850)	14,234,220	**14,234,220**	-
N Selby	297,892	-	-	(297,892)	7,644,300	**7,644,300**	-
R Stanley	9,287,683	-	-	(9,287,683)	-	**-**	-
2021							
M Kennedy	655,026	-	-	(130,000)	-	**525,026**	525,026
S Wetherall	655,850	-	-	(210,000)	-	**445,850**	445,850
N Selby	462,892	-	-	(165,000)	-	**297,892**	297,892
R Stanley	9,287,683	-	-	-	-	**9,287,683**	9,287,683

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	Received upon exercise of options and performance rights	Sales	Purchases	Held at 31 December
2022					
M Kennedy	3,116,819	-	-	-	**3,116,819**
S Wetherall	4,425,100	-	-	-	**4,425,100**
N Selby	2,187,350	-	-	-	**2,187,350**
R Stanley	67,607,014	-	-	13,333,333	**80,940,347**
2021					
M Kennedy	2,850,153	-	-	266,666	**3,116,819**
S Wetherall	2,825,100	-	-	1,600,000	**4,425,100**
N Selby	1,787,350	-	-	400,000	**2,187,350**
R Stanley	55,007,014	-	-	12,600,000	**67,607,014**

No shares were granted to KMP during the reporting period as compensation in 2022 or 2021.

End of audited section.

13. Indemnification and insurance of officers and Directors

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 2022 and prior period ended 31 December 2021.

14. Auditor independence and non-audit services

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 2022, 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

Director

27 February 2023

Perth

Limited Liability by a scheme approved under Professional Standards Legislation

T +61 8 6324 2900 E info@eldertongroup.com A Level 32, 152 St Georges Terrace, Perth WA 6000
ABN 51 609 542 458 W www.eldertongroup.com

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:

	31 Dec 2022 US$	31 Dec 2021 US$
Audit services	39,652	37,562
Other services	-	-
	39,652	**37,562**

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

MILES KENNEDY

Chairman

Dated this 27th February 2023

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, the Group recorded an Attributable EBITDA of US$9.9 million (A$14.9 million) (2021: US$16.6 million (A$22.3 million)) and a loss after tax of US$15.1 million for the full year ended 31 December 2022, (2021: a profit of US$2.8 million). The results include, amongst others, the non-cash impairment charge of US$10.6 million in respect of Mothae and a US$3.0 million unrealised foreign exchange loss on the intergroup loan from Lucapa to Mothae due to the weakening of the South African rand against the United States dollar.

Mothae's results for the year was affected by the global inflationary environment's impact on material inputs, supply chain and processing constraints. SML reported another strong year with results in line with expectations and generated sufficient cash flow for the payment of a US$10.0 million dividend to shareholders as well as alluvial investment loan repayments to Lucapa of US$12.2 million during the year.

The Group reduced interest bearing debt during the year from US$19.9 million to US$6.4 million as at 31 December 2022.

As at 31 December 2022, after taking into account the Mothae non-cash impairment charge of US$10.6 million, the Group's assets exceeded liabilities by US$85.3 million (2021: US$90.2 million).

Despite current inflationary environment pressures on costs and the supply chains, the Directors believe that the going concern basis is appropriate for the following reasons:

- The diamond market is stable for higher value productions and has rebounded strongly after COVID-19 resulting in diamond prices returning to above pre-pandemic levels;
- The book value of the Group's assets exceeds its liabilities by US$85.3 million (post the Mothae impairment charge);
- All approvals for SML to repay Lucapa's alluvial investment loan are in place and should follow directly following SML shareholder approval;
- Lucapa should be able to provide the necessary interim financial support to Mothae whilst it assesses a revision to the mining methodology to improve margins. Alternate strategic options also exist;
- As per the Updated Scoping Study (refer ASX announcement on 3 March 2022), the Merlin acquisition and mine development is likely to significantly increase Lucapa's earnings and cash flow generation once developed. To note, the development is subject to a positive feasibility due for publication in 2023 and successfully securing project development funding;
- The Group has historically been successful in raising equity for the furtherance of its projects and under ASX Listing Rule 7.1 the Company has the capacity to place securities to raise equity: and
- The Group has historically been successful in raising and restructuring debt facilities.

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

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2022

	Note	31 Dec 2022 US$000	31 Dec 2021 US$000
Revenue	2	23,350	26,791
Cost of sales	3	(37,585)	(22,278)
Gross (loss)/ profit		**(14,235)**	**4,513**
Share of profit of associate	10	7,660	7,554
Royalties and selling expenses		(1,164)	(1,293)
Corporate expenses	3	(3,692)	(3,485)
Share-based payments	12	(70)	-
Foreign exchange loss	7	(3,880)	(3,483)
Operating (loss)/ profit		**(15,381)**	**3,806**
Finance cost	4	(2,063)	(3,523)
Finance income	4	12	20
Fair value adjustments	7	2,822	2,543
(Loss)/ profit before income tax		**(14,610)**	**2,846**
Income tax expense	5	(464)	(43)
(Loss)/ profit after income tax		**(15,074)**	**2,803**
Other comprehensive income		1,066	911
Total comprehensive (loss)/ income for the year		**(14,008)**	**3,714**
(Loss)/ profit attributable to:			
Owners of the Company		(10,302)	4,495
Non-controlling interests		(4,772)	(1,692)
		(15,074)	**2,803**
Total comprehensive (loss)/ income attributable to:			
Owners of the Company		(9,779)	4,985
Non-controlling interests		(4,229)	(1,271)
		(14,008)	**3,714**
Earnings per share		Cents	Cents
Basic (loss)/ earnings per share (cents)	6	(0.73)	0.43
Diluted (loss)/ earnings per share (cents)	6	(0.73)	0.43

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 2022

	Note	31 Dec 2022 US$000	31 Dec 2021 US$000
Assets			
Cash and cash equivalents	7	6,905	7,366
Trade and other receivables	7	2,412	2,310
Contract assets		-	601
Inventories	8	2,359	3,058
Other current financial assets	7	4,000	9,772
Total current assets		**15,676**	**23,107**
Property plant and equipment	9	63,110	70,935
Non-current financial assets	7	7,497	13,012
Investment in associate	10	15,686	12,026
Total non-current assets		**86,293**	**95,973**
Total assets		**101,969**	**119,080**
Liabilities			
Trade and other payables	7	7,881	7,314
Current borrowings	7	6,393	13,344
Total current liabilities		**14,274**	**20,658**
Non-current provisions	11	2,329	1,710
Non-current borrowings	7	33	6,520
Deferred tax liabilities	5	26	26
Total non-current liabilities		**2,388**	**8,256**
Total liabilities		**16,662**	**28,914**
Net assets		**85,307**	**90,166**
Equity			
Share capital	12	154,230	145,542
Reserves		(3,798)	(4,772)
Accumulated losses		(55,129)	(44,837)
Equity attributable to owners of the Company		**95,303**	**95,933**
Non-controlling interests		(9,996)	(5,767)
Total equity		**85,307**	**90,166**

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 2022

	Issued capital US$000	Share based payments reserve US$000	Foreign currency translation reserve US$000	Accumulated losses US$000	Total US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2021	129,716	831	(5,933)	(49,831)	74,783	(4,496)	70,287
Comprehensive income for the period							
Profit/ (loss) for the period	-	-	-	4,496	4,496	(1,692)	2,804
Other comprehensive income	-	-	911	-	911	421	1,332
Total comprehensive loss for the period	**-**	**-**	**911**	**4,496**	**5,407**	**(1,271)**	**4,136**
Transactions with owners, in their capacity as owners							
Issue of share capital	16,726	-	-	-	16,726	-	16,726
Issue of options	-	74	-	-	74	-	74
Expiry of options	-	(596)	-	498	(98)	-	(98)
Transfer of reserves on exercise of options	59	(59)	-	-	-	-	-
Share issue expenses	(959)	-	-	-	(959)	-	(959)
Total transactions with owners	**15,826**	**(581)**	**-**	**498**	**15,743**	**-**	**15,743**
Balance at 1 January 2022	**145,542**	**250**	**(5,022)**	**(44,837)**	**95,933**	**(5,767)**	**90,166**
Comprehensive income for the period							
Loss for the period	-	-	-	(10,302)	(10,302)	(4,772)	(15,074)
Other comprehensive income	-	-	1,066	-	1,066	543	1,609
Total comprehensive loss for the period	**-**	**-**	**1,066**	**(10,302)**	**(9,236)**	**(4,229)**	**(13,465)**
Transactions with owners, in their capacity as owners							
Issue of share capital	9,056	-	-	-	9,056	-	9,056
Issue of options	-	70	-	-	70	-	70
Expiry of options	-	(162)	-	10	(152)	-	(152)
Transfer of reserves on exercise of options	4	-	-	-	4	-	4
Share issue expenses	(372)	-	-	-	(372)	-	(372)
Total transactions with owners	**8,688**	**(92)**	**-**	**10**	**8,606**	**-**	**8,606**
Balance at 31 December 2022	**154,230**	**158**	**(3,956)**	**(55,129)**	**95,303**	**(9,996)**	**85,307**

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

Consolidated statement of cash flows
for the year ended 31 December 2022

	Note	31 Dec 2022 US$000	31 Dec 2021 US$000
Cash flows from operating activities			
Receipts from products and related debtors		22,669	26,008
Cash paid to suppliers and employees		(24,350)	(20,254)
Interest and finance cost		(1,907)	(2,663)
Interest received		13	20
Net cash (used in)/ from operating activities		**(3,575)**	**3,111**
Cash flows from investing activities			
Payments for exploration costs		(3,356)	(2,475)
Payments for development		(3,689)	-
Proceeds from associate		15,818	1,883
Payments for property plant and equipment		(1,097)	(12,624)
Net cash from/ (used in) investing activities		**7,676**	**(13,216)**
Cash flows from financing activities			
Proceeds from issue of share capital		9,060	16,726
Share issue costs		(584)	(919)
Repayment of borrowings		(12,872)	(4,358)
Proceeds from borrowings		-	2,685
Net cash (used in)/ generated from financing activities		**(4,396)**	**14,134**
Net (decrease)/ increase in cash and cash equivalents		**(295)**	**4,029**
Cash and cash equivalents at beginning of period		7,366	4,136
Exchange loss on foreign cash balances		(166)	(799)
Cash and cash equivalents at end of period	7	**6,905**	**7,366**
Reconciliation of profit/ (loss) after tax to cash flows from operations:			
(Loss)/ profit for the period		(15,074)	2,803
Adjustments for:			
Depreciation expense		5,142	4,962
Loss on disposal of assets		131	-
Impairment		10,608	-
Director and employee options		70	-
Exchange gains		165	799
Interest and other finance costs paid		916	859
Fair value gain on financial assets		(2,822)	(2,543)
Share of profit of associate		(7,660)	(7,554)
Other non cash items		(1,368)	(287)
Working Capital adjustments:			
Movement in inventory		725	1,934
Movement in trade and other receivables		(3)	(1,303)
Movement in trade and other payables relating to operating activities		5,595	3,441
Net cash (used in)/ from operating activities		**(3,575)**	**3,111**

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

Financial overview

		Exploration & Evaluation			Mining			Corporate & other	Total
		Angola	Botswana	Australia	Angola	Australia	Lesotho	Australia	
		US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Year ended 31 December 2022	**PROFIT OR LOSS**								
	External revenue	-	-	-	-	-	23,350	-	**23,350**
	Inter-segment	-	-	-	-	-	-	-	**-**
	Total revenue	**-**	**-**	**-**	**-**	**-**	**23,350**	**-**	**23,350**
	Depreciation	-	-	-	156	-	4,879	107	**5,142**
	Share-based payments	-	-	-	-	-	-	70	**70**
	Segment operating profit/ (loss)	-	-	-	7,660	-	(18,856)	(4,185)	**(15,381)**
	Net finance (costs)/ income	-	-	-	-	-	(5,535)	3,484	**(2,051)**
	Profit/ (loss) before income tax	-	-	-	10,141	-	(24,391)	(360)	**(14,610)**
	OTHER SEGMENT INFORMATION								
	Capital expenditure	4,595	21	119	-	3,304	2,309	9	**10,357**
As at 31 December 2022	**ASSETS AND LIABILITIES**								
	Segment assets	27,392	182	2,115	27,356	12,284	25,863	6,777	**101,969**
	Segment liabilities	-	-	-	-	753	10,681	5,228	**16,662**
	Inter-segment loans	-	176	2,246	-	11,530	48,878	(62,830)	**-**
Year ended 31 December 2021	**PROFIT OR LOSS**								
	External revenue	-	-	-	-	-	26,791	-	**26,791**
	Inter-segment	-	-	-	-	-	-	-	**-**
	Total revenue	**-**	**-**	**-**	**-**	**-**	**26,791**	**-**	**26,791**
	Depreciation	-	-	-	169	-	4,716	78	**4,963**
	Share-based payments	-	-	-	-	-	5	(5)	**-**
	Segment operating profit/ (loss)	-	-	-	7,554	-	(390)	(3,358)	**3,806**
	Net finance (costs)/ income	-	-	-	-	-	(5,406)	1,903	**(3,503)**
	Profit/ (loss) before income tax	-	-	-	9,918	-	(5,796)	(1,276)	**2,846**
	OTHER SEGMENT INFORMATION								
	Capital expenditure	4,279	8	36	-	8,727	3,207	14	**16,271**
As at 31 December 2021	**ASSETS AND LIABILITIES**								
	Segment assets	22,797	126	2,127	35,095	9,718	42,370	6,847	**119,080**
	Segment liabilities	-	-	-	-	1,264	12,974	14,676	**28,914**
	Inter-segment loans	-	152	2,126	-	8,391	39,694	(50,363)	**-**

1. Segment reporting (continued)

Additional 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 mine development in Australia; 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

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Revenue from contracts with customers		
Sale of goods	23,350	26,791
	23,350	**26,791**

Additional information

The Group's revenue arises from the sale of rough diamonds and from cutting and polishing 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.

3. Expenses

Financial overview

	Note	31 Dec 2022 US$000	31 Dec 2021 US$000
Breakdown of expenses by nature			
Raw materials, consumables and other input costs		16,657	10,888
Changes in inventories of finished goods and work in progress		370	2,029
Employee benefits expenses (excluding share based payments)		7,255	6,754
Depreciation and amortisation		5,141	4,962
Impairment charge		10,608	-
Auditors remuneration		51	47
Mining and short term leases		221	134
Consulting fees and other administrative expenses		974	949
Total cost of sales and corporate expenses		**41,277**	**25,763**
Employee benefits expenses			
Wages, salaries and director remuneration		6,960	6,367
Superannuation costs		109	97
Share-based payments	12	70	-
Other associated employee expenses		186	290
		7,325	**6,754**
Auditors remuneration			
Elderton Pty Ltd (Auditors of parent company & consolidation)			
Audit services		40	38
Other services		-	-
		40	**38**
Other group auditors (for subsidiary companies)			
Audit services		11	9
Other services		-	-
		11	**9**
		51	**47**

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.

4. Finance cost and income

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Finance cost		
Finance cost on borrowings	1,864	3,218
Interest expense on lease labilities	74	208
Unwinding of discount rate on rehabilitation liability	125	97
	2,063	**3,523**
Finance income		
Interest income on bank deposits	12	20
	12	**20**
Net finance cost on financial instruments	**2,051**	3,503

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.

5. Income tax

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Current tax expense		
Current income tax charge	464	60
Deferred tax expense		
Relating to origination and reversal of temporary differences	-	(17)
Total income tax expense	**464**	**43**
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate		
Net (loss)/ before tax	(14,610)	2,846
Income tax benefit using the Australian domestic tax rate of 30%	(4,383)	854
Increase in income tax due to tax effect of:		
Non-deductible expenses	2,386	1,253
Tax rate differential on foreign income	610	290
Net current year tax losses not recognised	3,031	-
Foreign taxes paid	464	60
Derecognition of previously recognised tax losses	3,083	1,446
Decrease in income tax expense due to:		
Non-assessable income	(1,182)	(1,105)
Share of profit of associate	(2,298)	(2,266)
Impact of movement in unrecognised temporary differences	(1,010)	(215)
Utilisation of previously unrecognised tax losses	(198)	(236)
Deductible equity raising costs	(39)	(38)
Income tax expense	**464**	**43**
Recognised deferred tax assets and liabilities		
Recognised deferred tax assets		
Tax losses	4,847	7,929
Accruals & provisions	640	478
	5,487	**8,407**
Less: Set off of deferred tax liabilities	(5,487)	(8,407)
Net deferred tax assets	**-**	**-**
Recognised deferred tax liabilities		
Property plant and equipment	(5,071)	(8,280)
Other	(442)	(153)
	(5,513)	**(8,433)**
Less: Set off of deferred tax assets	5,487	8,407
Net deferred tax liabilities	**(26)**	**(26)**
Deferred tax assets not recognised		
Tax revenue losses	17,698	12,439
Tax capital losses	4,506	4,806
Deductible temporary differences	3,220	451
	25,424	**17,696**

5. Income tax (continued)

Additional 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 for each jurisdiction.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

6. Earnings per share

Financial overview

	31 Dec 2022	31 Dec 2021
	Cents	**Cents**
Basic (loss)/ earnings per share (cents per share)	(0.73)	0.43
Diluted (loss)/ earnings per share (cents per share)	(0.73)	0.43
	US$000	**US$000**
Earnings used in calculating earnings per share		
Attributable to members of the Company used in calculating basic earnings per share	(10,302)	4,495
Attributable to members of the Company used in calculating diluted earnings per share	(10,302)	4,495
	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	1,404,558,518	1,056,753,147
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	1,406,888,388	1,057,017,483

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.

7. Financial instruments and financial risk management

Financial overview

	Note	31 Dec 2022 US$000	31 Dec 2021 US$000
Summary of carrying value of financial instruments			
Financial assets			
Cash and cash equivalents	7a	6,905	7,366
Trade and other receivables	7b	2,412	2,310
Other current financial assets	7c	4,000	9,772
Non-current financial assets	7c	7,497	13,012
		20,814	**32,460**
Financial liabilities			
Trade and other payables	7d	7,881	7,314
Current borrowings	7e	6,393	13,344
Non-current borrowings	7e	33	6,520
		14,307	**27,178**
Summary of amounts recognised in profit or loss			
Fair value adjustments			
In respect of the associate receivable		2,481	2,364
On borrowing embedded derivatives		341	179
		2,822	**2,543**
Foreign exchange gain			
On revaluation of intergroup loans		(3,010)	(3,397)
On other financial instruments		(870)	(86)
		(3,880)	**(3,483)**
Net finance cost on financial instruments	4	2,051	3,503

Additional 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.

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 embedded derivative: level 3 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 associate, 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.

7a. Cash and cash equivalents

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Balances on hand		
Bank balances	6,905	7,366
	6,905	**7,366**
Foreign exchange risk		
Cash balances exposed to foreign currency risk, based on notional amounts	325	4,416
Interest rate risk		
Cash balances held at variable interest rates	6,905	7,366
Average rate for 2022: 1.5% (2021: 0.4%)		

Additional information

Foreign exchange sensitivity analysis

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 10 percentage points in foreign exchange rates at the reporting date would have an estimated impact of US$0.03 million (2021: US$0.4 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.

7b. Trade and other receivables

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Current		
GST/ VAT receivable	1,289	1,344
Prepayments and other receivables	1,123	966
	2,412	**2,310**
Foreign exchange risk		
Receivable balances exposed to foreign currency risk, based on notional amounts	264	982
Interest rate risk		
Non-interest bearing balances	2,412	2,310

Additional information

Foreign exchange sensitivity analysis
A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 10 percentage points in foreign exchange rates at the reporting date would have an estimated impact of US$0.02 million (2021: US$0.1 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.

7c. Financial assets

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Non current financial assets		
Receivable in respect of SML		
At 1 January	26,366	29,415
Investment during the period	1,038	273
Repayment received	(12,218)	(1,883)
Transferred to Deferred exploration and evaluation costs (note 9)	(2,543)	(1,439)
	12,643	**26,366**
Fair value adjustment due to discounting	(1,831)	(4,312)
At end of period	**10,812**	**22,054**
Less: Current portion of receivable	(4,000)	**(9,772)**
Non current receivable	**6,812**	**12,282**
Security deposit for environmental rehabilitation in repect of Merlin	685	730
Total non current financial assets	**7,497**	**22,784**
Current financial assets		
Receivable in respect of SML		
Current portion of receivable	4,000	9,772
Interest rate risk		
Non-interest bearing balances	11,497	22,784

Additional 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 16.39% (2021: 12.27%) has been applied in the fair value calculation.

7d. Trade and other payables

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Trade payables	1,664	2,695
Short-term advance	2,685	2,685
Accruals and other payables	3,532	1,934
Total	**7,881**	**7,314**
Foreign exchange risk		
Payable balances exposed to foreign currency risk, based on notional amounts	1,515	1,164
Interest rate risk		
Non-interest bearing balances	7,881	7,314
Liquidity risk		
Contractual maturities profile		
Payable within one year	7,881	7,314

Additional information

The short-term advance relates to monies advanced to Mothae in terms of the minimum cash price of US$630/carat contained in the partnership agreement with Safdico International Limited. The advance is non-interest bearing and repayable from future sales, polished partnership profits, in cash by 31 December 2022, or as otherwise agreed. These repayment terms are currently being revised with a view to extending the partnership agreement (subject to approval from the GoL).

Foreign exchange sensitivity analysis

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 10 percentage points in foreign exchange rates at the reporting date would have an estimated impact of US$0.2 million (2021: US$0.4 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.

7e. Borrowings

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Current borrowings		
Lease liabilities	70	1,313
Other short-term loans	5,801	12,031
Current loans - Embedded derivatives	522	-
Total	**6,393**	**13,344**
Non-current borrowings		
Lease liabilities	33	109
Other non-current loans	-	5,548
Other non-current loans - Embedded derivatives	-	863
Total	**33**	**6,520**
Foreign exchange risk		
Borrowings exposed to foreign currency risk, based on notional amounts	-	7,999
Interest rate risk		
Balances at variable interest rates	2,066	6,196
Average rate for 2022: 15.7% (2021: 12.3%)		
Refer interest rate sensitivity analysis below		
Balances at fixed interest rates	3,838	12,805
Average rate for 2022: 9.8% (2020: 9.8%)		
Liquidity risk		
Contractual maturities profile, including estimated interest payments and excluding the impact of netting agreements		
Borrowings		
Payable within one year	7,557	14,029
Payable after one year but less than five years	-	5,660
Payable after more than five years	-	-
Leases		
Payable within one year	82	1,450
Payable after one year but less than five years	34	123
Payable after more than five years	-	-
Other disclosures in respect of leases		
Cash outflow	1,390	1,688
Low value lease expense	32	29
Expense relating to variable lease payments not included in the measurement of lease liabilities	-	2,064
Non-cash financing recognised	-	222

7e. Borrowings (continued)

Additional 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 ZAR107k (US$6.3k) per month until May 2024; and
- Various lease contracts for office space, office and other equipment used in its operations. Lease terms vary between 1 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. The terms of the loans include the following:

Equigold

- Loan facility and interest of US$4.4 million (2021: US$4.9 million) fully utilised;
- The principal balance is repayable in three quarterly payments of US$1.2 million commencing January 2023.
- 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% 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 ZAR33 million (US$1.9 million) (2022: ZAR67 million (US$4.2 million)), fully utilised at the end of the period;
- The capital balance is repayable in two quarterly payments from January 2023;
- Interest is payable quarterly based on the Johannesburg Interbank Average Rate (JIBAR) plus 8.6%;
- The loan is secured by way of:
  - o Bonds over Mothae's movable assets, diamond treatment facility and ancillary equipment;
  - o Mortgage over the mining right and the land right granted under the mining agreement;
  - o A 70% proportional guarantee by Lucapa of all amounts due and payable;
  - o A subordination of Lucapa's shareholder claims in and loans to Mothae, back ranking to the Equigold loan agreement;
  - o 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;
  - o A cession of insurance policies and proceeds thereof with the Lender's interest noted thereon;
  - o Certain negative pledges.
- Certain financial covenants to be maintained.

New Azilian

- New Azilian is an entity associated with non-executive director Ross Stanley;
- The loan facility was A$11.0 million (US$8.4 million) as at 31 December 2021. The loan was settled in full during February 2022;
- The loan was 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, which was released in full upon settlement of the loan.

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$0.046 (2021: A$0.09);
- Exercise price: A$0.043 (2021: A$0.085);
- Estimated volatility: 75% (2021: 70%);
- Expiry date: 1 April 2023/1 July 2023;
- Risk-free interest rate: 3.83% (2021: 1.85%);
- USD/ AUD exchange rate: 0.681:1 (2021: 0.727:1).

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$0.2 million (2021: US$0.5 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.

Foreign exchange sensitivity analysis

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 10 percentage points in foreign exchange rates at the reporting date would have an estimated impact of US$0.0 million (2021: US$0.8 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

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Diamond inventory	1,000	1,956
Consumables and other inventory	1,359	1,102
	2,359	**3,058**

Additional information

During the year, US$10.2 million (2021: US$4.3 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.

9. Property plant and equipment

Financial overview

	Deferred exploration and evaluation US$000	Mine development US$000	Plant and equipment US$000	Decommissioning assets US$000	Stripping activity assets US$000	Right-of-use assets US$000	Other assets US$000	Total US$000
Cost								
Balance at 1 January 2021	23,265	19,064	20,100	158	174	3,658	1,618	68,037
Additions	4,323	9,705	834	604	-	313	492	16,271
Foreign currency movements	(324)	(577)	(1,647)	(13)	(14)	(287)	(148)	(3,010)
Balance at 31 December 2021	**27,264**	**28,192**	**19,287**	**749**	**160**	**3,684**	**1,962**	**81,298**
Additions	4,735	3,655	458	624	729	-	156	10,357
Disposals	-	-	-	-	-	(347)	(56)	(403)
Foreign currency movements	(272)	(1,039)	(1,180)	(66)	(34)	(205)	(117)	(2,913)
Balance at 31 December 2022	**31,727**	**30,808**	**18,565**	**1,307**	**855**	**3,132**	**1,945**	**88,339**
Accumulated depreciation								
Balance at 1 January 2021	-	2,132	1,812	20	174	1,242	620	6,000
Amortisation/ depreciation charge for the year	-	823	2,540	21	-	1,230	354	4,968
Foreign currency movements	-	(107)	(230)	(3)	(14)	(178)	(73)	(605)
Balance at 31 December 2021	**-**	**2,848**	**4,122**	**38**	**160**	**2,294**	**901**	**10,363**
Amortisation/ depreciation charge for the year	-	1,414	1,945	101	179	1,142	391	5,172
Impairment	2,124	11,050	(2,566)	-	-	-	-	10,608
Disposals	-	-	-	-	-	(229)	(13)	(242)
Foreign currency movements	(84)	(106)	(222)	(6)	(17)	(170)	(67)	(672)
Balance at 31 December 2022	**2,040**	**15,206**	**3,279**	**133**	**322**	**3,037**	**1,212**	**25,229**
Net carrying amounts								
At 31 December 2021	27,264	25,344	15,165	711	-	1,390	1,061	70,935
At 31 December 2022	**29,687**	**15,602**	**15,286**	**1,174**	**533**	**95**	**733**	**63,110**

9. Property plant and equipment (continued)

Additional 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$27.4 million (31 December 2021: US$22.7 million) in the schedule above are related to the JV.

Other assets

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

Impairment testing

The Group recognised an impairment charge in the current year in respect of Mothae as per the Directors' Report (refer page 4). The following key assumption averages were used in the impairment testing:

- Ore volume treated: 1.4 Mtpa (2021: 1.6 Mtpa);
- US$/ carat sold: 1,351 (2021: 847);
- Discount rate: 10% (2021: 10%);
- ZAR/ US$ exchange rate: 17.0 (2021: 15.5).

These are considered to be level three fair value measurements in both years as they are derived from valuation techniques that include inputs that are not based on observable market data.

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.

9. Property plant and equipment (continued)

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.

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).

9. Property plant and equipment (continued)

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.

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.

10. Investment in associate

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Summarised financial information of SML		
Current assets	31,067	37,140
Non-current assets	26,034	30,333
Current liabilities	12,703	20,984
Non-current liabilities	10,812	22,054
Equity	**33,586**	**24,435**
Group's carrying amount of the investment	15,686	12,026
Revenue	80,999	80,602
Cost of sales	(32,568)	(34,164)
Administrative and selling expenses	(22,978)	(16,804)
Fair value adjustments	(2,481)	(2,364)
Finance cost	(300)	-
Profit before tax	**22,672**	**27,270**
Income tax expense	(3,523)	(8,386)
Profit for the period	**19,149**	**18,884**
Total comprehensive income for the period	**19,149**	**18,884**
Group's share of profit for the period	**7,660**	**7,554**
EBITDA	35,159	37,187
Contingent liabilities	1,094	-
Capital commitments		
Payable within one year		
- Approved, not yet contracted	5,209	8,127
- Approved and contracted	3,044	1,270

Additional 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. The earnings of SML include fair value adjustments in relation to the discounting of the financial asset of Lucapa reflected under note 7c.

The contingent liability relates to additional income tax potentially payable following a recent change to the Angolan Industrial Tax Code in respect of the treatment of unreleased foreign exchange gains and losses due to movements between the United States dollar and the Angolan kwanza. SML's tax for the year has been recognised based on external advice obtained. A ruling from the Angolan tax office has been requested in this regard and is being awaited.

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.

11. Non-current provisions

Financial overview

	31 Dec 2022 US$000	31 Dec 2021 US$000
Provision for environmental rehabilitation		
At 1 January	1,710	1,105
Increase during the year	625	610
Unwinding of discount rate	125	97
Foreign exchange difference	(131)	(102)
At end of period	**2,329**	**1,710**

Additional information

The provision for rehabilitation has been recognised in respect of Mothae and Merlin.

Mothae

The estimate is based on an independent expert's report 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 between 10 and 13 years (2021: 11 and 14 years), an annual inflation rate of 7.5% (2022: 5.0%) and a discount rate of 8.7% (2021: 8.8%).

Merlin

The estimate is based on the Mining Management Plan for Merlin as approved by the government of the Northern Territory of Australia and discounted back to present value using a pre-tax discount rate that reflects current market assessments. Assumptions include an estimated rehabilitation timing of 17 years (2021:17 years), an annual inflation rate of 3.0% (2021:2.3%) and a discount rate of 4.9% (2021: 4.3%).

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.

12. Share capital and share-based payments

Financial overview

	31 Dec 2022	
	Number	US$000
LISTED SECURITIES		
Movement in ordinary shares (ASX code: LOM)		
On issue at beginning of period	1,272,831,478	145,542
Issue of shares	166,666,668	9,056
Issue of shares on exercise of options and performance rights	61,729	4
Transaction costs	-	(372)
On issue at end of period	**1,439,559,875**	**154,230**
Movement in listed options (ASX code: LOMOC)		
On issue at beginning of period	113,971,605	-
Issue of options	-	-
Exercise of options	(61,729)	-
Expiry of options	(113,909,876)	-
On issue at end of period	**-**	**-**
UNLISTED SECURITIES		
Movement in unlisted options (A$0.08 exercise price; expired 18 December 2022)		
On issue at beginning of period	48,680,475	-
Expiry of options	(48,680,475)	-
On issue at end of period	**-**	**-**
Movement in unlisted options (A$0.08 exercise price; expire 30 July 2025)		
On issue at beginning of period	5,000,000	-
Issue of options	-	-
Exercise of options	-	-
Expiry of options	-	-
On issue at end of period	**5,000,000**	**-**

Additional 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.

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

Share-based payments

	31 Dec 2022	31 Dec 2021
Weighted average remaining contractual life of share options and performance rights in issue (years)	3.52	0.51
Weighted average Lucapa share price during the period/ year (A$)	0.061	0.063
	US$000	**US$000**
Share-based payments recognised		
Profit or Loss		
Director and employee options	70	-
Non-cash financing and investing activities		
Share issue expenses	-	74
	70	**74**

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

	Share options			Performance rights			
	ASX listed (LOMOC)	Unlisted	Unlisted	Unlisted	Unlisted	Unlisted	Weighted average price (A$)
Exercise price (A$)	**$0.10**	**$0.08**	**$0.08**	**$0.00**	**$0.00**	**$0.00**	
Expiry date	**05-Jun-22**	**18-Dec-22**	**30-Jun-25**	**31-Dec-25**	**31-Jan-27**	**29-Nov-27**	
Number on issue at beginning of period	8,869,083	10,754,545	5,000,000	-	-	-	0.09
Issue of options/ performance rights	-	-	-	33,426,681	12,124,573	11,142,227	-
Exercise of options/ performance rights	-	-	-	-	-	-	-
Expiry/ lapsing of options/ performance rights	(8,869,083)	(10,754,545)	-	-	-	-	0.09
On issue at end of period	**-**	**-**	**5,000,000**	**33,426,681**	**12,124,573**	**11,142,227**	0.01
Exercisable at end of period	-	-	5,000,000	-			
Assumptions used in estimating fair value of grants in current period:							
Grant date				30-Nov-22	30-Nov-22	30-Nov-22	
LOM share price at grant date (A$)				0.044	0.044	0.044	
Estimated volatility				75%	75%	75%	
Risk-free interest rate				3.39%	3.39%	3.39%	
Fair value per option/ right (A$)				0.044	0.044	0.043	

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.

13. Commitments and contingencies

	31 Dec 2022 US$000	31 Dec 2021 US$000
Operating lease commitments iro mining and exploration rights		
Minimum lease payments under non-cancellable operating lease agreements		
Payable within one year	160	126
Payable after one year but less than five years	553	376
Payable after more than five years	845	180
	1,558	**682**
Capital commitments		
Payable within one year		
Approved, not yet contracted	2,928	1,315
Approved and contracted	-	-

Contingencies

The Group did not have any contingent liabilities as at 31 December 2022 (2021: Nil).

14. Parent entity information

	31 Dec 2022 US$000	31 Dec 2021 US$000
Current assets	7,210	6,663
Total assets	113,952	126,506
Current liabilities	5,875	10,437
Total liabilities	5,875	14,861
Share capital	154,230	145,542
Reserves	(5,501)	(5,409)
Accumulated losses	(40,652)	(28,488)
	108,077	**111,645**
(Loss)/ profit for the period	(12,172)	8,587
Total comprehensive (loss)/ income for the period	(12,172)	8,587

15. Related party disclosures

Financial overview

	31 Dec 2022 US$	31 Dec 2021 US$
Key management personnel compensation		
Short-term employee benefits	1,082,405	1,327,358
Post-employment benefits	60,494	69,503
Share-based payments	27,297	-
	1,170,196	**1,396,861**
Other related party transactions		
The following payments, relating to office rent and associated costs were made to entities associated with non-executive director Miles Kennedy:		
Kennedy Holdings (WA) Pty Ltd	12,654	117,338
Loan facility agreement with an entity associated with non-executive director Ross Stanley:		
Amount due to New Azilian Pty Ltd (refer Note 7)	-	7,999,176
Finance cost for period	69,684	1,023,819

Additional 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.

16. Group information

	31 Dec 2022 %	31 Dec 2021 %
The consolidated financial statements of the Group include the following subsidiaries:		
Lucapa Diamonds (Botswana) (Proprietary) Limited		
Incorporated in Botswana		
Equity interest held	100	100
Australian Natural Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	100
Brooking Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	100
Heartland Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	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

Summarised financial information of subsidiaries with non-controlling interests

Mothae Diamonds (Pty) Ltd

	31 Dec 2022 US$000	31 Dec 2021 US$000
Assets and liabilities at the end of the period		
Current assets	4,826	6,536
Non-current assets	21,414	26,909
Current liabilities	8,912	11,791
Non-current liabilities	50,647	40,877
Profit or loss and cash flow items for the period		
Revenue	23,350	26,791
Loss for the period	(15,907)	(5,643)
Total comprehensive loss for the period	(11,678)	(4,372)
Cash flows (used in)/ from operating activities	(823)	6,284
Cash flows used in investing activities	(1,086)	(3,102)
Dividends paid to non-controlling intrests	-	-

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 2022:

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments;
- AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections;
- AASB 2022-2 Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1; and
- AASB 2021-3 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021.

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 2014-10 Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current;
- AASB 2022-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date and IASB amendment Non-current Liabilities with Covenants (Amendments to IAS 1);
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates;
- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information;
- AASB 2022-5 Amendments to AASs – Lease Liability in a Sale and Leaseback;
- AASB 2022-6 Amendments to AASs – Non-current Liabilities with Covenants;
- AASB 2022-7 Editorial Corrections to AASs and Repeal of Superseded and Redundant Standards; and
- AASB 2022-7 Editorial Corrections to AASs and Repeal of Superseded and Redundant Standards.

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.

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.

17. Other significant accounting policies (continued)

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 is 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.

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.

17. Other significant accounting policies (continued)

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, foreign exchange rates, production levels & recoverable diamonds, operating costs, capital requirements & its eventual disposal and latest life of mine plans.

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.

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 16 January 2023, Lucapa announced the recovery of 41 diamonds from the kimberlite bulk sample L164/01.

On 24 January 2023, Lucapa announced:

- it had received a total of US$15.8 million (A$23 million) was repatriated from its associate SML in 2022.
- SML shareholders approved a US$ 4 million (A$ 5.9 million) capital repayment and US$ 1.6million (A$ 2.3million) dividend to be paid to Lucapa in 2023.

On 16 February 2023, Lucapa announced the following recoveries of diamonds from two Lulo kimberlite exploration bulk samples:

- 23 diamonds from 365m^3 kimberlite sample L164/02; and
- 13 diamonds from 902m^3 kimberlite sample L056.

Both targets will be subject to further sampling.

On 23 February 2023, Lucapa announced:

- the recovery by SML of a 150 carat Type IIa white diamond from Mining Block 28; and
- the receipt of the dividend from SML referred to above, amounting to A$2.1 million (net of withholding tax).

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.

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 2 to 56, 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 2022 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 18; and

   (c) Subject to the 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 2022.

Signed in accordance with a resolution of the Directors.

MILES KENNEDY
Chairman

Dated this 27th February 2023

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 2022, 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 2022 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.

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 whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 receivable of US$10.81 million as at 31 December 2022 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 of receivable at an annual discount rate of 16.39%, 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 verified amount received subsequent to year end with bank statement and other supporting documents; • 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 *Fair Value Measurement* , 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 2022, the Group has significant exploration and evaluation expenditure of $29.7 million 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 viability 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.

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 2022, the group has property, plant and equipment amounting to US$21.41 million related to it's Mothae operations (Mothae PPE). Loss of US$15.9 million was incurred from Mothae operations during the year ended 31 December 2022 due to the global inflationary environment's impact on material inputs, supply chain and processing constraints. An impairment of US$10.6 million in respect of Mothae has been charged to the income statement. 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 Mothae PPE in accordance with AASB 136 *Impairment of Assets*. • 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 underlying data and work on other audit areas. • Reviewed adequacy of the related disclosures in the financial statements.

Going Concern
Refer to Basis of Preparation on page 19 of the financial statements

Key Audit Matter	How our audit addressed the key audit matter
The Group has recorded an attributable EBITDA of US$9.9 million (A$14.9 million) (2021: US$16.6 million (A$22.3 million) and a loss after tax of US$15.1 million for the full year ended 31 December 2022, (2021: a profit after tax of US$2.8 million). The results include, amongst others, the non-cash impairment charge of US$10.6 million in respect of Mothae and a US$3.0 million unrealised foreign exchange loss on the intergroup loan from Lucapa to Mothae due to weakening of the South African rand against the United States dollar. Under AASB101: Presentation of Financial Statements, the directors of the Group are required to assess the appropriateness of the preparation of the financial report on a going concern basis. The Group has prepared cash flow projections which include recovery of loan from associate.	Our audit work included, but was not restricted to, the following: • Obtaining management's assessment of the going concern basis of preparation by reviewing future plans and tested cash flow projections prepared by the Group for consistency with our understanding of planned activities; • Held discussions with management as to any future capital raisings and tested the forecasted cash flows for the twelve month period from the date of signing the financial statements for mathematical accuracy; • Comparing forecast expenditure against actual levels of expenditure for the 2022 financial year and obtaining explanations for any significant variances; • Obtained representations from management and the directors as to the adequacy of cash resources; and • Assessed the adequacy and completeness of related disclosures in the financial statements.

These projections are used to support the sufficiency of working capital. This area is a key audit matter due to the nature of the business, and the current financial position. Should it be inappropriate for the financial statements to be prepared on the going concern basis the values of certain assets and liabilities as set out in the financial statements might be significantly different. As such, the use of the going concern assumption requires proper and due consideration.	

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 2022 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.

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.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 9 -14 of the directors' report for the year ended 31 December 2022.

In our opinion the Remuneration Report of Lucapa Diamond Company Limited for the year ended 31 December 2022 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

Director

27 February 2023

Perth

A$	Australian dollar
AIFRS	Australian International Financial Reporting Standards
AGM	Annual general meeting of shareholders
ASX	Australian Securitues Exchange
Attributable	Attributable ownership in the projects based on Lucapa's holding. This is a non-AIFRS measure. For statutory reporting purposes, SML is equity accounted given Lucapa holds a 40% interest and Mothae is consolidated given Lucapa holds a 70% interest
AusND	Australian Natural Diamonds Pty Ltd (Lucapa 100% held subsidiary; registered in Australia)
Brooking	Brooking Pty Ltd
EBITDA	Earnings before interest, taxation, depreciation & amortisation and other non-trading items *(EBITDA is a non-AIFRS measure)*
Endiama	Endiama E.P. (Angola's national diamond mining company)
Equigold	Equigold Pte Ltd (registered in Singapore)
ESG	Environmental, Social and Governance
GoL	Government of the Kingdom of Lesotho
GTD Index	GTD Consulting Overall Rough Diamond Price Index
JIBAR	Johannesburg Interbank Agreed Rate
June half, the half year or H1	The six months ended 30 June
Lucapa, the Company or LOM	Lucapa Diamond Company Limited (ASX code: LOM)
MB	Mining block
Merlin	Merlin Diamond Project, owned by AusND
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
Orapa	Orapa Area F, Botswana
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 a calendar year
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)
Specials	Diamonds individually weighing in excess of 10.8 carats
the Board	The Lucapa Board of Directors
the Group	The Company, its subsidiaries and associates
the IDC	the Industrial Development Corporation of South Africa Limited
the Second Half or H2	The six months ended/ ending 31 December
VK	Volcaniclastic kimberlite
US$	United States dollar
Z Star	Z Star Mineral Resource Consultants Pty Ltd
ZAR, R or Rand	South African rand