LUCAPA
DIAMOND COMPANY

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER **2018**

ASX Code: LOM

Contents

Chairman's Letter	1
Review of Operations	2
Directors' Report	9
Resource Statement	19
Corporate Governance Statement	21
Consolidated Statement of Profit or Loss and Other Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cash Flows	30
Notes to the Consolidated Financial Statements	31
1. Corporate information	31
2. Basis of preparation	31
3. Significant accounting policies	31
4. Segment reporting	39
5. Income	40
6. Expenses	40
7. Income tax	41
8. (Loss)/ earnings per share	42
9. Cash and cash equivalents	42
10. Trade and other receivables	43
11. Inventories	43
12. Financial assets	43
13. Property plant and equipment	44
14. Investment in associate	45
15. Trade and other payables	46
16. Provisions	46
17. Borrowings	47
18. Share capital	48
19. Financial risk management	50
20. Commitments and contingencies	52
21. Parent entity information	53
22. Related party disclosures	53
23. Group information	54
24. Events subsequent to reporting date	54
Directors' Declaration	55
Auditor's Report	56
ASX Additional Information	60

Chairman's Letter

Dear Shareholders,

I am pleased to report that Lucapa delivered on all the operational goals set and within management's control in 2018 to further the Company's strategy of growing as a diamond producer with two of the highest-quality mines in the world.

Topping the list of operational achievements was the successful design, financing, construction, commissioning and ramp-up of our new 1.1Mtpa Mothae kimberlite mine in the diamond-rich southern African Kingdom of Lesotho. The decades of global diamond industry experience, contacts and tenacity to deliver which we have within our Lucapa management team made this possible.

While commercial diamond production commenced on 1 January 2019 at our new mine, Mothae is already producing some beautiful diamonds, including top-colour white Type IIa gems and fancy pinks.

The high-quality production from Mothae complements that from our alluvial mine in Angola, Sociedade Mineira Do Lulo ("SML"), which for a fourth year running has delivered the world's highest US$ per carat alluvial production. SML has now achieved total sales of ~US$140m at an extraordinary average price per carat of more than US$2,000. The US$8m loan repayment and distribution declared to Lucapa, Endiama and Rosas & Petalas in late 2018 was the third successive year in which distributions have been made, in one form or another. The loan repayment will reduce to ~US$28m the loans payable to Lucapa for the development of the Lulo alluvial mining operations, including the 1.1Mtpa treatment plant, mining fleet, camp and infrastructure.

Significantly, both our Lulo and Mothae mines are scalable – with expansion plans in place for both to further increase our production of large and premium-quality diamonds.

Apart from the commissioning of Mothae, there have been plenty of other achievements along the way for Lucapa in 2018. At Lulo, the search for the hard-rock source of the alluvial diamonds has grown into the largest stand-alone kimberlite drilling campaign, with drilling now completed across 90 targets, of which some 68 have been confirmed as kimberlites.

Additionally, our first testing of the extensive flood plains along the Cacuilo River valley proved that like the terrace deposits, these "leziria" areas have the potential to significantly expand the Lulo diamond field and our mining footprint.

The political winds of change in Angola's diamond sector, which were strongly advocated for, delivered a quite remarkable outcome in January 2019, when SML became the first Angolan producer to sell diamonds at international tender. The seven Specials SML tendered achieved US$16.7m through the new sales channel, representing an exceptional average price per carat of US$33,530. While the timing of this sale reduced the 2018 profit results reported by both SML and Lucapa, the decision to hold over the sale of these diamonds was vindicated by the premiums achieved.

Building on record throughput of more than 285,000 bulk cubic metres in 2018, these landmark changes in Angola's diamond marketing regulations have given Lucapa and its partners the confidence to further expand our alluvial mining operations in 2019 by an estimated 25%.

At our Brooking project in Western Australia, our early exploration work was successful in discovering primary source lamproite with high concentrations of diamonds. While the bulk sampling results from the Little Spring Creek prospect did not meet our commercial hurdles, we believe Brooking remains highly-prospective for further lamproite discoveries, with multiple targets still to be tested.

At a corporate level, management also delivered on cost saving initiatives.

Frustratingly, the achievements we made throughout 2018 were against a backdrop of external economic forces affecting the financial climate, which in turn impacted on investor sentiment in the global rough diamond sector. Whether listed in London, Canada or Australia, diamond equities around the world simply weren't seeing any love in 2018.

According to leading international analyst Paul Zimnisky, global diamond mining equities were down 29% across the board in 2018 following a 17% decline in 2017. Despite our major operational achievements, Lucapa has not been immune from that global trend.

But as history has taught us, commodities move in cycles. And as a Board, we believe we have the right strategy in place to maximise shareholder value, along with the team to deliver it.

The central pillar of this strategy in these times is prioritising production and cash generation from our two diamond mines.

As I have touched on earlier, Lucapa is in the sweet spot of the diamond sector. Not only do our Lulo and Mothae mines produce high-quality diamonds, both also have capacity for expansion and production increases.

And while searching for kimberlite diamond sources is a gradual and methodical process which can test the patience of investors, your Board remains confident that the ultimate prize of a global hard-rock discovery at Lulo justifies the effort.

Pleasingly, our strategy has won plaudits from one of the world's leading diamond analysts, Kieron Hodgson from London broker Panmure Gordon. In a recent Lucapa research note, Kieron stated: "We believe the propensity for large high-value diamonds to be recovered from Mothae, as well as the potential for a significant expansion of resources, can complement the existing Lulo production perfectly, creating a globally significant producer of large high-value diamonds."

I wish to reflect and thank retired Non-Executive Directors Gordon Gilchrist and Albert Thamm for the invaluable contributions both have made. We too in 2018 were delighted to welcome a new major shareholder and Non-Executive Director to the Company in experienced mining industry figure Ross Stanley. Ross's confidence and support has seen Lucapa strengthen its position in 2018, setting up 2019 to be a top year.

We also look forward to a change in our accounts in 2019, when Mothae's production results will be consolidated as part of the Lucapa group.

Finally, it has taken a tremendous amount of hard work from an extremely dedicated and committed management team, headed by Chief Executive Stephen Wetherall, for Lucapa to achieve its operational goals in 2018, especially against the somewhat difficult backdrop noted earlier. I would like to thank them deeply, along with our very many loyal shareholders.

MILES KENNEDY

Chairman

Review of Operations

for the year ended 31 December 2018

Lucapa Diamond Company Limited (ASX: **LOM**) ("Lucapa" or "the Company") is a global diamond mining and exploration company with a strategic focus on growing as a diamond producer in the high-value sector of the diamond market, where demand and pricing remain robust.

Lucapa operates two of the world's highest quality diamond mines – the Lulo alluvial mine in Angola ("SML") and the recently-commissioned Mothae kimberlite mine in Lesotho ("Mothae"). Lucapa is also advancing an extensive drilling program on the Lulo concession to locate the hard-rock kimberlite source.

Diamonds recovered from the new Mothae mine in Lesotho

Lucapa, with its respective project partners, made significant advancements across its suite of diamond projects and in corporate activities during 2018. These included:

- The design, financing, construction and commissioning of the new **Mothae 1.1Mtpa kimberlite diamond mine in Lesotho**
- First commercial diamond recoveries from Mothae, including Specials of up to 78 carats and intense coloured gems
- Continued production of large and premium-value diamonds at record annual throughput rates at the **Lulo mine in Angola** - the world's highest US$ per carat alluvial diamond production – including three more +100 carat stones
- Selling select Lulo production via an inaugural **international competitive bid process** which produced a total highest bid value of A$22.9m at an exceptional price per carat of US$33,530
- Successful Lulo alluvial exploration program including the discovery of a new alluvial source of large and premium-value diamonds within the extensive flood plains along the Cacuilo River valley and a **90% increase in in-situ resource carats** in the updated Lulo Diamond Resource
- Securing a **new five-year Mineral Investment Contract** for the Lulo kimberlite exploration licence
- Identification of **68 confirmed kimberlites at Lulo** in the current systematic drilling campaign, including 11 warranting follow-up work
- Declaration of a **US$4m loan repayment** to Lucapa from Lulo mining company SML and a **pro-rata US$4m distribution** to Lulo partners
- **Discovery of source lamproite** with high concentrations of diamonds at the Brooking project in Western Australia
- Successful implementation of cost reduction initiatives at corporate office


The new 1.1Mtpa Mothae diamond plant

Mothae, Lesotho

Kimberlite Diamond Mine – *(Mothae Diamonds (Pty) Ltd - Lucapa 70%; Government of the Kingdom of Lesotho 30%)*

Mothae is a high-quality kimberlite resource located in diamond-rich Lesotho, southern Africa. In 2018 Lucapa completed construction of the new mine at Mothae to complement production from the high-quality Lulo alluvial mine in Angola.

The commissioning phase for the 1.1Mtpa Mothae treatment plant was successfully completed in Q4 enabling commercial production to commence in January 2019. While the Mothae plant layout was originally designed with the intention of doubling throughput to 2.2Mtpa in Phase 2 in 2021, management believes the capacity of the 1.1Mtpa plant can be increased earlier with relatively minor modifications.

The plant was progressively ramped up in Q4 using kimberlite material from the South East domain of the Mothae kimberlite pipe.

By 31 December 2018, 3,089 carats of diamonds had been recovered from the processing of 78,426 tonnes of kimberlite material during the ramp-up phase[1]. The diamonds recovered included six Specials (diamonds weighing >10.8 carats) of up to 78 carats, along with fancy coloured gems.

Significantly, these recoveries produced a recovered grade of 3.94 carats per 100 tonnes ("cpht") – which was more than double the resource and forecast grades from the areas mined.

Prior to the commissioning of the new 1.1Mtpa commercial diamond plant, Lucapa refurbished and upgraded the existing sampling plant and infrastructure at Mothae for a bulk sampling program, primarily to test areas of the kimberlite pipe which had not previously been sampled or where previous sampling had been inadequate.

Approximately 4,000 carats of diamonds were recovered from the bulk sampling program, including Specials of up to 89 carats. These bulk sampling diamonds were subsequently sold in Antwerp via tender, achieving gross proceeds of ~US$1.5m at individual sale prices of up to US$15,000 per carat.

Lucapa completed a financing package for Mothae late in the year when the term sheet for a ZAR100m (US$7m) project development facility was finalised with the Industrial Development Corporation of South Africa Limited ("IDC"), one of the largest development financiers in southern Africa. This followed the completion of extensive legal, technical and financial due diligence by the IDC on the Mothae mine.

1 The production and recoveries up to the end of December 2018, under International Financial Reporting Standards, are accounted for as part of the commissioning or pre-production phase of the mine and, as such, the operating costs and related revenues from this phase will be recognised as part of the mine development asset.

The Mothae diamond mine, Lesotho

Exceptional diamonds from Lucapa's new Mothae mine in Lesotho

Lulo, Angola

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

Lulo alluvial diamond mining company SML treated a record 285,704 bulk cubic metres ("bcm") of alluvial gravels during 2018, the fourth successive year in which gravel treated increased. Diamond production totalled 19,196 carats, up 3% on the previous year.

Lulo continued to regularly produce large and premium-value diamonds throughout the year, including 214 Specials (>10.8 carats). The Specials included three +100 carat diamonds, taking to 11 the number of +100 carat diamonds recovered at Lulo by year end. In addition, 2018 also saw Lulo produce the two largest coloured diamonds – a 46 carat pink and a 43 carat yellow.

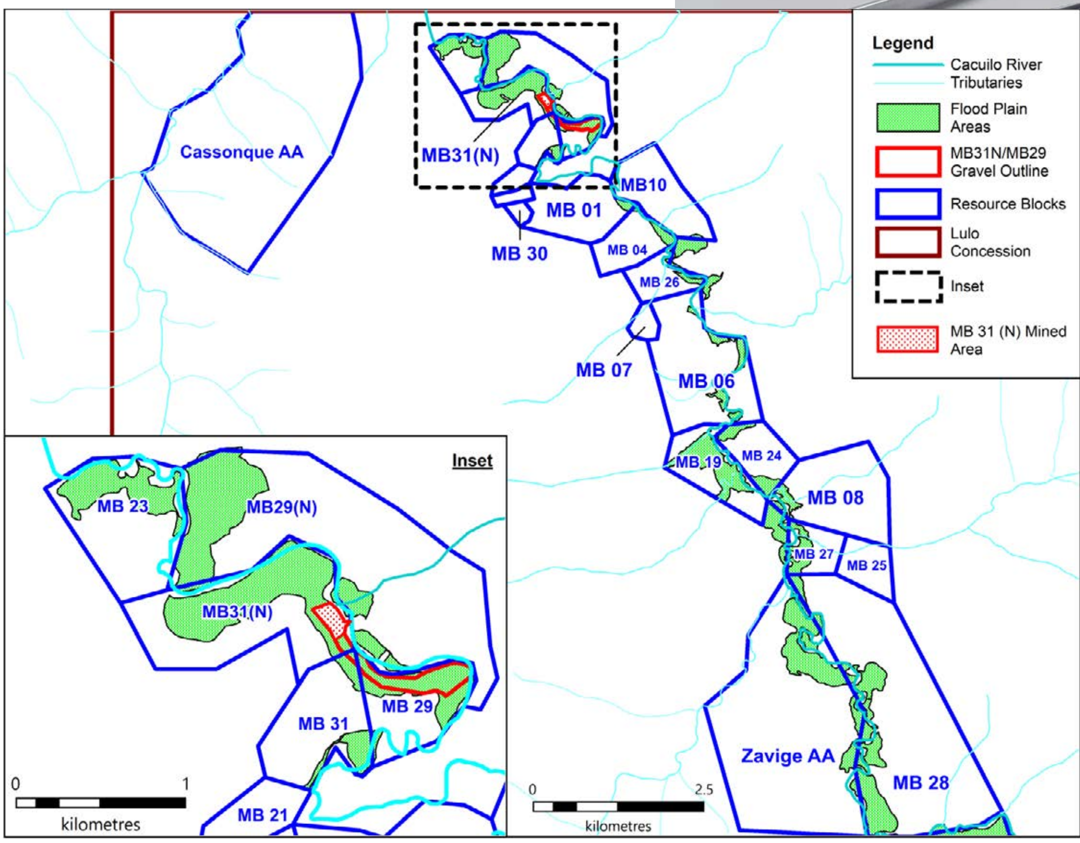
Apart from mining and processing gravels from established mining blocks, exploration was also undertaken during the year to test new alluvial areas with potential to add to the Lulo resource.

While the diamonds mined at Lulo have been sourced predominantly from the terrace deposits along the Cacuilo River valley, exploration was undertaken for the first time along the extensive flood plains (leziria areas) to determine whether these areas also hosted diamonds of similar grade, size and quality to the terraces.

The results from the first of these flood plain areas tested – adjacent to Mining Block 31 – clearly demonstrated the potential to open additional and expansive new mining areas at Lulo. By the end of 2018, a total of 22 Specials had been recovered from this new area, including an exceptional 55 carat Type IIa D-colour stone (Figure 1).

Exploration was also undertaken during the year to define additional alluvial gravels within the high-quality Mining Block 8 area.

▲ Run of mine Lulo diamonds



◀ Figure 1: Map showing the extent of the flood plain (leziria) areas along the Cacuilo River adjacent to the mining areas (alluvial terraces).

Alluvial Diamond Sales

SML achieved gross diamond sale revenues of US$26.4m in 2018 at an average price per carat of US$1,313/carat (Table 1).

These sales figures excluded seven large and premium-value diamonds which were produced in 2018 but set aside for sale via the inaugural international tender under Angola's new diamond marketing policy. These diamonds included six Type IIa D-colour diamonds of up to 114 carats and a 46 carat pink diamond (Figure 2).

The international tender was successfully completed on 31 January 2019, with the seven Lulo Specials achieving a total highest bid price of US$16.7m ($A22.9m), representing an exceptional average price per carat of US$33,530.

The exceptional sale prices achieved for the Lulo diamonds reflected the highly-competitive bidding from more than 30 leading international diamantaires and large stone manufacturers from eight countries who participated in the tender.

The sale marked the beginning of a new era for the Angolan diamond mining industry, being the first Angolan production offered for sale via competitive tender under the new diamond marketing policy enacted by the Angolan President, His Excellency Joao Lourenco.

SML has achieved an EBITDA (earnings before interest, tax, depreciation & amortisation, fair value adjustments and other non-trading items) loss for the year of US$2.0m (2017: profit of US$7.6m). Had the above Specials' tender taken place in 2018, SML's EBITDA for 2018 would have been a profit of US$8.2m, an 8% increase over 2017's equivalent result.

SML uses the cash generated from the sale of Lulo diamonds to fund the Lulo alluvial mining, processing and alluvial exploration activities and employs a workforce of approximately 390 staff and contractors. Free cash generated by SML is partly used to repay the investment or capital loans to Lucapa and to make pro-rata distributions to Lucapa and its Lulo partners.

In December 2018, SML declared a pro-rata US$4m distribution to the Lulo partners and a US$4m loan repayment to Lucapa. This followed an US$8m loan repayment and distribution declared to Lucapa and its partners in March 2017 and marked the third consecutive year of distributions from Lulo.

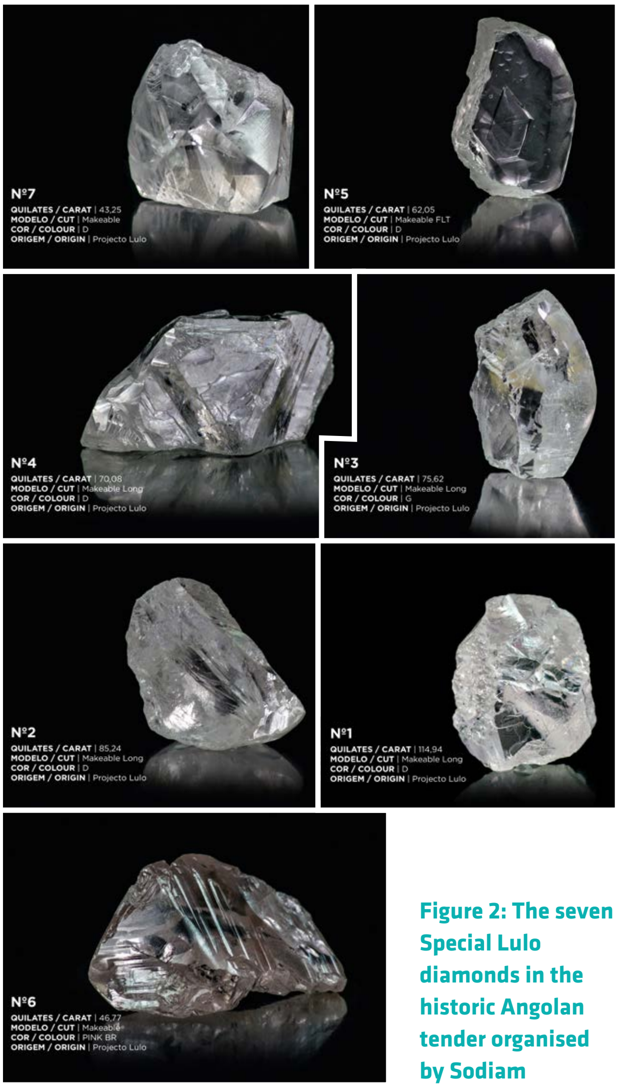


Figure 2: The seven Special Lulo diamonds in the historic Angolan tender organised by Sodiam

Lucapa CEO Stephen Wetherall (third from left) with Board members and representatives from our Angolan partners Endiama and Rosas and Petalas, Sodiam and Ministry representatives at the historic inaugural sale of Lulo diamonds via international tender in January 2019

Table 1: Lulo production and sales for 2018 and comparative years

	Calendar 2017	Calendar 2018	% Var 2018 to 2017
Treated m^3 (bulked)	251,968	285,704	13%
Carats Recovered	18,706	19,196	3%
Grade Recovered (cphm^3)	7.4	6.7	-9%
Number of Specials Recovered	238	214	-10%
Sales (carats)	18,941	20,121	6%
Sales (US$m)	31.6	26.4	-16%
Sales Price per Carat (US$)*	1,669	1,313	-21%
Diamond Inventory (carats)	2,711	1,935	-29%

**2018 excludes the seven special diamonds held over for the tender sale on 31 January 2019*

Diamond Value-Adding Strategy

The introduction of Angola's new diamond marketing regulations, coupled with the commissioning of the new Mothae mine, now enables Lucapa to further a value-adding strategy, with the aim of generating additional revenue streams through cutting and polishing partnerships with leading manufacturers and/ or diamantaires on select high-value diamonds.

This is an area in which Lucapa has significant expertise, with Managing Director Stephen Wetherall having previously established the Antwerp diamond marketing and manufacturing division for London-listed Gem Diamonds, which included partnering arrangements.

Lucapa has received multiple partnership approaches from leading large diamantaires since announcing its intention to develop this strategy and especially following the inaugural tender in Angola in January 2019.

Lulo Kimberlite Exploration

(Projecto Lulo – Lucapa 39% JV partner and operator)

In parallel with the alluvial mining operations, Lucapa and its Lulo partners continued a systematic kimberlite exploration program throughout 2018 with the aim of identifying the primary hard-rock source, or sources, of the exceptional alluvial diamonds being recovered along the Cacuilo River valley.

In September 2018, a new Mineral Investment Contract ("MIC") for the Lulo kimberlite exploration licence was gazetted by the Angolan Ministry of Mineral Resources and Petroleum. The MIC covers a five-year period through to 30 April 2023.

A drilling campaign to test more than 90 targets proximal to, and/or upstream of, the alluvial mining blocks was close to completion by year end. Of those targets, 68 had been confirmed as kimberlites.

Drill core from the confirmed kimberlites is progressively logged and exported in batches to laboratories in South Africa and Canada for mineral chemistry analysis.

By year end, mineral chemistry results had been progressively received from 32 of the 68 targets confirmed as kimberlites in the current drilling program.

Eight additional kimberlites were highlighted for follow-up work in 2018 based on their mineral chemistry results. Diamond-associated G3D, G4D and G10D garnets were recovered from kimberlites L050, L048, L232, E192, L103, L028 and L104 – from which a 2.05 carat diamond was also recovered from a 614 bcm bulk sample.

In addition, a micro-diamond was also recovered from a pit sample at kimberlite L204, which also recorded a strong lherzolitic garnet chemistry signature, which is also closely associated with diamonds.

The Lulo partners continually review all kimberlite drilling and sampling results to guide follow-up programs on selected kimberlites.

Brooking Diamond Project, Western Australia

Lamproite exploration – *(Brooking Diamonds (Pty) Ltd - Lucapa 100%. Project tenements owned 80% Lucapa; 20% Leopold Diamond Company)*

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

In early 2018, Lucapa received exceptional micro- and macro-diamond counts from the first two holes drilled at the Little Spring Creek prospect, including:

- 119 micro- and macro-diamonds from an 87kg sample of drill core from discovery hole LSC/DH001; and
- 1,100 micro- and macro-diamonds from a 178kg sample of drill core from follow-up hole LSC/DH002

These results prompted a follow-up exploration program later in 2018 which included excavating a ~100 tonne bulk sample of lamproite material from Little Spring Creek to test for macro-diamond population, value and grade at the Nagrom metallurgical and analytical laboratory in Perth.

This follow-up program also included drilling other lamproite targets defined within the broader Brooking project; re-evaluating the known Big Spring Creek lamproite cluster and stream sampling other targets, including near Little Spring Creek (Refer Subsequent events and Likely developments sections).

Orapa Area F Project, Botswana

Kimberlite exploration – *(Lucapa Diamonds (Botswana) Pty Ltd - Lucapa 100% subsidiary)*

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

Lucapa received a two-year extension to the Orapa Area F licence in late 2018, along with environmental approvals for drilling (Refer Subsequent events and Likely developments sections).

Schedule of Tenements

Schedule of Tenements as at 31 December 2018

Country	Type	Size (km^2)	Period	Interest (%)	End date
Angola	Exploration (primary) Kimberlite	3,000	5 years	39	04/2023
Angola	Mining (secondary) and Exploration Alluvial	1,500	10 years	40	07/2025
Lesotho	Mining Licence	47	10 years	70	01/2027
Botswana	Reconnaissance	8	2 years	100	09/2020
Australia	Exploration Licence	72	5 years	80	12/2020
Australia	Exploration Licence	13	5 years	80	03/2019
Australia	Exploration Licence	29	5 years	80	06/2022
Australia	Exploration Licence	3	5 years	80	06/2023

Directors' Report
for the year ended 31 December 2018

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 2018 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	Period of directorship
M Kennedy	Non-Executive Chairman	Appointed 12 September 2008
S Wetherall	Chief Executive Officer/Managing Director	Appointed 13 October 2014
N Selby	Chief Operating Officer/Executive Director	Appointed 4 September 2017
G Gilchrist	Non-Executive Director	Appointed 27 March 2012, resigned 26 July2018
A Thamm	Non-Executive Director	Appointed 9 May 2014, resigned 26 July 2018
R Stanley	Non-Executive Director	Appointed 26 July 2018

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

Stephen Wetherall

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 diamond major De Beers and London-listed Gem Diamonds. He lives in Perth, Western Australia.

Nick Selby

Chief Operating Officer/ Executive Director

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

Ross Stanley

Non-Executive Director

Mr Stanley has an extensive background in the resources industry in Australia and Africa, specialising in drilling and related exploration and mining services. He was the founder and Managing Director of ASX-listed Stanley Mining Services prior to its merger with Layne Christensen in 1997. Mr Stanley was also a major shareholder and non-executive director of Perth-based gold miner Equigold NL, which was taken over by Lihir Gold for A$1.1 billion in 2008. He is a non-executive director of emerging Cambodian gold miner Emerald Resources. 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 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	6
G Gilchrist*	4	4
A Thamm*	5	5
R Stanley*	1	1

A: number of meetings attended;
B: number of meetings held during the time the directors were in office during the year.
** Mr Gilchrist and Mr Thamm resigned from the Board on 26 July 2018 and Mr Stanley joined the Board on 26 July 2018.*

4. Nature of operations and principal activities

The Group's principal activities during the course of the financial period were the exploration, development 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 2018 of US$7.1m (2017: US$3.4m) after accounting for it's share of a loss in SML associate, amounting to U$2.7m (2017: profit of US$6.5m).

SML has achieved an EBITDA (earnings before interest, tax, depreciation & amortisation, fair value adjustments and other non-trading items) loss for the year of US$2m (2017: profit of US$7.6m). SML's 2018 results were materially affected by a decision to postpone the sale of several high-value diamonds to 2019 in anticipation of a significant change to the diamond marketing policy in Angola as a result of strong and positive initiatives being driven by President Joao Lourenco. These Special diamonds were subsequently sold under the new marketing policy via electronic tender in January 2019 for US$16.7m (refer to ASX announcement 1 February 2019). The profits on these diamonds will be reflected in the 2019 financial year. Had the Specials tender taken place in 2018, SML's EBITDA for 2018 would have been a profit of US$8.2m, an 8% increase over 2017's equivalent result.

Corporate expenses include costs for technical expertise engaged as a result of the increased exploration, development and mining activities across the group. Comparatively, the Lucapa Corporate expenses were reduced by in excess of US$2m in 2018, when compared to 2017. This was primarily as a result of cost saving initiatives and the ability to allocate technical overhead across a larger number of programs on the Company's projects.

The Group had net assets of U$67.2m as at 31 December 2018 (2017: U$59.7m).

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 2017 and exploration on its Brooking Project in Western Australia. These projects together with the other early stage exploration asset in 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 potential of the now completed Mothae diamond mine and its projected cash flows and (iii) the Company's other strategic initiatives and previous success in accessing 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 year, the Group continued to focus on the mining of large and premium-value alluvial diamonds at Lulo as well as continuing the kimberlite drilling program aimed at identifying the primary hard-rock source or sources.

In September 2018, a new Mineral Investment Contract ("MIC") for the Lulo kimberlite exploration licence was gazetted by the Angolan Ministry of Mineral Resources and Petroleum covering a five-year period through to 30 April 2023.

During the year, the Angolan Government introduced a new diamond marketing policy which enabled the international tender of Lulo diamonds to take place in January 2019.

Lesotho

During the year, the Group completed construction and commissioning of the new 1.1Mtpa Mothae processing plant, which enabled commercial diamond production to commence on 1 January 2019. Diamonds were also recovered and sold from a bulk sampling program at Mothae.

A financing facility agreement with the Industrial Development Corporation of South Africa Limited at Mothae for ZAR100m (US$6.9m) was secured during the year.

Western Australia

The Group completed a number of exploration programs at Brooking during the year, which included the discovery of source lamproite with high concentrations of diamonds.

Botswana

During the year, the Group received a two-year extension of the Orapa Area F tenements containing the previously-defined kimberlite targets, along with environmental approvals for drilling.

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	71,739,131	0.230	12,504,079	n/a
Issue of shares	3,010,070	0.230	530,937	n/a
Issue of shares	3,439,962	0.252	641,395	n/a
Issue of shares	3,939,541	0.228	646,894	n/a
Issue of shares on exercise of performance rights	4,172,498	-	-	n/a
Issue of options	2,500,000	0.350	-	20-Apr-20
Issue of options	1,301,000	0.436	-	07-Jun-21
Issue of performance rights	3,090,000	0.000	-	07-Jun-21

6. Dividends

No dividends were paid or declared by the Company during the current or prior financial year. In December 2018, the Lulo alluvial mining company, Sociedade Mineira Do Lulo, declared a distribution of US$4m to the partners and a capital repayment of US$4m to the Company, both of which are to be received in 2019.

7. Environmental regulation

The Group's mining and 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 4 January 2019, Lucapa announced the first repayment of principal in the amount of US$1.875m under the loan facility with Equigold.

On 14 January 2019, Lucapa announced the first historic tender of Lulo diamonds under Angola's new diamond marketing policy, which was scheduled to close on 31 January 2019.

On 1 February 2019, Lucapa announced that the diamonds sold in the historic first tender had achieved total highest bids of US$16.7m (A$22.9m), representing an average price per carat of US$33,530.

On 4 February 2019, Lucapa released its presentation for the Mining Indaba 2019 conference, which included plans to scale up diamond mining operations at Lulo in mid-2019.

On 18 February 2019, Lucapa announced an exploration update from the Brooking project in Western Australia. The update included bulk sampling results from Little Spring Creek which were below the Company's commercial hurdle, with micro-diamond results awaited from the Big Spring Creek lamproite samples. The update also included information on drilling targets and stream sampling targets.

On 19 February 2019, Lucapa announced the recovery of a 128 carat top-colour white Type IIa Lulo diamond – the 12th +100 carat diamond recovered from Lulo to date, along with a 7.5 carat fancy purple pink diamond.

On 20 February 2019, Lucapa announced the outcome of a review of the Company's diamond asset portfolio to maximise shareholder value, which included prioritising cash generation through the expansion of the Lulo and Mothae mining operations; advancing the Lulo kimberlite exploration program; and cutting and polishing select Specials to accrete additional value.

On 27 February 2019, Lucapa announced the first Antwerp tender of diamonds from the new 1.1Mtpa Mothae plant in Lesotho had achieved total revenues of US$3.8m (A$5.3m), including prices of up to US$36,664 per carat for individual diamonds.

On 15 March 2019, Lucapa announced the recovery of an 83.9 carat diamond from the new Mothae kimberlite diamond mine.

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, Angola

Lucapa and its partners plan to increase throughput by >25% at the Lulo alluvial diamond mine in 2019, while continuing the kimberlite and alluvial exploration programs. Further sales of Lulo diamonds via international tender are planned.

Mothae, Lesotho

Diamond mining will continue at Mothae in 2019 in parallel with the scoping of modifications to increase the capacity of the 1.1Mtpa plant with relatively minor modifications. Regular sales of Mothae diamonds are expected to take place in Antwerp.

Brooking, Western Australia

As a result of prioritising producing assets to maximise cash flows and shareholder value, the timing of future exploration programs at the Brooking project is being reviewed.

Orapa Area F

As a result of prioritising producing assets to maximise cash flows and shareholder value, the timing of future exploration programs at the Orapa Area F project is being reviewed.

10. Directors' interests

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[1]	Options over ordinary shares expiring 31 May 2020[2]	Performance rights expiring 31 May 2020[2]	Options over ordinary shares expiring 7 June 2021[3]	Performance rights expiring 7 June 2021[3]
M Kennedy	2,572,502	500,000	-	230,000	90,000	130,000	169,583
S Wetherall	2,560,000	500,000	-	400,000	62,500	210,000	632,500
N Selby	1,647,083	500,000	-	300,000	37,500	165,000	380,417
G Gilchrist [4]	1,338,624	250,000	62,500	190,000	70,000	105,000	132,917
A Thamm [4]	437,083	250,000	62,500	190,000	70,000	105,000	132,917
R Stanley	40,000,436	-	-	-	-	-	-

Note

[1] *Options granted to directors following shareholder approval at the annual general meeting held 26 May 2016;*

[2] *Options and performance rights granted to directors following shareholder approval at the annual general meeting held 30 May 2017;*

[3] *Options and performance rights granted to directors following shareholder approval at the annual general meeting held 24 May 2018.*

[4] *Interest held at resignation date.*

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 (A$)	Number of securities	Quoted
Share options			
2 June 2019	$0.53	2,925,000	-
15 May 2019	$0.53	500,000	-
2 May 2020	$0.45	250,000	-
20 April 2020	$0.35	2,500,000	-
31 May 2020	$0.46	2,250,000	-
7 June 2021	$0.44	1,301,000	-
Performance rights			
31 May 2020	$0.00	585,000	-
7 June 2021	$0.00	2,832,502	-

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

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

Fixed compensation

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

Directors' fees

Total compensation for directors and non-executive directors is set based on advice from external advisors with reference to fees paid to other directors of comparable companies. Non-executive directors' fees are presently limited to an aggregate total of US$500,000 per annum, excluding the fair value of any options or performance rights granted. Directors' fees cover all main Board activities and membership of any committee and subsidiary boards. The Board has no established retirement 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 2018 and the recommendations will be implemented in 2019.

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 incentivisation, 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 2018 given significance to service criteria and performance over market related criteria in setting the Group's incentive and retention schemes. Accordingly, at this stage the Board does not consider the Group's current earnings or earning measures to be the only appropriate key performance indicator. The issue of options and performance rights as part of the remuneration package of directors, management, employees and contractors is an established practice for listed exploration and development companies and has the benefit of conserving cash whilst appropriately rewarding the recipient.

In circumstances where cash flow permits, the Board may approve the payment of a discretionary cash bonus as a reward for performance. During the current year, the Board resolved the payment of a bonus to the Managing Director of US$214,763 (2017: US$225,675) and US$74,700 (2017: US$27,731) to the Chief Operating Officer following securing all funding requirements and significantly advancing the Group's operations during the year.

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

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

Stephen Wetherall

Mr Wetherall has been engaged to act as the Company's Chief Executive Officer/Managing Director. Mr Wetherall is entitled to receive remuneration of US$451,001 (gross, including superannuation) per annum which is subject to review by the Board from time to time. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Nick Selby

Mr Selby has been engaged to act as the Company's Chief Operating Officer/Executive Director. Mr Selby is entitled to receive remuneration of US$341,192 (gross, including superannuation) per annum which is subject to review by the Board from time to time. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Miles Kennedy

Mr Kennedy has been engaged to act as the Company's Non-Executive Chairman. Mr Kennedy is entitled to receive director fees of US$105,887 (gross) per annum, which is subject to review by the Board from time to time. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Ross Stanley

Mr Stanley has been engaged to act as a Non-Executive Director of the Company. Mr Stanley is entitled to receive director fees of US$70,592 (gross) per annum, which is subject to review by the Board from time to time. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

12.2 KMP remuneration

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

Key management personnel		**Short-term benefits**		**Post employment benefits**	**Equity-settled share based payments**	
	Period ended	**Salary & fees**	**Bonus**	**Super-annuation benefits**	**Options and performance rights[1]**	**Total (US$)**
Executive Directors						
Stephen Wetherall, Chief Executive Officer / Managing Director	Dec 18	432,326	214,763	18,675	206,989	**872,752**
	Dec 17	418,837	225,675	21,038	298,345	**963,895**
Mr Nick Selby, Chief Operating Officer / Executive Director[2]	Dec 18	322,517	74,700	18,675	137,110	**553,002**
	Dec 17	309,824	27,731	22,950	210,246	**570,751**
Non-Executive Directors						
Miles Kennedy, Non-Executive Chairman	Dec 18	105,887	50,423	-	74,470	**230,780**
	Dec 17	103,275	-	-	107,374	**210,649**
Gordon Gilchrist, Non-Executive Director	Dec 18	37,606	5,116	4,059	54,876	**101,657**
	Dec 17	62,877	-	5,973	72,799	**141,649**
Albert Thamm, Non-Executive Director	Dec 18	37,606	5,116	4,059	54,876	**101,657**
	Dec 17	62,877	-	5,973	72,799	**141,649**
Mr Ross Stanley, Non-Executive Director	Dec 18	27,901	-	2,651	-	**30,552**
	Dec 17	-	-	-	-	**-**
Total	**Dec 18**	**963,843**	**350,118**	**48,118**	**528,322**	**1,890,400**
	Dec 17	**957,690**	**253,406**	**55,934**	**761,563**	**2,028,593**

[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 in 2017.

12.3 Equity instruments

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

12.3.1 Analysis of movements in options, performance rights and shares

Options and performance rights over equity instruments

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

Directors	Held at 1 January or date of appointment	Options acquired	Exercise of options and performance rights	Expired without exercise	Options and performance rights granted	Held at 31 December or date of resignation	Vested & exercisable
2018							
M Kennedy	1,125,000	-	(320,417)	-	315,000	**1,119,583**	696,667
S Wetherall	1,900,000	-	(995,000)	-	900,000	**1,805,000**	836,666
N Selby	1,437,500	-	(634,583)	-	580,000	**1,382,917**	755,000
G Gilchrist [(1)]	712,500	-	(152,083)	-	250,000	**810,417**	411,666
A Thamm [(1)]	712,500	-	(152,083)	-	250,000	**810,417**	411,666
R Stanley [(2)]	-	-	-	-	-	**-**	-
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

[(1)] *Resigned 26 July 2018.* [(2)] *Appointed 26 July 2018.*

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 or date of resignation
2018					
M Kennedy	2,252,085	320,417	-	-	**2,572,502**
S Wetherall	1,565,000	995,000	-	-	**2,560,000**
N Selby	1,012,500	634,583	-	-	**1,647,083**
G Gilchrist [(1)]	1,186,541	152,083	-	-	**1,338,624**
A Thamm [(1)]	285,000	152,083	-	-	**437,083**
R Stanley [(2)]	40,000,436	-	-	-	**40,000,436**
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**

[(1)] *Resigned 26 July 2018.* [(2)] *Appointed 26 July 2018.*

No shares were granted to KMP during the reporting period as compensation in 2018 or 2017.

END OF AUDITED SECTION.

13. Indemnification and insurance of officers and auditors

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 2018 and prior period ended 31 December 2017.

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 St, 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 2018, 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

RAFAY NABEEL
Audit Director
22 March 2019
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 2018 US$	31 Dec 2017 US$
Auditors Remuneration		
Audit services	31,201	31,051
Other services	-	-
	31,201	**31,051**

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

MILES KENNEDY
Chairman
Dated this 22 March 2019.

Resource Statement

for the year ended 31 December 2018

Lulo alluvial diamond resource

LULO CLASSIFIED DIAMOND RESOURCE - 31 December 2018, LOM 40% attributable									
Resource Classification	**Date**	**Area (m^2)**	**Insitu volume (m^3)**	**Grade ($stns/m^3$)**	**cts/stn**	**Stones**	**Carats**	**In-situ grade ($cphm^3$)**	**Modelled value (US$/carat)**
Inferred	31-Dec-18	1,313,900	454,400	0.15	1.14	70,400	80,400	17.70	1,420
Inferred	31-May-17	1,158,100	603,700	0.06	1.13	37,370	42,200	6.99	1,215

Notes: *(i) Cphm³: carats per 100 cubic metres; Stns/m³: 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
(iv) Undiluted grade at 31 December 2018. Diluted grade at 31 May 2017

The Lulo Classified Inferred Diamond Resource has been independently estimated and reconciled by external consultants, Z Star Mineral Resource Consultants (Pty) Ltd, of Cape Town, South Africa (Z Star).

The estimation methodology has been changed by Z Star, compared to 31 May 2017, as a result of information derived from the extensive auger drilling program. Diamond quantities have been estimated utilising diamond recoveries per unit area, as opposed to a volumetric grade. Gravel volume is calculated from the gravel area and gravel thickness determined by auger drilling. This has allowed elimination of the impact of normal mining dilution and variable bulking factors from the grade estimate, giving an improved estimate of in-situ resources. Consequently, this has increased the estimated grade for the available gravel.

Mining dilution is a necessary part of the mining process, ensuring that all potentially diamondiferous material is recovered from the thin gravel beds making up the majority of the deposits at Lulo. This ensures all the Special diamonds (>10.8 carat stones), which have been achieving average sales values of >US$100,000 per stone, are recovered by mining for processing.

Production grades are based on treated volumes inclusive of the required mining dilution, not in-situ volumes. The quantity of dilution has been estimated by Z Star, based on historical mining production data, and an Inferred, Diluted Diamond Resource is shown in the table below:

Inferred diluted resource	**Area (m^2)**	**Resource volume incl. dilution (m^3)**	**Stones**	**Carats**	**Diluted grade ($cphm^3$)**	**Modelled value (US$/carat)**
31-Dec-18	1,313,900	1,132,700	70,400	80,400	7.1	1,420

The Lulo partners are conducting an expanded pitting and auger drilling program around the highest-value diamond areas at Lulo, to expand the Lulo Diamond Resource. The program consisting of over 4,200 additional auger holes (>36km drilled metres) from 31 May 2017 to 31 December 2018 has allowed the definition of alluvial channels with much higher confidence. The exploration program is expected to further expand during the coming year, with exploration targets consisting of 250k – 300k bank cubic metres of gravel already identified.

As set out in the ASX announcement of 5 November 2018, the auger drilling program was successful in defining new alluvial sources of gravels in the flood plains (leziria areas) along the Cacuilo River valley within the Lulo concession. While exploration has continued in these extensive flood plain areas throughout Q1 2019, only the portion of alluvial gravels defined by drilling in these new areas up to 31 December 2018 has been included by Z Star in the updated Lulo Diamond Resource.

Changes in the resource volumes reflect mining depletion from 31 May 2017 and additional resources defined by drilling and mining from 31 March 2017 to 31 December 2018. The Lulo Diamond Resource has been reconciled and depleted as at 31 December 2018 and relies on drone photogrammetry to reflect accurate and precise survey information.

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

Mothae kimberlite diamond resource

MOTHAE CLASSIFIED DIAMOND RESOURCE - 31 December 2018, LOM 70% attributable					
To 300m Below Surface; 2mm Bottom Screen					
Resource Classification	**Date**	**Tonnes (Mt)**	**Grade (cpht)**	**Carats (million)**	**Modelled value (US$/ carat)**
Indicated	31-Dec-18	2.38	3.0	0.07	1,196
Inferred		36.44	2.7	0.97	1,053
TOTAL		**38.82**	**2.7**	**1.04**	**1,063**
Indicated	21-Mar-17	2.39	3.0	0.07	1,196
Inferred		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) Changes in the resource reflect mining depletion from 21 March 2017 to 31 December 2018, as a result of bulk sampling and ramping up of production

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

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.

Corporate Governance Statement

for the year ended 31 December 2018

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 the Recommendations, the Company discloses the reason for adoption of its own practices on an "if not, why not" basis.

Given the size and development nature of the Group and the cost of strict compliance with all the Recommendations, the Board has adopted a range of modified procedures and practices which it considers appropriate to enable it to meet the principles of good corporate governance. At the end of this statement is a checklist setting out the Recommendations with which the Company does or does not comply. The information in this statement is current as at 22 March 2019.

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 their roles and responsibilities and ensures regular meetings so as to retain full and effective control of the Company.

Role of the Board

The Board responsibilities are as follows:

- Setting the strategic aims of Lucapa and overseeing management's performance within that framework;
- Making sure that the necessary resources (financial and human) are available to the Group and management to meet its objectives;
- Overseeing and measuring management's performance of the Company's strategic plan;
- Selecting and appointing a Managing Director with the appropriate experience and 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 undertakes 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 experience, ability and qualification for the position and performance, irrespective of gender, age, marital status, sexuality, nationality, race/cultural background, religious or political opinions, family responsibilities or disability. The Group opposes all forms of unlawful and unfair discrimination.

The Board comprises four directors, all of whom are male. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise in the 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 2018. 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 2018				31 December 2017			
Gender representation	**Female**		**Male**		**Female**		**Male**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Board representation	-	-	4	100	-	-	5	100
Group representation	85	14.7	493	85.3	39	9.3	384	90.7

The Company, together with its subsidiaries and associates currently has 582 full-time employees of which 497 who are male and 85 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 2018 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 objectives 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 Ross Stanley having been appointed since the 2018 Annual General meeting will retire and offer himself for re-election and Mr Nick Selby will stand for re-election by rotation at the Company's Annual General Meeting in May 2019.

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, statistics and new business;
- Once established, the Chairman of the appropriate Board committee will report to the 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 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 four directors of whom one is considered independent, being Mr Miles Kennedy (Non-executive Chairman - appointed as a director on 12 September 2008 and served as Executive Director until 11 December 2014). The Board considers that whilst Mr Kennedy has served as a director for a long period, he remains independent from management and substantial shareholders and is therefore able to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company as a whole rather than in the interests of an individual shareholder or other party. Mr Ross Stanley (Non-Executive Director – appointed 26 July 2018) has a substantial shareholding in the company and therefore does not meet the criteria for an independent director. Mr Stephen Wetherall (appointed 13 October 2014) is Managing Director and therefore does not meet the criteria for an independent director due to his executive role. Mr Nick Selby (appointed 4 September 2017) is an Executive Director and therefore does not meet the criteria for an independent director due to his executive role.

Board skills and experience

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

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 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.

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

SKILL	NUMBER OF DIRECTORS HOLDING THIS SKILL
Resources industry experience	4
Diamond industry experience	3
Strategy	4
Mergers and acquisitions	4
Finance	4
Risk Management	4
Government relations	4
Capital projects; financing/project management	4
Sustainable development	4
Previous board experience	4
Governance	4
Policy	4
Executive leadership	4
Remuneration	4

Nomination of other Board members

Membership of the Board of directors is reviewed on an on-going basis by the Chairperson of the Board to 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 on the business including being given access to regular operational updates, industry 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 the conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where a conflict does arise.

Trading in Company securities

Directors are required to make disclosure of any trading in the Company's shares. The Company policy in relation to share trading is that 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 four 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 also made 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 with the Executive. The Executive is also responsible for updating the Group's material business risks to reflect any material changes, with the approval of the Board.

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

The Board does not have a separate Risk Management Committee as the Board monitors and reviews the integrity of financial reporting and the Group's internal financial control systems. Management assess the effectiveness of the internal financial control on an annual basis and table 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. The Executive reports to the Board on material business risks at each Board meeting.

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

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

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	31 Dec 2018 US$	31 Dec 2017 US$
Share of (loss)/ profit of associate	14	(2,740,107)	6,457,022
Fair value adjustments		(96,575)	(3,318,172)
Finance income	5	76,934	70,265
Professional fees		(538,512)	(767,905)
Depreciation expense		(182,807)	(181,688)
Employee benefits expenses	6	(2,826,987)	(2,776,740)
Director and employee options	6	(793,840)	(1,595,424)
Finance expense		(52,972)	(565,377)
Foreign exchange gain		60,619	140,435
Other income/ (expenses)		181,953	(816,219)
Loss before income tax from continuing operations		**(6,912,294)**	**(3,353,803)**
Income tax expense	7	(163,566)	-
Loss after income tax for the year		**(7,075,860)**	**(3,353,803)**
Other comprehensive (loss)/ income		(337,259)	248,395
Total comprehensive loss for the year		**(7,413,119)**	**(3,105,408)**
Loss per share			
Basic loss per share (cents)	8	(1.63)	(0.98)
Diluted loss per share (cents)	8	(1.62)	(0.94)

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

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	31 Dec 2018 US$	31 Dec 2017 US$
Assets			
Cash and cash equivalents	9	8,200,090	8,296,887
Trade and other receivables	10	1,950,361	512,409
Inventories	11	212,832	29,304
Financial assets	12	113,927	809,444
Total current assets		**10,477,210**	**9,648,044**
Property plant and equipment	13	58,271,608	34,370,797
Non-current financial assets	12	23,087,130	25,778,095
Investment in associate	14	6,167,300	8,907,407
Total non-current assets		**87,526,038**	**69,056,299**
Total assets		**98,003,248**	**78,704,343**
Liabilities			
Trade and other payables	15	5,995,451	8,300,735
Borrowings	17	9,500,299	1,742,900
Total current liabilities		**15,495,750**	**10,043,635**
Non-current provisions	16	860,115	935,600
Non-current borrowings	17	14,455,339	8,074,185
Deferred tax liabilities	7	42,189	-
Total non-current liabilities		**15,357,643**	**9,009,785**
Total liabilities		**30,853,393**	**19,053,420**
Net assets		**67,149,855**	**59,650,923**
Equity			
Share capital	18	112,920,199	96,981,417
Reserves		(3,943,651)	13,421
Accumulated losses		(41,826,693)	(37,343,915)
Total equity		**67,149,855**	**59,650,923**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Issued capital	Share based payments reserve	Foreign currency translation reserve	Accumulated losses	Total
	US$	US$	US$	US$	US$
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 loss for the period	**-**	**-**	**248,395**	**(3,353,803)**	**(3,105,408)**
Transactions with owners, in their capacity as owners					
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	-
Share issue expenses	(992,477)	-	-	-	(992,477)
Total transactions with owners	**7,867,088**	**1,688,607**	**-**	**271,742**	**9,827,437**
Balance at 1 January 2018	**96,981,417**	**5,302,281**	**(5,288,860)**	**(37,343,915)**	**59,650,923**
Comprehensive income for the period					
Loss for the period	-	-	-	(7,075,860)	(7,075,860)
Other comprehensive loss	-	-	(337,259)	-	(337,259)
Total comprehensive loss for the period	**-**	**-**	**(337,259)**	**(7,075,860)**	**(7,413,119)**
Transactions with owners, in their capacity as owners					
Issue of share capital	14,323,305	-	-	-	14,323,305
Issue of options	-	981,523	-	-	981,523
Expiry of options	-	(2,593,082)	-	2,593,082	-
Transfer of reserves on exercise of options	2,008,254	(2,008,254)	-	-	-
Share issue expenses	(392,777)	-	-	-	(392,777)
Total transactions with owners	**15,938,782**	**(3,619,813)**	**-**	**2,593,082**	**14,912,051**
Balance at 31 December 2018	**112,920,199**	**1,682,468**	**(5,626,119)**	**(41,826,693)**	**67,149,855**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	31 Dec 2018 US$	31 Dec 2017 US$
Cash flows from operating activities			
Cash paid to suppliers and employees		(4,493,559)	(4,215,079)
Interest and finance cost		(6,634)	(550,999)
Interest received		78,045	70,265
Net cash used in operating activities		**(4,422,148)**	**(4,695,813)**
Cash flows from investing activities			
Payments for exploration costs		(1,197,188)	(1,337,434)
Payments for development		-	(940,701)
Proceeds from/ (payments to) associate		-	3,706,255
Payments for property plant and equipment		(19,364,266)	(9,749,821)
Net cash used in investing activities		**(20,561,454)**	**(8,321,701)**
Cash flows from financing activities			
Proceeds from issue of share capital		12,504,079	8,085,479
Share issue costs		(213,593)	(455,015)
Repayment of borrowings		(34,453)	(4,624,587)
Proceeds from borrowings		13,231,947	14,089,860
Borrowing transaction costs		(380,227)	-
Net cash generated from financing activities		**25,107,753**	**17,095,737**
Net increase in cash and cash equivalents		**124,151**	**4,078,223**
Cash and cash equivalents at beginning of period		8,296,887	4,349,142
Exchange loss on foreign cash balances		(220,948)	(130,478)
Cash and cash equivalents at end of period	9	**8,200,090**	**8,296,887**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

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, its subsidiaries and associates (collectively "the Group") are 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 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 and anticipates cashflows to be received from Mothae following the completion of the mine development, the directors recognise that the Group may have to seek funding in the future in order to continue to exploit and develop its four diamond projects.

For the year ended ended 31 December 2018, the Group recorded a loss after tax of US$7.1m (2017: US$3.3m). The result was affected by postponing the sale at SML of 7 large and high-value diamonds recovered during 2018 to January 2019 . As at 31 December 2018 the Group had net assets of US$67.2m (Dec 2017: US$59.6m).

During the current period, the Group received funding from the following sources:

- U$5m drawdown from the borrowing facility with Equigold Pte Ltd for the purposes of funding the Phase 1 development of Mothae;
- US$12.5m (before costs) from the issue of shares at no discount to the prevailing market price as per the ASX announcement of 9 April 2018;
- US$6.9m from the borrowing facility with the Industrial Development Corporation of South Africa Limited ("IDC") for the purposes of funding the Phase 1 development of Mothae as per the ASX announcement of 20 December 2018; and
- US$1.2m from the short term borrowing facility with New Azilian Pty Ltd, an entity associated with non-executive director Ross Stanley.

Future funding sources include anticipated loan repayments and distributions/ dividends from both SML and Mothae.

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

- continued success of the Lulo alluvial mine to generate forecast cashflows to repay its loans to Lucapa and make distributions to the partners;
- successfully bringing Mothae into commercial production to generate forecast cashflows to repay its loans to Lucapa and the IDC and pay dividends; and
- continued successful cash management and project/debt finance sourcing.

In addition, Lucapa has the capacity to place securities under ASX Listing Rule 7.1.

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 and cash flow projections designed to ensure that there are at all times sufficient funds on hand or anticipated to continue operations for the foreseeable future, whilst at the same time continuing alluvial and kimberlite mining, and furthering its exploration projects in an effective manner; and
- The successful historical ability of the Group to raise capital via debt and/or equity placements and capital raisings given the current cash generating ability and prospectivity of the Lulo Diamond Project and forecast future cash flows from the Mothae Kimberlite Project.

However, should the Group activities not eventuate as planned or 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.

(a) New or revised accounting policies

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2018:

- AASB 9 Financial Instruments;
  - The revised standard introduced new classification and measurement models for financial instruments as summarised in the accounting policy notes below. None of the new requirements had a material impact on the Group's financial instruments;
- AASB 15 Revenue from contracts with customers;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers to Investment Property, Annual Improvements 2017-2016 Cycle and other Amendments;
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions;
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

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

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

- AASB 16 Leases;
- AASB 17 Insurance contracts;
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- AASB 1059 Service Concession Arrangements: Grantors;
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments;
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments;
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation;
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures;
- AASB 2018-1 Annual Improvements to IFRS Standards 2015–2017 Cycle;
- ASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business;
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material;
- Interpretation 23 Uncertainty Over Income Tax Treatments.

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

(b) 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.

(c) 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.

(d) Financial instruments

Recognition, initial measurement and derecognition

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

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

Subsequent measurement of financial assets

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

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

Financial assets at amortised cost

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

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

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

Financial assets at fair value through profit or loss

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

Subsequent measurement of financial liabilities

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

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

(e) 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.

(f) Principles of consolidation

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

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

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

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

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

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

Mine development

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

Deferred exploration and evaluation

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

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

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.

(h) 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.

(i) 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.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

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

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

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

(k) 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.

Asset retirement obligations

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

Environmental liabilities

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

(l) Revenue

The Group's revenue arises mainly from the sale of diamonds. To determine whether to recognise revenue, the following 5-step process is followed:

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

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

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

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

(m) 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.

(n) 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.

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

(o) 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.

(p) Goods and services tax/ value added tax

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

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

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

(q) Investments in associates and joint arrangements

Associates are those entities over which the Group is able to exert significant influence but which are not subsidiaries.

A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. A joint arrangement in which the Group has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation.

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

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

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

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

(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) Determination of fair values

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

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

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

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

Trade and other receivables

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

Financial liabilities

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

Share-based payment transactions

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

(u) 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.

Asset useful lives and residual values

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

Valuation of mineral properties

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

Exploration and evaluation assets

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

Development

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

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 decommissioning/ 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.

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

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 12.

4. Segment reporting

	Mining		Exploration & Evaluation		Corporate		Total	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	US$	US$	US$	US$	US$	US$	US$	US$
Assets								
Cash and cash equivalents	3,874,248	25,546	1,810	1,560	4,324,032	8,269,781	8,200,090	8,296,887
Trade and other receivables	1,568,451	369,124	-	-	381,910	143,285	1,950,361	512,409
Inventory	212,832	29,304	-	-	-	-	212,832	29,304
Financial assets	113,927	809,444	-	-	-	-	113,927	809,444
Total current assets	**5,769,458**	**1,233,418**	**1,810**	**1,560**	**4,705,942**	**8,413,066**	**10,477,210**	**9,648,044**
Property plant and equipment	40,964,216	21,617,314	17,253,385	12,722,761	54,007	30,722	58,271,608	34,370,797
Non-current financial assets	23,087,130	25,778,095	-	-	-	-	23,087,130	25,778,095
Investment in associate	6,167,300	8,907,407	-	-	-	-	6,167,300	8,907,407
Total non-current assets	**70,218,646**	**56,302,816**	**17,253,385**	**12,722,761**	**54,007**	**30,722**	**87,526,038**	**69,056,299**
Total assets	**75,988,104**	**57,536,234**	**17,255,195**	**12,724,321**	**4,759,949**	**8,443,788**	**98,003,248**	**78,704,343**
Liabilities								
Trade and other payables	5,450,766	8,029,879	-	-	544,685	270,856	5,995,451	8,300,735
Borrowings	8,217,735	1,742,900	-	-	1,282,564	-	9,500,299	1,742,900
Total current liabilities	**13,668,501**	**9,772,779**	**-**	**-**	**1,827,249**	**270,856**	**15,495,750**	**10,043,635**
Non-current provisions	860,115	935,600	-	-	-	-	860,115	935,600
Non-current borrowings	14,455,339	8,074,185	-	-	-	-	14,455,339	8,074,185
Total non-current liabilities	**15,315,454**	**9,009,785**	**-**	**-**	**-**	**-**	**15,315,454**	**9,009,785**
Total liabilities	**28,983,955**	**18,782,564**	**-**	**-**	**1,827,249**	**270,856**	**30,811,204**	**19,053,420**
Profit or loss								
(Loss)/ profit before income tax	(2,708,402)	2,331,307	862	-	(4,204,754)	(5,685,110)	(6,912,294)	(3,353,803)

The Group engages in business activities within the following business segments: diamond mining in Africa, diamond exploration & evaluation projects in Africa and Australia and a corporate and administrative office in Western Australia to support and promote the other activities.

5. Income

	Note	31 Dec 2018 US$	31 Dec 2017 US$
Finance income			
Interest on bank deposits		76,934	70,265
		76,934	**70,265**

6. Expenses

	Note	31 Dec 2018 US$	31 Dec 2017 US$
Auditors remuneration			
Greenwich & Co (Auditors of parent company & consolidation)			
Audit services		31,201	31,051
Other services		-	-
		31,201	**31,051**
Other group auditors (for subsidiary companies)			
Audit services		2,576	4,387
Other services		2,364	-
		4,940	**4,387**
Employee benefits expenses			
Wages, salaries and director remuneration		2,493,595	2,385,028
Superannuation costs		115,197	119,484
Share-based payments	18	793,840	1,595,424
Other associated employee expenses		218,195	272,228
		3,620,827	**4,372,164**
Operating lease rental		170,588	137,548

7. Income tax

	Note	31 Dec 2018 US$	31 Dec 2017 US$
Current tax expense			
Current income tax charge		121,377	-
Deferred tax expense			
Relating to origination and reversal of temporary differences		42,189	-
Total income tax expense		**163,566**	**-**
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate			
Net loss before tax		(6,912,294)	(3,353,803)
Income tax benefit using the Australian domestic tax rate of 30%		(2,073,688)	(1,006,141)
Increase in income tax due to tax effect of:			
Non-deductible expenses		1,496,300	1,906,138
Tax rate differential on foreign income		188,510	-
Current year tax losses not recognised		-	1,016,722
Impact of movement in unrecognised temporary differences		-	44,714
Foreign taxes paid		121,377	-
Share of loss of associate		822,032	-
Under provision in prior year		42,189	-
Decrease in income tax expense due to:			
Share of profit of associate		-	(1,937,107)
Impact of movement in unrecognised temporary differences		(56,892)	-
Utilisation of previously unrecognised tax losses		(151,367)	-
Recognition of previously unrecognised prior year tax losses		(197,520)	-
Deductible equity raising costs		(27,375)	(24,326)
Income tax expense		**163,566**	**-**
Recognised deferred tax assets and liabilities			
Recognised deferred tax assets			
Tax losses		9,355,672	4,769,037
Accruals & provisions		336,729	245,503
		9,692,401	**5,014,540**
Less: Set off of deferred tax liabilities		(9,692,401)	(5,014,540)
Net deferred tax assets		**-**	**-**
Recognised deferred tax liabilities			
Property plant and equipment		(8,424,509)	(4,984,849)
Capitalised interest and foreign exchange adjustments		(1,196,719)	-
Other		(113,362)	(29,691)
		(9,734,590)	**(5,014,540)**
Less: Set off of deferred tax assets		9,692,401	5,014,540
Net deferred tax liabilities		**(42,189)**	**-**
Deferred tax assets not recognised			
Tax revenue losses		8,870,000	9,518,779
Tax capital losses		4,659,269	5,167,853
Deductible temporary differences		78,834	147,165
		13,608,103	**14,833,797**

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.

8. (Loss)/ earnings per share

	31 Dec 2018	31 Dec 2017
	Cents	**Cents**
Basic loss per share (cents per share)	(1.63)	(0.98)
Diluted loss per share (cents per share)	(1.62)	(0.94)
	US$	**US$**
Loss used in calculating earnings per share		
Loss attributable to members of the Company used in calculating basic earnings per share	(7,075,860)	(3,353,803)
Loss attributable to members of the Company used in calculating diluted earnings per share	(7,075,860)	(3,353,803)
	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	434,320,368	341,078,095
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	437,988,374	357,284,848

9. Cash and cash equivalents

	US$	US$
Balances on hand		
Bank balances	8,200,090	8,296,887
	8,200,090	**8,296,887**
Cash flow reconciliation		
Reconciliation of loss after tax to cash flows from operations:		
Loss for the period	(7,075,860)	(3,353,803)
Adjustments for:		
Depreciation expense	188,269	181,688
Director and employee options	793,840	1,595,424
Exchange gains	42,639	130,479
Interest received	(62,910)	-
Interest and other finance costs paid	46,338	9,794
Fair value loss on financial assets	(553,865)	3,318,172
Share of loss/ (profit) of associate	2,740,107	(6,457,022)
Other non cash items	1,695,072	136,854
Working Capital adjustments:		
Increase in inventory	(183,529)	(29,304)
(Decrease)/ increase in trade and other receivables	456,891	(179,616)
Decrease in trade and other payables relating to operating activities	(2,509,140)	(48,479)
Net cash used in operating activities	**(4,422,148)**	**(4,695,813)**

Refer note 19 for exposure to interest rate risk.

10. Trade and other receivables

	31 Dec 2018	31 Dec 2017
	Cents	**Cents**
Current		
GST/ VAT receivable	1,474,859	330,741
Prepayments and other receivables	475,502	181,668
	1,950,361	**512,409**
Refer note 19 for exposure to credit and currency risk.		

11. Inventories

Consumables and other inventory	212,832	29,304
	212,832	**29,304**

12. Financial assets

Current financial assets		
Foreign currency derivatives	-	650,440
Other short term financial assets	113,927	159,004
Total	**113,927**	**809,444**
Non current financial assets		
Receivable in respect of the alluvial project		
At 1 January	25,778,095	33,285,531
Investment during the period	101,218	293,745
Repayment received	-	(4,000,000)
Transferred to Deferred exploration and evaluation costs (note 13)	(3,450,300)	-
	22,429,013	**29,579,276**
Fair value adjustment due to discounting	658,117	(3,801,181)
At end of period	**23,087,130**	**25,778,095**

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

Significant unobservable inputs are the timing and amounts of future repayments which are based on the expected cash flows per the Company's forecast model for SML. Sensitivity factors which could impact the valuation include operational recoveries and delays in the timing of repayments which will decrease the fair value estimate. A discount rate of 14.55% has been applied in the fair value calculation.

13. Property plant and equipment

	Deferred exploration and evaluation	Mine development	Plant and equipment	Decommissioning assets	Computer equipment	Office equipment	Total
	US$	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Cost							
Balance at 1 January 2017	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**
Additions	7,524,386	3,742,457	15,601,197	58,896	199,090	6,340	27,132,366
Reclassifications	552,935	(54,351)	(492,660)	-	(5,212)	(712)	-
Foreign currency movements	(298,150)	(422,941)	(2,294,685)	(4,849)	(22,221)	(1,105)	(3,043,951)
Balance at 31 December 2018	**20,501,932**	**16,588,492**	**21,372,119**	**54,047**	**270,183**	**20,230**	**58,807,003**
Accumulated depreciation							
Balance at 1 January 2017	-	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**
Amortisation/ depreciation charge for the year	-	154,874	1,365	-	22,321	4,247	182,807
Disposals	-	-	-	-	-	(7,548)	(7,548)
Foreign currency movements	-	-	(112)	-	(1,315)	(217)	(1,644)
Balance at 31 December 2018	**-**	**492,519**	**1,253**	**-**	**33,784**	**7,839**	**535,395**
Net carrying amounts							
At 31 December 2017	12,722,761	12,985,682	8,558,267	-	85,748	18,339	34,370,797
At 31 December 2018	**20,501,932**	**16,095,973**	**21,370,866**	**54,047**	**236,399**	**12,391**	**58,271,608**

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

During 2017 the Group acquired 70% of Mothae in Lesotho. The acquisition and development cost are recognised under Mine Development and Plant and equipment.

The Group has a 39% interest in the Project Lulo Venture ("the JV"), an unincorporated entity classified as a joint operation that operates under the terms of a Mineral Investment Contract entered into between the partners. Accordingly, the Group's interest in the assets, liabilities, revenues and expenses attributable to the JV have been included in the appropriate line items in the consolidated financial statements. Deferred exploration costs of US$15,360,546 in the schedule above are related to the JV.

14. Investment in associate

	31 Dec 2018	31 Dec 2017
	US$	**US$**
Summarised financial information of SML		
Current assets	12,674,945	21,245,644
Non-current assets	27,712,565	31,323,195
Current liabilities	7,582,425	7,665,769
Non-current liabilities	23,015,859	28,263,577
Equity	**9,789,226**	**16,639,493**
Group's carrying amount of the investment	6,167,300	8,907,407
Revenue	26,417,657	31,602,817
Cost of sales	(24,972,395)	(21,672,736)
Administrative and selling expenses	(6,773,821)	(3,681,774)
Fair value adjustments	1,827,362	9,941,930
(Loss)/ profit before tax	**(3,501,197)**	**16,190,237**
Income tax expense	(3,349,071)	(47,682)
(Loss)/ profit for the period	**(6,850,268)**	**16,142,555**
Total comprehensive (loss)/ income for the period	**(6,850,268)**	**16,142,555**
Group's share of (loss)/ profit for the period	(2,740,107)	6,457,022
SML EBITDA*	(2,012,964)	7,602,126
SML Contingent liabilities	-	-
SML Capital commitments		
Payable within one year		
- Approved, not yet contracted	2,891,100	-
- Approved and contracted	6,925,140	-

The Group 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 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. The result was affected by postponing the sale at SML of 7 large and high-value diamonds recovered during 2018 to January 2019.

**Earnings before interest, tax, depreciation & amortisation, fair value adjustments and other non-trading items.*

15. Trade and other payables

	31 Dec 2018	31 Dec 2017
	US$	US$
Trade payables	1,474,243	3,509,910
Mothae deferred purchase consideration	3,375,000	4,500,000
Accruals and other payables	1,146,209	290,825
Total	**5,995,452**	**8,300,735**

Refer note 19 for exposure to currency and liquidity risk.

The Mothae deferred purchase consideration is payable in six equal instalments during 2019.

16. Provisions

	31 Dec 2018	31 Dec 2017
Provision for environmental rehabilitation		
At 1 January	935,600	-
(Decrease)/ increase during the year	(7,949)	858,910
Unwinding of discount rate	66,845	-
Foreign exchange difference	(134,381)	76,690
At end of period	**860,115**	**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 18 years, an annual inflation rate of 5.4% (2017: 5.26%) and a discount rate of 9.18% (2017: 7.61%).

17. Borrowings

	31 Dec 2018	31 Dec 2017
	US$	US$
Current borrowings		
Finance lease liabilities	4,818	3,765
Other short-term loans	9,495,481	1,739,135
Total	**9,500,299**	**1,742,900**
Non-current borrowings		
Finance lease liabilities	20,113	24,263
Other non-current loans	12,959,771	8,049,922
Other non-current loans - Embedded derivative	1,475,455	-
Total	**14,455,339**	**8,074,185**
Finance lease commitments		
Minimum payments		
Payable within one year	7,452	6,814
Payable after one year but less than five years	23,803	30,136
Payable after more than five years	-	-
Total minimum lease payments	31,255	36,950
Less: finance charges	(6,324)	(8,922)
Present value of minimum lease payments	**24,931**	**28,028**
Present value of payments		
Payable within one year	4,818	3,766
Payable after one year but less than five years	20,113	24,262
Payable after more than five years	-	-
Present value of minimum lease payments	**24,931**	**28,028**

The loan amounts reflect the current and non-current portions due to Equigold, IDC and New Azilian Pty Ltd. The terms of the loans include the following:

Equigold:

- Total loan facility of US$15m, fully utilised at the end of the period (2017: US$5m unutilised);
- The capital balance is repayable in eight quarterly payments commencing January 2019;
- 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 at the then market price;
- Interest is payable at 13% pa;
- Lucapa, at its election, can convert fees and quarterly interest into ordinary shares in the Company at the then market price;
- 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.

Equigold embedded derivative:

- Recognised at fair value, using a Black Scholes valuation with the following inputs:
- LOM share price at measurement date (31 December 2018): A$0.205
- Exercise price: A$0.193; Estimated volatility: 75%
- Expiry date: 1 September 2020; Risk-free interest rate: 2.19%

IDC:

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

New Azilian:

- New Azilian is an entity associated with non executive director Ross Stanley;
- Unsecured loan facility of A$1.8m (US$1.3m), fully utilised at the end of the period;
- The loan is repayable in full in February 2019, together with accrued interest at 10% pa.

18. Share capital

	31 Dec 2018	31 Dec 2018
	Number	**US$**
Listed securities		
Movement in ordinary shares		
On issue at beginning of period	380,887,431	96,981,417
Issue of shares	82,128,704	14,323,305
Issue of shares on exercise of options and performance rights	4,172,498	2,008,254
Transaction costs	-	(392,777)
On issue at end of period	**467,188,633**	**112,920,199**

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 2018	31 Dec 2017
Weighted average remaining contractual life of share options and performance rights in issue (years)	1.45	1.33
Weighted average Lucapa share price during the period/ year (A$)	0.25	0.31
	US$	**US$**
Share-based payment recognised		
Profit or Loss		
Director and employee options	793,840	1,595,424
Non cash financing and investing activities		
Share issue expenses	179,184	537,462
Loan funding	1,819,226	500,000
Deferred exploration and evaluation costs	8,499	110,471
	2,800,749	**2,743,357**

18. Share capital (continued)

Share options and Performance rights in issue	Share options							Performance rights*			Weighted average price (A$)
Exercise price (A$)	**$0.35**	**$0.53**	**$0.53**	**$0.45**	**$0.35**	**$0.46**	**$0.4355**	**$0.00**	**$0.00**	**$0.00**	
Expiry date	**30-Sep-18**	**02-Jun-19**	**15-May-19**	**24-May-20**	**20-Apr-20**	**31-May-20**	**07-Jun-21**	**02-Jun-19**	**31-May-20**	**07-Jun-21**	
Number on issue at beginning of period	11,600,000	2,925,000	500,000	250,000	-	2,250,000	-	1,068,750	3,431,250	-	0.32
Issue of options/ performance rights	-	-	-	-	2,500,000	-	1,301,000	-	-	3,090,000	0.21
Exercise of options/ performance rights	-	-	-	-	-	-	-	(1,068,750)	(2,846,250)	(257,498)	-
Expiry of options	(11,600,000)	-	-	-	-	-	-	-	-	-	
On issue at end of period	**-**	**2,925,000**	**500,000**	**250,000**	**2,500,000**	**2,250,000**	**1,301,000**	**-**	**585,000**	**2,832,502**	0.34
Exercisable at end of period	-	2,925,000	500,000	250,000	2,500,000	1,500,000	433,666	-	-	-	
Assumptions used in estimating fair value of grants in current period:											
Grant date					18-Apr-18		07-Jun-18			07-Jun-18	
LOM share price at grant date (A$)					0.260		0.265			0.265	
Estimated volatility					80%		80%			80%	
Risk-free interest rate					2.75%		2.83%			2.83%	
Fair value per option/right (A$)					0.094		0.109			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 2018	31 Dec 2017
	US$	US$
Financial assets		
Cash and cash equivalents	914,331	655,412
Trade and other receivables	303,012	68,334
Financial liabilities		
Trade and other payables	501,787	270,854
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 does not currently use derivatives to mitigate these exposures.

Interest rate risk exposure

	31 Dec 2018	31 Dec 2017
	US$	US$
Financial assets		
Variable interest rates		
Cash and cash equivalents	8,200,090	8,295,327
Average rate for 2018: 2.6% (2017: 1.18%)		
Fixed interest rates		
Trade and other receivables	113,927	159,003
Average rate for 2018: 2.95% (2017: 2.95%)		
Non-interest bearing		
Trade and other receivables	25,037,491	26,290,503
Financial liabilities		
Variable interest rates		
Borrowings	6,883,088	-
Average rate for 2018: 18.3%* (2017: n/a)		
** 3 month Jibar + 8.6%*		
Fixed interest rates		
Borrowings	17,072,550	9,817,085
Average rate for 2018: 12.5% (2017: 13%)		
Non-interest bearing		
Trade and other payables	5,995,452	8,300,733

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 an estimated impact of US$0.2m before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to 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.

19. Financial risk management (continued)

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.

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

	31 Dec 2018	31 Dec 2017
	US$	US$
Trade and other payables		
Payable within one year	5,995,452	8,300,733
Borrowings		
Payable within one year	12,083,103	1,739,135
Payable after one year but less than five years	17,079,861	12,021,016
Payable after more than five years	-	-

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 hierarchy

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

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

- the alluvial project receivable (note 12): level 3 due to the use of unobservable inputs;
- the Equigold embedded derivative (note 14): level 1 due to the use of market based and observable inputs;
- other financial assets and liabilities approximate net fair value, determined in accordance with the accounting policies.

20. Commitments and contingencies

	31 Dec 2018	31 Dec 2017
	US$	US$
Operating lease commitments		
Minimum lease payments under non-cancellable operating lease agreements		
Payable within one year	90,500	108,940
Payable after one year but less than five years	374,856	467,159
Payable after more than five years	371,085	614,268
	836,441	**1,190,367**
Capital commitments		
Payable within one year		
Approved, not yet contracted	4,206,407	6,113,787
Approved and contracted	354,959	3,950,531

Contingencies

The Group did not have any contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

21. Parent entity information

	31 Dec 2018	31 Dec 2017
	US$	**US$**
Current assets	4,771,045	9,222,508
Total assets	92,372,737	66,953,332
Current liabilities	13,419,984	4,770,854
Total liabilities	20,992,235	7,626,367
Share capital	112,920,198	96,981,417
Reserves	(3,849,921)	(230,108)
Accumulated losses	(37,689,776)	(37,424,344)
	71,380,502	**59,326,965**
(Loss)/ profit for the period	(3,263,477)	(3,029,269)
Total comprehensive (loss)/ income for the period	(3,263,477)	(3,029,269)

22. Related party disclosures

Key management personnel compensation (refer note 6)		
Short-term employee benefits	1,313,960	1,211,096
Post-employment benefits	48,118	55,934
Share-based payments	528,322	761,563
	1,890,400	**2,028,593**
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	62,832	74,305
The following payments, relating to professional services supplied were made to director Albert Thamm:		
Competent Person services	6,350	36,720
Loan facility agreement with an entity associated with non executive director Ross Stanley:		
Amount due to New Azilian Pty Ltd (refer note 17)	1,282,564	-

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.

23. Group information

The consolidated financial statements of the Group include the following subsidiaries:

	31 Dec 2018	31 Dec 2017
	%	%
Lucapa Diamonds (Botswana) (Proprietary) Limited		
Incorporated in Botswana		
Equity interest held	100	100
Brooking Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	100
Mothae Diamonds (Pty) Ltd		
Incorporated in the Kingdom of Lesotho		
Equity interest held	70	70
Lucapa (Mauritius) Holdings Limited		
Incorporated in Mauritius		
Equity interest held	100	n/a

24. Events subsequent to reporting date

On 4 January 2019, Lucapa announced the first repayment of principal in the amount of US$1.875m under the loan facility with Equigold.

On 14 January 2019, Lucapa announced the first historic tender of Lulo diamonds under Angola's new diamond marketing policy, which was scheduled to close on 31 January 2019.

On 1 February 2019, Lucapa announced that the diamonds sold in the historic first tender had achieved total highest bids of US$16.7m (A$22.9m), representing an average price per carat of US$33,530.

On 4 February 2019, Lucapa released its presentation for the Mining Indaba 2019 conference, which included plans to scale up diamond mining operations at Lulo in mid-2019.

On 18 February 2019, Lucapa announced an exploration update from the Brooking project in Western Australia. The update included bulk sampling results from Little Spring Creek which were below the Company's commercial hurdle, with micro-diamond results awaited from the Big Spring Creek lamproite samples. The update also included information on drilling targets and stream sampling targets.

On 19 February 2019, Lucapa announced the recovery of a 128 carat top-colour white Type IIa Lulo diamond – the 12th +100 carat diamond recovered from Lulo to date, along with a 7.5 carat fancy purple pink diamond.

On 20 February 2019, Lucapa announced the outcome of a review of the Company's diamond asset portfolio to maximise shareholder value, which included prioritising cash generation through the expansion of the Lulo and Mothae mining operations; advancing the Lulo kimberlite exploration program; and cutting and polishing select Specials to accrete additional value.

On 27 February 2019, Lucapa announced the first Antwerp tender of diamonds from the new 1.1Mtpa Mothae plant in Lesotho had achieved total revenues of US$3.8m (A$5.3m), including prices of up to US$36,664 per carat for individual diamonds.

On 15 March 2019, Lucapa announced the recovery of an 83.9 carat diamond from the new Mothae kimberlite diamond mine.

Directors' Declaration
for the year ended 31 December 2018

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 9 to 54, 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 2018 and of its performance for the financial period ended on that date; and

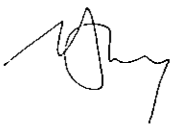
      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (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 2018.

Signed in accordance with a resolution of the directors.



MILES KENNEDY
Chairman
Dated this 22 March 2019

Greenwich & Co

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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 2018, 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 2018 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

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

Material uncertainty related to going concern

We draw attention to 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, 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 – material 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

Refer to Note 12 Financial Assets and accounting policy Notes 3d, 3t and 3u

Key Audit Matter	How our audit addressed the key audit matter
The Group has a balance receivable as at 31 December 2018 of US$23,087,130 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 14.55%, taking account of the time value of money, based on estimated dates of cashflows from SML to Lucapa.	Our audit work included, but was not restricted to, the following: • We obtained a loan confirmation of the gross value receivable from SML to Lucapa; • We obtained the Group's calculation of the discounted cashflows from SML to Lucapa, and re-tested the workings to ensure the discounting process had been accurately performed; • We obtained third party verification of the discount rate applied by Management, and evaluated the reliability of the source data; and • We evaluated the board's application of estimates and judgements, with reference to AASB 13, to ensure that the accounting applied was fully compliant with accounting standards.

Deferred Exploration and Evaluation Costs

Refer to Note 13 Property Plant and Equipment and accounting policy Notes 3g, 3i and 3u

Key Audit Matter	How our audit addressed the key audit matter
At 31 December 2018, 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 perspectivity requires significant judgement. There is a risk that amounts are capitalised which no longer meet the recognition criteria of AASB 6.	Our audit work included, but was not restricted to, the following: • We obtained evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditures by obtaining 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.

Decentralized Operations

Refer to Note 23 Group Information and 13 Property Plant and Equipment

Key Audit Matter	How our audit addressed the key audit matter
Lucapa is a group with subsidiaries in Lesotho, Botswana and Mauritius and a joint arrangement in Angola. These decentralized operations require adequate monitoring activities from an internal control perspective. Also in our role as group auditor it is essential that we obtain an appropriate level of understanding of the subsidiaries and the joint operation and the component auditor's work.	Our audit work included, but was not restricted to, the following: • We have evaluated the group's internal controls, including centralized monitoring controls that exist at both group and segment level. • In our audit approach we have specifically focused on risks in relation to decentralised structure and we have been closely involved in the audit performed at Mothae, being the most significant subsidiary outside of Australia. • We also performed tests on consolidation adjustments and manual journal entries, both at group and component level to obtain an understanding of significant entries made. • Tested a sample of expenditure incurred in the joint operation to supporting invoices or other documentation.

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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 2018 but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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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 13-15 of the directors' report for the year ended 31 December 2018.

In our opinion the Remuneration Report of Lucapa Diamond Company Limited for the year ended 31 December 2018 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

GREENWICH & CO AUDIT PTY LTD

Raf

RAFAY NABEEL
Audit Director
22 March 2019
Perth

ASX Additional Information

Additional information current as at 19 March 2019 required by Australia Securities Exchange Limited Rules and not disclosed elsewhere in this Report.

1. Capital structure

Ordinary Share Capital

474,706,564 ordinary fully paid shares held by 6,171 shareholders.

Spread			Number of Holders	Number of Shares
1	to	1,000	108	33,936
1,001	to	5,000	1,973	6,222,057
5,001	to	10,000	1,133	9,244,817
10,001	to	100,000	2,385	82,192,191
100,001 and above			572	377,013,563

As at 19 March 2019 there were 957 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

Fully Paid Ordinary Shares

Name	Number Held	% of Issued Capital
Tazga Two Pty Ltd as trustee for Tazga Two Trust	39,250,436	8.58%

5. Top 20 holders of quoted securities

Fully Paid Ordinary Shares

Name	Number Held	% of Issued Capital
TAZGA TWO PL	39,880,436	8.40%
EQUIGOLD PTE LTD	18,039,921	3.80%
J P MORGAN NOM AUST PL	16,895,102	3.59%
ONE DOG ONE BONE PL	12,019,583	2.53%
ZERO NOM PL	11,200,000	2.36%
PULLINGTON INV PL	10,662,117	2.25%
CITICORP NOM PL	10,583,314	2.23%
ILWELLA PL	9,798,367	2.06%
CARRINGTON CORP PL	8,631,000	1.82%
IMPALA SUPER NOM PL	7,850,000	1.65%
COXON ANNA	5,000,000	1.05%
GREGORACH PL	4,813,953	1.01%
ROBINSON P R + T T + HOLM	4,173,913	0.88%
SLADE TECHNOLOGIES PL	4,147,790	0.87%
LAWRENCE CHRISTOPHER P	4,000,000	0.84%
CADDICK ALFRED RALPH P	3,359,185	0.71%
GREGORACH PL	3,080,237	0.65%
HSBC CUSTODY NOM AUST LTD	3,011,876	0.63%
ROXTEL PL	2,700,309	0.57%
BRUTON DEREK DECLAN	2,620,000	0.55%
	182,467,103	**38.44%**

6. Unlisted option holders

There is 1 holder of A$0.53 unlisted options expiring 15 May 2019.
There are 10 holders of A$0.53 unlisted options expiring 2 June 2019.
There is 1 holder of A$0.35 unlisted options expiring 20 April 2020.
There are 15 holders of A$0.45 unlisted options expiring 24 May 2020.
There are 20 holders of A$0.46 unlisted options expiring 31 May 2020.
There are 13 holders of A$0.43 unlisted options expiring 7 June 2021.

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 exploration results and resource estimates is based on and fairly represents information and supporting documentation prepared and compiled by Richard Price MAusIMM who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Price is an employee of Lucapa Diamond Company Limited. Mr Price has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves. Mr Price consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

No New Information

To the extent that announcement contains references to prior exploration results and Mineral Resource estimates, which have been cross referenced to previous market announcements made by the Company, unless explicitly stated, no new information is contained. The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant market announcements and, in the case of estimates of Mineral Resources relating to Mothae that all material assumptions and technical parameters underpinning the estimates in the market announcement dated 24 March 2017 continue to apply and have not materially changed.

Forward-Looking Statements

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

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

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Recipients should seek professional advice when deciding if an investment is appropriate. All securities transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments.

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

Any forward-looking statements in this announcement speak only at the date of issue of this announcement. Subject to any continuing obligations under applicable law and ASX Listing Rules, the Company does not undertake any obligation to update or revise any information 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.

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