

# Chairman's Letter

Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**MILES KENNEDY**

Chairman