



## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2020

Lucapa Diamond Company Limited (ASX: **LOM**) (“Lucapa” or “the Company”) presents its activities report and results for the Quarter ending 31 March 2020 (the “Quarter” or “Q1 20”).

Lucapa’s operational highlights for the Quarter include:

- **Highly-encouraging Lulo kimberlite exploration results in Canguige river**
- **4 high-priority Lulo kimberlites drilled to identify best locations for bulk samples**
- **Record tonnes processed<sup>1</sup> – immediate benefit of completed SML expansion at Lulo**
- **Recovery of 11,744<sup>1</sup> carats – including 273 individual diamonds weighing +4.8 carats**
- **Recovery of 14<sup>th</sup> +100 carat diamond at Lulo and 12<sup>th</sup> +50 carat diamond at Mothae**
- **Gross rough diamond sales of US\$9.9m (A\$15.2m)<sup>1</sup>**
- **First earnings from cutting & polishing partnerships**
- **Cash operating cost per unit reductions at both SML and Mothae**
- **25% increase in carats and 14% increase in average US\$ per carat values in Updated Lulo Alluvial Diamond Resource**
- **US\$1.7m cash balance held by Lucapa and 4,780 carats in inventory held by Mothae**
- **US\$6.7m cash and receivables balance held by SML associate and 3,037 carats in inventory (non-consolidated)**

<b>DIAMOND PRODUCTION &amp; SALES<sup>1</sup></b>			
<b>MARCH 2020 QUARTER</b>			
	<b>Mothae<sup>2</sup></b>	<b>Lulo<sup>3</sup></b>	<b>Q1 20 Total</b>
<b>Tonnes processed</b>	289,012	151,124 <sup>*</sup>	<b>440,136</b>
<b>Carats recovered</b>	6,853	4,891	<b>11,744</b>
<b>+4.8 carat diamonds recovered</b>	137	136	<b>273</b>
<b>+10.8 carat diamonds (Specials) recovered</b>	38	42	<b>80</b>
<b>Rough diamond sales (US\$m)</b>	2.1	7.8	<b>9.9</b>
<b>Rough price per carat (US\$)</b>	338	2,758	<b>1,086</b>

<sup>1</sup>On a 100% basis; <sup>2</sup>70% subsidiary; <sup>3</sup>40% associate. \*Converted from bulk cubic metres to tonnes

Following a challenging 2019, the 2020 year started on a very positive note with much improved sentiment in the global rough diamond market seeing a pick-up in mid-stream demand and rough prices. However, the COVID-19 pandemic has created widespread uncertainty and disruption across the world, affecting all sectors of the global economy, the diamond industry included. Isolation measures and/or lockdowns, implemented by producer countries and markets that are important to the diamond industry, have resulted in many diamond operations across the globe being suspended or curtailed. This included the Company’s Mothae and Lulo mines late in March 2020.

## IMPACT OF COVID-19 ON LULO AND MOTHAE

### Lulo, Angola

A National State of Emergency was declared in Angola by the President, His Excellency Joao Lourenco, in the last week of March 2020 as one of the measures to prevent and combat the spread of the Covid-19. (Refer ASX announcement 1 April 2020). The National State of Emergency, which is in force until 25 April 2020, extends to the entire national territory and is in line with the World Health Organisation recommendations.

The lockdown measures outlined in the Presidential Decree do allow certain industrial activities to continue, including mining. However, in the interests of ensuring the health and safety of staff, the activities on the concession have been reduced to essential operations with camp-based staff until the authorities advise otherwise or National State of Emergency is lifted.

Lucapa, its partners and Lulo management are working with the authorities to re-commence normal mining activities when health protocols permit and the global markets recover.

### Mothae, Lesotho

The imposition of a 21-day lockdown in South Africa from 26 March 2020 to reduce the spread of Covid-19 forced Lucapa and its partner, the Government of Lesotho, to suspend mining operations at the Mothae kimberlite mine, due to restrictions in the flow of essential mining supplies and services across the border from South Africa and to protect the health and safety of staff (Refer ASX announcement 25 March 2020). On 15 April 2020 the lockdown in South Africa was extended for a further two weeks until the end of April.

A care & maintenance program is being implemented at Mothae in Lesotho to ensure the asset is preserved and well positioned to recommence mining operations when health protocols permit and the global markets recover.

## LULO, ANGOLA

### KIMBERLITE EXPLORATION

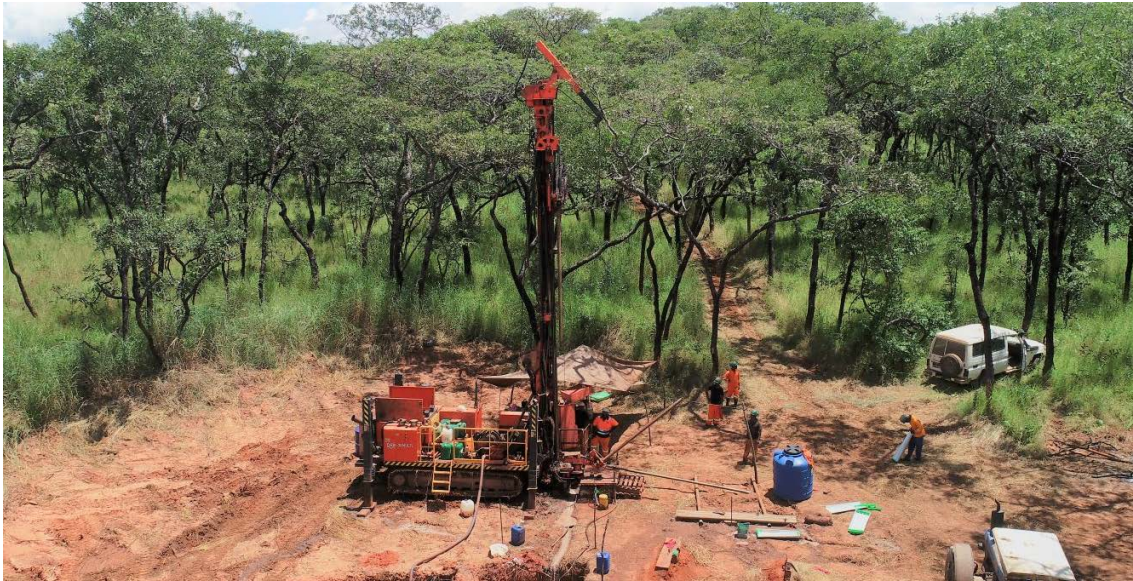
*(Project Lulo – Lucapa 39% JV partner and operator)*

The *Project Lulo* partners launched an updated 12-month kimberlite exploration program during 2019, based on the recommendations of a technical review of all previous exploration, sampling and drilling results (Refer ASX announcement 6 June 2019).

The technical review determined that stream bulk sampling the major tributaries draining into the Caculo River valley could help identify those catchments hosting diamond-bearing kimberlites (Figure 1).

The technical review also proposed that 16 kimberlite pipes rated as being the most prospective to host diamonds should be drilled to define the structure and surface area of each pipe. In addition, a further eight anomalies or kimberlite targets were identified for drilling to confirm their status as kimberlites. The eight targets included anomalies demonstrating reversely polarised magnetic signatures (Figure 1).

Delineation drilling during the Quarter on four of the 16 priority kimberlites to identify the best locations to take bulk samples and define their structure and surface area, saw a total of 13 core holes (1,250 metres) drilled at L025, L028, L030, and L071, with kimberlite material intersected in all holes.



Delineation drilling at kimberlite L71

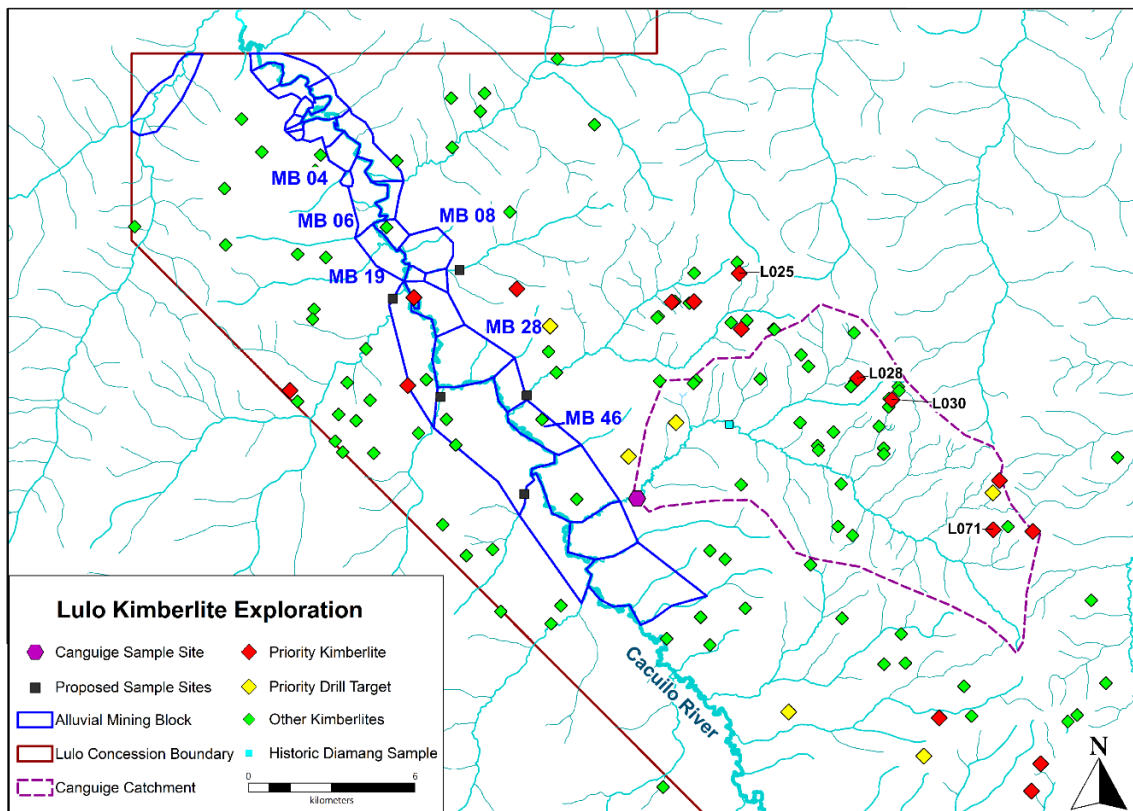


Figure 1: Location of the 16 kimberlite pipes rated most prospective to host diamonds and 8 additional anomalies to be drilled, the six tributary sampling sites including the Canguigo tributary and catchment area upstream of Mining Block 46

During the Quarter, the excavation of the Canguigo tributary bulk sample was completed and processed with highly-encouraging results (Figures 1 and 2). A total of 45 diamonds of up to 3.75 carats in individual size were recovered from the sample of 1,865m<sup>3</sup> of gravel. Analysis of the recovered diamonds by a Yehuda colorimeter confirmed the presence of Type IIa and top D-colour gems.

Significantly, the Canguigo tributary drains into the Cacujilo River valley ~3km upstream of alluvial Mining Block 46, which has produced multiple high-value Type IIa diamonds, including Specials (individual diamonds weighing +10.8 carats) weighing 88 carats, 68 carats, 60 carats, 59 carats,

35 carats, 33 carats, 32 carats, 31 carats and two 30 carat diamonds (Refer ASX announcement 26 April 2016). Fancy pink and yellow diamonds have also been recovered from Mining Block 46.



88 carat and 31 carat Type IIa diamonds (left) and 31 carat Type IIa white diamond and a fancy pink and yellow diamonds (right) recovered from Mining Block 46

The Lucapa and Lulo geological teams also conducted detailed analysis of the diamond size frequency distributions (“SFD”) of the alluvial diamonds recovered to date during mining and processing activities from each of the individual alluvial mining blocks along the Caculo River (Refer ASX announcement 26 March 2020) (Figure 2).

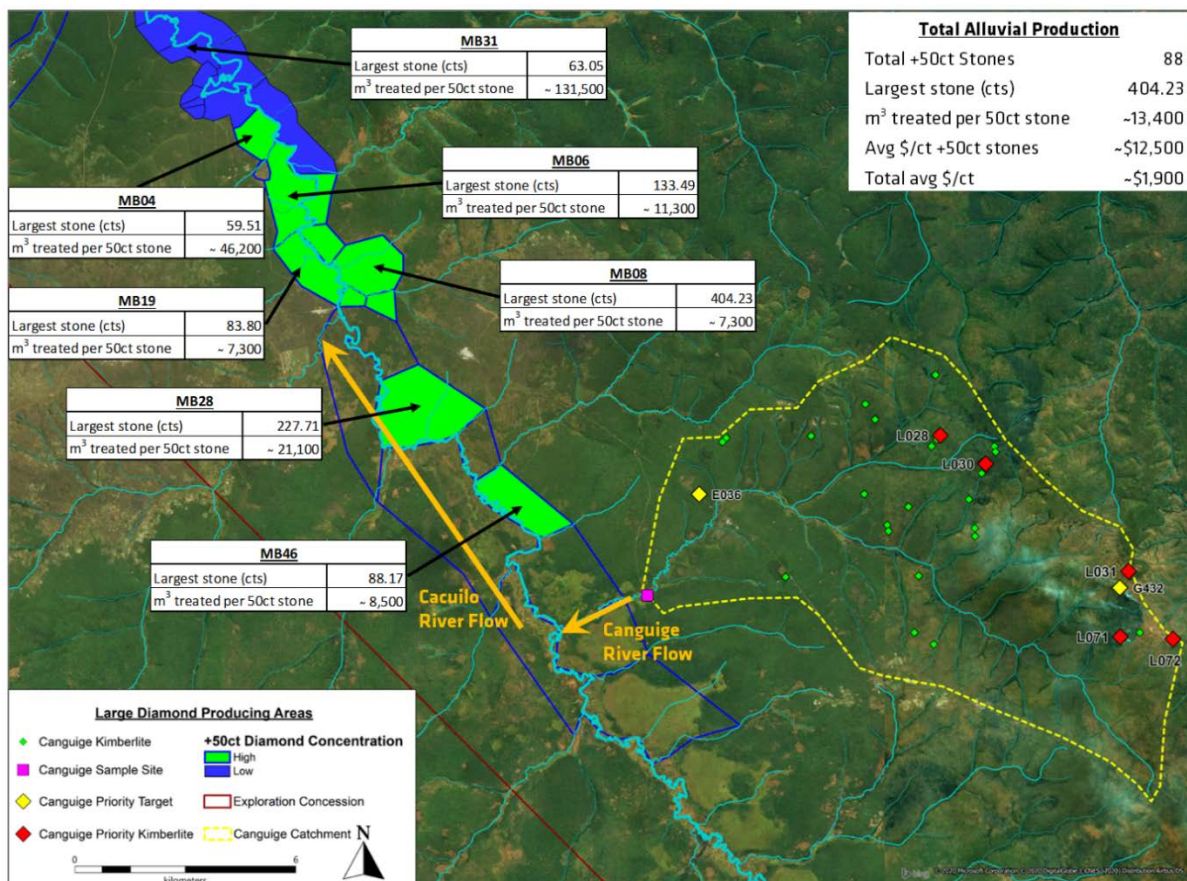


Figure 2: Map showing the frequency of recovery of +50 carat diamonds from each of the Lulo alluvial mining blocks, demonstrating the increase in larger high-value stones upstream (south) of MB04 to MB46 and the proximity to the targeted Canguige catchment

This SFD analysis indicated that if there is a single source of these large high-value Type IIa diamonds, then it is likely located upstream (south) of Mining Block 46; and if there are multiple sources of these large stones, then they are likely to be upstream of Mining Block 4.

The apparent drop in large stone recoveries downstream (north) of Mining Block 4 supports the long-held view of the Lucapa team that the source or sources of these large stones are more likely to be located in the Cacuilo River valley and catchment areas upstream of Mining Block 4. This includes the Canguige catchment, which is the focus of the kimberlite exploration program leading into the dry season.

Gravels have also been identified within the Xangando tributary (Figure 1), where drilling and pitting will continue to define sufficient material for sampling when conditions improve after the wet season.

**Kimberlite licence**

During the Quarter, Lucapa continued discussions with the Angolan Ministry of Mineral Resources and Petroleum and Angola’s national diamond company Endiama E.P. to potentially secure a majority stake in the *Project Lulo* joint venture, which holds the primary (kimberlite) exploration licence for the 3,000km<sup>2</sup> Lulo diamond concession.

Lucapa believes that securing a majority stake in the kimberlite exploration licence will potentially open up additional funding solutions to expedite the kimberlite exploration program, which aims to identify the primary hard-rock sources of the exceptional alluvial diamonds being mined at Lulo.

The Company looks forward to the upcoming dry season where activities can be scaled and to concluding the discussions with the Government of Angola in respect of a majority interest for Lucapa.

**ALLUVIAL MINING**

*(Sociedade Mineira Do Lulo (“SML”) - Lucapa 40% associate and operator)*

**Mining operations**

Volume processed was 21% higher than the comparative period in 2019 (Table 3) and is a new quarterly record for SML. Increased fleet capacity as a result of the completed expansion program offset the adverse impacts of record rainfall totalling 984mm during the Quarter and slowed activities following the declaration of the National State of Emergency. When combined with a 20% higher grade, primarily due to improved dilution control and source of ore, carats recovered were 45% up on the comparative prior year period.

A total of 4,891 carats were produced during the Quarter and the diamond recoveries included 136 diamonds +4.8 carats which in turn included 42 Specials.

The largest diamond recovered during the Quarter was a 117 carat gem quality stone. This was the 14<sup>th</sup> +100 carat diamond recovered to date (Refer ASX announcement 9 January 2020). It was recovered from Mining Block 19 which is situated between the prolific Mining Blocks 6 and 8.

<b>LULO MARCH 2020 QUARTER PRODUCTION RESULTS</b>			
	<b>Q1 19</b>	<b>Q1 20</b>	<b>Var Q1 20 to Q1 19</b>
<b>Volume processed (m<sup>3</sup> bulked)</b>	73,257	<b>88,896</b>	21%
<b>Carats recovered</b>	3,369	<b>4,891</b>	45%
<b>Grade recovered (cphm<sup>3</sup>)</b>	4.6	<b>5.5</b>	20%
<b>+4.8ct diamonds recovered</b>	92	<b>136</b>	48%
<b>+10.8ct diamonds (Specials) recovered</b>	31	<b>42</b>	35%
<b>Closing diamond inventories (carats)</b>	4,871	<b>3,037</b>	-38%

Table 3: SML treatment and recovery results

Notwithstanding the record rainfall during the Quarter, the benefits of the completed expansion program were also evident in the Quarter cost analysis with US\$ operating cash cost per m<sup>3</sup> treated and US\$ operating cash cost per carat decreasing by 18% and 32% respectively on a comparative basis.



117 carat Lulo gem recovered during the Quarter

### Alluvial resource

Alluvial drilling programs continued during the Quarter, in tandem with the mining operations, to delineate additional diamond-bearing gravels in both the terraces and flood plain (lezeria) areas along the Caculo River.

Despite access to new areas being hampered by record rainfall during the Quarter, a total of 1,445 holes were drilled in the alluvial resource delineation program, comprising a total of 12,693m of drilling. In addition, 26 exploration pits were excavated and mapped.

The annual Lulo Resource Update independently estimated by Z Star Mineral Resource Consultants Pty Ltd ("Z Star") was published during the Quarter (Refer ASX announcement 16 March 2020). Despite the depletion of ~19,000 carats from alluvial mining during 2019, in-situ resource carats increased 25% to 100,700 carats in the updated Lulo Diamond Resource. This equates to more than five times Lulo's production of ~19,000 carats in 2019.

In addition, the average US\$ per carat value for Lulo diamonds modelled by Z Star in the updated Lulo Diamond Resource of US\$1,620 represents a 14% increase on the previous modelled estimate of US\$1,420 per carat.



Alluvial resource delineation drilling at Lulo

### Diamond Sales

SML completed the sale of 2,818 carats of run of mine diamonds during the Quarter for gross revenues of US\$7.8m (A\$12.0m) achieving an average price per carat of US\$2,758 (A\$4,269), continuing to evidence Lulo's status as one of the world's highest average US\$ per carat diamond resources (Table 4).

<b>LULO DIAMOND SALES</b>			
	<b>Q1 19</b>	<b>Q1 20</b>	<b>Var Q1 20 to Q1 19</b>
<b>Rough carats sold</b>	451	<b>2,818</b>	525%
<b>Rough diamond sales (US\$m)</b>	12.1	<b>7.8</b>	-36%
<b>Rough price per carat (US\$)</b>	26,754	<b>2,758</b>	-90%

Table 4: SML (Lulo) alluvial diamond sales

The value and per carat variances with the comparative prior year period are due to the sale of 6 select large and top-quality Special diamonds at the inaugural international tender under Angola's new transformative diamond marketing regulations (Refer ASX announcement 1 February 2019).

SML held a diamond inventory of 3,037 carats at the end of the Quarter.

### **MOTHAE KIMBERLITE MINE, LESOTHO**

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

#### **Mining operations**

Tonnes processed were 2% higher than the comparative prior year quarter, reflecting the strong progress made in increasing the tonnage throughput over the past year (Table 1). This was achieved notwithstanding production being impacted by a thickener gearbox failure in February 2020 and the suspension of operations in the last week of the Quarter as noted earlier.

Notwithstanding the adverse impacts of the above on production, the deflation of the Maloti against the US\$ resulted in the US\$ cost per tonne treated reducing by 5% on a comparative basis.

MOTHAE MARCH 2020 QUARTER PRODUCTION RESULTS			
	Q1 19	Q1 20	Var Q1 20 to Q1 19
<b>Tonnes processed</b>	283,042	<b>289,012</b>	2%
<b>Carats recovered</b>	6,910	<b>6,853</b>	-1%
<b>Grade recovered (cpht)</b>	2.4	<b>2.4</b>	-3%
<b>+4.8ct diamonds recovered</b>	138	<b>137</b>	-1%
<b>+10.8ct diamonds (Specials) recovered</b>	42	<b>38</b>	-10%
<b>Closing diamond inventories (carats)</b>	4,552	<b>4,780</b>	5%

Table 1: Mothae treatment and recovery results

Mothae's diamond recoveries for the Quarter included 137 diamonds +4.8 carats in weight, including 38 Specials and a top-quality Type Ila 64 carat D-colour gem (Refer ASX announcement 18 March 2020). The 64 carat gem is the 12<sup>th</sup> +50 carat diamond recovered since commercial production commenced in January 2019. Also of note was a 0.3 carat Type IIb blue diamond, which was the first of this colour recovered by Mothae.



64 carat Type Ila D-colour Mothae diamond

Lucapa believes there is further scope to optimise plant throughput at Mothae and thus increase carat production rates and these options are currently being evaluated.

### Diamond Sales

A total of 6,306 carats of Mothae diamonds were sold at tender during the Quarter for gross sale proceeds of US\$2.1m (A\$3.2m), representing an average price of US\$338 (A\$505) (Table 2).

MOTHAE DIAMOND SALES			
	Q1 19 <sup>1</sup>	Q1 20	Var Q1 19 to Q1 18
<b>Rough carats sold</b>	5,411	<b>6,306</b>	17%
<b>Rough diamond sales (US\$m)</b>	3.8	<b>2.1</b>	-44%
<b>Rough price per carat (US\$)</b>	707	<b>338</b>	-52%

Table 2: Mothae diamond sales



<sup>1</sup> Q1 19 figures include US\$1.5m in proceeds from diamonds recovered during the pre-production phase which, under International Financial Reporting Standards ("IRFS"), are to be recognised as a reduction in the development asset and not in 2019 revenue (Refer ASX announcements 15 July 2019 and 3 September 2019).

Mothae held a diamond inventory of 4,780 carats at the end of the Quarter.

Alternative marketing options were investigated for the next sale of Mothae diamonds as a result of the impact of Covid-19 on international travel and the normal Antwerp based tender process. This resulted in the sale of 3,963 carats into a cutting and polishing partnership with a high-end diamantaire for US\$2.0m (A\$3.2m) or US\$505 (A\$809) per carat post Quarter end (Refer ASX announcement 14 April 2020).

## **CUTTING & POLISHING**

During the Quarter, Lucapa made further significant advancements with its cutting & polishing strategy to enable SML and Lucapa to share in profits generated from the manufacturing of rough diamonds into polished retail goods.

### **SML cutting and polishing partnership**

Lulo diamonds were sold by SML into a cutting & polishing partnership with leading international manufacturing group Safdico International ("Safdico"), a subsidiary of Graff International, one of the world's finest high-end jewellery houses.

Under this partnership agreement, SML is paid up front for the rough market value of the Lulo diamonds sold to Safdico, with both companies sharing in the resultant margins generated thereafter.

Safdico, as a Preferred Buyer, can purchase up to 60% of Lulo's annual rough production from SML, as is permitted under Angola's transformative new diamond marketing regulations (Refer ASX announcement 29 January 2020).

As announced on 24 March 2020, SML is to receive US\$4.0 million (A\$7.0 million) under the partnership agreements with Safdico. This comprised:

- US\$1.5 million (A\$2.6 million) in respect of SML's share of profits from the cutting & polishing and/ or sale of run of mine Lulo diamonds sold to Safdico in 2019 under the partnership agreement; and
- US\$2.5 million (A\$4.4 million) for the purchase of the 46 carat Lulo pink rough diamond. The 46 carat pink is the largest coloured diamond to be sold to Safdico under a similar partnership agreement, which now totals 4,906 carats.

The US\$1.5 million payment noted above is a milestone for Lucapa, its project partners and SML as it represents the first share of profits earned by SML under the Safdico partnership agreement (Refer ASX announcement 29 January 2020).



The 46 carat Lulo pink diamond

### Mothae cutting and polishing partnership

The manufacture of the first Mothae diamond in a cutting & polishing partnership was completed and sold in the Quarter, producing an exceptional result (Refer ASX announcement 14 January 2020). The 36 carat rough diamond was manufactured into six polished D-colour diamonds, including an exceptional 8.88 carat flawless pear shaped diamond.



Flawless 8.88 carat D-colour pear shaped diamond manufactured from 36 carat Mothae gem

### OTHER PROJECTS

No work was undertaken at the Brooking (Western Australia) or Orapa Area F (Botswana) lamproite and kimberlite exploration projects during the Quarter, in line with Lucapa's focus on maximising revenue generation at its operating mines.

### CORPORATE

During the Quarter, Lucapa completed a placement of 25.9 million shares to sophisticated and professional investors to raise US\$1.9m (A\$2.8m) before costs, to advance the Lulo kimberlite exploration program and for general working capital and corporate purposes.

A non-renounceable pro-rata rights issue to raise up to A\$3.9m before costs was launched at the same time, but due to ongoing market volatility was withdrawn (Refer ASX announcement 30 March 2020).

On 27 April 2020, the Company announced the intention to raise A\$5.25m via a non-renounceable pro-rata rights issue on a 1 for 5 basis, with an attaching \$0.10 option, expiring 2 years from the date of issue ("Rights Issue"). Proceeds from the intended Rights Issue will be used to advance the search for the primary kimberlite sources of the high-value Lulo alluvial diamonds, preserve mining assets suspended as a result of the COVID-19 pandemic and for general working capital purposes. Shareholders will be advised of further details of the intended Rights Issue in a prospectus which will be provided to shareholders shortly. The prospectus will also be available on the ASX website at [www.asx.com.au](http://www.asx.com.au) and the Company's website at [www.lucapa.com.au](http://www.lucapa.com.au).

Lucapa's cash balance was US\$1.7m (A\$2.7m) at Quarter end and held 4,780 carats in diamond inventory at Mothae. In addition, SML held a closing cash balance of US\$1.8m, receivables of US\$4.9m and a 3,037 carat diamond inventory.

Significant overhead reductions have been implemented at the Perth corporate office effective 1 April 2020, including executive directors, other staff and contractors taking a voluntary 60% cut to emoluments or fees, together with the utilisation of accrued leave. In addition, the non-executive directors waiving their non-executive director's fees until further notice (Refer ASX announcement 16 April 2020).

The imposition of lockdowns by the Governments of Lesotho, South Africa, Angola as well as markets important to the diamond industry to curb the spread of the coronavirus led to mining operations being suspended at Mothae and reduced at Lulo late in the Quarter. These suspensions could trigger default clauses in the Group's loan agreements. However, as set out in the ASX announcements of 30 January 2020 and 25 March 2020, Mothae is in advanced discussions with the Industrial Development Corporation of South Africa and the Company is in discussions with New Azilian and Equigold regarding the restructure of their respective loan facilities. Possible restructuring solutions could include capital and/or interest deferments, term extensions, convertibility and the Company also continues to review new financing possibilities.

The Company will provide further updates accordingly.

Authorised by the Lucapa Board.

**STEPHEN WETHERALL**  
**MANAGING DIRECTOR**

### **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 that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement 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.

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<b>SCHEDULE OF TENEMENTS AS AT 31 MARCH 2020</b>					
<b>Country</b>	<b>Type</b>	<b>Size (km<sup>2</sup>)</b>	<b>Period</b>	<b>Interest (%)</b>	<b>End date</b>
Angola	Kimberlite (primary) exploration	3,000	5 years	39	Apr-23
Angola	Alluvial (secondary) mining and exploration	1,500	10 years	40	Jul-25
Lesotho	Mining Licence	47*	10 years	70	Jan-27
Botswana	Reconnaissance	8	2 years	100	Sep-20
Australia	Exploration Licence	72	5 years	80	Dec-20
Australia	Exploration Licence	13	5 years	80	Mar-24
Australia	Exploration Licence	29	5 years	80	Jun-22
Australia	Exploration Licence	3	5 years	80	Jun-23

Table 5: Schedule of tenements

\* Area includes the protection and production area