



LUCAPA
DIAMOND COMPANY

Interim Financial Report for the six months ended 30 June 2020



ASX Code: LOM

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The Directors present their report together with the financial report of Lucapa Diamond Company Limited (ASX: LOM) for the six months ended 30 June 2020 and the auditor's review report thereon. The Company and its subsidiaries are primarily involved in diamond mining and exploration projects in Africa and Australia.

1. Directors

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

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

2. Review of operations

OVERVIEW

Lucapa is a growing diamond group with niche high-value diamond production from the Mothae mine in Lesotho and the Lulo alluvial mine in Angola, where the Company is also exploring and evaluating a highly-prospective kimberlite province to locate the source(s) of the large and high-value Lulo alluvial diamonds.

Lucapa's vision is to become a leading global producer of large and high-quality diamonds from alluvial and kimberlite sources. Both Lulo and Mothae produce large and high-value diamonds, with more than 75% of revenues from the mines generated from the recovery of diamonds larger than 4.8 carats.

Lucapa's Board and management team have decades of global experience across all facets of the diamond industry with companies including De Beers and Gem Diamonds.

2019 was a very challenging year for the diamond space, but towards the end of 2019 and into early 2020, positive sentiment in the diamond market and improved demand positively impacted rough diamond prices in Q1 2020. However, the impact of the COVID-19 pandemic on the global diamond industry and the Company's producing assets late in Q1 2020 and into Q2 2020, resulted in the June half being a tale of two very different quarters.

Strong operating performances were achieved at both Lulo and Mothae in Q1 2020, but as a result of the Government interventions, border and market closures within the industry to curb the spread of COVID-19, production was stopped at both of Lucapa's producing mines in late March 2020. Lulo was able to recommence mining operations in Q2 2020 and, on the back of the recently expanded mining capacity, has since returned very strong operational performances into the second half of 2020. Production capacity has been escalated and mining has moved into the newly discovered higher-grade flood plain (Ieziria) areas. Mothae remained on care and maintenance since mining operations were suspended in March 2020 and Lucapa, Mothae management and the Government of Lesotho have actively explored solutions to restart mining operations.

As a result of the pandemic the group reported a loss for the half year.

As per the ASX announcement on 9 September 2020, a restart plan and new marketing channel has been approved that will see Mothae recommence mining operations in the last quarter of 2020.

Lucapa continued to progress the kimberlite exploration program at Lulo despite the challenges brought about by the record wet season and later disruptions from the SOE in Angola due to the COVID-19 pandemic.

PRODUCTION PHYSICALS AND DIAMOND SALES FOR THE JUNE HALF									
	Lulo/ SML ¹			Mothae ²			Total		
	Q1	Q2	H1	Q1	Q2	H1	Q1	Q2	H1
Tonnes treated*	151,124	86,324	237,448	289,012	-	289,012	440,136	86,324	526,460
Carats recovered	4,891	2,944	7,835	6,853	-	6,853	11,744	2,944	14,688
Diamond sales (US\$)	7.8	2.0	9.8	2.1	2.0	4.1	9.9	4.0	13.9
Diamond sales (A\$)	12.0	2.9	14.9	3.2	3.2	6.4	15.2	6.1	21.3
+4.8 carat diamonds recovered	136	86	222	137	-	137	273	86	359
Closing inventories (Carats)	3,037	2,647	2,647	4,780	784	784	7,817	3,431	3,431

Table 1: Production physicals and diamond sales for the June half (on a 100% basis).
¹ 40% associate; ² 70% subsidiary; * For Lulo/ SML converted gravel treated from bulk cubic metres to tonnes

The Group's operational highlights for the June half include:

- Advancing the kimberlite exploration program at Lulo:
 - Canguige tributary bulk sample recovered 45 diamonds of up to 3.75 carats in individual size, Type IIa and D-colour diamonds
 - Delineation drilling of 5 high-priority kimberlites completed
 - Excavation of kimberlite bulk samples commenced in the Canguige catchment area

- Continuing to grow diamond production and continued recovery of large diamonds:

Lulo/ SML

- Record gravel throughput achieved on the back of expanded mining capacity in the first quarter
- First receipts from the cutting and polishing partnership
- Recovery of 2 +100 carat diamonds and 222 +4.8 carat diamonds
- Updated Lulo JORC alluvial diamond resource
 - 25% increase in carats and
 - 14% increase in average US\$ per carat values
- Discovered new higher-grade deposits in the MB06 leziria areas (which are not included in updated Lulo JORC alluvial diamond resource)
- Achieved reductions in per unit operating costs prior to impact of COVID-19

Mothae

- Beat Q1 2019 throughput despite suspension occurring in the Q1 2020 quarter (nil processing during Q2 2020)
- Recovery of a Type IIa 64 carat D-colour gem and 137 +4.8 carat diamonds
- Suspended mining operations on 25 March 2020
- Parcel sold into a cutting and polishing partnership
- Achieved reductions in per unit operating costs prior to impact of COVID-19
- Unique diamond marketing proposal submitted to Government of Lesotho in Q2 2020 (subsequently approved)
- Continued monitoring of COVID-19 impact and investigations to restart mining as soon as possible. Subsequent to June half end, restart plan approved to recommence operations in Q4 2020

- Raised ~US\$5.5 million (before costs) in a placement to sophisticated investors and a fully subscribed non-renounceable pro-rata rights issue

KIMBERLITE EXPLORATION - PROJECT LULO

(Lucapa 39% joint venture partner and operator; Endiama 51% and Rosas & Petalas 10%)

The *Project Lulo* partners launched an updated 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).

Due to the vast number of kimberlites and anomalies in the province and in order to assist identifying those catchments or areas that host diamond-bearing

kimberlites in the Cacuilo valley, the technical review recommended bulk sampling the major tributaries draining into the Cacuilo River (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 their structure and surface area and to locate suitable bulk sample sites. In addition, a further eight targets were identified for drilling to confirm their status as kimberlites. The eight targets included some anomalies that demonstrated reversely polarised magnetic signatures (Figure 1).



Delineation drilling at kimberlite L071

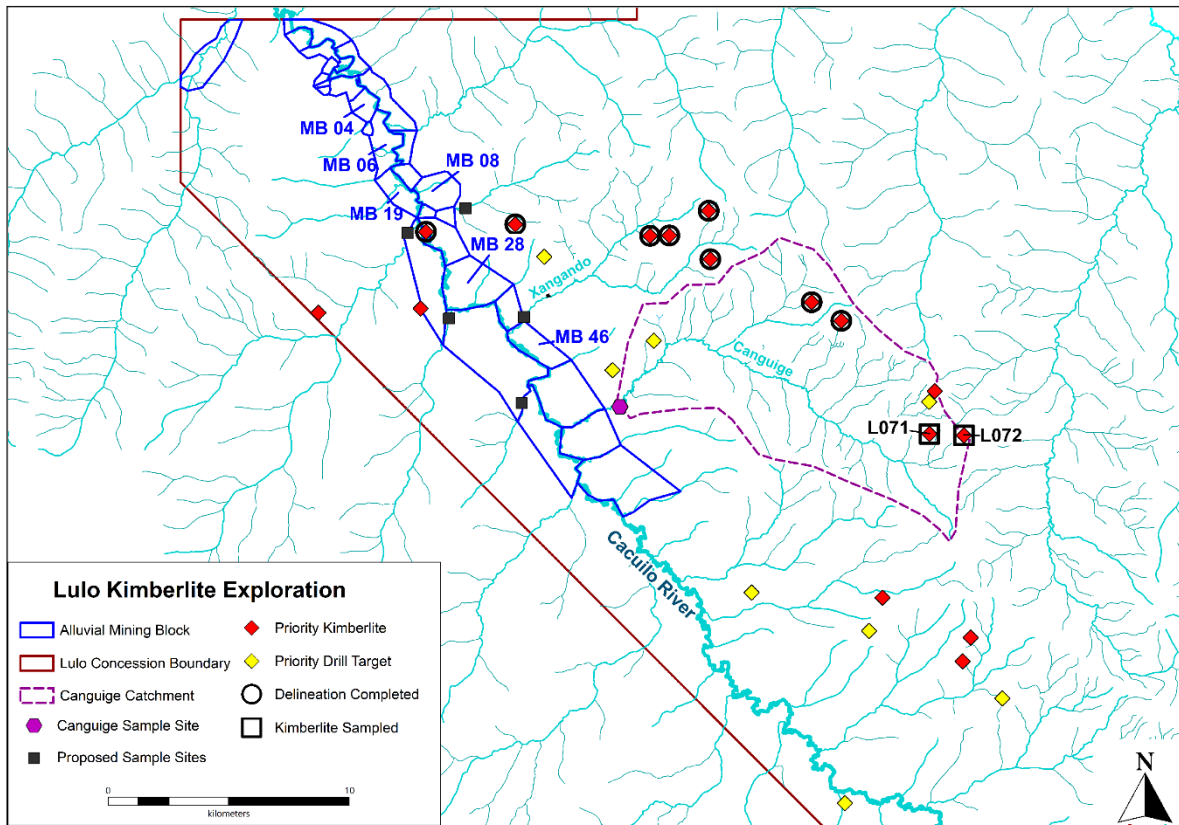


Figure 1: Location of the 16 Lulo kimberlite pipes rated most prospective to host diamonds, 8 additional anomalies to be drilled and the 6 tributary sampling sites

During Q1 2020, the excavation of the Canguige tributary bulk sample was completed and processed with encouraging diamond recovery results. A total of 45 diamonds of up to 3.75 carats in individual size were recovered from the sample of 1,865m³ of gravel. Analysis of the recovered diamonds by a Yehuda colorimeter confirmed the presence of Type IIa and D-colour gems.

Significantly, the Canguige tributary drains into the Caculo River valley ~3km upstream of alluvial Mining Block 46 (“MB46”), which gravels have produced multiple high-value Type IIa diamonds, including 22 Specials (individual diamonds weighing +10.8 carats) up

to 88 carats (Refer ASX announcement 26 April 2016). Fancy pink and yellow diamonds were also recovered from MB46 mining operations.

The Lucapa and Lulo geological teams have also conducted detailed analysis of the 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).



88 carat and 31 carat Type IIa diamonds (left) and 31 carat Type IIa white diamond and fancy pink and yellow diamonds (right) recovered from MB46

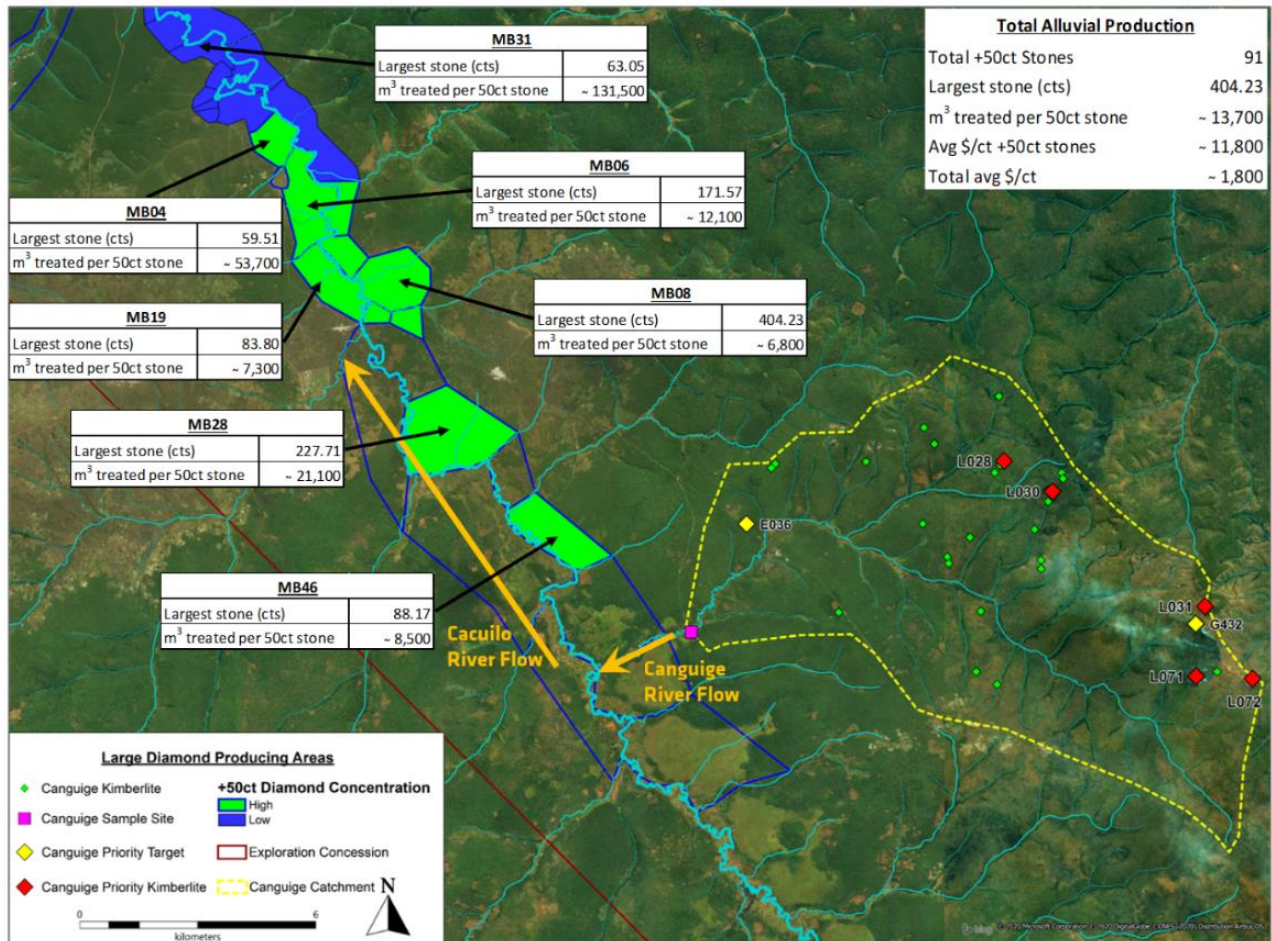


Figure 2: Map showing the frequency of recovery of +50 carat diamonds from each of the Lulo alluvial mining blocks, demonstrating the increase in large and higher-value stones south or upstream of MB04 to MB46 and the proximity to the targeted Canguige catchment area

The SFD analysis indicated that if there is a single source of these large and high-value Type IIa diamonds, then it is likely located south or upstream of MB46; and if there are multiple sources of these diamonds, then they are likely to be south or upstream of MB04.

The apparent drop in large stone recoveries north and downstream of MB04 supports the long-held view of the geological teams that the source(s) of these large diamonds are more likely to be located in the Caculo River valley and catchment areas south or upstream of MB04. This includes the Canguige catchment area, which has been the recent focus of the kimberlite exploration program.

Gravels have also been identified within the Xangando tributary (Figure 1), where drilling and pitting is planned to define sufficient material for sampling.

As set out in the ASX announcement of 23 March 2020, the Canguige catchment area became the focus of the Lulo kimberlite exploration program following the positive stream bulk sample results on the Canguige tributary. Five of the 16 selected priority kimberlites are contained within the Canguige catchment area.

Delineation drilling during the June half was completed on five of the 16 priority kimberlites to identify the best locations to take bulk samples and define their structure and surface area, which saw a total of 55 core holes

(2,674 metres) drilled at L025, L028, L030, L071 and L072, with kimberlite material intersected in all holes.

The L071 and L072 kimberlites are two of the five kimberlites in the Canguige catchment area “top-rated” during the kimberlite review compiled in 2019 and were sampled first due to their proximity to the main tar road and the relatively drier surrounding ground conditions that enabled access immediately following the Angolan wet season.

Delineation drilling of the L071 and L072 kimberlites identified VK material at both kimberlites.

Excavation of two VK bulk samples at L071 commenced at the selected sites (Refer ASX announcement 26 June 2020). Transport of the VK material from one of the sites to a proximal sample stockpile area close to the tar road was completed. A transport contractor was engaged to move the samples to the Lulo plant.

Due to the low-grade (low diamond count per tonne/cubic metre) and high-value environment in the Caculo valley, recovery expectations from any potential source kimberlite is for similar low-grade and high-value diamonds.

The systematic drilling and bulk sampling of the five most prospective kimberlites within the Canguige catchment area and the other 11 most prospective

kimberlites in the wider Caculo valley (Figure 1) will continue throughout 2020 and into 2021.

Additional stream bulk samples are being planned on the Canguige tributary and other larger tributaries to the Caculo River.

Both L071 and L072 kimberlite bulk samples were processed after the June half, with diamonds recovered from the L071 bulk sample (refer ASX announcements of 28 August 2020 and 19 August 2020).



Kimberlite excavation activities at Lulo kimberlite L071

Kimberlite licence

During the June half, Lucapa continued to engage with the Angolan Ministry of Mineral Resources and Petroleum and Endiama, to further the securing of a larger stake in the Project Lulo joint venture, which holds the kimberlite (primary) exploration licence for the 3,000km² Lulo diamond concession. The progress of those discussions has been slowed by the COVID-19 pandemic restrictions and closing of the Angola borders, but will be resumed as soon as travel restrictions are eased.

LULO ALLUVIAL MINE, ANGOLA

(Sociedade Mineira Do Lulo - Lucapa 40% associate and operator; Endiama 32% and Rosas & Petalas 28%)

Mining and operations

The volume processed and carats recovered during the June half were impacted by the SOE declared in Angola as a result of the COVID-19 pandemic, leading to curtailed operations and lower than plan production.

However, record throughput for the first quarter was still achieved displaying the ability of the new and expanded mining fleet to deliver increased capacity. Q2 2020 was only 26% lower than Q2 2019 despite only being in operation for 60% of the planned time when operations resumed. As a result of easing of the SOE measures, Lulo was able to ramp back towards full production capacity

towards the end of Q2 2020 and has returned strong operating performances in the second half of 2020 to date.

A total of 7,835 carats were produced during the June half and the diamond recoveries included 222 diamonds of +4.8 carats in weight, which in turn included 72 Specials.

The largest diamond recovered during the June half was a 171 carat stone recovered from MB06. This was the 15th +100 carat diamond recovered in exploration and mining operations to date at SML (Refer ASX announcement 11 May 2020).

Cash operating costs for the June half were better than plan at US\$71/ m³. However, due to lower than planned sales volumes and diamond prices experienced in Q2 2020 as a result of COVID-19, SML reported an EBITDA loss of US\$1.5 million for the June half.

SML held a 2,647 carat diamond inventory at the end of the June half.

Diamond recoveries have improved markedly since the commencement of the second half of 2020 due to mining activities focusing on the newly discovered flood plain or leziria areas that have produced average grades higher than those achieved during the June half.

Lulo achieved an LTI free half-year, resulting in a zero LTI frequency rate for the mine during the June half.



171 carat Lulo gem-quality diamond recovered by SML during the June half

Diamond Sales

As a consequence of COVID-19 restrictions and border closures, SML only completed three run-of-mine sales during the June half. One parcel was sold into the cutting and polishing partnership with Safdico in addition to the 46 carat Lulo pink diamond (refer below). The 46 carat pink is the largest pink coloured rough diamond to be recovered at Lulo.

The three diamond sales in the June half totalled 6,164 carats for US\$9.8 million (A\$14.9 million) or US\$1,583 (A\$2,419)/ carat.

Cutting and polishing partnership

Lulo diamonds are sold by SML into a cutting & polishing partnership with its preferred buyer Safdico International, who is a leading international diamond manufacturing group and 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 polished margins generated thereafter.

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

During the June half, SML recorded US\$4.5 million (A\$7.0 million) in sales to Safdico under the partnership agreement which includes US\$2.5 million (A\$4.1 million) for the 46 carat Lulo pink rough diamond.

Subsequent to the June half a further sale of US\$3.7 million (A\$5.1 million) was concluded under this arrangement. Carats sales into the polishing partnership totals 8,252 carats to date.



The 46 carat Lulo pink rough diamond

Alluvial resource

Although slowed by the COVID-19 pandemic, the SML auger drilling program delineated additional alluvial diamond-bearing gravels during the June half, in both the terraces and flood plain or leziria areas along the Caculo River.

During the June half 2,259 auger holes were completed for a total of 20,424m.

The high-interest leziria areas became more accessible as ground conditions improved later in the June half following the end of the Angolan wet season. This led to the discovery and delineation of new extensive gravel deposits within the MB06 leziria area, which returned a high average grade of 17.5cphm³ from the gravels treated towards the end of the June half.



Selection of Specials recovered from the new MB06 leziria area (clockwise from top left - 42 carat, 11 carat, 39 carat, 13 carat and 12 carat)

JORC Alluvial Diamond Resource update

The annual Lulo JORC Classified Inferred Alluvial Diamond Resource update independently estimated by Z Star Mineral Resource Consultants Pty Ltd was published during Q1 2020 (Refer ASX announcement 16 March 2020).

Despite the depletion of ~19,000 carats from alluvial mining during 2019, in-situ resource carats increased by

25% to 100,700 carats in the updated 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 update resource of US\$1,620 represents a 14% increase on the previous modelled estimate of US\$1,420 per carat.

LULO JORC CLASSIFIED DIAMOND RESOURCE - 31 December 2019								
Lucapa 40% attributable								
Resource Classification	Date	Area (m ²)	Diluted volume (m ³)	Carats per Stone	Stones	Carats	Diluted grade (cphm ³)	Modelled value (US\$/carat)*
Inferred	31-Dec-19	1,586,000	1,151,200	1.27	79,000	100,700	8.75	1,620
Inferred	31-Dec-18	1,313,900	1,132,700	1.14	70,400	80,400	7.1	1,420

Notes:
 (i) m² = square metres; m³ = cubic metres; cphm³ = carats per 100 cubic metres
 (ii) Diluted volumes have been estimated based on historical mining production data to better reflect recoverable volumes and grades
 (iii) Bottom cut off screen size: effective 1.5mm
 * Special stones are not excluded in the modelling stage, in terms of size or assortment

Table 2: Lulo JORC Classified Inferred Alluvial Diamond Resource

MOTHAE KIMBERLITE MINE, LESOTHO

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

Mining and operations

Mothae mining operations were suspended in the last week of Q1 2020 due to the impact of the COVID-19 pandemic. In spite of this and some unplanned downtime in February 2020, tonnes processed for Q1 2020 were 2% better than the prior year's comparative quarter. No treatment occurred in Q2 2020 where the mine remained on care and maintenance.

Mothae's diamond recoveries for the June half included 137 diamonds of +4.8 carats in weight, including 38 Specials with the largest being a top-quality 64 carat Type IIa D-colour gem (Refer ASX announcement 18 March 2020).

The 64 carat gem is the 12th +50 carat diamond recovered since commercial production commenced in January 2019. Also, of note was the recovery of a 0.3 carat Type IIb blue diamond, which was the first stone of this colour and Type to be recovered by Mothae.



64 carat Type IIa D-colour Mothae diamond

Lucapa, Mothae management and the GoL have during the care & maintenance period continued to investigate and scope opportunities to restart the Mothae mine as soon as possible. These investigations included identifying low-cost modifications to the treatment plant that could see capacity increase by ~60% to 1.8Mtpa from the current nameplate capacity of 1.1Mtpa.

As a consequence of the COVID-19 pandemic impacting physical operations, diamond sales and currency exchange rates adversely, Mothae delivered an EBITDA loss of US\$1 million.

As per the ASX announcement on 9 September 2020, a restart plan and new marketing channel has been approved that will see Mothae recommence mining operations in the last quarter of 2020.

Mothae continued its excellent safety record exceeding one million lost time injury free man hours and two-years LTI free, maintaining a zero LTI frequency rate for the mine.

Diamond sales

Two sales of Mothae rough diamonds were completed during the June half. The first sale of 6,306 carats was

conducted by tender in Antwerp and the second sale of 3,962 carats was sold directly into a cutting and polishing partnership (refer below), generating gross proceeds of US\$4.1 million (A\$6.4 million).

This represented an average overall price of US\$402 (A\$623) per carat for the June half.

Mothae had 784 carats in inventory at the end of the June half.

With the objectives of recommencing mining operations at the Mothae diamond mine as soon as possible, ongoing employment of all personnel and sustained contribution to the Basotho nation, Lucapa submitted a marketing proposal to the GoL that Lucapa believes underpins the future of the Mothae diamond mine, especially in these uncertain times.

Subsequent to the June half and as per the ASX announcement on 9 September 2020, the Honourable Minister of Mines, Minister Qoo, approved the proposal to implement the new diamond marketing channel that provides Mothae the opportunity to realise best value for its unique high-value production.

Diamond production from the Mothae mine will now be able to be sold at full and transparent rough market value into direct offtake arrangements with diamantaires. This approval will allow Mothae to implement value accretive polishing partnerships with diamantaire partners where Mothae will see additional benefit accruing in the form of shared polished margins from beyond the mine gate.

Mothae cutting and polishing partnership

The manufacture of a Mothae diamond withdrawn from a tender was completed and sold in Q1 2020, 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 the 36 carat Mothae rough diamond

OTHER PROJECTS

No work was undertaken at the Brooking (Western Australia) or Orapa Area F (Botswana) lamproite and kimberlite exploration projects during the June half, in line with Lucapa's focus on maximising revenue generation at its operating mines as a primary objective and the more recent cash preservation measures brought about by the COVID-19 pandemic.

CORPORATE

Lucapa had a group cash balance of US\$4.2 million at 30 June 2020, while Lulo alluvial diamond mining company SML (which is treated as an associate and not consolidated into Lucapa's accounts in accordance with AIFRS) held US\$3.7 million in cash and receivables.

During the June half, Lucapa successfully completed a placement of 25.9 million shares to sophisticated and professional investors to raise US\$1.9 million (A\$2.8 million) before costs and raised a further US\$3.6 million (A\$5.2 million) before costs via a non-renounceable pro-rata rights issue ("Rights Issue") (Refer ASX announcements of 4 March 2020 and 3 June 2020). The Rights Issue involved the issue of 105.1m shares and 113.1m listed \$0.10 options, expiring 2 years from the date of issue (ASX: LOMOC). The Directors took up their full entitlements under the Rights Issue, for which Far East Capital Limited acted as lead manager.

Proceeds from the Rights Issue are being used to advance the search for the primary kimberlite source(s)

As a result of the border and market closures impacting Q2 2020, Mothae received approval from the GoL to sell a parcel of 3,962 carats into a cutting and polishing partnership with a high-end diamantaire during the June half (Refer ASX announcement 14 April 2020).

Under this partnership agreement, Mothae was paid the full rough market value of the rough diamonds and will share in a significant portion of the polished margins generated thereafter.

Following the approval of the new marketing channel by Honourable Minister Qoo noted above, Mothae will now, in conjunction with the existing tender solution, be able to enter into regular direct sales arrangements or offtakes where it will benefit from a share of the polished margins earned beyond the mine gate.

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.

Significant overhead reductions were made at the Perth corporate office with executive directors, other staff and contractors taking a voluntary 60% cut to emoluments or fees until at least the end of the June half. In addition, the corporate staff level has been reduced and the non-executive directors have continued to waive their non-executive director's fees until further notice.

As announced to the ASX on 14 August 2020, Lucapa concluded the facility refinancing discussions and agreed terms and restructuring payments with the Company's major financiers and shareholders, Equigold and New Azilian, and Mothae's external financier, the IDC with respect to amending the principal repayment terms and finance charges. The net effect of those amendments defers ~US\$13.0 million in loan repayments from 2020 & 2021 to 2022 and beyond.

Subsequent to June half year end, the Company allotted 10,431,284 fully paid ordinary shares pursuant to conversion notices to Equigold in respect of the quarterly interest and fees due in accordance with the terms of the Equigold loan facility (Refer ASX announcement 9 October 2017). Since inception, the outstanding principal has been reduced from US\$15.0 million to US\$6.3 million. This share issue increased Equigold's percentage ownership in the Company from 6.5% to 8.1%.

During the June half, 250,000 \$0.45 unlisted options exercisable on or before 24 May 2020, 2,250,000 \$0.46 unlisted options exercisable on or before 31 May 2020

and 62,500 Performance Rights exercisable on or before 31 May 2020, expired without exercise.

3. Financial position

The first 6 months of 2020 where a tale of two very different quarters.

The Company had a very strong Q1 2020 with record tonnes processed and a 14% better recovery in carats when measured against the prior year's comparative quarter. Unit operating costs were also tracking lower as 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 diamond prices.

However, late in March 2020, the COVID-19 pandemic created widespread uncertainty and disruption across the world, affecting all sectors of the global economy, the diamond industry included. Isolation measures and/or lockdowns, implemented by producer countries and markets that are important to the diamond industry, resulted in many diamond operations across the globe being suspended or curtailed. This included the Company's Mothae and Lulo mines late in Q1 2020.

Mothae's operations were suspended towards the end of March 2020. Revenue for the June half was consequently materially lower than planned, with only two sales being concluded during the period. Pleasingly, the last parcel was approved by the GoL to be sold into a cutting and polishing partnership with a high-end diamantaire (Refer ASX announcement 14 April 2020) where additional returns are expected in due course. Operating costs were well controlled, however Mothae remained on care and maintenance for the whole of Q2 2020.

As per the ASX announcement on 9 September 2020, a restart plan and new marketing channel has been approved that will see Mothae recommence mining operations in the last quarter of 2020.

The COVID-19 pandemic had an impact on SML too where physical volumes were curtailed in April/ May 2020 and diamond prices and timing of sales too were impacted. However, the mine was able to ramp back to near full capacity by end June 2020. The Group's share of the SML loss for the June half amounted to US\$1.0 million (H1 2019: profit of US\$1.6 million). Again and pleasingly, June half revenue included further parcels sold by SML into the cutting and polishing partnership with its preferred buyer, where additional returns are

expected. Operating costs continued to be well controlled and in line with budget.

As a result, the Group recorded a loss after tax of US\$12.7 million for the June half (H1 2019: profit of US\$1.1 million). This is after accounting for an unrealised (non-cash) foreign exchange loss due to the weakening of the South African rand against the United States dollar from a rate of 13.9 to 17.4 of US\$6.5 million on the intergroup development loan due to Lucapa by Mothae as required by AIFRS. Due to the suspension of operations, Mothae did not get the opportunity to benefit from the weaker rand when translating its US\$ denominated diamond revenues into rands.

Significant overhead reductions were also implemented during the period at the Perth corporate office as detailed in the Corporate section of the Review of operations.

During the period, the Company completed the following capital raisings:

- a placement of 25.9 million shares to sophisticated and professional investors to raise US\$1.9 million (A\$2.8 million) before costs; and
- a non-renounceable pro-rata rights issue of 105.1 million shares and 113.1 million listed A\$0.10 options (expiring 2 years from the date of issue (ASX: LOMOC)) to raise US\$ 3.6 million (A\$5.2 million) before costs.

As at 30 June 2020 the Group improved its working capital position since 31 December 2019 and had net assets of US\$62.1 million (31 December 2019: US\$67.5 million).

As announced to the ASX on 14 August 2020, the Company has concluded facility refinancing discussions and agreed terms and restructuring payments with its major financiers as set out in the Corporate section of the Review of operations and Note 9 to the financial statements.

The Board of Directors have considered the financial position and prospects of the Group as set out in the basis of preparation of the financial statements and are satisfied that the going concern basis of preparation of the financial statements is appropriate, despite the uncertainties noted

4. Auditor independence declaration

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



ELDERTON
AUDIT PTY LTD

Auditor's Independence Declaration

To those charged with the governance of Lucapa Diamond Company Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2020 there have been no contraventions of:

- the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd



Rafay Nabeel
Audit Director

Perth

10 September 2020

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



MILES KENNEDY

Chairman

Dated this 10th September 2020.

Corporate information

Lucapa Diamond Company Limited is a company domiciled and incorporated in Australia. The address of the Company's registered office is 34 Bagot Road, Subiaco 6008, Western Australia.

The Company, its subsidiaries and associates are primarily involved in the exploration, evaluation, development, mining and sale of diamonds in projects across Africa and Australia.

Basis of preparation

Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the annual financial report of the Company as at and for the year ended 31 December 2019.

The basis of preparation of the interim financial report is set out below and was authorised for issue by the Board of Directors on the date of the Directors' report.

Basis of measurement

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

Going concern

As detailed in the Directors' report, the Group recorded a loss after tax of US\$12.7 million for the June half (H1 2019: profit after tax of US\$1.0 million) after accounting for a significant translation loss. Whilst the Group achieved operational successes in respect of diamond exploration, alluvial and kimberlite evaluation, development and mining, the June half's revenues and trading results of both SML and Mothae were materially affected by the challenging economic environment as a result of the COVID-19 pandemic.

As at 30 June 2020, the Group's assets exceeded its liabilities by US\$62.1 million (31 December 2019: US\$67.2 million).

At the time of publishing this interim financial report, the spectre of COVID-19 continues to create widespread uncertainty and disruption across the world, affecting all sectors of the global economy, the diamond industry included. With this uncertainty and potential unknown impact on the assumptions contained in the Group's cash flow forecasts over the next 12 months, the Directors recognise that the Group may have to source funding and/ or further restructure financing facilities in order to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

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

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

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

- The duration and full impact of the COVID-19 pandemic is still unknown;
- The Group's assets exceed its liabilities by US\$62.1 million;
- The Group has historically been successful in raising equity and under ASX Listing Rule 7.1 and 7.1A the Company has the capacity to place securities to raise equity;
- The Group has been successful in restructuring and raising debt facilities:
 - The Company has agreed amended terms for the existing facilities with Equigold, New Azilian and the IDC as per the Directors' Report; and
 - The Company continues to review a number of financing possibilities, which have the potential to replace a portion of the Company's existing debt facilities and improve its working capital position.

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

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

Basis of preparation (continued)

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the

amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Consolidated interim statement of profit or loss and other comprehensive income			
for the six months ended 30 June 2020			
	Note	30 Jun 2020 US\$000	30 Jun 2019 US\$000
Revenue	2	4,156	5,789
Cost of sales	3	(5,390)	(5,544)
Gross profit		(1,234)	245
Share of (loss)/ profit of associate	7	(1,050)	1,572
Royalties and selling expenses		(283)	(381)
Corporate expenses	3	(934)	(1,574)
Share-based payments	10	(20)	(209)
Foreign exchange (loss)/ gain		(6,542)	736
Operating (loss)/ profit		(10,063)	389
Finance cost		(1,885)	(2,407)
Finance income		2	42
Fair value adjustments		(760)	3,053
(Loss)/ profit before income tax		(12,706)	1,077
Income tax expense		(13)	(24)
(Loss)/ profit after income tax		(12,719)	1,053
Other comprehensive income		2,084	32
Total comprehensive (loss)/ profit for the year		(10,635)	1,085
(Loss)/ earnings per share		Cents	Cents
Basic (loss)/ earnings per share (cents)	4	(2.47)	0.22
Diluted (loss)/ earnings per share (cents)	4	(2.47)	0.22

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

Consolidated interim statement of financial position

as at 30 June 2020

	Note	30 Jun 2020 US\$000	31 Dec 2019 US\$000
Assets			
Cash and cash equivalents		4,461	1,705
Trade and other receivables		1,447	2,050
Contract assets		-	100
Inventories		882	2,021
Total current assets		6,790	5,876
Property plant and equipment	5	56,880	60,570
Non-current financial assets	6	22,691	23,933
Investment in associate	7	3,690	4,741
Total non-current assets		83,261	89,244
Total assets		90,051	95,120
Liabilities			
Trade and other payables	8	2,987	3,967
Current borrowings	9	4,968	22,518
Total current liabilities		7,955	26,485
Provision for rehabilitation		857	1,064
Non-current borrowings	9	19,070	-
Deferred tax liabilities		43	43
Total non-current liabilities		19,970	1,107
Total liabilities		27,925	27,592
Net assets		62,126	67,528
Equity			
Share capital	10	122,270	116,888
Reserves		(2,838)	(4,546)
Accumulated losses		(57,306)	(44,814)
Total equity		62,126	67,528

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

Consolidated interim statement of changes in equity
 for the six months ended 30 June 2020

	Issued capital US\$000	Share based payments reserve US\$000	Foreign currency translation reserve US\$000	Accumulated losses US\$000	Total US\$000
Balance at 1 January 2019	112,920	1,682	(5,626)	(41,826)	67,150
Comprehensive income for the period					
Loss for the period	-	-	-	1,053	1,053
Other comprehensive income	-	-	32	-	32
Total comprehensive loss for the period	-	-	32	1,053	1,085
Transactions with owners, in their capacity as owners					
Issue of share capital	3,069	-	-	-	3,069
Issue of options	-	211	-	-	211
Expiry of options	-	(315)	-	315	-
Transfer of reserves on exercise of options	594	(594)	-	-	-
Share issue expenses	(16)	-	-	-	(16)
Total transactions with owners	3,647	(698)	-	315	3,264
Balance at 30 June 2019	116,567	984	(5,594)	(40,458)	71,499
Balance at 1 January 2020	116,888	1,044	(5,590)	(44,814)	67,528
Comprehensive income for the period					
Loss for the period	-	-	-	(12,719)	(12,719)
Other comprehensive income	-	-	2,084	-	2,084
Total comprehensive loss for the period	-	-	2,084	(12,719)	(10,635)
Transactions with owners, in their capacity as owners					
Issue of share capital	5,576	-	-	-	5,576
Issue of options	-	79	-	-	79
Expiry of options	-	(398)	-	227	(171)
Transfer of reserves on exercise of options	-	(57)	-	-	(57)
Share issue expenses	(194)	-	-	-	(194)
Total transactions with owners	5,382	(376)	-	227	5,233
Balance at 30 June 2020	122,270	668	(3,506)	(57,306)	62,126

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

Consolidated interim statement of cash flows

for the six months ended 30 June 2020

	30 Jun 2020 US\$000	30 Jun 2019 US\$000
Cash flows from operating activities		
Receipts from products and related debtors	4,222	5,789
Cash paid to suppliers and employees	(5,450)	(7,787)
Interest and finance cost	(750)	(688)
Interest received	2	42
Net cash used in operating activities	(1,976)	(2,644)
Cash flows from investing activities		
Payments for exploration costs	(96)	(398)
Proceeds from associate	-	1,926
Payments for property plant and equipment	(78)	(1,779)
Net cash used in investing activities	(174)	(251)
Cash flows from financing activities		
Proceeds from issue of share capital	5,520	-
Share issue costs	(306)	(16)
Repayment of borrowings	(284)	(6,980)
Proceeds from borrowings	-	6,952
Borrowing transaction costs	-	(20)
Net cash generated from/ (used in) financing activities	4,930	(64)
Net increase/ (decrease) in cash and cash equivalents	2,780	(2,959)
Cash and cash equivalents at beginning of period	1,705	8,200
Exchange loss on foreign cash balances	(24)	(7)
Cash and cash equivalents at end of period	4,461	5,234

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes. Refer Note 10 for details on non-cash financing and investing activities.

1. Segment reporting

Overview

	Mining		Exploration & Evaluation		Corporate		Total	
	30 Jun 2020 US\$000	31 Dec 2019 US\$000	30 Jun 2020 US\$000	31 Dec 2019 US\$000	30 Jun 2020 US\$000	31 Dec 2019 US\$000	30 Jun 2020 US\$000	31 Dec 2019 US\$000
Assets								
Cash and cash equivalents	223	1,533	2	2	4,236	170	4,461	1,705
Trade receivables and other current assets	891	1,447	-	-	556	603	1,447	2,050
Contract assets	-	100	-	-	-	-	-	100
Inventory	882	2,021	-	-	-	-	882	2,021
Total current assets	1,996	5,101	2	2	4,792	773	6,790	5,876
Property plant and equipment	36,896	41,043	19,664	19,154	320	373	56,880	60,570
Non-current financial assets	22,691	23,933	-	-	-	-	22,691	23,933
Investment in associate	3,690	4,741	-	-	-	-	3,690	4,741
Total non-current assets	63,277	69,717	19,664	19,154	320	373	83,261	89,244
Total assets	65,273	74,818	19,666	19,156	5,112	1,146	90,051	95,120
Liabilities								
Trade and other payables	2,634	3,610	-	-	353	357	2,987	3,967
Borrowings	4,968	22,518	-	-	-	-	4,968	22,518
Total current liabilities	7,602	26,128	-	-	353	357	7,955	26,485
Non-current provisions	857	1,064	-	-	-	-	857	1,064
Non-current borrowings	19,070	-	-	-	-	-	19,070	-
Total non-current liabilities	19,927	1,064	-	-	-	-	19,927	1,064
Total liabilities	27,529	27,192	-	-	353	357	27,882	27,549
	30 Jun 2020 US\$000	30 Jun 2019 US\$000	30 Jun 2020 US\$000	30 Jun 2019 US\$000	30 Jun 2020 US\$000	30 Jun 2019 US\$000	30 Jun 2020 US\$000	30 Jun 2019 US\$000
Profit or loss								
(Loss)/ profit before income tax	(12,570)	2,546	-	-	(136)	(1,469)	(12,706)	1,077

Further information

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 business activities.

2. Revenue

	30 Jun 2020 US\$000	30 Jun 2019 US\$000
Revenue from contracts with customers		
Sale of goods	4,156	5,789
	4,156	5,789

3. Expenses

	Note	30 Jun 2020 US\$000	30 Jun 2019 US\$000
Breakdown of expenses by nature			
Raw materials, consumables and other input costs		2,081	4,631
Changes in inventories of finished goods and work in progress		603	(2,009)
Employee benefits expenses (excluding share based payments)		2,110	3,086
Depreciation and amortisation		1,392	1,082
Auditors remuneration		19	15
Mining and short term leases		71	67
Consulting fees and other administrative expenses		48	246
Total cost of sales and corporate expenses		6,324	7,118
Employee benefits expenses			
Wages, salaries and director remuneration		2,053	2,800
Superannuation costs		43	63
Share-based payments	10	20	209
Other associated employee expenses		14	222
		2,130	3,294

4. (Loss)/ earnings per share

	30 Jun 2020	30 Jun 2019
	Cents	Cents
Basic (loss)/ earnings per share (cents per share)	(2.47)	0.22
Diluted (loss)/ earnings per share (cents per share)	(2.47)	0.22
	US\$000	US\$000
(Loss)/ earnings used in calculating earnings per share		
(Loss)/ earnings attributable to members of the Company used in calculating basic earnings per share	(12,719)	1,053
(Loss)/ earnings attributable to members of the Company used in calculating diluted earnings per share	(12,719)	1,053
	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	514,363,968	475,997,078
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	515,553,519	478,352,242

5. Property plant and equipment

Overview

	Deferred exploration and evaluation US\$000	Mine development US\$000	Plant and equipment US\$000	Stripping activity assets US\$000	Decommissioning assets US\$000	Right-of-use assets US\$000	Other assets US\$000	Total US\$000
Cost								
Balance at 1 January 2019	20,502	16,588	21,372	-	54	-	291	58,807
Additions	1,881	1,241	851	177	95	389	415	5,049
Reclassifications	(819)	1,158	(2,506)	-	-	-	819	(1,348)
Disposals	-	-	-	-	-	-	(11)	(11)
Foreign currency movements	71	314	477	6	4	-	119	991
Balance at 31 December 2019	21,635	19,301	20,194	183	153	389	1,633	63,488
Additions	558	32	23	-	-	2,857	21	3,491
Disposals	-	-	-	-	-	-	(1)	(1)
Foreign currency movements	(532)	(1,326)	(3,828)	(36)	(30)	(98)	(297)	(6,147)
Balance at 30 June 2020	21,661	18,007	16,389	147	123	3,148	1,356	60,831
Accumulated depreciation								
Balance at 1 January 2019	-	493	1	-	-	-	41	535
Amortisation/ depreciation charge for the year	-	660	1,218	71	10	86	287	2,332
Disposals	-	-	-	-	-	-	(5)	(5)
Foreign currency movements	-	15	26	3	-	-	12	56
Balance at 31 December 2019	-	1,168	1,245	74	10	86	335	2,918
Amortisation/ depreciation charge for the year	-	301	406	46	4	503	132	1,392
Disposals	-	-	-	-	-	-	(1)	(1)
Foreign currency movements	-	(93)	(158)	(17)	(2)	(24)	(64)	(358)
Balance at 30 June 2020	-	1,376	1,493	103	12	565	402	3,951
Net carrying amounts								
At 31 December 2019	21,635	18,133	18,949	109	143	303	1,298	60,570
At 30 June 2020	21,661	16,631	14,896	44	111	2,583	954	56,880

5. Property plant and equipment (continued)

Further information

Deferred exploration and evaluation costs

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

The Group has a 39% interest in the Project Lulo Kimberlite Exploration Joint Venture (“the JV”), an unincorporated entity classified as a joint operation that operates under the terms of a Mineral Investment Contract entered into between the partners. Accordingly, the Group’s interest in the assets, liabilities, revenues and expenses attributable to the JV have been included in the appropriate line items in the consolidated financial statements. Deferred exploration and evaluation costs of US\$17.6 million (31 December 2019: US\$17.1 million) in the schedule above are related to the JV.

In light of the COVID-19 pandemic and its impact on the global economy and the diamond industry, a review of the Deferred exploration and evaluation assets has been performed to determine if any impairment loss should be recognised based on the relevant facts and circumstances. No adjustment has been required or recognised in terms of this during the period.

Other assets

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

Suspension of operations at Mothae

As referred to in the Review of Operations, the imposition of a 21-day lockdown in South Africa from 26 March 2020 to reduce the spread of coronavirus forced Lucapa and its partner, the GoL, to suspend mining operations at Mothae due to restrictions in the flow of essential mining supplies and services across the border from South Africa.

An impairment review of the Mothae assets have been performed based on a value-in-use model and no adjustment has been required or recognised at the reporting date. The suspension is considered to be temporary and the mining and processing operations can be restarted within a short period of time.

6. Non-current financial assets

Overview

	30 Jun 2020 US\$000	31 Dec 2019 US\$000
Non current financial assets		
Receivable in respect of SML		
At 1 January	23,933	23,087
Investment during the period	27	1,515
Repayment received	-	(2,110)
Transferred to Deferred exploration and evaluation costs	(463)	(1,516)
	23,497	20,976
Fair value adjustment due to discounting	(806)	2,957
At end of period	22,691	23,933

Further information

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

Significant unobservable inputs are the timing and amounts of future repayments which are based on the expected cash flows per the Company’s forecast model for SML. Sensitivity factors which could impact the valuation include operational recoveries, diamond prices and delays in the timing of repayments which will decrease the fair value estimate. A discount rate of 13.86% (2019: 11.89%) has been applied in the fair value calculation.

7. Investment in associate

Overview

	30 Jun 2020 US\$000	31 Dec 2019 US\$000
Summarised financial information of SML		
Current assets	10,161	12,658
Non-current assets	26,262	30,181
Current liabilities	10,135	12,683
Non-current liabilities	22,691	23,933
Equity	3,597	6,223
Group's carrying amount of the investment	3,690	4,741
	30 Jun 2020 US\$000	30 Jun 2019 US\$000
Revenue	9,753	22,096
Cost of sales	(11,210)	(9,159)
Administrative and selling expenses	(3,977)	(4,581)
Fair value adjustments	806	(2,224)
Profit/ (loss) before tax	(4,628)	6,132
Income tax expense	2,002	(2,203)
Profit/ (loss) for the period	(2,626)	3,929
Total comprehensive income / (loss) for the period	(2,626)	3,929
Group's share of profit/ (loss) for the period	(1,050)	1,572
EBITDA	(1,500)	11,289

Further information

The Group has a 40% interest in SML and has recognised its share of SML's results since its formal incorporation in May 2016. The earnings of SML include fair value

adjustments in relation to the discounting of the financial asset of Lucapa reflected under note 6.

8. Trade and other payables

	30 Jun 2020 US\$000	31 Dec 2019 US\$000
Trade payables	696	1,251
Mothae deferred purchase consideration	1,125	1,125
Accruals and other payables	1,166	1,591
Total	2,987	3,967

9. Borrowings

Overview

	30 Jun 2020 US\$000	31 Dec 2019 US\$000
Current borrowings		
Lease liabilities	1,233	255
Other short-term loans	3,735	21,612
Current loans - Embedded derivatives	-	651
Total	4,968	22,518
Non-current borrowings		
Lease liabilities	1,396	-
Other non-current loans	16,572	-
Other non-current loans - Embedded derivatives	1,102	-
Total	19,070	-

Further information

Lease liabilities

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

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

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

Other loans

The loan amounts reflect the balances due to Equigold, IDC and New Azilian. In 2019, all loans were reflected as current borrowings as the facility refinancing discussions with the financiers were not concluded at the time. As per the Financial Position review, the refinancing discussions have recently concluded, and the borrowings as at 30 June have been re-classified accordingly. The revised terms of the loans include the following:

Equigold

- Loan facility of US\$7.3 million (2019: US\$7.5 million facility fully utilised);
- The principal balance is repayable as follows:
 - One payment of US\$0.9 million in July 2020;
 - Three quarterly payments of US\$0.5 million commencing October 2020; and

- Four quarterly payments of US\$1.2 million commencing October 2022.

- Market related fees payable on draw down and with interest payments;
- Equigold, at its election, can convert the last quarterly payment into ordinary shares in the Company at the then market price;
- Interest is payable at 9.75% pa (previously 13%);
- Fifty percent of quarterly interest and fees can be converted into ordinary shares in the Company at the then market price at Lucapa's election;
- Fifty percent of quarterly interest and fees can be converted into ordinary shares in the Company at the then market price at Lucapa's election after agreement with Equigold;
- The loan is secured by way of a General Security Deed granted by Lucapa in favour of the lender over collateral consisting of the Company's investment in and loan to Mothae Diamonds (Pty) Ltd.

IDC

- Total loan facility of ZAR100m (US\$5.8 million), fully utilised at the end of the period;
- The capital balance is repayable in nine quarterly payments commencing January 2021 (previously January 2020);
- Interest is payable quarterly based on JIBAR plus 8.6%;
- Payment of accrued interest of ZAR4.3 million (US\$0.3 million) upon signing of documentation;
- A moratorium on payment of the interest in respect quarters ending June 2020 and September 2020 until 2021;

9. Borrowings (continued)

- 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.
- Interest is payable quarterly at 9.8 % pa (previously 10% pa);
- Lucapa has the election to pay 70% of the annual interest payment in shares at the higher of:
 - the lowest daily VWAP of trading in the immediately preceding 15 days prior to the conversion date; and
 - A\$0.05 or such other fixed floor price as is agreed between the parties.
- A payment of a facility restructuring fee of 3.5%;
- The interest convertibility and facility restructuring fee is subject to shareholder approval at a general meeting;
- The loan is secured by way of a General Security Deed granted by Lucapa in favour of the lender over collateral consisting of all of the Company's present and after acquired property, undertaking and rights, excluding the Company's investment in and loan to Mothae.

New Azilian

- New Azilian is an entity associated with Non-Executive Director Ross Stanley;
- Loan facility of A\$10 million (US\$6.9 million), fully utilised at the end of the period;
- The principal balance is repayable as follows:
 - A\$0.4 million (US\$0.3 million) in July 2020; and
 - A\$9.6 million (US\$6.6 million) in February 2022.

Embedded derivative

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

- LOM share price at measurement date: A\$0.044 (2019: A\$0.12);
- Exercise price: A\$0.041 (2019: A\$0.113);
- Estimated volatility: 65% (2019: 60%);
- Expiry date: 1 Apr 2023/1 Jul 2023;
- Risk-free interest rate: 0.89% (2019: 1.21%).

10. Share capital and share-based payments

Overview

	30 Jun 2020	
	Number	US\$000
Listed securities		
Movement in ordinary shares (ASX code: LOM)		
On issue at beginning of period	499,122,427	116,888
Issue of shares	131,002,438	5,576
Issue of shares on exercise of options and performance rights	490,267	-
Transaction costs	-	(194)
On issue at end of period	630,615,132	122,270
Movement in listed options (ASX code: LOMOC)		
On issue at beginning of period	-	-
Issue of options	113,102,522	-
Exercise of options	-	-
Expiry of options	-	-
On issue at end of period	113,102,522	-

Further information

Terms and conditions

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

Share-based payments

	30 Jun 2020	31 Dec 2019
	US\$000	US\$000
Weighted average remaining contractual life of share options and performance rights in issue (years)	1.79	0.85
Weighted average Lucapa share price during the period/ year (A\$)	0.065	0.16
Share-based payment recognised		
Profit or Loss		
Director and employee options	20	270
Non-cash financing and investing activities		
Share issue expenses	41	-
Loan funding	-	3,390
Deferred exploration and evaluation costs	-	2
	61	3,662

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

Share options and Performance rights in issue	Share options					Performance rights		Weighted average price (A\$)
	Unlisted	Unlisted	Unlisted	Unlisted	ASX listed (LOMOC)	Unlisted	Unlisted	
Exercise price (A\$)	\$0.45	\$0.35	\$0.46	\$0.44	\$0.10	\$0.00	\$0.00	
Expiry date	24-May-20	20-Apr-20	31-May-20	07-Jun-21	05-Jun-22	31-May-20	01-Apr-22	
Number on issue at beginning of period	250,000	2,500,000	2,250,000	1,301,000	-	62,500	1,249,676	0.34
Issue of options/ performance rights	-	-	-	-	8,000,000	-	-	0.10
Exercise of options/ performance rights	-	-	-	-	-	-	(490,267)	-
Expiry/ lapsing of options/ performance rights	(250,000)	(2,500,000)	(2,250,000)	-	-	(62,500)	(269,146)	0.38
On issue at end of period	-	-	-	1,301,000	8,000,000	-	490,263	0.14
Exercisable at end of period	-	-	-	1,301,000	8,000,000	-	-	
Assumptions used in estimating fair value of grants in current period:								
Grant date					05-Jun-20			
LOM share price at grant date (A\$)					0.048			
Estimated volatility					65%			
Risk-free interest rate					0.89%			
Fair value per option/ right (A\$)					0.007			

11. Events subsequent to reporting date

On 2 July 2020, Lucapa announced it has allotted 10,431,284 fully paid ordinary shares pursuant to conversion notices to Equigold in respect of the quarterly interest and fees due in accordance with the terms of the US\$15 million Equigold loan facility (Refer ASX announcement 9 October 2017). The outstanding principal has been reduced from US\$15 million to US\$6.3 million.

On 29 July 2020, Lucapa announced that it had submitted a diamond marketing proposal to the Government of the Kingdom of Lesotho ("GoL"), who are Lucapa's 30% partners in the Mothae diamond mine.

On 31 July 2020, Lucapa announced SML diamond sales of US\$ 3.7 million.

On 10 August 2020, Lucapa announced new monthly and daily alluvial diamond recovery records at Lulo as well as updated progress on Kimberlite bulk sampling.

On 14 August 2020, Lucapa announced that:

- the Company had concluded facility refinancing discussions and agreed terms with its major financiers and shareholders, Equigold and New Azilian, and Mothae's external financier, the IDC, with respect to amending the principal repayment terms and finance charges, the net effect of

which defers ~US\$13.0 million in loan repayments from 2020 & 2021 to 2022 and beyond; and

- the Lulo Kimberlite bulk sample treatment had commenced.

On 19 August 2020, Lucapa announced progress in respect of the Lulo Kimberlite bulk sampling from the L071 and L072 pipes.

On 28 August 2020, Lucapa announced results in respect of the Lulo Kimberlite bulk sampling from the L071 pipe. The sample totalling 2,380 bulked m³ was positive for diamonds, recovering two diamonds for a total weight of 1.33 carats.

On 4 September 2020, Lucapa announced a new monthly recovery record of 3,852 carats achieved by Lulo for August 2020, which included 52 specials.

On 9 September 2020, a restart plan and new marketing channel was approved that will see Mothae recommence mining operations in the last quarter of 2020 and be able to sell diamonds into cutting and polishing partnerships.

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

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

(a) the financial statements and notes, as set out on pages 14 to 29, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial period ended on that date;

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the Directors.



MILES KENNEDY
Chairman

Dated this 10th September 2020



Independent Auditor's Review Report

To the members of Lucapa Diamond Company Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lucapa Diamond Company Limited, which comprises the consolidated condensed statement of financial position as at 30 June 2020, the consolidated condensed statement of profit or loss, the consolidated condensed statement of comprehensive income, the consolidated condensed statement of changes in equity and the consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Lucapa Diamond Company Limited's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Lucapa Diamond Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Lucapa Diamond Company Limited would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lucapa Diamond Company Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of Lucapa Diamond Company Limited's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to basis of preparation note, which outlines that the going concern basis is dependent upon the Group's staff, operations, partners and the diamond industry not continuing to be adversely impacted by the COVID-19 pandemic, the Group continuing to achieve success with the Lulo kimberlite exploration program and the Group successfully sourcing equity, raising new debt and/ or further restructuring debt facilities with its financiers to generate or raise sufficient funds to pay Lucapa Diamond Company Limited's debts as and when they fall due.

As a result, there is material uncertainty related to events or conditions that may cast significant doubt on Lucapa Diamond Company Limited'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.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd



Rafay Nabeel
Audit Director

10 September 2020

Perth
Western Australia

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

Competent Person's Statement

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

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

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.

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

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