LUCAPA
DIAMOND COMPANY

Lucapa Diamond Company Limited

Annual Report
for the year ended 31 December 2017

ASX Code: LOM

ACN 111 501 663
34 Bagot Road | Subiaco WA 6008 | Tel: +61 8 9381 5995 | Fax: +61 8 9489 9201
Email: general@lucapa.com.au | www.lucapa.com.au

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Dear Shareholders,

2017 was a year of significant achievements for Lucapa, tempered with an almost equal measure of frustration.

Significant operational achievements such as growing throughput by some 33% to achieve a record 251,968 bulk cubic metres processed - and accessing new sources of alluvial gravels - to once again showcase Lulo as the world's highest US$ per carat alluvial diamond production. The success of the alluvial mining operations has in turn provided Lucapa with a source of funding for the parallel kimberlite exploration program, where a systematic drilling program continues to provide important geological input to locate the primary hard-rock sources of the exceptional alluvial diamonds within a refined target list.

Significant achievements like securing a second high-quality resource and near-term producing opportunity through the acquisition of the advanced Mothae kimberlite project in diamond-rich Lesotho. Lucapa's management team then derived a new and larger development plan to increase the value of this investment. This was followed by the successful sourcing of debt financing to advance the mine development which, all going to plan, will see Lucapa emerge later this year as *the only company in the world* with two operating mines producing diamonds with an average price per carat exceeding US$1,000.

All capped off with what I have no doubt is Australia's best diamond exploration discovery in decades at our Brooking project in Western Australia's West Kimberley.

The frustration is that these achievements are still to be recognised or valued in the Company's share price.

There are various factors contributing to this mismatch between the Company's operational and corporate performance and its share value.

At a macro-level, 2017 has been a poor year for diamond equities across the globe. There are other factors unique to Lucapa, which stands as the only dedicated diamond company with high-quality production listed on the ASX. These include managing the expectations and investment horizons of our share register with more than 7,500 retail shareholders in an operating environment like central Africa, which can test the patience of investors. Having said that, the top 40 shareholders in Lucapa, who account for more than 30% of issued capital, have remained largely unchanged and shown great support.

Throughout this, the focus of your experienced management team – headed by our energetic, dedicated and extremely capable CEO Stephen Wetherall – has not deviated from the pursuit of Lucapa's main strategic objective. And that is to grow production of large and premium-value diamonds from multiple sources. Mines which produce diamonds of this ilk can be counted on one hand, which explains why sale prices in this high-end sector of the global diamond market have not wavered.

As I mentioned earlier, Lucapa will be in the unique position of producing from two such diamond mines later this year when the 70% owned Mothae project comes on stream, complementing the high-value production from Lulo.

At the time of writing, the Lucapa team had just completed another value-accretive work stream well ahead of schedule. This was to refurbish the old plant at Mothae for a separate bulk sampling program, enabling diamonds to be recovered - and additional resource to be added to the already +1 million carat JORC resource - well before the new 150 tonne per hour commercial plant becomes operational.

Apart from operating and developing mines, Lucapa also made significant strides with its kimberlite and lamproite exploration programs in 2017.

The highlight was the discovery of diamondiferous lamproite at the Little Spring Creek prospect at the Brooking project in the West Kimberley with high-concentrations of both macro and micro diamonds in the drill core, including a population of yellow diamonds. We look forward with much excitement to re-commencing our exploration effort at Brooking this year after the northern wet season.

And with each day, we exert significant effort in trying to edge closer to the main prize at Lulo, which is to find, through our kimberlite drilling program, the hard-rock sources of the world-class alluvial diamonds we are recovering on a regular basis.

As a company which has operated in Angola for almost a decade with its Government and local partners, Lucapa also welcomes the significant interest being shown in the diamond sector in Angola in response to the efforts being made by the new Angolan Government to attract more direct foreign investment as part of a plan to double diamond production.

2017 can perhaps be summarised as the year Lucapa built on and advanced a significant portfolio of quality diamond projects which have the potential to underwrite growth for the Company for many years to come.

Unlocking value from that suite of assets, with targeted institutional investment backing, will be a key driver for the Company in 2018. After all, compelling investment opportunities can only be ignored for so long.

Finally, I would like to thank the hard-working management and staff at both Lulo and Mothae operations whose dedication does not go unnoticed, along with our loyal shareholders whose patience will surely be rewarded.

Miles Kennedy
Chairman

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

The Company's focus on expanding high-value diamond production from multiple sources is designed to maximise returns from a sector of the diamond market where demand and pricing remains robust. Lucapa and its respective project partners made significant advancements across all projects in 2017. These included:

- Mining large and premium-value diamonds at the **Lulo diamond project in Angola** at record mining and treatment rates, delivering the world's highest average US$ per carat alluvial diamond production (US$31.6m in annual sales at US$1,669 per carat)

- Continuation of a systematic kimberlite drilling program, funded from Lucapa's alluvial mining returns, aimed at identifying the kimberlite source(s) of the exceptional size and quality Lulo alluvial diamonds

- Completion of the acquisition, new mine development plan, financing and the commencement of construction of Phase 1 of the high-value **Mothae kimberlite diamond project in Lesotho**, along with a bulk sampling program utilising the old plant and infrastructure

- Completion of a successful drilling program at the **Brooking diamond project in the West Kimberley** which resulted in the discovery of lamproite at Little Spring Creek with significant concentrations of macro and micro diamonds in the drill core, including a population of yellow diamonds

- Definition of kimberlite drilling targets at the **Orapa Area F diamond project in Botswana**

Lulo diamonds recovered in 2017

These achievements leave Lucapa uniquely placed in 2018 to become the only company in the industry with two operating mines producing diamonds with an average price per carat exceeding US$1,000. Further value-accretive advances will be made as Lucapa steps up its exploration efforts at Lulo, Brooking and Orapa Area F, which have the potential for tier-one kimberlite/lamproite discoveries.

LULO DIAMOND PROJECT, ANGOLA

Alluvial Diamond Mining – *Sociedade Mineira Do Lulo ("SML") (Lucapa 40% associate)*

Wet front end of treatment plant at Lulo

The 3,000km^2 Lulo diamond concession is located in Angola's Lunda Norte diamond heartland. Lucapa operates the alluvial mining operations at Lulo through SML in partnership with Empresa Nacional de Diamantes E.P. ("Endiama"), the Angolan Government's diamond division, and local partner Rosas & Petalas.

SML processes diamond-bearing alluvial gravels through a 150 tonne per hour ("tph") plant which includes a wet front end and a large-diamond recovery circuit featuring XRT technology. SML delivered record annual total throughput of 251,968 bulk cubic metres (bcm) for calendar 2017, an increase of 33%.

Lulo continued to regularly produce large and premium-value diamonds throughout the year, including a total of 238 Specials (diamonds weighing more than 10.8 carats), representing almost one Special for every 1000 bcm treated. These Specials included a 227 carat Type IIa D-colour gem, Angola's second largest recorded diamond behind the 404 carat *4th February Stone* also recovered from Lulo alluvial mining operations in 2016.

The 227 carat stone was recovered from Mining Block 28, one of two new mining blocks confirmed as additional sources of large and premium-value diamonds.

227 carat Type IIa D-colour Lulo gem

Other large gems recovered during the year included exceptional Type IIa D-colour gems weighing 129 carats and 78 carats. These diamonds were sold in the first sale in 2018.

Overall diamond production for the year totalled 18,706 carats, which was 6% down on 2016 as a result of a higher proportion of gravels being sourced from the high-value Mining Blocks 6 and 8 during 2016. This change in mix also contributed to the lower recovered grade of 7.4 carats per 100 cubic metres ("cphm³") for the year.

Exceptional 78 carat and 129 carat Type IIa D-colour diamonds

Alluvial Diamond Sales

Sales of Lulo diamonds for the year totalled US$31.6 million at an average price per carat of US$1,669, the world's highest average US$ per carat alluvial production. The corresponding 2016 gross sales total of US$51 million included the US$16 million sale of Angola's largest recorded diamond, the 404 carat *4th February Stone*.

	Calendar 2016	Calendar 2017	% *Variation*
Treated m³ (bulked)	**189,333**	**251,968**	*33%*
Carats Recovered	**19,833**	**18,706**	*-6%*
Grade Recovered (cphm³)	**10.5**	**7.4**	*-29%*
Stones Recovered	**11,709**	**13,400**	*14%*
Specials Recovered	**269**	**238**	*-12%*
Actual Sales (carats)	**17,115**	**18,941**	*11%*
Actual Sales (US$m)	**51.0**	**31.6**	*-38%*
Actual Price/Carat (US$)	**2,983**	**1,669**	*-44%*
Diamond Inventory (carats)	**2,921**	**2,711**	*-7%*

2017 diamond mining and sales figures and 2016 comparisons

As at 31 December 2017, SML had cash and receivables of US$9.6 million and an unsold diamond inventory of 2,711 carats.

A further sale planned for December 2017 was held over until after year end to maximise prices in what is cyclically a stronger pricing environment at the beginning of each year. The first sale for 2018 achieved gross proceeds of US$9.1 million at an average price per carat of US$2,192 (See ASX announcement 2 February 2018).

Cash generated from diamond sales is used by SML to fund the Lulo mining operations, which employ a work force of approximately 390 employees and contractors. Free cash generated by SML is used to repay the investment or capital loans to Lucapa and to make pro-rata distributions to the Lulo partners.

During 2017, Lucapa received a US$4 million capital loan repayment from SML's 2016 cash generated and a distribution from profits of US$1.6 million. Lucapa used the distribution portion to fund the ongoing Lulo kimberlite drilling program in 2017.

The next capital loan repayment from SML to Lucapa, and pro-rata distribution to the Lulo partners, will be proposed once SML's 2017 annual accounts have been finalised.

Kimberlite Exploration – *Projecto Lulo (Lucapa 39% exploration asset)*

Lucapa is also the operator of the Lulo kimberlite exploration program at Lulo, which is run in parallel with the alluvial diamond mining activities with the aim of identifying the primary source(s) of the exceptional alluvial diamonds.

During the year, the Lulo partners updated and redefined the list of kimberlite drilling targets at Lulo after completing an 8,566 line km Time Domain Electromagnetic ("TDEM") survey over the Cacuilo River valley and its main tributaries. The TDEM survey identified non (or low) magnetic targets, while also providing further definition of magnetic targets identified from earlier aeromagnetic surveys flown over the concession.

Drilling of the updated list of kimberlite targets compiled following the TDEM survey commenced in June 2017, with three main objectives:

- To determine which of the identified targets are kimberlites
- To recover core material from confirmed kimberlites for petrography, indicator mineral recoveries and mineral chemistry analysis
- To use those laboratory results to prioritise a much-reduced number of potentially diamondiferous kimberlite pipes for further drilling and bulk sampling

In early 2017, a new Hanjin D&B drilling rig arrived on site at Lulo from Korea, bringing to three the number of rigs available for the kimberlite drilling program.

By the end of 2017, kimberlite had been confirmed in a total of 17[1] targets in areas including the Zavige cluster near Mining Blocks 8, 6 and 28 and another previously-identified area of interest to the south-east (Figure 1).

Core from 10 of those targets was dispatched to Cape Town for mineral chemistry analysis and micro-probing in late 2017. The next batch of core was selected in early February 2018 and sent to Cape Town in line with efforts to speed up the mineral chemistry results turnaround times.

Laboratory results from an initial batch of core dispatched earlier in the year supported follow up work at L14, based on the recovery of a G4D garnet from this kimberlite (Figure 1).

Two deep holes were drilled in late 2017 at target L259, which had been prioritised for drilling in 2016 following ground gravity and EM surveys that highlighted a large anomalous body proximal to Mining Block 8. The deep holes intersected primarily Calonda and Karoo material without intersecting in-situ kimberlite. While geological material of uncertain origin was identified at 200m in the deep drill holes, no other work is planned at this target.

1. Excludes the initial batch of kimberlites drilled and sampled before the TDEM survey was completed

Kimberlite drilling during the wet season at Lulo

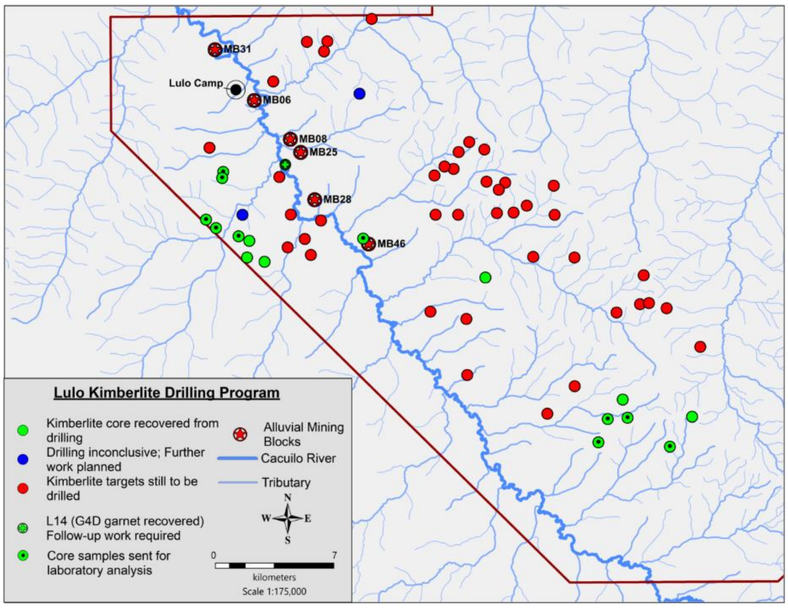


Figure 1: Progress on the Lulo kimberlite drilling program as at 31 December 2017

MOTHAE DIAMOND PROJECT, LESOTHO

(Lucapa 70% subsidiary. Government of the Kingdom of Lesotho 30%)

In January 2017, Lucapa announced the Company had been successful in acquiring a 70% interest in the advanced, premium-value Mothae kimberlite project in Lesotho, southern Africa, following an international tender run by the Government of the Kingdom of Lesotho, which retains 30%. The acquisition, for US$9 million in staged payments, was in keeping with Lucapa's plans to add a second complementary premium-value production source to Lulo.

Mothae is located within 5km of Letšeng, the world's highest US$ per carat kimberlite mine. In January 2018, Letšeng produced a spectacular 910 carat D-colour Type IIa diamond reported to be the fifth largest gem-quality diamond ever recovered[2].

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

The diamonds recovered at Mothae from the previous trial mining phase included individual stones of up to 254 carats (boart), large Special Type IIa gems up to 54 carats with a total of 96 diamonds weighing more than 10 carats (See ASX announcement 31 January 2017).

JORC Resource

Following the acquisition, Lucapa engaged independent consultants MSA Group in South Africa ("MSA") to convert the existing Canadian-standard NI 43-101 indicated and inferred resource for Mothae into a JORC 2012 compliant estimate. This was completed in March 2017, resulting in a JORC resource of 1.0 million carats at an average modelled price of US$1,064 per carat – the second highest JORC compliant resource diamond value for a kimberlite mine (Refer Resource Statement section for further details).

Significantly, while the resource was modelled to a depth of 300m, MSA modelled the kimberlite to a depth of 500m, corresponding to a total estimated 77.4 million tonnes of kimberlite. Similarly, the +1 million carat resource to 300m did not include any material from the neck zone connecting the southern and northern lobes in the Mothae kimberlite pipe, which has not been sampled and is one of the areas to be sampled by Lucapa through the recently deployed bulk sampling program.

2. Gem Diamonds Limited announcement to the London Stock Exchange, 15 January 2018

Coloured diamonds recovered from trial mining at Mothae

New Mine Plan

Lucapa completed and announced an updated mine plan for Mothae in October 2017 designed to maximise kimberlite extraction, bring forward targeted diamond production and thereby increase project value and cash flows.

The improvements were primarily derived from a re-optimised pit design (to a depth of 300m) and increasing the size of the Phase 1 diamond plant from 100 tph to 150 tph.

The improvements from this plan included:

- A 29% increase in gross project revenues to **US$776 million**
- A 26% increase in net operating cash flows to **US$312 million**
- A 22% increase in diamond production to **498k carats**
- A 30% increase in kimberlite material mined to **25 million tonnes**
- A 12% increase in mine life to **13.5 years** (notwithstanding higher Phase 1 throughput)
- A 31% increase in modelled pre financing project NPV to **US$85 million** (range of **US$55 million-US$151 million**)

The assumptions used in the financial modelling from which the numbers above are extracted are included in the ASX release dated 23 October 2017.

Funding Secured

In October 2017, Lucapa secured a US$15 million funding facility from Equigold Pte Ltd, a private Singaporean company associated with prominent resources investor Simon Lee AO, for the Phase 1 development of Mothae.

Figure 2: Layout of the Mothae project showing the two lobes containing the +1m carat JORC resource to 300m and the neck and untreated kimberlite stockpiles not included in the JORC resource

With this funding secured, Lucapa was able to advance multiple development work streams at Mothae in late 2017 to prepare for commercial diamond production. Construction is well advanced and on schedule for full commissioning in H2 2018.

Refurbishment of Existing Plant for Bulk Sampling Program

Planning and work was also undertaken in late 2017 to refurbish and re-commission the existing bulk sampling plant and infrastructure at Mothae for a preliminary bulk sampling program. Processing of the first kimberlite material through the refurbished plant commenced in February 2018, with diamonds of up to 6.6 carats recovered from the initial test run.

The bulk sampling program will enable Lucapa to test material from areas not included in the current +1 million carat Mothae JORC resource, including the unprocessed kimberlite stockpiles, residual material and the neck zone, while also providing additional diamond data for other areas of the kimberlite.

Feeding the primary crusher of the re-commissioned bulk sampling plant and infrastructure at Mothae

BROOKING DIAMOND PROJECT, WESTERN AUSTRALIA

(Lucapa 100% subsidiary - project tenements owned 80%, Leopold Diamond Company 20%)

In late 2017, Lucapa completed 18 holes (1,319m) of a planned 19 hole HQ core drilling program at the Brooking diamond project in Western Australia's West Kimberley region.

Drilling was conducted across a series of targets identified within the 118km^2 Brooking project including Santa Fe (nine holes), Homestead Creek (two holes), North East Creek (four holes), south of Katie's Bore (two holes) and Little Spring Creek (completed one hole of the two planned).

The drilling aimed to identify possible lamproitic sources of the diamonds and abundant lamproite indicator minerals recovered from previous field sampling campaigns conducted within the Brooking project. Lamproite is a known host of diamonds in the West Kimberley region, most notably at the Ellendale E9 and E4 pipes located ~50km west of Brooking (Figure 3). When in operation, Ellendale was the world's leading producer of rare fancy yellow diamonds.

Lamproitic-like material was identified in the core from the one hole drilled at Little Spring Creek from near surface to a depth of approximately 70m. Access to the second target at Little Spring Creek was not possible at the time of the drilling program.

Significantly, previous stream and surface sampling programs had produced highly-anomalous concentrations of diamonds and lamproite indicator minerals in the creek downstream of Little Spring Creek, indicating a proximal local source (See ASX announcement 23 November 2016). These recoveries included 24 diamonds, 3,906 chrome-spinels, nine pyropes and two picro-ilmenites[3].

After initially undergoing petrographic analysis to confirm the core sample was lamproitic, intervals of core were selected for micro-diamond analysis from depths between 12.6m and 68.3m.

3. Brooking Diamond Project (Leopold Diamond Company Pty Ltd) Annual Report, December 2015, Department of Mines and Petroleum WA

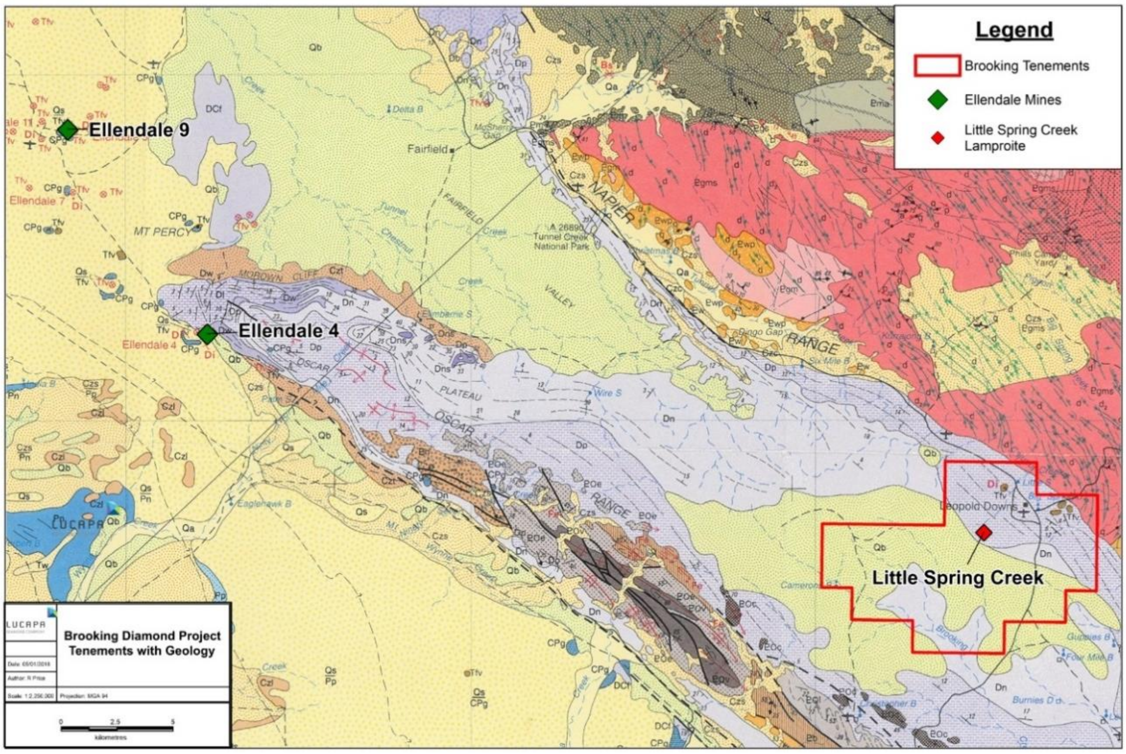
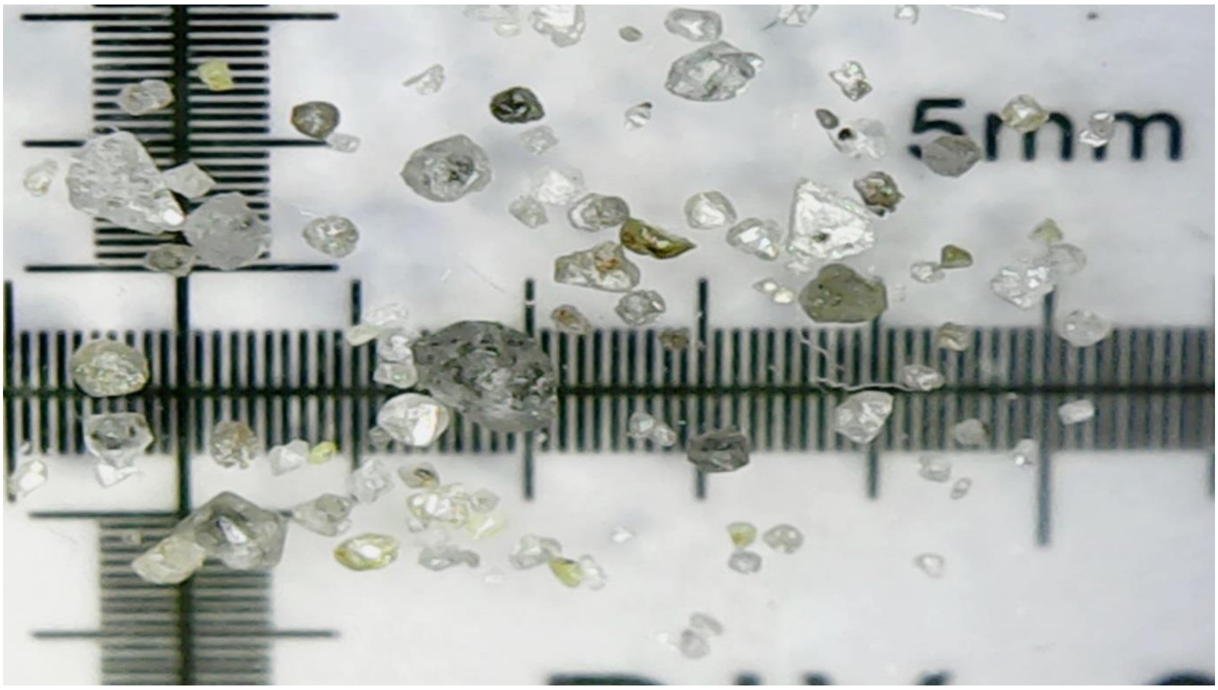


Figure 3: Location of the Little Spring Creek discovery at Brooking and proximity to the Ellendale diamond mines

Samples totalling 86.8kg were crushed and screened before undergoing heavy liquid separation and caustic fusion processing. The coarse fraction (>0.4mm) was subjected to a milling process in place of the caustic fusion. The final concentrate was examined for micro-diamonds and macro-diamonds by Global Diamond Exploration Services Pty Ltd down to a bottom screen size of 0.1mm.

As announced to the ASX on 11 January 2018, a total of 119 diamonds – including 112 micro-diamonds and 7 macro-diamonds (>0.5mm in at least one dimension) - were recovered from the 86.8kg core sample. The largest macro-diamond recovered was approximately 1.0mm x 0.6mm x 0.5mm.



Diamonds from Little Spring Creek including whites and yellows

A subsequent review of the diamonds from the Little Spring Creek drill core sample, once chemically cleaned, illustrated a relatively high white diamond content with a population of yellow diamonds also being noted.

Given the extremely positive results, Lucapa's geological team is preparing priority follow-up exploration programs at Little Spring Creek and other prospective targets identified within the broader 118km² Brooking project where diamonds and indicator minerals have also been recovered previously.

These programs will commence as soon as ground conditions permit after the northern wet season.

ORAPA AREA F PROJECT, BOTSWANA

(Lucapa 100% subsidiary)

Lucapa's Orapa Area F project is located ~40km east of the prolific Orapa diamond mine in Botswana.

As announced to the ASX on 9 January 2017, Lucapa was successful in defining a doubled-lobed coincident gravity/magnetic feature at the AN01 anomaly, measuring approximately 350m x 150m.

Lucapa sought environmental approvals for a drilling program to test both the AN01 anomaly and the BK38 kimberlite target. These approvals were delayed and drilling is now scheduled for 2018.

SCEHDULE OF TENEMENTS

Schedule of Tenements as at 31 December 2017					
Country	**Type**	**Size (km²)**	**Period**	**Interest (%)**	**End date**
Angola	Exploration (primary) Kimberlite	3,000	5 years	39	*
Angola	Mining (secondary) and Exploration Alluvial	1,500	10 years	40	07/2025
Lesotho	Mining Licence	47	10 years	70	01/2027
Botswana	Reconnaissance	16	3 years	100	09/2018
Australia	Exploration Licence	72	5 years	80	12/2020
Australia	Exploration Licence	13	5 years	80	03/2019
Australia	Exploration Licence	29	5 years	80	06/2022
Australia	Exploration Licence[1]	3			

** 5-year licence extensions approved by the Angolan Minister of Geology & Mines in November 2016 with attaching Mining Investment Contract still to be finalised*

[1] Application for Exploration Licence submitted and grant pending

The directors present their report together with the financial report of Lucapa Diamond Company Limited and its subsidiaries (collectively "the Group") for the financial year ended 31 December 2017 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	Date of appointment
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
G Gilchrist	Non-Executive Director	27 March 2012
A Thamm	Non-Executive Director	9 May 2014

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

Miles Kennedy
Non-Executive Chairman

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

Stephen Wetherall
Chief Executive Officer / Managing Director

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

N Selby
Chief Operating Officer/ Executive Director

Mr Selby is an extraction metallurgist with 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 and DRC, the Central African Republic, Indonesia, Lesotho and Botswana. He lives in Perth, Western Australia.

Gordon Gilchrist
Non-Executive Director

Mr Gilchrist holds a MSc in Business and MA in Physics. In 1993, Mr Gilchrist was appointed Managing Director of Argyle Diamond Mines in Western Australia, a position he held until 2002. During that time, Mr Gilchrist then became the founding Managing Director of Rio Tinto Diamonds, based out of Antwerp in Belgium, and served in that capacity until 2005. He lives in Perth, Western Australia.

Albert Thamm
Non-Executive Director

Mr Thamm is a senior geologist with broad industry experience spanning 28 years. His experience includes kimberlite diamond exploration in Russia, alluvial and kimberlite development in Angola, alluvial mining in South Africa and diamond exploration and mining in Australia. He was previously Chief Geologist and Alternate Registered Manager at the Ellendale diamond mine in Western Australia. He holds a M.Sc. from the University of Cape Town and is both a Fellow of the Society of Economic Geologists and the Australian Institute of Mining and Metallurgy. He is a JORC Competent Person for diamond exploration results, resources and reserves. He lives in Perth, Western Australia.

2. Company Secretary

Mr Mark Clements was appointed to the position of 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. Mr Clements is also a member of the Australian Institute of Company Directors and an affiliated member of the Institute of Chartered Secretaries in Australia.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) 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	6	6
S Wetherall	6	6
N Selby	6*	1
G Gilchrist	6	6
A Thamm	6	6

A: number of meetings attended;
B: number of meetings held during the time the directors were in office during the year.
* Mr Selby attended all board meetings during the year, five in the capacity of Chief Operating Officer and one as board member.

4. Nature of operations and principal activities

The Group's principal activities during the course of the financial period were the exploration and mining of diamond projects in Angola, Lesotho, Botswana and Australia.

5. Operating and financial review

The Group reported a loss after tax for the year ended 31 December 2017 of US$3,353,803 (31 Dec 2016: Profit of US$2,763,920). The Group had net assets of U$59,650,923 as at 31 December 2017 (31 Dec 2016: U$52,928,894).

The results for 2016 include a pre SML company formation distribution of U$5,907,172 received as the Company's share of the special distribution declared by the Lulo Joint Venture in February 2016 following the recovery and sale of the 404 carat *4th February Stone*. The distribution pre-dated the formation of SML in May 2016, the date from which the Company commenced equity accounting and recognition of its 40% share of the net result of SML in accordance with Australian Accounting Standards and International Financial Reporting Standards.

In line with the advancing stage of development on the Group's projects, the Group has necessarily increased its investment in human resources during the current year.

Review of financial condition

The Group was predominately focused on its Angolan diamond mining, evaluation and exploration interests at the Lulo Project together with the development of the Mothae project in Lesotho which was acquired during the year. These projects together with its early stage exploration assets in Australia and Botswana require ongoing development, evaluation and exploration work and funding to the extent mining operations do not produce sufficient cash flows to sustain the development activities.

Based on (i) the potential of the Lulo diamond concession (alluvial mining, exploration expenditure and the projected cash flows), (ii) the Mothae development expenditures, financing raised and its projected cash flows and (iii) the Company's other strategic initiatives and access to capital or finance, the directors are satisfied that the going concern basis of preparation is appropriate.

Significant changes in the state of affairs

Angola
During the current year, the Company continued to focus on the alluvial mining operations at Lulo and the mining of large and premium-value diamonds as well as the continuation of a systematic kimberlite drilling program aimed at identifying the kimberlite source(s) of the exceptional size and quality Lulo alluvial diamonds.

The Company also submitted its application to extend or renew its kimberlite exploration licence after the finalisation in 2016 and the negotiation, together with its partners of a new 5-year licence from the Angolan Ministry of Geology and Mines.

Lesotho
The Company completed the acquisition of Mothae during the year, finalised the new mine development plan, secured financing and commenced construction of Phase 1 of the project, along with a bulk sampling program utilising the old plant and infrastructure.

Botswana
During the year, the Company completed the selection of kimberlite drilling targets at the Orapa Area F diamond project.

Western Australia
The Company completed a successful drilling program at the Brooking diamond project in the West Kimberley which resulted in the discovery of lamproite at Little Spring Creek with significant concentrations of micro and macro diamonds in the drill core, including a population of yellow diamonds.

Corporate

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

Transaction	Number	Issue/ exercise price (A$)	Funds raised (US$)	Option expiry
Issue of shares	2,674,155	0.21	558,771	n/a
Issue of shares on exercise of LOMOA A$0.2 options and performance rights	53,241,137	0.16	8,300,794	n/a
Issue of options	11,600,000	0.35	-	30-Sep-18
Issue of options	500,000	0.53	-	15-May-19
Issue of options	250,000	0.45	-	24-May-20
Issue of options	2,250,000	0.46	-	31-May-20
Issue of performance rights	4,270,000	0.00	-	31-May-20
Issue of performance rights	1,100,000	0.00	-	10-Nov-20

During the year the Company also secured a US$15 million funding facility for Phase 1 of the development of Mothae from Equigold Pte Ltd, a private Singaporean company.

6. Dividends

No dividends were paid or declared by the Company during the current or prior financial year. In March 2017, the Lulo joint venture declared a distribution of US$4million to partners and a capital repayment of US$4 million to the Company. The Company received the capital repayment during the year while US$1.6million, being its 40% share of the US$4 million distribution was retained in Angola to fund ongoing Kimberlite exploration costs.

7. Environmental regulation

The Group's mining exploration activities are subject to various environmental regulations. The 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 that 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 8 January 2018, Lucapa announced the recovery of a 103 carat diamond - the 9th diamond from Lulo weighing more than 100 carats.

On 11 January 2018, Lucapa announced that seven macro-diamonds and 112 micro-diamonds had been recovered from 86.8kg of core sample from the one HQ holed drilled at the Little Spring Creek target within the Brooking diamond project in Western Australia's West Kimberley region. On 1 February 2018, Lucapa announced that a subsequent review of the chemically cleaned diamonds from Little Spring Creek illustrated a relatively high white diamond content with a proportion of yellow diamonds also being noted.

On 17 January 2018, Lucapa announced the recovery of the 10th diamond weighing more than 100 carats from Lulo, a low-quality 116 carat stone, recovered along with a 43 carat yellow, the largest coloured diamond recovered from Lulo to date.

On 2 February 2018, Lucapa announced the first sale of Lulo diamonds for 2018 had generated gross proceeds of US$9.1 million, representing an average price per carat of US$2,192.

On 5 February 2018, Lucapa released a presentation for the Mining Indaba Conference in Cape Town, South Africa.

On 12 February 2018, Lucapa announced the first diamond recoveries from the bulk sampling program at the Mothae kimberlite mine in Lesotho, including a diamond weighing 6.6 carats.

On 5 March 2018, Lucapa announced the second sale of Lulo diamonds for 2018 had generated gross proceeds of US$1.7 million, representing an average price per carat of US$804.

On 14 March 2018, Lucapa released an updated presentation for the Euroz Conference in Perth, Australia.

9. Likely developments

As outlined in the "Review of Operations" and "Events subsequent to reporting date" sections of this Directors' Report, the directors consider the following as a summary of the likely developments and expected results for the next 12 months.

Lulo
The main focus areas for Lulo include:

- The continued recovery and regular sale of alluvial diamonds by SML;
- Continuation of the systematic Lulo kimberlite drilling program and laboratory analysis;
- Consideration of a capital loan repayment to Lucapa from cash generated by SML and pro-rata distribution of profits to the SML partners;
- Finalisation of the Lulo Mineral Investment Contract for the 5-year kimberlite exploration licence.

Mothae
The main areas of focus at Mothae include:

- Commissioning of the new 150 tph plant including a XRT large-diamond recovery circuit at Mothae to herald the start of commercial diamond production;
- Continuation of the bulk sampling program at Mothae through the refurbished existing plant and infrastructure. This has the potential to generate early (pre-production) cash flows, to provide additional diamond data and expand the JORC resource and thus mine life.

Brooking
Lucapa is planning priority follow-up exploration programs at Little Spring Creek and other prospective targets identified within the broader 118km^2 Brooking project, which will commence as soon as ground conditions permit after the northern wet season. This will include:

- Infill stream sampling;
- Ground and possible airborne geophysics, including test work on capability of ground-penetrating radar in the area;
- Drilling;

- Laboratory analysis of core;
- Trenching and bulk sampling.

Orapa Area F
Lucapa is planning a kimberlite drilling program on its targets at Orapa Area F once the required approvals are received from authorities in Botswana.

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	Options over ordinary shares expiring 2 June 2019 (1)	Performance rights expiring 2 June 2019 (2)	Options over ordinary shares expiring 31 May 2020 (3)	Performance rights expiring 31 May 2020 (4)
M Kennedy	2,252,085	500,000	125,000	230,000	270,000
S Wetherall	1,565,000	500,000	250,000	400,000	750,000
N Selby	1,012,500	500,000	187,500	300,000	450,000
G Gilchrist	1,186,541	250,000	62,500	190,000	210,000
A Thamm	285,000	250,000	62,500	190,000	210,000

Note
(1) Options granted to directors following shareholder approval at the annual general meeting held 26 May 2016;
(2) Performance rights granted to directors following shareholder approval at the annual general meeting held 26 May 2016.
(3) Options granted to directors following shareholder approval at the annual general meeting held 30 May 2017;
(4) Performance rights granted to directors following shareholder approval at the annual general meeting held 30 May 2017.

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:

Expiry date	Exercise price (Aud)	Number of options	Quoted
Share options			
30 September 2018	$0.35	11,600,000	-
2 June 2019	$0.53	2,925,000	-
15 May 2019	$0.53	500,000	-
2 May 2020	$0.45	250,000	-
31 May 2020	$0.46	2,250,000	-
Performance rights			
2 June 2019	$0.00	1,068,750	-
31 May 2020	$0.00	3,431,250	-

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.

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 and operations management of the Company.

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

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

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

Fixed compensation

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

Directors' fees

Total compensation for directors and non-executive directors is set based on advice from external advisors with reference to fees paid to other directors of comparable companies. Directors' fees are presently limited to a total of US$1,058,983 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 or redundancy schemes in relation to directors.

Use of remuneration consultants

The Group did employ the services of a remuneration consultant during the financial year ended 31 December 2017 and the recommendations will be implemented in 2018.

Equity-based compensation (Long term incentive)

The Company has an Equity-based incentive plan in place under which directors and management are awarded share options and performance rights. The purpose of the plan is to assist in the reward and retention of directors and management, align their interest with those of the Shareholders of the Company and to focus on the Company's longer term goals.

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 mining, development, exploration and evaluation of mineral resources, the Board has again for 2017 given more significance to service criteria and performance instead of market related criteria in setting the Group's incentive schemes. Accordingly, at this stage the Board does not consider the Group's earnings or earning measures to be the only appropriate key performance indicator. The issue of options and performance rights as part of the remuneration package of directors, employees and contractors is an established practice for listed exploration and development companies and has the benefit of conserving cash whilst appropriately rewarding the recipient.

In circumstances where cash flow permits, the Board may approve the payment of a discretionary cash bonus as a reward for performance. During the current year, the Board resolved the payment of a bonus to the Managing Director of US$225,675 (2015: US$309,960) and US$27,731 (2016: US$295,200) to the Chief Operating Officer following the significant advancement and development of the Group's operations during the year as well as securing the acquisition of a US$15 million finance facility for the development of the Mothae project.

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 analysed.

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 US$439,874 (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 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.

Nicholas 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 US$332,775 (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 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 U$103,275 (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.

Gordon Gilchrist

Mr Gilchrist has been engaged to act as the Company's Non-Executive Director. Mr Gilchrist is entitled to receive director fees of U$62,877 (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.

Albert Thamm

Mr Thamm has been engaged to act as the Company's Non-Executive Director. Mr Thamm is entitled to receive director fees of U$62,877 (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. Mr Thamm also provides services as Competent Person to the Company.

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 (USD)
Executive Directors						
Stephen Wetherall, Chief Executive Officer /Managing Director	Dec 17	418,837	225,675	21,038	298,345	**963,894**
	Dec 16	287,820	309,960	22,140	208,720	**828,640**
Mr Nick Selby, Chief Operating Officer /Executive Director[2]	Dec 17	309,824	27,731	22,950	210,246	**570,752**
	Dec 16	269,369	295,200	25,830	164,889	**755,288**
Non-Executive Directors						**-**
Miles Kennedy, Non-Executive Chairman	Dec 17	103,275	-	-	107,374	**210,649**
	Dec 16	88,560	-	-	121,058	**209,618**
Gordon Gilchrist, Non-Executive Director	Dec 17	62,877	-	5,973	72,799	**141,649**
	Dec 16	53,918	-	5,122	60,529	**119,569**
Albert Thamm, Non-Executive Director	Dec 17	62,877	-	5,973	72,799	**141,649**
	Dec 16	53,918	-	5,122	60,529	**119,569**
Total	**Dec 17**	**957,690**	**253,406**	**55,934**	**761,563**	**2,028,593**
	Dec 16	**753,585**	**605,160**	**58,214**	**615,725**	**2,032,684**

(1) These options issued have been valued in accordance with the methodology listed in Note 18 to these financial statements.

(2) Mr Selby's remuneration has been included in full for the both periods, including remuneration received prior to his appointment as director.

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 or date of appointment	Options acquired	Exercise of options and performance rights	Expired without exercise	Options and performance rights granted	Held at 31 December	Vested & exercisable
2017							
M Kennedy	1,750,000	-	(625,000)	(500,000)	500,000	**1,125,000**	535,001
S Wetherall	2,250,000	-	(1,000,000)	(750,000)	1,400,000	**1,900,000**	716,667
N Selby	687,500	-	(75,000)	-	825,000	**1,437,500**	620,834
G Gilchrist	875,000	-	(562,500)	-	400,000	**712,500**	292,500
A Thamm	937,500	-	(148,030)	(476,970)	400,000	**712,500**	292,500
2016							
M Kennedy	1,000,000	-	(605,417)	-	1,355,417	**1,750,000**	1,166,667
S Wetherall	1,250,000	-	(500,000)	-	1,500,000	**2,250,000**	1,416,667
G Gilchrist	500,000	-	(183,750)	-	558,750	**875,000**	583,334
A Thamm	500,000	-	(107,500)	-	545,000	**937,500**	645,834

Movements in shares

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

Directors	Held at 1 January or date of appointment	Received upon exercise of options and performance rights	Sales	Purchases	Held at 31 December
2017					
M Kennedy	1,627,085	625,000	-	-	**2,252,085**
S Wetherall	565,000	1,000,000	-	-	**1,565,000**
N Selby	-	1,012,500	-	-	**1,012,500**
G Gilchrist	624,041	562,500	-	-	**1,186,541**
A Thamm	136,970	148,030	-	-	**285,000**
2016					
M Kennedy	751,668	575,417	-	300,000	**1,627,085**
S Wetherall	65,000	500,000	-	-	**565,000**
G Gilchrist	440,291	125,000	-	58,750	**624,041**
A Thamm	29,470	62,500	-	45,000	**136,970**

No shares were granted to KMP during the reporting period as compensation in 2017 or 2016.

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 2017 and prior period ended 31 December 2016.

14. Auditor independence and Non-audit services

The directors received the following declaration from the Company's auditors, Greenwich & Co:

Greenwich & Co

Greenwich & Co Audit Pty Ltd | ABN 51 609 542 458
Level 2, 35 Outram Street, West Perth WA 6005
PO Box 983, West Perth WA 6872
T 08 6555 9500 | F 08 6555 9555
www.greenwichco.com

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 2017, 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.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens
Managing Director
14 March 2018
Perth

During the period Greenwich & Co 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, Greenwich & Co are set out below:

	31 Dec 2017 USD	31 Dec 2016 USD
Auditors remuneration		
Audit services - Greenwich & Co.	31,051	32,675
Other services	-	-
	31,051	**32,675**

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

MILES KENNEDY

Chairman

Dated this 14 March 2018.

Lulo alluvial diamond resource

LULO CLASSIFIED INFERRED DIAMOND RESOURCE - 31 May 2017 LOM 40% attributable								
Inferred	**Area (m^2)**	**Insitu volume (m^3)**	**Grade (stns/m^3)**	**cts/stn**	**Stones**	**Carats**	**Insitu grade (cphm^3)**	**Modelled value (US$/carat)***
31 May 17	1,158,100	603,700	0.06	1.13	37,370	42,200	6.99	$1,215
31 Dec 16	1,167,300	606,600	0.07	1.07	45,200	48,200	7.95	$1,246
Notes:								
(i) Cphm^3: carats per 100 cubic metres; Stns/m^3: stones per cubic metre								
(ii) Average realised sales may be significantly higher in value than the modelled values shown above								
(iii) Bottom screen size: effective 1.5mm								
*Special stones are not excluded in the modelling stage, in terms of size or assortment.								

Changes in the resource reflect mining depletion in FY17. Resources are reconciled and depleted post the wet season and relies on drone photogrammetry to reflect accurate and precise survey information. The alluvial resource is independently estimated and reconciled on a depletion and addition basis by external consultants, Z Star Mineral Resource Consultants (Pty) Ltd, of Cape Town, South Africa at least once in a calendar year.

As noted in the ASX announcement of 16 October 2017, the Lulo partners are conducting ongoing pitting and auger drilling programs around the highest-value diamond areas at Lulo, Mining Blocks 6 and 8, to expand the Lulo diamond resources and thus continue the targeted three/four-year rolling inferred resource of the alluvial diamond mining operations. This work, which is referred to in the 16 October 2017 ASX announcement, is not included in the JORC classified inferred alluvial diamond resource as at 31 May 2017 which, was prepared for the purposes of the Venmyn Deloitte Competent Persons Report only. However, this work will be included in a scheduled update of the Lulo JORC diamond resource planned for 2018, with the aim of maintaining the rolling three/four-year inferred resource.

Information included in this report on the Lulo Inferred Alluvial Resource is based on and fairly represents information and supporting documentation prepared, compiled and supervised by Albert Thamm MSc FAusIMM (CP), who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm is a Director of Lucapa Diamond Company Limited. Mr Thamm has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Code. Mr Thamm and consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

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

Mothae kimberlite diamond resource

MOTHAE CLASSIFIED DIAMOND RESOURCE - 21 March 2017 LOM 70% attributable				
To 300m Below Surface; 2mm Bottom Screen				
Resource Classification	**Tonnes (Mt)**	**Grade (cpht)**	**Carats (million)**	**Modelled value (US$/ carat)**
Indicated (to 50m)	2.39	3.0	0.07	1,196
Inferred (50m-300m)	36.57	2.7	0.97	1,053
TOTAL	**38.96**	**2.7**	**1.04**	**1,063**

Notes:

(i) Table contains rounded figures

(ii) Grade figures are based on recovery factors derived from total content curves for each geological domain, and actual plant recoveries achieved

(iii) The Diamond Resource estimate was originally reported in accordance with Canadian NI 43-101 standard in February 2013 and has been re-stated in accordance with JORC 2012 guidelines

(iv) The estimate is global in nature

(v) Unclassified kimberlite exists from 300m to 500m below surface and in the neck zone

(vi) No mining has taken place during 2017, therefore current resources remain the same as at 21 March 2017

Information included in this table that relates to the stone frequency, grade and size frequency valuation and validation in the resource estimate is based on and fairly represents information and supporting documentation prepared and compiled by Dr Friedrich Johannes Reichhardt, Pri.Sci.Nat and Dr Johannes Ferreira, Pri.Sci.Nat. Both are employees of the MSA Group (Pty) Ltd, Johannesburg, South Africa. Both hold qualifications and experience such that both qualify as members of a Recognised Overseas Professional Organisation (ROPO) under relevant ASX listing rules. Dr Reichhardt and Dr Ferreira have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Code.

For more information on the current Mothae mine plan and production forecast, please refer to the ASX announcement released on the 23rd October 2017, titled "'Mothae Presentation – New Mine Development Plan".

CORPORATE GOVERNANCE STATEMENT

In fulfilling its obligations and responsibilities to its various stakeholders, the Board of Lucapa Diamond Company Limited is a strong advocate of good corporate governance. The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" (Recommendations) where considered appropriate for a company of Lucapa's size and complexity.

The 3rd edition of the ASX Corporate Governance Principles and Recommendations was introduced on 27 March 2014 and took effect for a listed entity's first full financial year ending on or after 1 July 2014. Accordingly, this Corporate Governance Statement has been prepared on the basis of disclosure under the 3rd edition of these principles. Details of the Company's compliance with these principles are summarised in the Appendix 4G announced to ASX in conjunction with the Annual Report.

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

Given the size and stage of development of the Group and the cost of strict compliance with all the recommendations, the Board has adopted a range of modified procedures and practices which it considers appropriate to enable it to meet the principles of good corporate governance. At the end of this statement is a checklist setting out the recommendations with which the Company does or does not comply. The information in this statement is current as at 14 March 2018.

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

Charters

- Board

Policies and Procedures

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

Principle 1 - Lay solid foundations for management and oversight - Role and Responsibilities of the Board and Management

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

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

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

Role of the Board

The Board responsibilities are as follows:

- Setting the strategic aims of Lucapa and overseeing management's performance within that framework;
- Making sure that the necessary resources (financial and human) are available to the Group and management to meet its objectives;
- Overseeing and measuring management's performance of the Company's strategic plan;
- Selecting and appointing a Managing Director with the appropriate skills to help the Group in the pursuit of its objectives;
- Controlling and approving financial reporting, capital structures and material contracts;
- Ensuring that a sound system of risk management and internal controls is in place;
- Setting the Company's values and standards;

- Undertaking regular review of the Corporate Governance policies to ensure adherence to the ASX Corporate Governance Council principles;
- Ensuring that the Company's obligations to shareholders are understood and met;
- Ensuring the health, safety and well-being of employees in conjunction with management, developing, overseeing and reviewing the effectiveness of the Group's occupational health and safety systems to assure the well-being of all employees;
- Ensuring an adequate system is in place for the proper delegation of duties for the effective day to day running of the Group without the Board losing sight of the direction that the Group is taking;
- Establishing a diversity policy and setting objectives for achieving diversity.

Delegation to Management

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

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

Election of Directors

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

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

Terms of appointment

Non-Executive Directors

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

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

Executive Directors

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

Role of Company Secretary

The Company Secretary is accountable to the Board for:

- Advising the Board and committees on corporate governance matters;
- The completion and distribution of Board and committee papers;
- Completion of Board and committee minutes; and
- The facilitation of director induction processes and ongoing professional development of directors.

All directors have access to the Company Secretary who has a direct reporting line to the Chairman.

Diversity

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

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

The Company has disclosed measurable diversity objectives for the current period in the Remuneration Report included in the Annual Report for the year ended 31 December 2017. The Group is continuing to assess and proactively monitor gender diversity at all levels of Lucapa's business and recognizes that it operates in a very competitive labour market where positions are sometimes difficult to fill. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

	31 December 2017				**31 December 2016**			
Gender representation	**Female**		**Male**		**Female**		**Male**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Board representation	-	-	5	100	-	-	4	100
Group representation	39	9.3	384	90.7	5	1.9	268	98.1

The Company, together with its subsidiaries and associates currently has 423 full-time employees of which 384 who are male and 39 who are female.

Performance review

Board and Board committees

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

The review focuses on:

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

A review of the Board's performance and effectiveness in respect of the year ended 31 December 2017 was conducted.

Managing Director and senior executives

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

For further information refer to the Remuneration Report.

Retirement and rotation of directors

Retirement and rotation of directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year, one third of directors must retire and may offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company. It is intended that Mr Nick Selby having been appointed since the 2017 Annual General meeting will retire and offer himself for re-election and Mr Miles Kennedy will stand for re-election by rotation at the Company's 2018 Annual General Meeting.

Independent Professional Advice

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

Access to employees

Directors have the right of access to any employee. Any employee shall report any breach of corporate governance principles or Company policies to the Chairman who shall remedy the breach. If the breach is not rectified to the satisfaction of the employee, they shall have the right to report any breach to an independent director without further reference to senior executives of the Company.

Directors' and officers' liability insurance

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

Board meetings

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

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

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

Principle 2 - Structure the Board to add value - Composition of the Board

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

The composition of the Board has been structured so as to provide Lucapa with an adequate mix of directors with industry knowledge, technical, commercial, capital markets and financial skills together with integrity and judgment considered necessary to represent shareholders and fulfil the business objectives of the Group.

The ASX Corporate Governance Council guidelines recommend that the Board should constitute of a majority of independent directors and that the Chairperson should be independent. The Board consists of five directors of whom three are considered independent, being Mr Miles Kennedy (Non-executive Chairman - appointed as a director on 12 September 2008 and served as Executive Director until 11 December 2014), Mr Albert Thamm (Non-Executive Director - appointed 9 May 2014) and Mr Gordon Gilchrist (Non-Executive Director – appointed 27 March 2012). Mr Stephen Wetherall (appointed 13 October 2014) is Managing Director and therefore does not meet the criteria for an independent director due to his executive role. Mr Nick Selby (appointed 4 September 2017) is Executive Director and therefore does not meet the criteria for an independent director due to his executive role.

The Company has an adequate representation of independent directors and the Board considers the current balance of skills and expertise is appropriate for the Group. The detailed skills matrix of the Board for a group of Lucapa's size and complexity is not considered necessary. The principal business of the Group at present is alluvial diamond mining operations and kimberlite mine development and exploration which therefore require a technical skillset of geological, geophysical and engineering expertise, executive and project management, financial and commercial skills.

The Board comprises directors who each have extensive technical, financial, capital markets and commercial expertise. The Board will address the skills commensurate with the growth and development of the Group's activities to ensure those skill sets are complemented by additional industry expertise in the sector pursued as required.

Nomination of other Board Members

Membership of the Board of directors is reviewed on an on-going basis by the Chairperson of the Board to consider diversity and to determine if additional core strengths are required to be added to the Board in light of the nature of the Group's businesses and its objectives. The Board does not have a separate Nomination Committee and does not believe it is necessary in a Group of Lucapa's size.

Director induction and ongoing professional development

The Company does not have a formal induction program for directors but does provide directors with an information pack detailing policies, corporate governance and various other corporate requirements of being a director of an ASX listed company. Due to the size and nature of the business, directors are expected to already possess a level of both industry, technical and commercial expertise before being considered for a directorship of the Company. Directors are provided with the opportunity to access employees of the business and any information as they require about the business including being given access to regular news articles and publications where considered relevant.

Principle 3 - Promote ethical and responsible decision-making - Code of Conduct

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

Conflicts of Interest

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

Trading in Company Securities

Directors are required to make disclosure of any share trading. The Company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the Group or within a period of the release of results i.e. the blackout period. That is information which a reasonable person would expect to have a material effect on the price or value of the Company's shares. An officer must receive authority to acquire or sell shares with the directors or the Company Secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the ASX.

Principle 4 - Safeguard integrity in financial reporting

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

The Board does not have a separate Audit Committee and does not believe it is necessary in a Group of Lucapa's size. Instead, the five Board members, who each have extensive commercial and financial expertise, manage the financial oversight as well as advise on the modification and maintenance of the Group's financial reporting, internal control structure, external audit functions, and appropriate ethical standards for the management of the Group.

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

The Managing Director reports on the propriety of compliance on internal controls and reporting systems and ensures that they are working efficiently and effectively in all material respects.

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

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

Principle 5 - Make timely and balanced disclosure

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

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

The policy also addresses the Company's obligations to prevent the creation of a false market in its securities. Lucapa ensures that all information necessary for investors to make an informed decision is available on its website.

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

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

Principle 6 - Respect the rights of shareholders

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

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

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

Shareholders have the option to receive all Company and share registry communications electronically, and may also communicate with the Company by emailing the Company via its website. All shareholders have the ability to request copies of ASX releases, all of which are published and available on the Company's website immediately after they are released to ASX.

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

Principle 7 - Recognise and Manage Risk

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

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

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

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

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

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

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

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

Internal Audit

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

Sustainability Risks

The Group has a detailed risk matrix which it regularly reviews and which highlights critical risk factors the Group faces at any particular time. The principal risks highlighted are what would typically be expected for a small listed mining and exploration company and include;

- Reliance on key executives;
- Inability to access new exploration and development capital;
- Unsuccessful exploration results;
- Exposure to other operators, be it through Joint Venture agreements or actions of those operators in an operational sense;
- Legislature changes in the jurisdiction the Group operates in.

As the Group expands its activities either within existing projects or with the addition of new projects, it is expected that the sustainability risks will change accordingly. The Board reviews the overall sustainability of both the diamond business and more specifically, the Group, in its normal course of business and therefore does not produce a separate sustainability report.

Principle 8 - Remunerate fairly and responsibly

The Company does not have a Remuneration Committee. Instead, the Board monitors and reviews the remuneration policy of the Group. The Board does engage an independent remuneration consultant to review the Group's policy on remuneration as and when required.

Details of the remuneration policy are contained in the Remuneration Report included in the Directors' Report. The Company's policy is to remunerate non-executive directors at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance. The Company may grant options and performance rights to non-executive directors. The grant of options and performance is designed to recognise and reward efforts as well as to provide non-executive directors with additional incentive to continue those efforts for the benefit of the Group.

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

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

There are currently no termination or retirement benefits for non-executive directors (other than for superannuation).

	Note	31 Dec 2017 USD	31 Dec 2016 USD
Distribution from Lulo Joint Venture	5	-	5,907,172
Share of profit of associate	14	6,457,022	4,050,385
Fair value adjustments	12	(3,318,172)	(1,541,896)
Finance income	5	70,265	52,629
Consulting expenses		(767,905)	(1,145,673)
Depreciation expense		(181,688)	(169,455)
Employee benefits expenses	6	(2,776,740)	(2,207,554)
Director and employee options	6	(1,595,424)	(936,892)
Finance expense		(565,377)	(48,794)
Foreign exchange gain/(loss)		140,435	(319,343)
Other expenses		(816,219)	(876,659)
(Loss)/profit before income tax		**(3,353,803)**	**2,763,920**
Income tax expense	7	-	-
(Loss)/profit after income tax for the period		**(3,353,803)**	**2,763,920**
Other comprehensive income/(loss)		248,395	(4,865)
Total comprehensive (loss)/income attributable to members of the Company		**(3,105,408)**	**2,759,055**
(Loss)/earnings per share			
Basic (loss)/earnings per share (cents)	8	(0.98)	0.91
Diluted (loss)/earnings per share (cents)	8	(0.94)	0.82

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

	Note	31 Dec 2017 USD	31 Dec 2016 USD
Assets			
Cash and cash equivalents	9	8,296,887	4,349,142
Trade and other receivables	10	512,409	83,242
Inventories	11	29,304	-
Financial assets	12	809,444	236,975
Total current assets		**9,648,044**	**4,669,359**
Property plant and equipment	13	34,370,797	11,515,575
Non-current financial assets	12	25,778,095	33,285,531
Investment in associate	14	8,907,407	4,050,385
Total non-current assets		**69,056,299**	**48,851,491**
Total assets		**78,704,343**	**53,520,850**
Liabilities			
Trade and other payables	15	8,300,735	184,723
Borrowings	17	1,742,900	407,233
Total current liabilities		**10,043,635**	**591,956**
Non-current provisions	16	935,600	-
Non-current borrowings	17	8,074,185	-
Total non-current liabilities		**9,009,785**	**-**
Total liabilities		**19,053,420**	**591,956**
Net assets		**59,650,923**	**52,928,894**
Equity			
Share capital	18	96,981,417	89,114,329
Reserves		13,421	(1,923,581)
Accumulated losses		(37,343,915)	(34,261,854)
Total equity		**59,650,923**	**52,928,894**

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

	Issued capital USD	Share based payments reserve USD	Foreign currency translation reserve USD	Accumulated losses USD	Total USD
Balance at 1 January 2016	74,882,174	2,968,459	(5,863,846)	(37,115,972)	34,870,815
Comprehensive income for the period					
Profit for the period	-	-	-	2,763,920	2,763,920
Other comprehensive loss	-	-	(4,865)	-	(4,865)
Total comprehensive income for the period	**-**	**-**	**(4,865)**	**2,763,920**	**2,759,055**
Transactions with owners, recorded directly in equity					
Issue of share capital	14,492,901	-	-	-	14,492,901
Issue of options	-	970,451	-	-	970,451
Expiry of options	-	(2,107)	-	2,107	-
Transfer of reserves on exercise of options	47,870	(323,129)	331,456	88,091	144,288
Share issue expenses	(308,616)	-	-	-	(308,616)
Total transactions with owners	**14,232,155**	**645,215**	**331,456**	**90,198**	**15,299,024**
Balance at 1 January 2017	**89,114,329**	**3,613,674**	**(5,537,255)**	**(34,261,854)**	**52,928,894**
Comprehensive income for the period					
Loss for the period	-	-	-	(3,353,803)	(3,353,803)
Other comprehensive income	-	-	248,395	-	248,395
Total comprehensive income for the period	**-**	**-**	**248,395**	**(3,353,803)**	**(3,105,408)**
Transactions with owners, recorded directly in equity					
Issue of share capital	8,859,565	-	-	-	8,859,565
Issue of options	-	1,960,349	-	-	1,960,349
Expiry of options	-	(271,742)	-	271,742	-
Transfer of reserves on exercise of options	-	-	-	-	-
Share issue expenses	(992,477)	-	-	-	(992,477)
Total transactions with owners	**7,867,088**	**1,688,607**	**-**	**271,742**	**9,827,437**
Balance at 31 December 2017	**96,981,417**	**5,302,281**	**(5,288,860)**	**(37,343,915)**	**59,650,923**

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

	Note	31 Dec 2017 USD	31 Dec 2016 USD
Cash flows from operating activities			
Proceeds of distribution from Lulo Joint Venture		-	6,563,532
Cash paid to suppliers and employees		(4,215,079)	(4,373,296)
Interest and finance cost		(550,999)	(44,132)
Interest received		70,265	50,198
Withholding tax paid		-	(656,360)
Net cash (used in)/generated from operating activities		**(4,695,813)**	**1,539,942**
Cash flows from investing activities			
Payments for exploration costs		(1,337,434)	(1,416,147)
Payments for development		(940,701)	(6,630,505)
Proceeds from/(payments to) associate		3,706,255	(3,005,095)
Payments for property plant and equipment		(9,749,821)	(22,634)
Net cash used in investing activities		**(8,321,701)**	**(11,074,381)**
Cash flows from financing activities			
Proceeds from issue of share capital		8,085,479	14,539,654
Share issue costs		(455,015)	(275,055)
Repayment of borrowings		(4,624,587)	-
Proceeds from borrowings		14,089,860	(986,347)
Net cash generated from financing activities		**17,095,737**	**13,278,252**
Net increase in cash and cash equivalents		**4,078,223**	**3,743,813**
Cash and cash equivalents at beginning of period		4,349,142	622,208
Exchange loss on foreign cash balances		(130,478)	(16,879)
Cash and cash equivalents at end of period	9	**8,296,887**	**4,349,142**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

1. 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 and its subsidiaries (collectively "the Group") is primarily involved in the mining and exploration of diamond projects in Africa and Australia.

2. Basis of preparation

(a) 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 financial statements were authorised for issue by the Board of Directors on the date of the directors' report.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for equity settled share-based payments. The methods used to determine fair values of equity settled share-based payments are discussed further in Note 3. The financial statements have been prepared on the going concern basis.

Going concern basis

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. Whilst the Group has achieved diamond exploration, alluvial development and mining success at the Lulo Diamond Project, the directors recognise that the Group may have to seek funding in the future in order to continue to exploit and develop the Lulo diamond project, the Mothae Kimberlite Project and Brooking and Orapa Exploration Projects.

The Group recorded a loss after tax of US$3,353,803 for the year ended 31 December 2017 (Dec 2016: profit of US$2,763,920) and had net assets of US$59,650,923 as at 31 December 2017 (Dec 2016: US$52,928,894). The results for 2016 include a pre SML company formation distribution U$5,907,172 received by the Company for the special distribution declared by the Lulo Joint Venture in February 2016 following the recovery and sale of the 404 carat *4th February Stone*. In line with the advancing stage of development on the Group's projects, the Group has necessarily increased its investment in human resources during the current year.

During the current year the Company secured a US$15 million three-year funding facility for Phase 1 of the development of Mothae from Equigold Pte Ltd, a private Singaporean company. As at 31 December 2017, US$5 million of the facility was unutilised and still available to the Company. During the year the Company also received a US$4million capital repayment of its historical investment in the Lulo joint venture. Further repayments will be pursued in the future based on the financial results and position of the Lulo project.

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

- Continued successful operation of the Lulo alluvial mine to generate cash;
- Continued successful development of Mothae kimberlite mine to generate cash;
- Continued cash management and successful exploration;
- The continued successful placement of securities under the ASX Listing Rule 7.1, or otherwise (including the conversion of share options in 2018) or access to suitable debt finance; and
- No unforeseen unfavourable developments in the foreign exchange environment in Africa.

The Directors believe that the above funding strategies can be achieved and the going concern basis is appropriate for the following reasons:

- The Group operates on a program of income and expenditure designed to ensure that there are at all times sufficient funds in hand to continue operations, whilst at the same time continuing the alluvial mining development and other mine development diamond exploration projects in an effective manner; and
- The successful historical ability of the Group to raise capital via equity placements, capital raisings and finance given the prospectivity of the Lulo Diamond Project and the recent acquisition of the Mothae Kimberlite Project.

However, should the Group be unable to obtain sufficient funding as advised above, there is a material uncertainty which may cast doubt as to whether or not the Group will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(c) New or revised accounting policies

The Group adopted all new or revised accounting standards that became effective for reporting periods commencing on 1 January 2017. The adoption of these standards has not resulted in any material changes to the Group's accounting policies. Other standards that have been issued but are not yet effective are considered to have no significant effect on the financial statements.

(d) 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.

(e) Foreign currency

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.

(f) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 3(m).

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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.

(g) Property, plant and equipment

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 years
Office equipment	5-10 years
Mine development	Lesser of life of mine or period of lease

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.

(h) Deferred exploration and evaluation costs

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.

(i) Inventories

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.

(j) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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 dies not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) 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 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 payment transactions

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes and binomial option pricing models, taking into account the terms and conditions upon which the options were granted. The amount recognised is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met.

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.

(l) Provisions

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.

(m) Revenue

Sale of non-current assets

The net gain/(loss) on the sale of non-current assets is included as revenue or expense at the date control of the assets passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(n) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's balance sheet.

Payments made under operating leases are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(o) Finance income and expenses

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.

(p) Income tax

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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 nor the accounting profit.

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.

(q) Goods and services 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.

(r) Segment reporting

The Group determines and presents operating segments based on the information that internally 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 earn 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 are reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Earnings/ Loss per share

Basic earnings 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 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.

(t) 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 below. 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. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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.

Share-based payment transactions

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 within Note 19. 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.

Provisions for rehabilitation

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.

Impairment

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.

Financial assets

The Group's financial assets include the receivable in respect of the alluvial project 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 note 11.

(u) 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.

Non-derivative 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.

Share-based payment transactions

The fair value of options issued is measured using the Black-Scholes and 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.

4. Segment reporting

	Africa - Exploration & Evaluation, Development and Mining		Australia - Exploration & Evaluation and Head Office		Total	
	31 Dec 2017 USD	31 Dec 2016 USD	31 Dec 2017 USD	31 Dec 2016 USD	31 Dec 2017 USD	31 Dec 2016 USD
Assets						
Cash and cash equivalents	27,106	-	8,269,781	4,349,142	8,296,887	4,349,142
Trade and other receivables	369,124	-	143,285	83,242	512,409	83,242
Inventory	29,304	-	-	-	29,304	-
Financial assets	-	204,570	809,444	32,405	809,444	236,975
Total current assets	**425,534**	**204,570**	**9,222,510**	**4,464,789**	**9,648,044**	**4,669,359**
Property plant and equipment	33,574,641	11,488,158	796,156	27,417	34,370,797	11,515,575
Non-current financial assets	25,778,095	33,285,531	-	-	25,778,095	33,285,531
Investment in associate	8,907,407	4,050,385	-	-	8,907,407	4,050,385
Total non-current assets	**68,260,143**	**48,824,074**	**796,156**	**27,417**	**69,056,299**	**48,851,491**
Total assets	**68,685,677**	**49,028,644**	**10,018,666**	**4,492,206**	**78,704,343**	**53,520,850**
Liabilities						
Trade and other payables	8,029,879	-	270,856	184,723	8,300,735	184,723
Borrowings	28,029	407,233	1,714,871	-	1,742,900	407,233
Total current liabilities	**8,057,908**	**407,233**	**1,985,727**	**184,723**	**10,043,635**	**591,956**
Non-current provisions	935,600	-	-	-	935,600	-
Non-current borrowings	-	-	8,074,185	-	8,074,185	-
Total non-current liabilities	**935,600**	**-**	**8,074,185**	**-**	**9,009,785**	**-**
Total liabilities	**8,993,508**	**407,233**	**10,059,912**	**184,723**	**19,053,420**	**591,956**
Profit or loss						
(Loss)/profit before income tax	2,736,271	8,415,661	(6,090,074)	(5,656,606)	(3,353,803)	2,759,055

The Group engages in business activities within one business segment currently, being the exploration, development and mining of diamond projects in Africa and Australia. The Group maintains a corporate and administrative office in Western Australia to support and promote the exploration and mining activities.

	Note	31 Dec 2017 USD	31 Dec 2016 USD
5. Income			
Distribution received			
Distribution from Lulo Joint Venture		-	6,563,532
Withholding tax paid		-	(656,360)
		-	**5,907,172**

The 2016 amount relates to a pre SML company formation distribution received following the recovery and sale of the 404 carat *4th February Stone* (refer to section 5 of the directors report).

	Note	31 Dec 2017 USD	31 Dec 2016 USD
Finance income			
Interest on bank deposits		70,265	52,629
		70,265	**52,629**
6. Expenses			
Auditors remuneration			
Greenwich & Co (Auditors of parent company & consolidation)			
Audit services		31,051	32,675
Other services		-	-
		31,051	**32,675**
Other group auditors (for subsidiary companies)			
Audit services		4,387	-
Other services		1,735	-
		6,122	**-**
Employee benefits expenses			
Wages, salaries and director remuneration		2,385,028	1,951,949
Superannuation costs		119,484	93,231
Share-based payments	18	1,595,424	936,892
Other associated employee expenses		272,228	162,374
		4,372,164	**3,144,446**
Operating lease rental		137,548	57,968
7. Income tax			
Current tax expense			
Current income tax charge		-	-
Current income tax adjustments relating to prior years		-	-
Deferred tax expense			
Relating to origination and reversal of temporary differences		-	-
Total income tax expense		**-**	**-**

	31 Dec 2017 USD	31 Dec 2016 USD
7. Income tax (continued)		
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate		
Net (loss)/profit before tax	(3,353,803)	2,763,920
Income tax benefit using the Australian domestic tax rate of 30%	(1,006,141)	829,176
Increase in income tax due to tax effect of:		
Non-deductible expenses	1,906,138	1,288,968
Current year tax losses not recognised	1,016,722	885,567
Impact of unrecognised temporary differences	44,714	7,592
Decrease in income tax expense due to:		
Non-assessable income	-	(1,772,151)
Share of profit of associate	(1,937,107)	(1,215,116)
Deductible equity raising costs	(24,326)	(24,036)
Income tax expense	**-**	**-**
Recognised deferred tax assets and liabilities		
Recognised deferred tax assets		
Tax losses	4,769,037	-
Accruals & provisions	245,503	-
	5,014,540	**-**
Less: Set off of deferred tax liabilities	(5,014,540)	-
Net deferred tax assets	**-**	**-**
Recognised deferred tax liabilities		
Property plant and equipment	(4,984,849)	-
Other	(29,691)	-
	(5,014,540)	**-**
Less: Set off of deferred tax assets	5,014,540	-
Net deferred tax liabilities	**-**	**-**
Deferred tax assets not recognised		
Tax revenue losses	9,518,779	4,293,687
Tax capital losses	5,167,853	4,762,441
Deductible temporary differences	147,165	83,134
	14,833,797	**9,139,262**

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.

	31 Dec 2017	31 Dec 2016
8. (Loss)/earnings per share		
	Cents	**Cents**
Basic (loss)/earnings per share (cents per share)	(0.98)	0.91
Diluted (loss)/earnings per share (cents per share)	(0.94)	0.82
	USD	**USD**
(Loss)/earnings used in calculating earnings per share		
(Loss)/profit attributable to members of the Company used in calculating basic earnings per share	(3,353,803)	2,763,920
(Loss)/profit attributable to members of the Company used in calculating diluted earnings per share	(3,353,803)	2,763,920
	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	341,078,095	304,991,400
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	357,284,848	336,758,055

	USD	USD
9. Cash and cash equivalents		
Balances on hand		
Bank balances	8,296,887	4,349,142
	8,296,887	**4,349,142**
Cash flow reconciliation		
Reconciliation of (loss)/profit after tax to cash flows from operations:		
(Loss)/profit for the period	(3,353,803)	2,763,920
Adjustments for:		
Depreciation expense	181,688	169,455
Director and employee options	1,595,424	936,892
Exchange gains	130,479	16,880
Interest received	-	-
Interest and other finance costs paid	9,794	
Fair value loss on financial assets	3,318,172	1,541,896
Share of profit of associate	(6,457,022)	(4,050,385)
Other non cash items	136,854	292,878
Working Capital adjustments:		
Increase/decrease in inventory	(29,304)	-
Increase/decrease in trade and other receivables	(179,616)	(30,530)
Increase/decrease in trade and other payables relating to operating activities	(48,479)	(101,064)
Net cash (used in)/generated from operating activities	**(4,695,813)**	**1,539,942**

Refer note 19 for exposure to interest rate risk.

	31 Dec 2017 USD	31 Dec 2016 USD
10. Trade and other receivables		
Current		
GST/ VAT receivable	330,741	30,114
Prepayments and other receivables	181,668	53,128
	512,409	**83,242**

Refer note 19 for exposure to credit and currency risk.

	31 Dec 2017 USD	31 Dec 2016 USD
11. Inventories		
Consumables and other inventory	29,304	-
	29,304	**-**

	31 Dec 2017 USD	31 Dec 2016 USD
12. Financial assets		
Current financial assets		
Foreign currency derivatives	650,440	-
Other short term financial assets	159,004	236,975
Total	**809,444**	**236,975**
Non current financial assets		
Receivable in respect of the alluvial project		
At 1 January	33,285,531	-
Transfer from Alluvial development	-	30,586,883
Investment during the period	293,745	4,240,544
Repayment received	(4,000,000)	-
Fair value gain on foreign exchange	-	4,607,322
	29,579,276	**39,434,749**
Fair value adjustment due to discounting	(3,801,181)	(6,149,218)
At end of period	**25,778,095**	**33,285,531**

The receivable in respect of the alluvial project was transferred from Alluvial development as per note 14 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 and delays in the timing of repayments which will decrease the fair value estimate. A discount rate of 10.72% has been applied in the fair value calculation.

13. Property plant and equipment

	Deferred exploration and evaluation costs USD	Mine development USD	Plant and equipment USD	Computer equipment USD	Office equipment USD	Total USD
Cost						
Balance at 1 January 2016	8,279,406	28,483,587	-	5,078	12,811	36,780,882
Additions	1,387,659	4,091,138	-	18,104	4,530	5,501,431
Transfer to Financial Assets	-	(30,586,883)	-	-	-	(30,586,883)
Balance at 31 December 2016	**9,667,065**	**1,987,842**	**-**	**23,182**	**17,341**	**11,695,430**
Additions	3,047,159	11,270,153	7,954,970	70,336	11,928	22,354,546
Foreign currency movements	8,537	65,332	603,297	5,008	427	682,601
Balance at 31 December 2017	**12,722,761**	**13,323,327**	**8,558,267**	**98,526**	**29,696**	**34,732,577**
Accumulated depreciation						
Balance at 1 January 2016	-	-	-	2,562	7,838	10,400
Amortisation/depreciation charge for the year	-	166,749	-	1,666	1,040	169,455
Balance at 31 December 2016	**-**	**166,749**	**-**	**4,228**	**8,878**	**179,855**
Amortisation/depreciation charge for the year	-	170,896	-	8,348	2,444	181,688
Foreign currency movements	-	-	-	202	35	237
Balance at 31 December 2017	**-**	**337,645**	**-**	**12,778**	**11,357**	**361,780**
Net carrying amounts						
At 31 December 2016	9,667,065	1,821,093	-	18,954	8,463	11,515,575
At 31 December 2017	**12,722,761**	**12,985,682**	**8,558,267**	**85,748**	**18,339**	**34,370,797**

Deferred exploration costs represent the cumulative expenditure incurred in relation to the Lulo, Botswana 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, explore for kimberlite in Botswana and for lamproite in Australia. Current period additions include U$1.6m relating to the dividend declaration by SML which was retained in Angola for purposes of kimberlite exploration.

During previous financial years, the Group established an alluvial diamond mining operation on the Lulo concession, under a mining license granted by the Angolan Ministry of Geology and Mines and under the permission of Endiama, the national diamond mining company of Angola. Previous expenditure for this project had been capitalised as deferred exploration and evaluation and was transferred to Mine Development cost during the development phase. In accordance with the Mining Investment Contract, the JV partners agreed that in the event of a commercial diamond mining operation being established on the Lulo diamond project, all alluvial and kimberlite exploration and development funds and assets that the Group has contributed to the project should be reimbursed from each of the respective mining operations when commercialised. As such and following the incorporation of SML in May 2016, the alluvial mining company for the Lulo project, the net cumulative balance of the Alluvial Development cost was transferred to Financial Assets as a receivable (note 12).

During the current period the Group acquired 70% of Mothae Diamonds (Proprietary) Limited in Lesotho (refer p9) and the directors concluded that it is appropriate to account for the acquistion as an asset acquistion. The acquisition and development cost are recognised under Mine Development and Plant and equipment.

	31 Dec 2017 USD	31 Dec 2016 USD
14. Investment in associate		
Summarised financial information of SML		
Current assets	21,245,644	20,565,909
Non-current assets	31,323,195	32,231,269
Current liabilities	(7,665,769)	(8,865,492)
Non-current liabilities	(28,263,577)	(39,434,749)
Equity	**16,639,493**	**4,496,937**
Group's carrying amount of the investment	8,907,407	4,050,385
Revenue	31,602,817	25,768,711
Cost of sales	(21,672,736)	(8,912,869)
Administrative and selling expenses	(3,681,774)	(3,670,650)
Fair value adjustments	9,941,930	-
Profit before tax	**16,190,237**	**13,185,192**
Income tax expense	(47,682)	(2,826,532)
Profit for the period	**16,142,555**	**10,358,660**
Total comprehensive income for the period	**16,142,555**	**10,358,660**
Group's share of profit for the period	6,457,022	4,050,385
SML Contingent liabilities	-	-
SML Capital commitments	-	-

The Company has a 40% interest in SML and has recognised its share of SML's results since its formal incorporation in May 2016. In accordance with the Group's accounting policy the 2017 dividend declared by SML of US$1.6m (2016: nil) has been netted off the carrying amount of the investment. The current year earnings of SML include fair value adjustments in relation to the discounting of the financial asset of Lucapa reflected under note 12.

	31 Dec 2017 USD	31 Dec 2016 USD
15. Trade and other payables		
Trade payables	3,509,910	59,819
Mothae deferred purchase consideration	4,500,000	-
Accruals and other payables	290,826	124,904
Total	**8,300,735**	**184,723**

Refer note 19 for exposure to currency and liquidity risk.
The Mothae deferred purchase consideration is payable in eight equal instalments as from June 2018.

	31 Dec 2017 USD	31 Dec 2016 USD
16. Provisions		
Provision for environmental rehabilitation		
At 1 January	-	-
Increase/(decrease) during the year	858,910	-
Foreign exchange difference	76,690	-
At end of period	**935,600**	**-**

The provision for rehabilitation has been recognised in respect of the Mothae kimberlite project. It is based on the expected rehabilitation cost over the life of the mine and discounted back to present value using a pre-tax discount rate that reflect current market assessments. Assumptions include an estimated rehabilitation timing of 12 to 16 years, an annual inflation rate of 5.26% and a discount rate of 7.61%.

	31 Dec 2017 USD	31 Dec 2016 USD
17. Borrowings		
Current borrowings		
Finance lease liabilities	3,765	407,233
Other short-term loans	1,739,135	-
Total	**1,742,900**	**407,233**
Non-current borrowings		
Finance lease liabilities	24,263	-
Other non-current loans	8,049,922	-
Total	**8,074,185**	**-**
Finance lease commitments		
Minimum payments		
Payable within one year	6,814	412,191
Payable after one year but less than five years	30,136	-
Payable after more than five years	-	-
Total minimum lease payments	36,950	412,191
Less: finance charges	(8,922)	(4,958)
Present value of minimum lease payments	**28,028**	**407,233**
Present value of payments		
Payable within one year	3,766	407,233
Payable after one year but less than five years	24,262	-
Payable after more than five years	-	-
Present value of minimum lease payments	**28,028**	**407,233**

The prior period finance lease liability primarily reflects the remaining amount due in respect of new Caterpillar earthmoving equipment acquired during 2016. The liability was settled during 2017 and carried interest at an annual rate of 9%.

The loan amounts reflect the current and non-current portions due to Equigold Pte Ltd ("Equigold"), a private Singaporean entity in terms of the funding facility agreement (refer p 16) announced to the ASX on 9 October 2017. The terms of the loan include the following:

• Total loan facility of US$15million of which US$ 5 million is unutilised at the end of the period;
• The capital balance is repayable in eight quarterly payments commencing December 2018;
• Market related fees are 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;
• Interest is payable at 13% pa;
• Lucapa, as its election, can convert fees and quarterly interest into ordinary shares in the Company;
• The loan is secured by way of a General Security Deed granted by Lucapa in favour of the lender over collateral consisting of all of the Company's present and after acquired property, undertaking and rights.

	31 Dec 2017 Number	31 Dec 2017 USD
18. Share capital		
Listed securities		
Movement in ordinary shares		
On issue at beginning of period	324,972,139	89,114,329
Issue of shares	2,674,155	558,771
Issue of shares on exercise of options and performance rights	53,241,137	8,300,794
Transaction costs	-	(992,477)
On issue at end of period	**380,887,431**	**96,981,417**
Movement in listed options		
ASX code: LOMOA		
Expiry date: 30 September 2017		
Exercise price: A$0.20		
On issue at beginning of period	46,460,607	-
Issue of options	-	-
Exercise of options	(46,460,607)	-
Expiry of options	-	-
On issue at end of period	**-**	**-**

Terms and conditions

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

Share-based payments

	31 Dec 2017	31 Dec 2016
Weighted average remaining contractual life of share options and performance rights in issue (years)	1.33	1.3
Weighted average Lucapa share price during the period/ year (A$)	0.31	0.41
	USD	**USD**
Share-based payment expense recognised as		
Director and employee options	1,595,424	936,892
Share issue expenses*	537,462	2,088,702
Loan funding*	500,000	-
Deferred exploration and evaluation costs*	110,471	-
	2,743,357	**3,025,594**

* Non cash financing and investing activities.

Share-based payments (continued)

Share options and Performance rights in issue

	Share options							Performance rights*			Weighted
Exercise price (A$)	**$0.30**	**$0.30**	**$0.35**	**$0.53**	**$0.53**	**$0.45**	**$0.46**	**$0.00**	**$0.00**	**$0.00**	**average price**
Expiry date	**24-Apr-17**	**28-May-17**	**30-Sep-18**	**02-Jun-19**	**15-May-19**	**24-May-20**	**31-May-20**	**02-Jun-19**	**31-May-20**	**10-Nov-20**	**(A$)**
Number on issue at beginning of period	3,750,000	3,250,000	-	2,925,000	-	-	-	2,387,500	-	-	0.30
Issue of options/ Performance rights	-	-	11,600,000	-	500,000	250,000	2,250,000	-	4,270,000	1,100,000	0.27
Exercise of options/ Performance rights	(2,000,000)	(1,523,030)	-	-	-	-	-	(1,318,750)	(838,750)	(1,100,000)	0.16
Expiry of options	(1,750,000)	(1,726,970)	-	-	-	-	-	-	-	-	
On issue at end of period	**-**	**-**	**11,600,000**	**2,925,000**	**500,000**	**250,000**	**2,250,000**	**1,068,750**	**3,431,250**	**-**	0.32
Exercisable at end of period	-	-	11,600,000	1,950,000	500,000	85,000	750,000	-	-	-	
Assumptions used in estimating fair value of grants in current period:											
Grant date			06-Oct-17		16-May-17	25-May-17	31-May-17		31-May-17	15-Nov-17	
LOM share price at grant date (A$)			0.265		0.300	0.300	0.305		0.323	0.265	
Estimated volatility			80%		80%	80%	80%		80%	80%	
Risk-free interest rate			2.6%		2.4%	2.4%	2.4%		2.4%	2.6%	
Fair value per option/right (A$)			0.060		0.094	0.144	0.131		0.323	0.265	

*Performance rights expiring on 2 Jun 2019 and 31 May 2020 issued to key management personnel are disclosed in section 12 of the directors' report.

19. 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.

Market risk

Commodity price risk

The Group is focused 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 and South African rand. 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 Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	31 Dec 2017 USD	31 Dec 2016 USD
Financial assets		
Cash and cash equivalents	655,412	1,307,014
Trade and other receivables	68,334	44,297
Financial liabilities		
Trade and other payables	270,854	153,560
Provisions	-	-

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 is not exposed to significant interest rate risk. Any residual cash flow interest rate risk is in relation to the Group's cash and cash equivalent balances. The Group does not currently use derivatives to mitigate these exposures.

19. Financial risk management (continued)

Interest rate risk exposure

	31 Dec 2017 USD	31 Dec 2016 USD
Financial assets		
Variable interest rates		
Cash and cash equivalents	8,295,327	4,349,142
Average rate for 2017: 1.18% (2016: 1.3%)		
Fixed interest rates		
Trade and other receivables (payable in less than one year)	159,003	320,217
Average rate for 2017: 2.95% (2016: 2.95%)		
Non-interest bearing		
Trade and other receivables	26,290,503	33,285,531
Financial liabilities		
Fixed interest rates		
Borrowings (payable in less than one year)	1,718,637	407,233
Average rate for 2017: 13% (2016: 9%)		
Non-interest bearing		
Trade and other payables	8,300,733	184,723

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 not have a material impact 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 statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

Credit risk

Credit risk refers to the risk that 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 the Lulo Diamond Project (Notes 12 & 13). 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 have 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 from funds raised in the market and by continuously monitoring forecast and actual cash flows.

19. Financial risk management (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	31 Dec 2017 USD	31 Dec 2016 USD
Trade and other payables		
Payable within one year	8,300,733	184,723
Borrowings		
Payable within one year	1,742,900	412,191

Capital risk mangement

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 and evaluation activities.

Fair value

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 in Note 3 to the financial statements.

The financial assets and liabilities included in the assets and liabilities of the Group approximate net fair value, determined in accordance with the accounting policies.

	31 Dec 2017 USD	31 Dec 2016 USD
20. Commitments and contingencies		
Operating lease commitments		
Minimum lease payments under non-cancellable operating lease agreements		
Payable within one year	108,940	-
Payable after one year but less than five years	467,159	-
Payable after more than five years	614,268	-
	1,190,367	**-**
Capital commitments		
Payable within one year		
Approved, not yet contracted	6,113,787	-
Approved and contracted	3,950,531	330,048

Contingencies

The Group did not have any contingent liabilities as at 31 December 2017 (31 Dec 2016: Nil).

	31 Dec 2017 USD	31 Dec 2016 USD
21. Parent entity information		
Current assets	9,222,508	4,839,360
Total assets	66,953,332	53,524,667
Current liabilities	4,770,854	590,907
Total liabilities	7,626,367	590,907
Share capital	96,981,417	89,114,329
Reserves	(230,108)	(1,918,716)
Accumulated losses	(37,424,344)	(34,261,853)
	59,326,965	**52,933,760**
(Loss)/profit for the period	(3,029,269)	2,763,918
Total comprehensive (loss)/income for the period	(3,029,269)	2,763,918
22. Related party disclosures		
Key management personnel compensation (refer note 6)		
Short-term employee benefits	1,211,096	794,176
Post-employment benefits	55,934	32,384
Share-based payments	761,563	450,836
	2,028,593	**1,277,396**
Other related party transactions		
The following payments, relating to office rent and associated costs were made to entities associated with director Miles Kennedy:		
Kennedy Holdings (WA) Pty Ltd	74,305	46,816
The Bagot Road Property Partnership	-	11,231
The following payments, relating to professional services supplied were made to director Albert Thamm:		
Competent Person services	36,720	27,052

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.

	31 Dec 2017	31 Dec 2016
	%	%
23. Group information		
The consolidated financial statements of the Group include the following subsidiaries:		
Lucapa Diamonds (Botswana) (Proprietary) Limited		
Incorporated in Botswana		
Equity interest held	100	100
Brooking Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	100
Mothae Diamonds (Pty) Ltd		
Incorporated in the Kingdom of Lesotho		
Equity interest held	70	n/a

24. Events subsequent to reporting date

On 8 January 2018, Lucapa announced the recovery of a 103 carat diamond - the 9th diamond from Lulo weighing more than 100 carats.

On 11 January 2018, Lucapa announced that seven macro-diamonds and 112 micro-diamonds had been recovered from 86.8kg of core sample from the one HQ holed drilled at the Little Spring Creek target within the Brooking diamond project in Western Australia's West Kimberley region. On 1 February 2018, Lucapa announced that a subsequent review of the cleaned diamonds from Little Spring Creek illustrated a relatively high white diamond content with a proportion of yellow diamonds also being noted.

On 17 January 2018, Lucapa announced the recovery of the 10th diamond weighing more than 100 carats from Lulo, a low-quality 116 carat stone, recovered along with a 43 carat yellow, the largest coloured diamond recovered from Lulo to date.

On 2 February 2018, Lucapa announced the first sale of Lulo diamonds for 2018 had generated gross proceeds of US$9.1 million, representing an average price per carat of US$2,192.

On 5 February 2018, Lucapa released a presentation for the Mining Indaba Conference in Cape Town, South Africa.

On 12 February 2018, Lucapa announced the first diamond recoveries from the bulk sampling program at the Mothae kimberlite mine in Lesotho, including a diamond weighing 6.6 carats.

On 5 March 2018, Lucapa announced the second sale of Lulo diamonds for 2018 had generated gross proceeds of US$1.7 million, representing an average price per carat of US$804.

On 14 March 2018, Lucapa released an updated presentation for the Euroz Conference in Perth, Australia.

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 14 to 61, 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 2017 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 note 2; and

   (c) 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 2017.

Signed in accordance with a resolution of the directors.

MILES KENNEDY
Chairman

Dated this 14 March 2018

Greenwich & Co

Greenwich & Co Audit Pty Ltd | ABN 51 609 542 458
Level 2, 35 Outram Street, West Perth WA 6005
PO Box 983, West Perth WA 6872
T 08 6555 9500 | F 08 6555 9555
www.greenwichco.com

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 2017, 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 2017 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. Our responsibilities under those standards are further described as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Material uncertainty related to going concern

We draw attention to Note 2.b) to the financial report, which describes that the ability of the Group to continue as a going concern is dependent on cash generation from its mining projects, cash management, option conversions in 2018, and/or the use of debt finance. Without such sources, further equity issues to the market may be required. As a result, there is material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Emphasis of matter – Inherent uncertainty regarding continuation as a going concern section, we have determined the matters described below to be key audit matters to be communicated in our report.

Valuation of receivable from Sociedade Mineira do Lulo, Lda

The Group has a balance receivable as at 31 December 2017 of US$25,778,095 from its associated entity, Sociedade Mineira do Lulo, Lda ("SML"). This balance has been presented at its fair value, in accordance with the provisions of AASB 13 *Fair Value Measurement*. To take account of this requirement, Management of the Group has discounted the gross value receivable at an annual discount rate of 10.72%, taking account of the time value of money, based on estimated dates of cashflows from SML to Lucapa.

Our audit work included, but was not restricted to, the following:

- We obtained a loan confirmation of the gross value receivable from SML to Lucapa;
- We obtained the Group's calculation of the discounted cashflows from SML to Lucapa, and re-tested the workings to ensure the discounting process had been accurately performed;
- We obtained third party verification of the discount rate applied by Management, and evaluated the reliability of the source data; and
- We evaluated the board's application of estimates and judgements, with reference to AASB 13, to ensure that the accounting applied was fully compliant with accounting standards.

Notes 3.t) and 12 to the financial statements contain the accounting policy and details related to the procedures applied for the discounting process.

Potential impairment of exploration and evaluation ("E&E") assets

At 31 December 2017, the Group has incurred significant exploration and evaluation expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditures represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset may exceed its recoverable amount. Management of the Group considered whether there were any indicators of impairment.

The Group capitalises exploration and evaluation expenditure in line with AASB 6 *Exploration for and Evaluation of Mineral Resources*. The assessment of each asset's future prospectivity requires significant judgement. There is a risk that amounts are capitalised which no longer meet the recognition criteria of AASB 6.

Management has performed a full review of the E&E portfolio of assets.

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 independent searches of a sample of the company's tenement holdings;
- 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;
- 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.

Notes 3.h) and 13 to the financial statements contain the accounting policy and disclosures in relation to exploration and evaluation expenditures.

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 2017 but does not include the financial report and our auditor's report thereon.

The other information obtained at the date of this auditor's report is included in the annual report (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.

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 19-22 of the directors' report for the year ended 31 December 2017.

In our opinion the Remuneration Report of Lucapa Diamond Company Limited for the year ended 31 December 2017 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.

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Managing Director

14 March 2018

Perth

Additional information current as at 12 March 2018 required by Australia Securities Exchange Limited Rules and not disclosed elsewhere in this Report.

1. Capital structure

Ordinary Share Capital
382,400,556 ordinary fully paid shares held by 7,527 shareholders.

Spread			Number of Holders	Number of Shares
1	to	1,000	447	184,643
1,001	to	5,000	2,536	7,371,687
5,001	to	10,000	1,326	10,769,569
10,001	to	100,000	2,643	90,998,110
100,001 and above			575	273,076,547

As at 12 March 2018 there were 1,379 fully paid ordinary shareholders holding less than a marketable parcel.

2. Voting rights

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

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

3. On-market buy-back

There is no current on-market buy back.

4. Substantial shareholders

There are no substantial holders.

5. Top 20 holders of quoted securities

Fully Paid Ordinary Shares Name	Number Held	% of Issued Capital
CARRINGTON CORP PL	10,254,000	2.68%
J P MORGAN NOM AUST LTD	10,219,132	2.67%
IMPALA SUPER NOM PL	8,000,000	2.09%
CITICORP NOM PL	5,975,757	1.56%
ZERO NOM PL	5,050,000	1.32%
ONE DOG ONE BONE PL	5,000,000	1.31%
COXON ANNA	5,000,000	1.31%
GREGORACH PL	4,813,953	1.26%
SLADE TECHNOLOGIES PL	4,147,790	1.08%
PULLINGTON INV PL	3,715,594	0.97%
TROCA ENTPS PL	3,000,000	0.78%
BRAUN PETER KARL	3,000,000	0.78%
GREGORACH PL	2,870,237	0.75%
CADDICK ALFRED RALPH P	2,621,991	0.69%
LAWRENCE CHRISTOPHER P	2,500,000	0.65%
ROXTEL PL	2,473,735	0.65%
HSBC CUSTODY NOM AUST LTD	2,470,506	0.65%
EQUIGOLD PTE LTD	2,424,155	0.63%

Fully Paid Ordinary Shares Name	Number Held	% of Issued Capital
BAYNES ROSS SPENCE	2,289,612	0.60%
SEAH KEE KHOO	2,065,000	0.54%
	87,891,462	**22.97%**

6. Unlisted option holders

There are 28 holders of $0.35 unlisted options expiring 30 September 2018.
There is 1 holder of $0.53 unlisted options expiring 15 May 2019.
There are 10 holders of $0.53 unlisted options expiring 2 June 2019.
There are 45 holders of $0.45 unlisted options expiring 24 May 2020.
There are 20 holders of $0.46 unlisted options expiring 31 May 2020.

7. Performance rights

There are 10 holders of Performance Rights expiring 2 June 2019.
There are 14 holders of Performance Rights expiring 31 May 2020.

Competent Person's Statement

Information included in this announcement that relates to previously released exploration data was disclosed under JORC Code 2012. That information has not materially changed since it was last reported and is based on and fairly represents information and supporting documentation prepared and compiled by Albert Thamm MSc FAusIMM (CP), who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm is a Director of Lucapa Diamond Company Limited. Mr Thamm has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves. Mr Thamm consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

Forward-Looking Statements

This announcement has been prepared by the Company. This document contains background information about the Company and its related entities current at the date of this announcement. This is in summary form and does not purport to be all inclusive or complete. Recipients should conduct their own investigations and perform their own analysis in order to satisfy themselves as to the accuracy and completeness of the information, statements and opinions contained in this announcement. This announcement is for information purposes only. Neither this document nor the information contained in it constitutes an offer, invitation, solicitation or recommendation in relation to the purchase or sale of shares in any jurisdiction.

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

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No responsibility for any errors or omissions from this document arising out of negligence or otherwise is accepted. This document does include forward-looking statements. Forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions which are outside the control of the Company. Actual values, results, outcomes or events may be materially different to those expressed or implied in this announcement. Given these uncertainties, recipients are cautioned not to place reliance on forward-looking statements.

Any forward-looking statements in this announcement speak only at the date of issue of this announcement. Subject to any continuing obligations under applicable law and ASX Listing Rules, the Company does not undertake any obligation to update or revise any information or any of the forward-looking statements in this document or any changes in events, conditions or circumstances on which any such forward-looking statement is based.