



LUCAPA ACQUIRES HIGH-QUALITY ADVANCED MOTHAE KIMBERLITE PROJECT

- **The Government of the Kingdom of Lesotho has awarded the advanced Mothae Kimberlite Project to Lucapa following a competitive international tender process**
- **Mothae has existing infrastructure and camp in place including a diamond processing plant**
- **Plan to bring into production within 12 months under staged low-risk development strategy**
- **Is a complementary fit with the Lulo mine which has a similarly high-value diamond production**
- **Mothae is a high-quality advanced kimberlite diamond project for the following reasons:**
 - **It has a NI43-101 indicated and inferred resource of 1 million carats**
 - **Located close to 3 diamond mines and only 5km from Letšeng, the world's highest \$ per carat kimberlite diamond mine**
 - **Trial mining has proven that similar to Letšeng, Mothae hosts large, premium-value and Type IIa diamonds, including individual stones up to 254 carats and gem-quality diamonds which have sold for up to US\$41,500 per carat**
 - **Infrastructure in place enabling production within 12 months**
 - **Phase 1 supported by robust mining plan with 18 month pay-back. Phase 2 to be scoped**
- **Very competitive acquisition price of US\$9 million (for 70% interest) payable over 10 months. Compares with historical development spending of ~US\$36 million**
- **Consideration structured to enable Lucapa to fund acquisition from combination of existing cash, anticipated distributions from Lulo operations, in- the- money option conversions, financing or equity**



Figure 1: Layout of the Mothae kimberlite diamond project

Lucapa Diamond Company Limited (ASX: **LOM**) ("Lucapa" or "the Company") is pleased to announce that, after a competitive and extensive international tender process, the Company has signed agreements with the Government of the Kingdom of Lesotho ("GOL") to acquire a 70% interest in Mothae Diamonds (Pty) Limited ("MDL"), which holds the mining lease and other assets related to the advanced Mothae Kimberlite Diamond Project ("Mothae" or "Project") in north-east Lesotho, Southern Africa ("Transaction").

Comment From Managing Director

Lucapa Managing Director, Stephen Wetherall, said he was delighted that Lucapa's proposal to acquire and develop the highly sought-after Mothae kimberlite project had been selected as the successful bid by the GOL.

"This acquisition is in keeping with Lucapa's stated strategy of continued growth as a diamond producer and explorer. Mothae complements the producing high-value Lulo diamond mine and our highly prospective exploration assets in the advanced Lulo kimberlite project and the earlier stage Brooking and Orapa Area F projects."

"There is only one thing better than owning one diamond mine that produces large high value diamonds – and that is owning two. Mothae is a fantastic diamond asset, located in a cluster of operating diamond mines in Lesotho and just 5km from Gem Diamonds' Letšeng mine, which is the highest average \$ per carat hard rock diamond mine in the world. Similar to Lulo in Angola, the Mothae kimberlite pipe hosts large premium-value and Type IIa diamonds".

"The market pricing and demand levels for such high-value stones remains robust, thus protecting the ability of large stone producing kimberlite projects, like Mothae, to sustain strong operating cash flows."

Mr Wetherall further stated that Lucapa's widespread diamond mining experience and recent success in developing the Lulo mine in Angola – which delivered the highest price per carat run of mine diamond production in the world in 2016 – were key factors in Lucapa's successful bid for Mothae.

"Mothae, acquired for a price we consider to be highly competitive, represents a compelling opportunity for Lucapa to grow its cash flows from a second diamond mining operation through a staged and low-risk development of a well-sampled kimberlite that has much upside potential."

"The Lucapa management team has extensive experience in southern Africa, including in Lesotho and at the Letseng mine, which we will leverage off in our Mothae development plan. We look forward to developing the Mothae kimberlite mine with our partner, the Government of the Kingdom of Lesotho."

Overview of Mothae

Lucapa is acquiring 70% of MDL. As part of the acquisition, MDL will be awarded a brand new 10 year mining lease covering the Mothae kimberlite project area, with a right to extend for a further 10 years. The GOL will hold the remaining 30%.

The 46.8km² Mothae project (which includes a 26km² protection area, Figure 2) is located in the Lesotho Highlands. The mining lease area covers the diamondiferous Mothae kimberlite pipe, which has a surface area of 8.8 hectares.

The kimberlite pipe is located close to 3 diamond mines, just 5km from the world-class Letšeng diamond mine (Figure 2) and just 2km from an all-weather sealed highway linking the capital of Maseru to the project.

The acquisition of MDL incorporates its existing infrastructure and camp. This infrastructure and knowledge gained has an historical investment of US\$36 million and includes:

- all intellectual property and resource knowledge;
- a processing plant;
- workshops;
- diesel-generated power;
- accommodation and site offices;
- fresh water dams; and
- tailings storage facility.

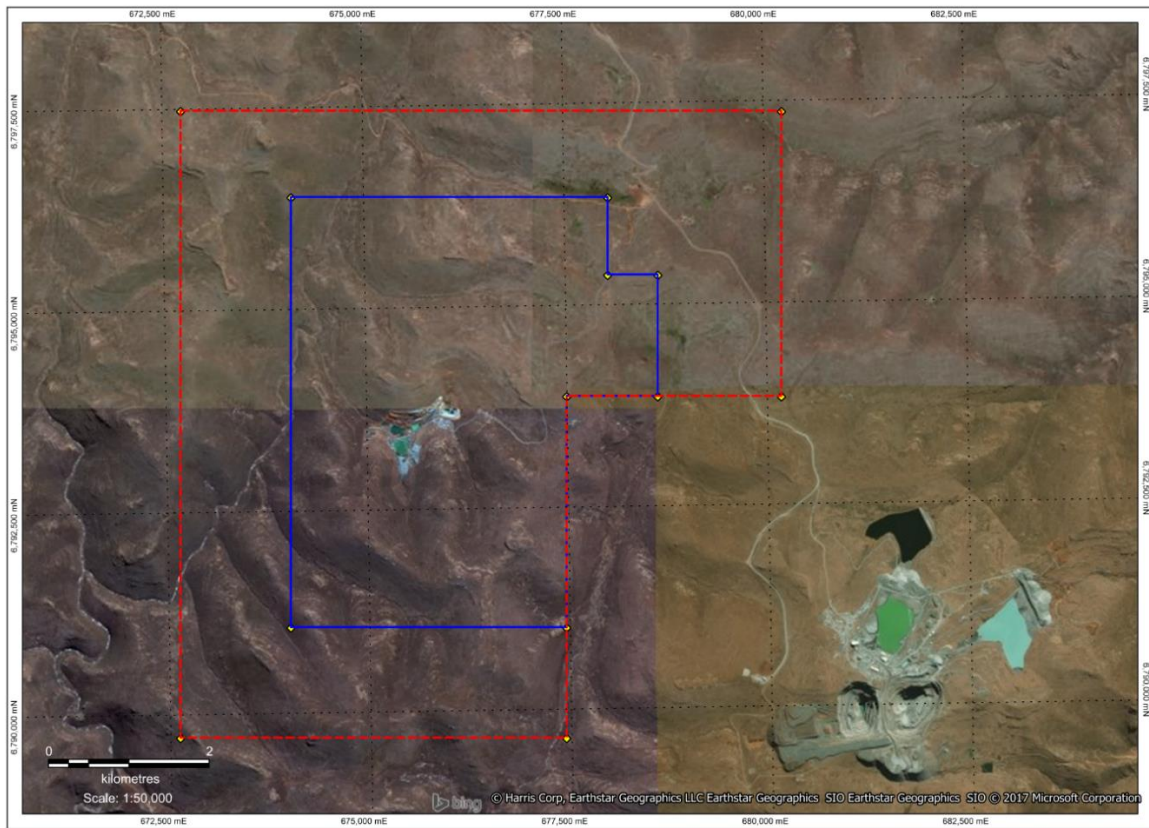


Figure 2: Satellite view showing proximity of the Mothae project to Letšeng mine (bottom right)



Figure 3: View showing proximity of existing plant to the South Lobe



Figure 4: Existing flow sort and recovery rooms at the Mothae kimberlite project

Mothae Diamond Resource

The Mothae kimberlite pipe was drilled in 2012 by TSX-listed Lucara Diamond Corp (“Lucara”). Lucara conducted extensive trial mining/ bulk sampling and diamond drilling (the deepest kimberlite intersection was 302m below surface), enabling The MSA Group Pty Ltd to independently release an indicated/inferred mineral resource estimate to Canadian Institute of Mining (CIM) standards in accordance with NI43-101 requirements.

The MSA resource (dated 28 February 2013) contains a total of **1.06 million carats**. The MSA resource is summarised in Table 1 below, using a 2mm bottom cut-off size. The US\$ per carat prices as published in the MSA NI43-101 Technical Report and Mineral Resource Statement have not been presented.

Lucapa has engaged independent consultants to convert the NI43-101 Mothae diamond resource to JORC 2012 compliant standards. This is procedural, desktop in nature and low cost. The updated resource will be released to the market before the end of the March 2017 Quarter.

Classified Mothae Kimberlite NI 43-101 Resource as at 28 February 2013			
Classification	Tonnes (m)	Grade (cpht)	Carats contained (millions)
Indicated	2.39	3.0	0.07
Inferred	36.57	2.7	1.00
Total	38.96	2.7	1.06
Notes			
1	Resource @ bottom screen size -2mm. A screen of 1.4mm was used for an insignificant part of the bulk sampling to assess recoveries.		
2	Numbers have been rounded, totals may not compute.		
3	Prepared as a Canadian NI 43-101 report, which is a qualifying foreign estimate under Chapter 19 of the ASX listing rules. The resource classification is based on the same criteria as would apply under JORC 2012 reporting.		
4	Additional verification of the resource to JORC 2012 in progress by the Company and expected with 60 days.		
5	The resource is supported by ~603,000 dry metric tonnes of bulk sampling and trial mining.		
6	The resource is informed by 8,085m of diamond drilling from 43 diamond drill holes cored PQ size telescoped to HQ/NQ at depth, in addition to mineral indicator geochemistry, bulk density determination, macro and micro diamond size frequency analysis and 3D geological facies analysis.		
7	Diamond prices included in the NI43-101 Technical Report and Mineral Resource Statement are not presented.		
8	A significant proportion of the diamond population is of the Type IIa diamond type.		
9	LOM equity in the project is 70%, GOL 30% free carried.		

Table 1 – Mothae Kimberlite NI43-101 Resource

Competent Person's Statement

The MSA diamond resource is the most recent and relevant data relating to the kimberlite pipe and was independently prepared by The MSA Group Pty Ltd, who were qualified persons for the purposes of NI43-101. The work programs and key assumptions on which the MSA resource was based are listed in Table 1. The information included is an accurate representation of the available data and studies for the Mothae Kimberlite Diamond Project as reviewed by Albert Thamm.

Mr Thamm is a Director of Lucapa Diamond Company Limited and a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm 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 Thamm consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

The MSA Resource estimate is a foreign estimate and is not reported in accordance with the JORC Code. A competent person has not done sufficient work to classify the foreign estimate as mineral resources in accordance with the JORC Code and it is uncertain that following evaluation and/or further exploration work that the foreign estimate will be able to be reported as mineral resources in accordance with the JORC Code.

Mothae Diamonds – Very High Quality

The Mothae diamond resource is supported by extensive trial mining, drilling programs and geological modelling conducted between 2008 and 2012. During this time, 31 bulk samples totalling 603,000 tonnes were extracted and processed from various locations and depths in three phases.

From these samples, a total of 23,446 carats of diamonds were recovered at an average grade of 3.88 carats per 100 tonnes (“cpht”) using a bottom cut-off size of -2mm. The diamonds recovered included many large and high-purity Type Ila diamonds.

The diamonds recovered included 96 stones weighing more than 10 carats. The gem-quality Mothae diamonds were sold in 3 separate sales and achieved prices up to US\$41,500 per carat.

The diamonds included a 254 carat boart stone, an 84 carat octahedron diamond (broken, pictured below), a 56 carat Type Ila diamond which sold for US\$1.7m (pictured below), a 29 carat Type Ila diamond which sold for US\$1.2m (pictured below) and a 14 carat Type Ila diamond which sold for more than US\$0.4m.



28.9 carat Type Ila
which sold for US\$1.2M



56.5 carat Type Ila
which sold for US\$1.7M



84 carat Type Ia (broken)



13.8 carat Type Ila
which sold for US\$0.4M

Staged Development at Mothae

Previous development plans for Mothae have predominantly been focussed on larger-scale mining and processing scenarios. In contrast, Lucapa will be adopting a staged, low capital and low risk approach to developing the kimberlite mine.

Significantly, Lucapa’s staged development plan will occur in a much more favourable currency environment compared to previous plans to bring Mothae into production. The South African Rand (ZAR), which is pegged 1 to 1 with the Lesotho currency (Maloti), has devalued by 59% against the US dollar and has vastly improved the project’s economics. The prevailing exchange rate of ZAR13.5 to US\$1 compares with ZAR8.5 to US\$1 in 2013, when the original economic studies were conducted.

Lucapa and its partners successfully adopted a similar phased development approach at the high-value Lulo alluvial project in Angola, which in 2016 generated gross sales of more than US\$51 million at an average price per carat of US\$2,983.

The Lucapa Board and management team have extensive exploration, developmental, operational and marketing experience in diamond projects across the southern African region, including previous roles at the Letšeng mine, just 5km from Mothae. In addition, Lucapa has secured the services of senior diamond industry experts to bolster the Lucapa team tasked with developing Mothae into a mine.

Lucapa and the GOL will develop the Mothae mine in two phases - Phase 1, is a smaller processing operation which is well planned and developed following an extensive technical due diligence and planning process. Phase 2, which is a larger scale operation, will be optimised following studies to be conducted during Phase 1.

Phase 1

This phase is designed to:

- generate early cash flows within 12 months of acquisition;
- from a low up-front capital investment.

The production plan involves:

- processing ~2 million tonnes of weathered surface kimberlite material (including previous stockpiled material);
- over a minimum period of three years;
- via conventional open pit mining;
- at a planned treatment rate of 720,000 tonnes per annum.

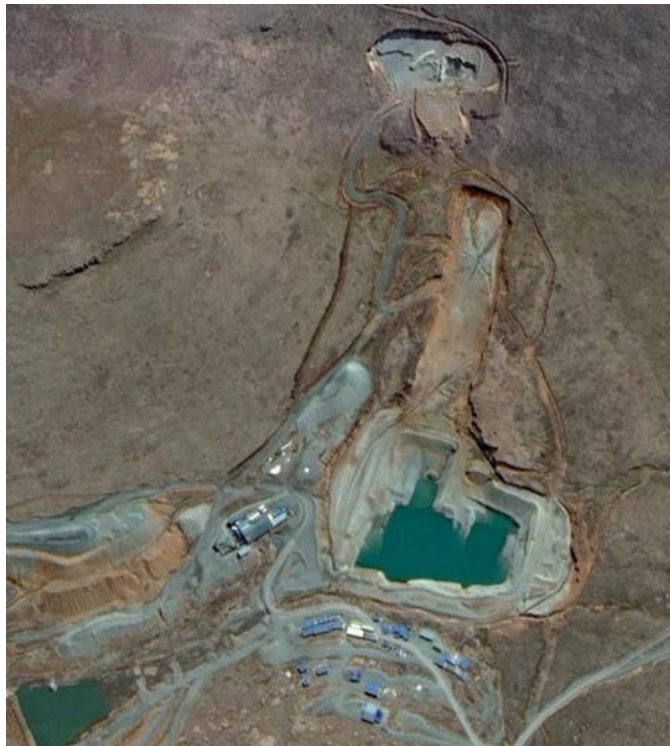


Figure 5: Satellite image of the Mothae kimberlite showing the North and South Lobes and the connecting Neck

The mining costs during this phase will be minimised because the weathered surface material at Mothae can be mined as “free dig” which does not require conventional drilling or blasting. In addition, the mine plan includes very limited waste stripping.

Capital expenditure costs to bring Phase 1 into production are estimated at approximately US\$12 million, which includes upgrading and improving the process plant to a capacity of 100 tonnes per hour (“tph”), installing XRT technology to more efficiently recover large Type IIa diamonds, changing the plant front-end with further modifications to de-bottleneck the crushing circuit as well as upgrading associated infrastructure.

Lucapa will provide the funding for Phase 1 through an interest bearing loan to its 70% subsidiary, MDL.

Preliminary modelling demonstrates that this initial mining phase is economic, with sufficient free cash flow generated in the first 18 months to repay project funding. This modelling includes the availability of significant existing tax assets which are available to be offset against taxable earnings under Phase 1.

Phase 2

During Phase 1 production, Lucapa will undertake additional studies to determine the scale and development of the Phase 2 plan, which will involve processing of material at larger rates from the deeper unweathered zone on a conventional open pit, drill and blast mining method. Phase 1 mining and processing will provide valuable metallurgical data, diamond grade and value information at deeper levels for optimising the Phase 2 development plan.

Historical and Planned Development Summary

	Historical Exploration/Trial Mining/ Bulk Sampling Actual	Phase 1 Plan	Phase 2 Plan
<i>Development Capital Invested/ Planned</i>	US\$36m	~US\$12m	¹
<i>Actual/ Planned Plant Capacity (tph)</i>	75	100	300
<i>Effective Plant Capacity (tonnes per annum)</i>		720k	2m
<i>Plant Bottom Cut Off Screen Size (mm)</i>	-2.0	3.0 ²	3.0 ²
<i>Actual Recovered Grade During Sampling (cpht)</i>	3.88		
<i>NI43-101 Resource Grade (cpht)</i>		3.0 ³	2.7 ³
<i>NI43-101 Resource Classification Targeted ³</i>		Indicated ³	Inferred ³
<i>Mining Method</i>		Open pit "Free dig" Limited drill and blast	Open pit Conventional drill and blast
<i>Depth Of Pit At End Of Phase (metres below ground level)</i>		~55m	~255m

¹ These inputs will be the subject of a Scoping and/ or Feasibility studies to be conducted during Phase 1 mining.

² The Bottom Cut Off Screen Size ("BCOS") will be higher than the resource BCOS of 2mm. This is considered more efficient to treat the finer weathered material. As a result of the increase in BCOS, a lower grade is expected, however this should also result in a higher average US\$ per carat selling price (i.e. smaller diamonds will not be recovered).

³ The NI43-101 Resource will be converted to a JORC 2012 compliant resource and published within the March 2017 Quarter. Refer Table 1 and its explanatory notes for the cautionary statement.

Immediate Next Steps:

- Complete conditions precedent;
- Roadshow to market transaction and benefit to Lucapa and shareholders;
- Migrate control of MDL to Lucapa management;
- Assign owner team and engage in-country management (ongoing management and project development);

- Convert NI43-101 Canadian compliant resource to JORC 2012 compliant resource;
- Update Environmental Impact Assessment and other regulatory approvals for revised mining plan during construction period;
- Tender/ engage plant design and construction;
- Tender/ engage mining contractor;
- Tender/ engage ancillary contractors (camp, catering, transport, infrastructure);
- Tender/ engage/ develop own diamond marketing platform/ channel (consider post mine gate value-add and branding);
- Develop and establish in-country Corporate Social Responsibility mandate

Consideration

The staged payment terms for the US\$9 million consideration negotiated by Lucapa have been designed to minimise the requirement for significant up-front funding. The consideration for the 70% interest in MDL is structured as follows:

1. US\$0.4 million deposit to the GOL upon execution of the Transaction documentation;
2. US\$4.1 million within 60 days of execution of Transaction documentation; and
3. Balance of US\$4.5 million payable in equal instalments over the following eight months thereafter, which matches the planned Phase 1 development timeline.

The consideration terms and timetable have been structured to enable Lucapa to fund the acquisition from a combination of existing cash, anticipated distributions from Lulo operations, conversion of in-the-money options, financing or equity.

The Transaction remains subject to certain conditions precedent, including ASX and any other regulatory approvals which may be required, the issuance of a brand new 10 year Mining Lease and meeting the consideration terms and timetable above.

Geological Overview

The Mothae kimberlite is situated in the Maluti Mountains on the southern edge of the Kaapvaal Craton (Figure 6), which extends through central, eastern and north-eastern South Africa, into southern Zimbabwe and south-eastern Botswana, and incorporates most of Swaziland. The Kaapvaal Craton is host to numerous important economically diamondiferous kimberlites of various ages, including Letseng, Liqhobong, Premier, Venetia, Jwaneng, Kimberley, and Finsch.

The surface geology within the Mothae lease area comprises Mesozoic (180 Ma) Drakensberg Group flood basalt, into which the Mothae kimberlite intruded (87 Ma). The average elevation of the Mothae kimberlite is approximately 3,000m above mean sea level ("amsl").

The Mothae kimberlite consists of a main South Lobe connected to a smaller North Lobe by an elongated central kimberlite Neck. The South Lobe has a surface expression of 5.05 ha and combined with the Neck and North Lobe form a total surface area of 8.81 ha. The South Lobe consists of 3 distinct zones (South West, South Centre and South East) (Figures 7 and 8).

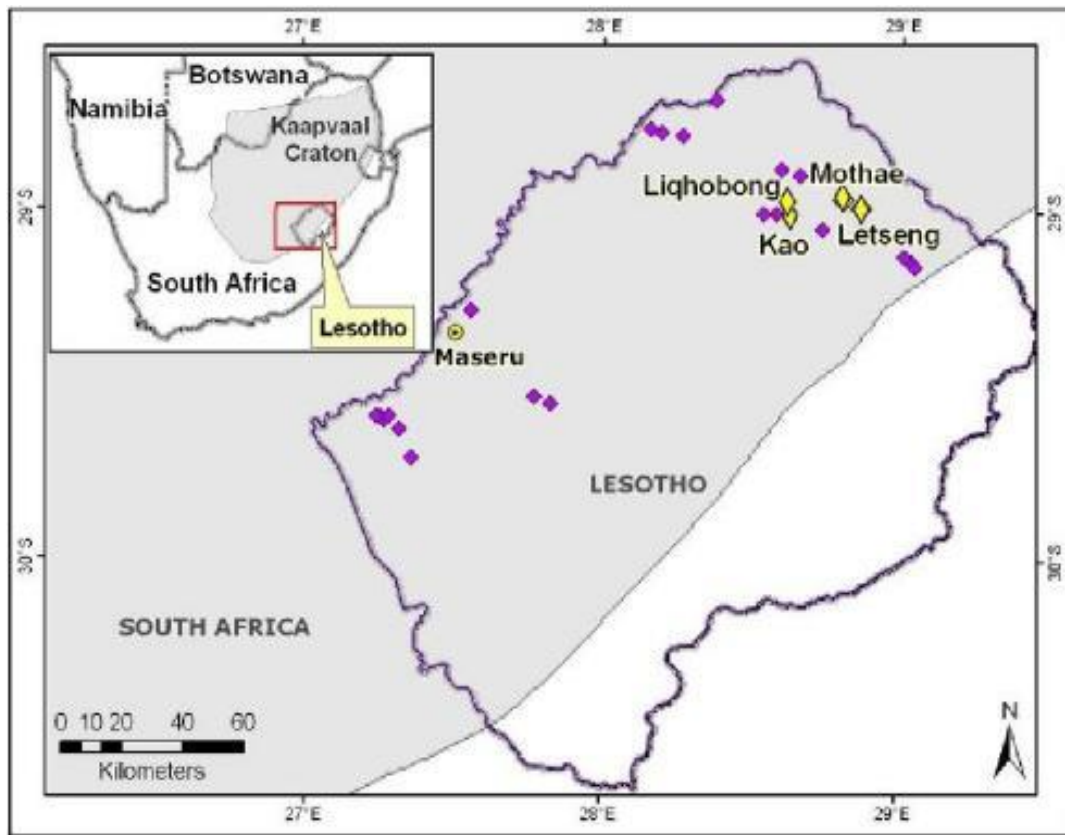


Figure 6: Map of Lesotho and the Kaapvaal Craton which hosts Mothae and other significant diamondiferous kimberlites

Wall rock contacts for the North and South Lobes have been delineated by geophysics and diamond drilling. The contact between the kimberlite and the very competent basalt is typically sharp and steep with localised zones of wall rock breccia.

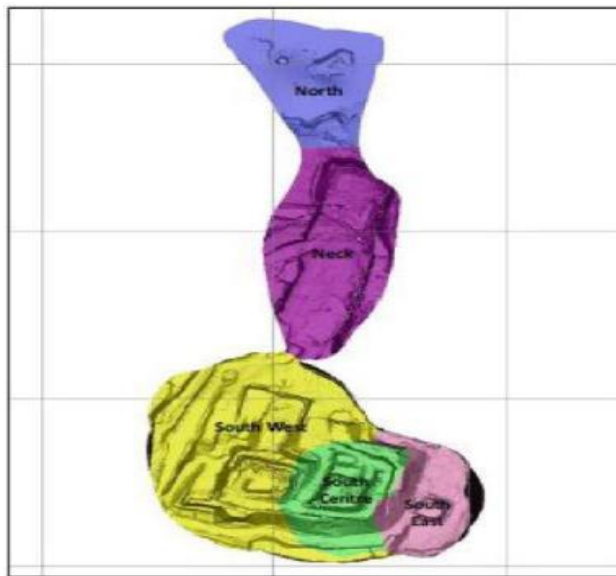


Figure 7: Plan view of the Mothae kimberlite zones

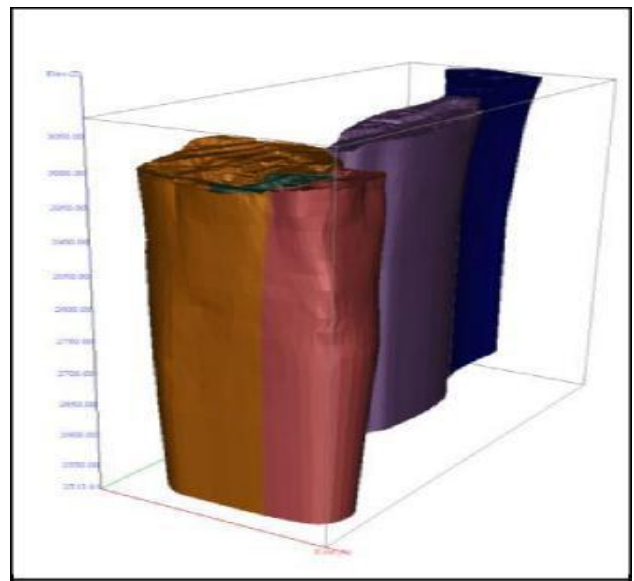


Figure 8: 3D model of the Mothae kimberlite zones

About Lesotho

Lesotho is a small independent diamond-rich country covering approximately 30,000km² in Southern Africa with a population of more than two million people. The Government sits in the capital of Maseru.

Lesotho is a mining friendly and well-regulated jurisdiction with a long history of diamond mining.

The currency is the Maloti which is kept in parity with the South African Rand. Lesotho has a competitive tax regime which includes a 25% corporate tax rate, upfront capital allowance write-offs and a negotiated gross diamond royalty of 5%.

Apart from world-class Letšeng mine, other major diamond projects in Lesotho include the Liqhobong kimberlite mine currently being commissioned by Firestone Diamonds and the Kao mine. Development projects include the Motete Dyke, Lemphane and Kolo diamond pipes.

For and on behalf of the Lucapa Board.

STEPHEN WETHERALL
MANAGING DIRECTOR/ CHIEF EXECUTIVE OFFICER

Competent Person's Statement

Information included in this announcement is based on and fairly represents information and supporting documentation prepared and compiled by Albert Thamm MSc F.Aus.IMM, who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm is a Director of Lucapa Diamond Company Limited. Mr Thamm 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 Thamm consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

No New Information

To the extent that announcement contains references to exploration results and or Mineral Resource estimates no information is contained that has been released to the ASX. The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant market announcement.

Forward-Looking Statements

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