



QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2020

Lucapa Diamond Company Limited (ASX: **LOM**) (“Lucapa” or “the Company”) presents its activities report for the Quarter ending 31 December 2020 (the “Quarter” or “Q4 2020”).

The consumption and strong demand that saw the diamond industry commence its recovery in Q3 2020 continued into the festive period, favourably impacting both rough and polished diamond prices. This momentum has continued into 2021.

Highlights include:



Lulo

- Two +100 carat diamonds recovered, one from MB46 adjacent to the Canguige catchment area
- Record annual diamond production and carat sales at Lulo
- Delivery of 15.2 carat polished pink diamond from Lulo’s cutting & polishing partnership

Mothae

- Recommencement of scaled mining operations at Mothae
- One +100 carat diamond recovered, Mothae’s most valuable diamond recovered to date
- Mothae signed a new marketing agreement, including a cutting & polishing partnership
- ~280% increase in the Mothae kimberlite JORC classified Indicated Resource

Corporate

- Diamond industry and prices continue to strengthen
- Lucapa successfully raises A\$10m to fund a 45% processing capacity expansion at Mothae (completion expected March 2021)

Managing Director, Stephen Wetherall commented *“Following a tough 2020 where the diamond market all but stopped, the sector continues to rebound strongly from the pandemic with a better industry balance which has seen diamond pricing return to pre-pandemic levels.”*

“We look forward to 2021 with great optimism following a strong final quarter from our two mines and particularly as the sector continues its positive momentum. The expansion of our Mothae mine will enhance returns expected to flow to Lucapa this year from both our operations and the kimberlite bulk sampling program at Lulo continues to demonstrate its prospectivity.”

Pleasingly, following the pandemic shutdowns that impacted the mining operations and exploration activities in Q2 and Q3 2020, both Lulo and Mothae have delivered very solid operational performances during the Quarter.

LULO, ANGOLA

ALLUVIAL MINING

(conducted by Sociedade Mineira Do Lulo (“SML” or “Lulo”) - Lucapa 40% associate, Endiama 32% and Rosas & Petalas 28%)

Mining operations

With the onset of the wet season, mining operations transitioned during the Quarter from the lower lying floodplains (leziria areas) to the higher lying terraces.



Volumes processed of 65,438 bcm’s during the Quarter were 5% ahead of the prior comparative period in 2019, however the contribution of gravels from the higher-grade leziria areas during the Quarter resulted in the grade recovered of 9.9 cphm³ being 47% ahead of the comparative 2019 period (Table 1).

These factors contributed to carat recoveries of 6,447 carats during the Quarter being 55% up on the prior year comparative period. Notwithstanding the impacts of the pandemic on operations during the year, **SML has delivered a new annual production record of 23,669 carats in 2020.**

TABLE 1: SML PRODUCTION RESULTS AND RECOVERIES			
	Q4 2019	Q4 2020	Variance
Volume processed (m ³ bulked)	62,383	65,438	5%
Carats recovered	4,170	6,447	55%
Grade recovered (cphm ³)	6.7	9.9	47%
+4.8ct diamonds recovered	120	231	93%
+10.8ct diamonds (Specials) recovered	39	70	79%

The recoveries of large and high-value stones continued from the Lulo Mining Blocks (“MB”) during the Quarter with the recovery of two more +100 carat diamonds - a 127 carat gem-quality stone from the leziria area of MB24 and a 113 carat gem-quality stone from the terraces at MB46.



127 carat white Lulo diamond recovered from MB24 leziria



113 carat white Lulo diamond recovered from MB46 terrace

Of note is the first +100 carat diamond to be recovered from MB46 which is located adjacent to the Canguge catchment area where Project Lulo’s kimberlite (primary source) exploration activities are being focused (refer ASX announcement 4 January 2021). As at Quarter end, 33 Special diamonds have been recovered from MB46. Post Quarter end, SML recovered a 2nd +100 carat from MB46 (refer ASX announcement on 18 January 2021).

Other diamond recoveries for the Quarter included 231 diamonds greater than 4.8 carats, which in turn included 70 Specials. These are 93% and 79% higher than the comparative period.

Alluvial resource

Auger drilling programs continued to delineate additional alluvial diamond-bearing gravels, in both the terraces and leziria areas along the Caculo River.

During the Quarter, a total of 1,044 auger holes were completed for a combined length of 7,786m. A further 399 exploration pits were also excavated to assist gravel delineation.

Diamond sales

TABLE 2: SML SALES RESULTS AND INVENTORY			
	Q4 2019	Q4 2020	Variance
Rough carats sold	8,198	4,269	-48%
Rough diamond sales (US\$m)	9.7	6.6	-32%
Rough price per carat (US\$)	1,185	1,550	31%
Closing diamond inventories (carats)	955	4,324	353%

SML completed one sale of 4,269 carats of Lulo diamonds during the Quarter for gross revenues of US\$6.6m (A\$9.0m) achieving an average price per carat of US\$1,550 (A\$2,100) per carat (Table 2).

SML did not conclude a sale in December 2020 and as such held a larger diamond inventory of 4,324 carats at the end of the Quarter, including two +100 carat diamonds.

Total sales year to date amounted to 20,397 carats for US\$28.0m (A\$40.1m) or US\$1,371 (A\$1,967) per carat. ***This is a new record for total Lulo carats sold in a year by SML.***

Cutting and polishing partnership

Under the partnership agreement with Safdico International (“Safdico”), for diamonds sold into the partnership, SML is paid the full market value of the rough diamonds upfront by Safdico and subsequently shares in a significant portion of all margins generated thereafter.

During the Quarter, SML sold 4,269 carats into the cutting & polishing partnership bringing the total carats for the full year sold into the partnership to 13,764 carats. SML will receive its next share of profits from the partnership diamonds early in 2021.



One highlight of this successful cutting & polishing partnership was the delivery during the Quarter of a 15.2 carat Heart shaped Fancy Intense Orangy Pink polished diamond (pictured left).

This spectacular diamond, together with two smaller diamonds, was polished from the 46 carat pink rough Lulo diamond sold by SML into the partnership with Safdico earlier in 2020 (refer ASX announcement 3 December 2020). These polished diamonds are yet to be sold.

KIMBERLITE EXPLORATION

(conducted by Project Lulo Joint Venture – Lucapa 39%, Endiama 51% and Rosas & Petalas 10%)

Post Quarter end, Lucapa resumed discussions with its Angolan partners to secure a majority stake in Project Lulo. Lucapa believes that securing a majority stake in the 3,000km² kimberlite exploration licence will open up opportunities to expedite the program that aims to identify the primary hard-rock sources of the exceptional alluvial diamonds being mined by SML at Lulo.

Following completion of the kimberlite bulk samples of L071 and L072 in the previous quarter, construction of a ~16km haul road needed to access the next high priority kimberlites in the Canguige catchment to be sampled began. Whilst good progress has been made and clearing of the haul road is nearly complete, progress has been hampered by the impact of the wet season. Final capping of the road will be done using kimberlite sample overburden as sample excavation gets underway.

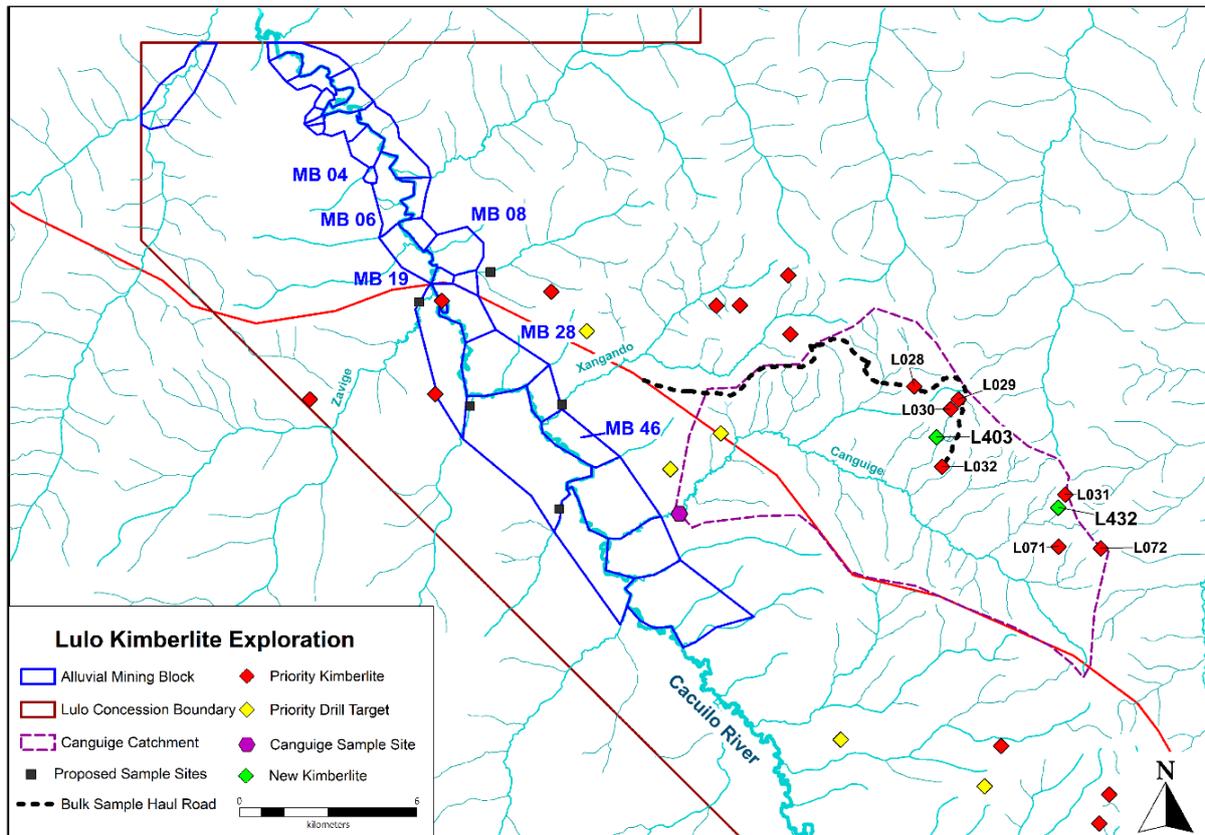


Figure 1: Location of the 18 priority kimberlites and additional targets in the Cacujio valley and Canguige catchment area and recently constructed ~16km haul road.

Bulk sampling of the five most prospective kimberlites within the Canguige catchment area and the other 11 most prospective kimberlites in the wider Cacujio valley will commence following completion of the access road and continue throughout 2021 (Figure 1).

In parallel to building the haul road during the Quarter, kimberlite delineation drilling continued with four high priority targets in the Canguige catchment being completed. This included L029 which has been added to the list of priority targets. 30 holes totalling 825 metres were drilled by Quarter end.

Two new kimberlites, L403 and L432, were discovered within the Canguige catchment following drilling of two additional magnetic targets of interest.

**MOTHAE, LESOTHO
KIMBERLITE MINING**

(conducted by Mothae Diamonds (Pty) Ltd - Lucapa 70%; Government of Lesotho (“GoL”) 30%)

Mining operations

Following a six month suspension to mining operations forced by the pandemic in March 2020, Mothae successfully recommenced mining and treatment operations during the Quarter (refer ASX announcement 8 October 2020).



Despite being at 75% of nameplate capacity due to COVID-19 related personnel constraints, ore processed of 280,248 tonnes was only 9% down on the comparative quarter (Table 3).

TABLE 3: MOTHAE PRODUCTION RESULTS AND RECOVERIES			
	Q4 2019	Q4 2020	Variance
Tonnes processed	308,917	280,148	-9%
Carats recovered	9,845	6,603	-33%
Grade recovered (cpht)	3.2	2.4	-26%
+4.8ct diamonds recovered	167	124	-26%
+10.8ct diamonds (Specials) recovered	46	42	-9%

Mining and treatment focused on ore from the southern lobe of the kimberlite, producing 6,603 carats for the Quarter. Mothae’s diamond recoveries for the Quarter included 124 diamonds of more than 4.8 carats, 42 Specials, with a number of D colour Type IIa stones, including an exceptional 101 carat D-colour white diamond (refer ASX announcement 10 December 2020).

The variance in grade is largely due to the different mix of ore processed from the south lobe areas in Q4 2020 in comparison to the prior period and pit clean up following the six month suspension.

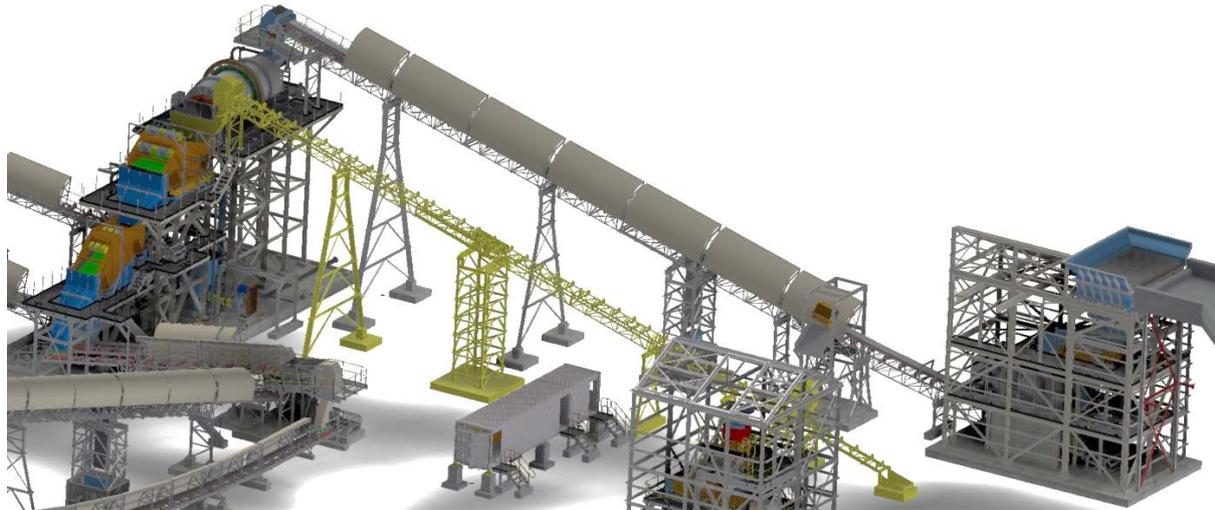
The 101 carat D-colour gem recovered is the 4th +100 carat diamond recovered since commercial production commenced in January 2019. ***This is Mothae’s most valuable diamond ever recovered.***



Select D colour Special diamonds – (from left) 14 carat, 19 carat, 101 carat and 28 carat diamonds

Of major significance during the Quarter, was the approval by Lucapa and the GoL to commence a value accretive expansion of the processing plant from 1.1Mtpa to 1.6Mtpa. This will lead to a 45% increase in annual throughput tonnes, recovered carats and revenue and is forecast to generate an estimated US\$67m in net operating margin over a six year period post completion (refer ASX announcement dated 6 November 2020).

Civils works and fabrication of the components commenced during the Quarter and the expansion is expected to be completed by the end of Q1 2021.



Bypass conveyor modification (yellow) to plant to reach 1.6Mtpa processing capacity
Primary crusher (far right) is also being upgraded

Post Quarter end, the GoL imposed a 14 day nationwide lockdown due to a surge in COVID-19 cases. Consequently, a decision was taken to temporarily suspend operations at Mothae (refer ASX announcement 13 January 2021). Operations are expected to resume at the conclusion of the lockdown.

Diamond sales

During the Quarter, Mothae successfully negotiated and entered into a new diamond sales and purchase agreement with Safdico. This agreement, which includes a minimum average cash flow value per carat to be received by Mothae for the first 12 months, also includes a cutting & polishing partnership arrangement where Mothae will accrete value from beyond the mine gate.

Under this diamond sales and purchase agreement Mothae is paid the full market value of the rough diamonds upfront by Safdico and subsequently shares in an equal portion of all margins generated thereafter.

TABLE 4: MOTHAE SALES RESULTS AND INVENTORY			
	Q4 2019	Q4 2020	Variance
Rough carats sold	11,888	-	-100%
Rough diamond sales (US\$m)	7.1	-	-100%
Rough price per carat (US\$)	597	-	-100%
Closing diamond inventories (carats)	4,284	7,345	71%

As a result of Lucapa and the GoL finalising the new diamond sales and purchase agreement in the Quarter, Mothae did not conclude any rough sales during Q4 2020 and as such held a large diamond inventory of 7,345 carats at the end of the Quarter (Table 4), including one +100 carat diamond.

Total sales year to date, from two sales held earlier in the year, amounted to 10,268 carats for US\$4.1m (A\$6.4m) or US\$402 (A\$623) per carat.

Post Quarter end, a parcel of rough Mothae diamonds totalling 4,676 carats was sold for US\$5.6m (A\$7.2 million) or US\$1,198 (A\$1,537) per carat under the new marketing agreement and into the cutting & polishing partnership with Safdico (refer ASX announcement 11 January 2021). ***This is the highest average US\$ per carat price achieved by Mothae on the sale of a run of mine production parcel.***

Cutting and polishing partnership

No diamonds were sold into the cutting & polishing partnership during the Quarter. As noted above, post Quarter end, the first parcel of 4,676 carats was sold into this new partnership with Safdico. This included the exceptional 101 carat D-colour white gem recovered in the Quarter.

Kimberlite resource

During the Quarter, an update to the Mothae kimberlite JORC Resource was completed (ASX announcement 15 October 2020).

A total JORC classified Indicated Resource has been estimated for 9.2Mt, containing ~280,000 carats of diamonds at a diamond grade of 3.1 cpht and an average un-escalated modelled diamond value of US\$635 per carat. ***This equated to a 280% increase in the Mothae Indicated Resource carats.***

In addition, a total JORC classified Inferred Resource has been estimated for 39.4Mt, containing ~960,000 carats of diamonds at a diamond grade of 2.4 cpht and an average un-escalated modelled diamond value of US\$601 per carat.

OTHER PROJECTS

A sampling program was completed at the Brooking Project during the Quarter. A total of 24 soil and stream heavy mineral samples and 114 soil geochemistry samples were taken, resulting in the recovery of seven diamonds and highlighting three likely lamproite targets for follow up work.

No work was undertaken in Botswana at the Orapa Area F kimberlite exploration project during the Quarter, 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 pandemic.

During the Quarter Lucapa announced that it is advancing to the final stage negotiations for the acquisition of Merlin Diamond Mine ("Merlin") (refer ASX announcement 24 December 2020), which includes the finalisation of the transaction structure and drafting of legal documentation. Until such time as the legal documentation is in an agreed form and executed, there can be no assurance that the acquisition of Merlin will be completed.

CORPORATE

Lucapa's cash balance was US\$4.1m (A\$5.4m) at Quarter end and Mothae held 7,345 carats in diamond inventory (Table 4). Lucapa funded US\$4.0m to Mothae during the Quarter to recommence operations following suspension and implement the 45% expansion program.

In addition, SML held a cash balance of US\$7.3m (A\$9.5m) as well as a 4,324 carat diamond inventory at Quarter end (Table 2).

During the Quarter the Company completed a successful placement, raising A\$10m primarily for the 45% expansion of the Mothae mine processing capacity from 1.1Mtpa to 1.6Mtpa (refer ASX announcement 6 November 2020). The shares were issued in two tranches, with the second tranche approved at the General Meeting on 17 December 2020.

On 12 November 2020, shareholders approved the issue of Shares and Options to New Azilian Pty Ltd (refer ASX announcement 12 November 2020).

On 17 December 2020, shareholders approved the second tranche of the A\$10m placement and to ratify the prior issue of shares under the ASX listing rules (refer ASX announcement 17 December 2020)

In accordance with ASX Listing Rule 5.3.5, the Company advises that payments made to related parties and their associates during the period included US\$225k in payments for Directors' remuneration (including superannuation), US\$31k in payments in respect of office rent to an entity associated with Non-executive Chairman, Miles Kennedy and a US\$36k cash portion of a shareholder approved loan restructuring fee in respect of the loan from New Azilian Pty Ltd, an entity associated with Non-executive Director, Ross Stanley. In addition, the Company made intergroup funding payments to subsidiaries of US\$4.1m (primarily Mothae).

Authorised by the Lucapa Board.

STEPHEN WETHERALL
MANAGING DIRECTOR

ABOUT LUCAPA

Lucapa is a niche diamond producer with high-value mines in Angola (Lulo) and Lesotho (Mothae).

The Lulo alluvial mine and Mothae kimberlite mine both produce large and high-value diamonds, with >75% of revenues generated from the recovery of +4.8 carat stones.

Lulo has produced 18 +100 carat diamonds to date and is one of the highest average US\$ per carat alluvial diamond producers in the world. Lucapa and its Project Lulo partners have also received highly encouraging results from their search to discover the primary hard-rock source of the high-value Lulo alluvial diamonds.

The 1.1Mtpa Mothae kimberlite mine in diamond-rich Lesotho commenced commercial mining and processing operations in January 2019. It produced >30,000 carats in its first year of production and 4 +100 carat diamonds to date. Lucapa has recently secured funding to commission a ~45% expansion in the processing capacity of the Mothae kimberlite mine from 1.1Mtpa to 1.6Mtpa which is scheduled for completion in Q1 2021.

Lucapa's Board, management team and new strategic investors have decades of diamond industry experience across the globe and right through the diamond pipeline, particularly in extracting value from large and high-quality diamonds.

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 this 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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TABLE 5: SCHEDULE OF TENEMENTS AS AT 31 DECEMBER 2020					
Country	Type	Size (km²)	Period	Interest (%)	End date
Angola	Kimberlite (primary) exploration	3,000	5 years	39	May-24
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

* Area includes the protection and production area

^Applications for licence extensions have been submitted