Financial Report
for the year ended 31 December 2021

ASX Code: LOM

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The Directors present their report together with the financial report of Lucapa and the Group for the financial year ended 31 December 2021 and independent auditor's report thereon.

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

The qualifications, experience and other directorships of the Directors in office at the date of this report are:

Miles Kennedy
Mr Kennedy has held directorships of Australian listed companies for more than 30 years. He was previously Chairman of companies including Sandfire Resources, Kimberley Diamond Company, Blina Diamonds, Macraes Mining Company, MOD Resources and Auris. He has extensive experience in the management of public companies with specific emphasis in the resources industry. He lives in Dunsborough, Western Australia.

Stephen Wetherall
Mr Wetherall is a chartered accountant and member of the South African Institute of Chartered Accountants with more than 20 years' experience in financial and operational management, corporate transactions and strategic planning, most of which has been in the diamond industry. He has held senior financial and executive roles with diamond major De Beers and London-listed Gem Diamonds. He lives in Perth, Western Australia.

Nick Selby
Mr Selby is an extraction metallurgist with over 35 years' experience in the mining industry. He began his career with De Beers, where he spent 19 years in a range of technical roles. Mr Selby joined Gem Diamonds in 2005, where he was responsible for establishing diamond projects in various countries including Angola, Australia, DRC, Central African Republic, Indonesia, Lesotho and Botswana. He lives in Perth, Western Australia.

Ross Stanley
Mr Stanley has an extensive background in the resources industry in Australia and Africa, specialising in drilling and related exploration and mining services. He was the founder and Managing Director of ASX-listed Stanley Mining Services prior to its merger with Layne Christensen in 1997. Mr Stanley was also a major shareholder and Non-Executive director of Perth-based gold miner Equigold NL, which was taken over by Lihir Gold for A$1.1 billion in 2008. He is a Non-Executive director of ASX listed Cambodian gold miner Emerald Resources NL. He lives in Dunsborough, Western Australia.

2. Company Secretary

Mr Clements was appointed Company Secretary on 2 July 2012. Mr Clements holds a Bachelor of Commerce degree from the University of Western Australia and is a Fellow of the Institute of Chartered Accountants of Australia, a Fellow of the Governance Institute of Australia and member of the Australian Institute of Company Directors. Mr Clements currently holds the position of company secretary and/ or director of several publicly listed companies and has experience in corporate governance, finance, accounting and administration, capital raising, ASX compliance and regulatory requirements.

3. Directors' meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial year are:

	Board Meetings	
	a	**b**
M Kennedy	7	7
S Wetherall	7	7
N Selby	7	7
R Stanley	7	7

a: Number of meetings attended;
b: Number of meetings held during the time the Directors were in office during the year.

4. Nature of operations and principal activities

In 2021, the Group continued to focus on its Angolan assets (alluvial diamond mining, resource extension and kimberlite exploration at Lulo), its Lesotho asset (kimberlite diamond mining and capacity expansion at Mothae) and its Australian assets (completing the transformative acquisition of Merlin in the Northern Territory and lamproite diamond exploration at Brooking in Western Australia). No work was undertaken at Lucapa's Botswana asset (kimberlite exploration at Orapa Area F).

5. Operating and financial review

Overview

Lucapa is a unique integrated multi-asset diamond company listed on the ASX with activities spanning exploration, evaluation, mine development, production, rough sales & marketing and cutting & polishing.

Lucapa's Board and management team have decades of global experience across all facets of the diamond industry and have successfully advanced Lucapa's vision to become a leading global producer of large and high-quality diamonds.

Lucapa currently has two unique operating diamond mines – the Lulo alluvial mine in Angola ("SML") and the Mothae kimberlite mine in Lesotho ("Mothae"). Both mines are in the top three US$/ carat diamond resources globally and are regular producers of exceptional, large and high-value diamonds, with more than 75% of rough revenues originating from the recovery of diamonds larger than 4.8 carats.

In keeping with Lucapa's growth objectives:

- In addition to the recently concluded expansions to both operating mines, the Company has successfully advanced through the diamond pipeline where both mines generate returns from unique cutting & polishing partnerships with a high-end diamantaire. The Company will progress this imitative to attract margins from well beyond the mine-gate in 2022;
- The Company also recently acquired 100% of the historic Merlin mine in the Northern Territory, Australia (refer ASX announcement on 13 December 2021). Lucapa has plans for Merlin to be the Company's third project it has evaluated, designed, funded, developed and brought into commercial production in the last seven years. Once in production, Merlin will be Australia's largest diamond producer;
- Lucapa has significant blue-sky potential with its three primary source exploration activities in Angola, Australia and Botswana. The most advanced exploration program is the highly-prospective primary source exploration program being conducted over the Lulo diamondiferous kimberlite province lying directly beneath the mining blocks where the large and high-value Lulo alluvial diamonds are being recovered by SML. Merlin, where all kimberlites discovered to date are diamondiferous and with ~70 unresolved geophysical anomalies, presents an exciting source discovery opportunity too.

With the Company assets well maintained and capacity expansions completed through the pandemic, the Group experienced a swift return to profitability as the diamond market rebounded to its strongest position in over a decade.

2021 Group highlights include:

- Record full year revenues of A$135 million @ A$2,150/ carat (on a 100% project basis);
- Record full year Attributable revenues of A$65 million @ A$1,780/ carat;
- Record Attributable EBITDA generated of A$22.3 million;
- Record operational performances from both SML and Mothae with record volumes processed, carats recovered & sold and exceptional diamond recoveries;
- Repaid A$5.9 million to its debt providers;
- The completion of the acquisition of Merlin for a total consideration of A$8.5 million;
- Publication of the Merlin Scoping Study demonstrating strong economics for a long-life mine (refer ASX announcement 17 December 2021):
  - Production target of 2.1 million carats from 14 million tonnes treated;
  - ~14 year life of mine;
  - Revenues of ~A$1.6 billion;
  - EBITDA of ~A$702 million;
  - $NPV_{7\%}$ (pre-tax) of ~A$343 million;
  - Initial capital estimates of A$96 million (includes A$18 million waste pre-strip);
  - Expected payback (pre-tax) by end of second year of production;
  - Significant value and benefits for nearby communities and Northern Territory;
  - Lucapa already progressing feasibility study.
- Lulo exploration sampling includes the discovery of 13 diamonds from the Canguige catchment area, including eight Type IIa diamonds;
- Three new high-interest targets identified at Brooking, WA;
- Successful completion of a A$21.7 million (before costs) capital raising to fund the Merlin acquisition, expedite exploration programs, advance feasibility studies and general working capital;

5. Operating and financial review (continued)

- Strong balance sheet with proforma cash & receivables estimate of ~A$29 million (A$10.1 million cash balance at year end plus Lucapa's share of SML dividend and capital loan repayment, excluding overheads); and
- Significantly positive year for the diamond industry with the rough diamond price index increasing by over 40% in 2021 and a strong outlook for 2022.

As noted above, the Group achieved record results both operationally and financially for 2021. Despite 2020 being a year which was significantly impacted by the COVID-19 pandemic, Lucapa continued to focus on its growth strategy with its partners by expanding operational capacities at both mines.

As a consequence of this strategy and effort, Lucapa achieved record Attributable EBITDA for the year ended 31 December 2021 of US$16.6 million (A$22.3 million) (2020: US$0.5 million (A$0.4 million)). The Group reported profit after tax for the year of US$2.8 million (2020: US$9.7 million loss).

SML, Lucapa's 40% held alluvial diamond mining operation in Angola, performed exceptionally well in 2021, with records being achieved for both gravel processed and carats recovered. Cash operating cost/ m^3 (excluding royalties and selling costs) for the year of US$62 per m^3 also compared well with the prior year of US$75 per m^3.

2021 to saw a quick return of and growth in consumer demand in the key diamond consumption market of North America and the emerging markets of China and India. With polished inventory levels in the industry being severely depleted through the pandemic, both rough and polished diamond prices rose steeply, with rough prices increasing by over 30% on average in 2021.

As a consequence of strong operational performances and pricing environment, SML achieved a record EBITDA of US$37.2 million (A$50.0 million) in 2021 (2020: US$6.2 million (A$8.2 million)). Lucapa's attributable portion amounted to US$14.9 million (A$19.9 million).

The Group's equity accounted share of SML's results (after accounting for depreciation and other below-the-line items) was a US$ 7.6 million (A$10.1 million) profit (2020: US$0.3 million (A$0.4 million) loss).

Similarly, Mothae, Lucapa's 70% held kimberlite mine in Lesotho, achieved operational records with record carat recoveries in 2021. This was notwithstanding the plant downtime to effect the plant expansion in the first quarter and repairing and improving the jaw crusher foundations late in the last quarter of 2021. Cash operating costs were again very well managed at US$ 15.3 (A$20.6)/ tonne (2020: US$14.1 (A$19.4)/ tonne).

Mothae too, as a result of a stellar operational performance and strength of a more balanced diamond market achieved an EBITDA of US$5.6 million (A$7.6 million) for 2021 (2020: US$1.1 million (A$1.5 million) loss). Lucapa's attributable portion amounted to US$3.9 million (A$5.3 million).

The cutting and polishing partnerships at both mines continued to perform well in 2021, and notwithstanding the higher rough prices seen in 2021, SML accrued US$2.5 million (A$3.4 million) (2020: US$0.5 million (A$0.7 million)) and Mothae accrued US$$1.6 million (A$2.1 million) (2020: US$0.4 million (A$0.6 million)) for the year.

Other noteworthy items that affected the Group results during the year were:

- A fair value gain on Lucapa's investment loan with SML of US$2.4 million (A$3.2 million) (2020: US$0.3 million (A$0.5 million) loss) following the decision to expand production capacity and therefore accelerate investment loan repayments back to Lucapa;
- An unrealized foreign exchange loss recognised due to the weakening South African rand against the United States dollar of US$3.4 million (A$4.6 million) on the intergroup development loan (2020: US$ 0.6 million (A$0.8 million) loss).

The Group's results were in line with the updated market guidance as per the ASX announcement of 27 January 2022.

The table below reconciles the Attributable US$16.6 million (A$22.3 million) EBITDA for the year to the Operating profit as per the Consolidated statement of profit or loss and other comprehensive income:

	US$m	A$m
Operating profit as per statement of profit or loss	**3,806**	**5,104**
Adjust for non-attributable entries:		
Mothae - 30% minority share	(1,682)	(2,256)
Add back non-cash items:		
AASB16 lease payments & foreign exchange translation	2,211	2,965
Mothae and LOM depreciation	4,962	6,654
SML depreciation, tax and fair value adjustments	7,319	9,815
Attributable EBITDA	**16,616**	**22,283**
Made up as follows:		
Lulo	14,875	19,948
Mothae	3,925	5,263
LOM & Other	(2,184)	(2,929)

5. Operating and financial review (continued)

During the year the Company repaid US$4.4 million (AS$5.9 million) (2020: US$2.2 million (A$2.9 million)) to its financiers.

The Group had net assets of US$90.2 million (A$116.7 million as at 31 December 2021 (2020: US$ 70.3 million (A$91.2 million)).

Review of financial condition
Given the Group's mix of mining, evaluation and exploration assets, and given their various stages of development, the Group may require funding for continued exploration, evaluation, development and/ or mining activities. To the extent that sufficient cash is not generated by activities or mining operations of the Group for the forecast loan, interest and/ or dividend payments, funding will be required.

Due to the continuing uncertainty posed by the COVID-19 pandemic and the potential unknown future 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 solutions and/ or restructure existing 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 global diamond industry not being adversely impacted by the ongoing COVID-19 pandemic or Russia/ Ukraine conflict, thereby impacting key forecast assumptions and scheduled loan, interest and/ or dividend payments;
- The Group, as required, successfully sourcing equity, raising new debt and/ or restructuring existing debt facilities with its financiers; and
- The Company continuing to achieve success with its exploration and development projects, such as the Lulo kimberlite exploration program in Angola and Merlin mine development in Australia.

The Directors believe that the going concern basis is appropriate for the preparation of the financial statements due to the following reasons:

- The duration and full impact of the COVID-19 pandemic and Russia/ Ukraine conflict is still unknown, however the diamond industry has rebounded strongly following the pandemic and with a better balance seeing diamond prices reaching record levels in 2022;
- The Group's assets exceed its liabilities by US$90.2 million (A$116.7 million);
- The Group has historically been successful in raising equity and under ASX Listing Rule 7.1 the Company has the capacity to place securities to raise equity; and
- The Group has been successful in restructuring and raising debt facilities and continues to review a number of financing opportunities.

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.

5. Operating and financial review (continued)

Significant changes in the state of affairs

General
Subsequent to the challenges faced in recent years, the global diamond market and prices recovered significantly during 2021 and positively impacted on the affairs of the Group.

Angola
Following the expansion of the alluvial mining fleet, SML achieved record volumes processed, carats recoveries and diamond revenues for the year.

The kimberlite exploration program aimed at identifying the primary hard-rock sources of the alluvial diamonds were further advanced including through the purchase of a standalone bulk sampling plant and additional equipment. Bulk sampling results for the year include the discovery of 13 diamonds from the Canguige catchment area, including eight Type IIa diamonds.

Lesotho
The 45% plant processing expansion at Mothae completed during the first quarter of 2021 resulted in Mothae also achieving annual record volumes processed, carat recoveries and diamond revenues.

Australia
Western Australia
The Brooking exploration program was re-started in the year to follow up on the significant micro- and macro-diamond counts recovered previously. Gravity and electromagnetic surveys identified three new high-interest primary source lamproite targets to be followed up in 2022.

Northern Territory
The acquisition of the Merlin project was completed during the year (refer ASX announcement of 13 December 2021).

A Scoping Study of the preliminary technical and economic viability of Merlin was completed and published. The study demonstrates positive economics and strong potential for a long-life mine development, using conventional open pit and vertical pit mining techniques (refer ASX announcement of 17 December 2021). An Updated Scoping Study was published on 3 March 2022 re-enforcing the economic potential.

Botswana
No field work was undertaken at the Orapa Area F project and an application for extension of the prospecting license has been submitted.

Corporate
During the year Lucapa was reclassified by the ASX from a mining exploration entity to a mining producing entity.

The Company completed the following share capital transactions during the period:

Transaction	Number	Issue/ exercise price (A$)	Funds raised (US$000)	Option expiry
Issue of shares	433,080,000	0.050	16,373	n/a
Issue of shares on exercise of performance rights	432,303	-	-	1-Apr-22
Issue of shares on exercise of options	6,143,600	0.080	353	18-Dec-22

6. Dividends

No dividends were paid or declared by the Company during the current or prior financial year.

7. Environmental regulation

The Group's mining and exploration activities are subject to various environmental regulations. The respective Company, subsidiary and associate Boards are responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The Group is committed to achieving a high standard of environmental performance and conducts its activities in a professional and environmentally conscious manner and in accordance with applicable laws and permit requirements.

The Board believes the Group has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of those environmental requirements as they apply to the projects.

8. Events subsequent to reporting date

On 18 February 2022 Lucapa announced the receipt of a US$3.6 million (A$5 million) from its associate SML, the Lulo alluvial mining company in Angola.

On 2 March 2022 Lucapa announced the repayment on 28 February 2022 of the New Azilian loan and accrued interest amounting to US$8.2 million (A$11.2 million) and the release of the related security over assets.

On 3 March 2022 Lucapa announced an Updated Scoping Study for the Merlin project that reinforces the significant economic potential of the mine. This follows from the significant and rapid increase in rough diamond prices since the original Scoping Study was published on 17 December 2021.

On 8 March 2022 Lucapa announced:

- the completion of a A$12.5 million institutional placement in order to expedite the Lulo, Brooking and Merlin exploration programs;
- the placement was cornerstoned by Sydney and Singapore based investment fund, Tribeca Investment Partners ("Tribeca"); and
- the Company is exploring strategic collaboration with Tribeca and Margot McKinney OAM, one of Australia's finest jewellers, to further its strategy to capture significant margin at retail.

9. Likely developments

The Directors consider the following as a summary of the likely developments and expected results for the next 12 months.

Lulo, Angola
Lucapa and its partners plan to continue alluvial mining and mine development at Lulo in 2022, while continuing both the kimberlite and alluvial exploration programs. Further sales of Lulo diamonds are planned, with more diamonds continuing to be delivered into the cutting & polishing partnership with Safdico.

Discussions with the Angolan partners to secure a majority stake in the Project Lulo JV will continue.

Mothae, Lesotho
Lucapa and its Lesotho Government partner plan to continue kimberlite mining activities, test new technologies for mining and build on the new marketing agreement and cutting & polishing partnership with Safdico.

Brooking, Western Australia
Drone geophysics are planned to be carried out in 2022, to be followed by pitting and/or drilling on three identified targets once heritage surveys and program of works approvals are received.

Merlin Diamonds, Northern Territory, Australia
The Merlin Scoping Study published in 2021 and Updated Scoping Study published in March 2022 provides strong justification that the project will be commercially viable and accordingly a feasibility study has commenced and is planned to be completed in 2022.

The development of Merlin is dependent on the Company structuring and securing an appropriate funding solution to maximise the benefits for all stakeholders.

Kimberlite exploration aimed at identifying new discoveries at Merlin is also planned at Merlin.

The Company is exploring strategic collaboration with Tribeca and Margot McKinney OAM, one of Australia's finest jewellers, to further its strategy to capture significant margin at retail.

Orapa Area F, Botswana
Drilling of the identified targets on the tenement in Botswana will commence as soon as the extension of the exploration licence is granted.

10. Directors' interest

The relevant interest of each Director in the shares and options over such instruments issued by the Company and other related bodies corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Fully paid ordinary shares	Listed options (ASX code: LOMOC) expiring 5 June 2022
M Kennedy	3,116,819	525,026
S Wetherall	4,425,100	445,850
N Selby	2,187,350	297,892
R Stanley	67,607,014	9,287,683

11. Share options and performance rights

Unissued shares under options and performance rights
At the date of this report unissued ordinary shares of the Company under option and performance rights are set out below. These options and performance rights over unissued shares do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Expiry date	Exercise price (A$)	Number of securities	Quoted
Share options			
5 June 2022	$0.10	113,971,605	113,971,605
18 December 2022	$0.08	48,680,475	-
30 July 2025	$0.08	5,000,000	-
Performance rights			
None	-	-	-

12. Remuneration report (audited)

12.1 Principles of compensation

Key management personnel ("KMP") have authority and responsibility for planning, directing and controlling the activities of the Group, including Directors of the Company and other Executive management. Currently, KMP comprises the Directors of the Company.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Directors of the Company obtain independent advice on the appropriateness of compensation packages of KMP given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures are designed to attract and retain suitably qualified industry experts and candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages include a mix of fixed compensation, equity-based compensation as well as employer contributions to superannuation funds.

Shares, options and performance rights may only be issued to Directors subject to approval by shareholders in general meeting.

Fixed compensation
Fixed compensation consists of base compensation, determined from a market review, to reflect core performance requirements and expectations of the relevant position and statutory employer contributions to superannuation funds. Compensation levels are generally reviewed annually by the Board through a process that considers individual, segment, comparable peers and overall performance of the Group.

Directors' fees
Total compensation for Directors and Non-Executive Directors is set based on advice from external advisors with reference to fees paid to other Directors of comparable companies. Non-Executive Directors' fees are presently limited to an aggregate total of US$500,000 per annum, excluding the fair value of any options or performance rights granted. Directors' fees cover all main Board activities and membership of any committee and subsidiary Boards. The Board has no established retirement (other than superannuation) or redundancy schemes in relation to Directors. The Directors' contracts contain a service bonus in the event of a takeover or change of control, subject to shareholder approval where required.

Use of remuneration consultants
The Group employed the services of a remuneration consultant during 2018 and the recommendations were implemented in 2019. No remuneration consultants were employed during 2020 or 2021 due to the COVID-19 pandemic. A remuneration review is underway for 2022.

Equity-based compensation (Long-term incentive)
The Company has an equity-based incentive plan under which Directors and management are awarded share options and performance rights. The purpose of the plan is to assist in the incentivisation, reward and retention of Directors and management, align their interests with those of the shareholders of the Company and to focus on the Company's development strategy.

12. Remuneration report (audited) (continued)

Short-term and long-term incentive structure and consequences of performance on shareholder wealth

Given the Group's principal activities during the course of the financial period consisting of exploration, evaluation, development and mining of mineral resources, successful expansion and acquisition workstreams, the Board has for 2021 given significance to service criteria, performance criteria and overall market related criteria in setting the Group's incentive and retention schemes.

The Board does not consider the Group's earnings to be the only appropriate key performance indicator for setting remuneration packages. In addition, the issue of options and performance rights as part of the remuneration package of Directors, management, employees and contractors is an established practice for listed exploration, development and mining companies and has the benefit of conserving cash whilst appropriately rewarding and retaining the recipient.

In circumstances where cash flow permits, the Board may approve the payment of a discretionary cash bonus as a reward for performance.

In considering the relationship between the Group's remuneration policy and the consequences for the Company's shareholder wealth, changes in the Company's share price are considered.

Service contracts (as at the date of these financial statements)

Stephen Wetherall

Mr Wetherall has been engaged to act as the Company's Chief Executive Officer/ Managing Director. Mr Wetherall is entitled to receive remuneration of A$633,938 (gross, including superannuation) per annum which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic, by agreement, his remuneration was reduced by up to 60% for seven months during 2020. The Company resolved in the current year to re-imburse the voluntary reduction as a result of the record performance of the Group and delivery on the Company's growth strategy. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Nick Selby

Mr Selby has been engaged to act as the Company's Chief Operating Officer/ Executive Director. Mr Selby is entitled to receive remuneration of A$479,588 (gross, including superannuation) per annum which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic, by agreement, his remuneration was reduced by up to 60% for seven months during 2020. The Company resolved in the current year to re-imburse the voluntary reduction as a result of the record performance of the Group and delivery on the Company's growth strategy. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Miles Kennedy

Mr Kennedy has been engaged to act as the Company's non-executive Chairman. Mr Kennedy is entitled to receive Director fees of A$148,838 (gross) per annum, which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic, by agreement, his remuneration was reduced by 100% for seven months during 2020. The Company resolved in the current year to re-imburse the voluntary reduction as a result of the record performance of the Group and delivery on the Company's growth strategy. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

Ross Stanley

Mr Stanley has been engaged to act as a non-executive Director of the Company. Mr Stanley is entitled to receive Director fees of A$99,225 (gross) per annum, which is subject to review by the Board from time to time. As a result of the COVID-19 pandemic, by agreement, his remuneration was reduced by 100% for seven months during 2020. The Company resolved in the current year to re-imburse the voluntary reduction as a result of the record performance of the Group and delivery on the Company's growth strategy. He will be eligible to participate in any future incentive and retention plans implemented by the Board. Shareholder approval will be sought for his participation in any incentive plan involving equity of the Company. The appointment may be terminated for various causes of a standard nature. Upon termination, no benefits are due unless approved by shareholders.

12. Remuneration report (audited) (continued)

12.2 KMP remuneration

Details of the nature and amount of each major element of remuneration (in USD) of each KMP of the Company are:

Key management personnel	Period ended	Short-term benefits: Salary & fees	Short-term benefits: Bonus	Post employment benefits: Superannuation benefits	Equity-settled share based payments: Options and performance rights(1)	Total (US$)
Executive Directors						
Stephen Wetherall, Chief Executive Officer / Managing Director	Dec 21	602,166	-	21,454	-	**623,620**
	Dec 20	304,135	-	12,486	1,149	**317,770**
Nick Selby, Chief Operating Officer / Executive Director	Dec 21	449,823	-	21,454	-	**471,277**
	Dec 20	227,474	-	12,486	903	**240,863**
Non-Executive Directors						
Miles Kennedy, Non-Executive Chairman	Dec 21	165,222	-	15,957	-	**181,179**
	Dec 20	39,470	-	3,750	711	**43,931**
Ross Stanley, Non-Executive Director	Dec 21	110,147	-	10,638	-	**120,785**
	Dec 20	26,313	-	2,500	-	**28,813**
Total	**Dec 21**	**1,327,358**	**-**	**69,503**	**-**	**1,396,861**
	Dec 20	**597,392**	**-**	**31,222**	**2,763**	**631,377**

(1) These options issued have been valued in accordance with the methodology contained in Note 12 to these financial statements.

(2) The 2021 remuneration of all KMPs includes the re-imbursement of prior year reductions as a result of the record performance of the Group and delivery on the Company's growth strategy.

12. Remuneration report (audited) (continued)

12.3 Equity instruments

All options refer to options and performance rights over ordinary shares of the Company, which are exercisable on a one-for-one basis.

12.3.1 Analysis of movements in options, performance rights and shares

Options and performance rights over equity instruments

The movement during the reporting period in the number of options and performance rights over ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

Directors	Held at 1 January or date of appointment	Options acquired	Exercise of options and performance rights	Expired without exercise	Options and performance rights granted	Held at 31 December or date of resignation	Vested & exercisable
2021							
M Kennedy	655,026	-	-	(130,000)	-	**525,026**	525,026
S Wetherall	655,850	-	-	(210,000)	-	**445,850**	445,850
N Selby	462,892	-	-	(165,000)	-	**297,892**	297,892
R Stanley	9,287,683	-	-	-	-	**9,287,683**	9,287,683
2020							
M Kennedy	360,000	525,026	-	(230,000)	-	**655,026**	130,000
S Wetherall	610,000	445,850	-	(400,000)	-	**655,850**	210,000
N Selby	465,000	297,892	-	(300,000)	-	**462,892**	165,000
R Stanley	-	9,287,683	-	-	-	**9,287,683**	9,287,683

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

Directors	Held at 1 January or date of appointment	Received upon exercise of options and performance rights	Received as fee for debt restructuring	Sales	Purchases	Held at 31 December or date of resignation
2021						
M Kennedy	2,850,153	-	-	-	266,666	**3,116,819**
S Wetherall	2,825,100	-	-	-	1,600,000	**4,425,100**
N Selby	1,787,350	-	-	-	400,000	**2,187,350**
R Stanley	55,007,014	-	-	-	12,600,000	**67,607,014**
2020						
M Kennedy	2,625,127	-	-	(300,000)	525,026	**2,850,153**
S Wetherall	2,229,250	-	-	-	595,850	**2,825,100**
N Selby	1,489,458	-	-	-	297,892	**1,787,350**
R Stanley	42,092,999	-	4,345,415	-	8,568,600	**55,007,014**

No shares were granted to KMP during the reporting period as compensation in 2021 or 2020.

End of audited section.

13. Indemnification and insurance of officers and Directors

The Company has entered into deeds of indemnity, insurance and access ("Deeds") with each of its Directors. Under these Deeds, the Company indemnifies each Director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties and in successfully defending legal and administrative proceedings and applications for such proceedings. The Company must use its best endeavours to insure a Director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavour to insure a Director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

The Company has, during and since the end of the year, in respect of any person who is an officer of the Company or a related body corporate, paid a premium in respect of Directors and Officer liability insurance which indemnifies Directors, officers and the Company of any claims made against the Directors, officers of the Company and the Company, subject to conditions contained in the insurance policy. The Directors have not included details of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

The Company has not entered into any agreement to indemnify the auditors against any claims by third parties arising from their reports on the financial report for the year ended 31 December 2021 and prior period ended 31 December 2020.

14. Auditor independence and non-audit services

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

As auditor for the audit of Lucapa Diamond Company Limited for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

i. no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd

Rafay Nabeel

Audit Director

16 March 2022

Perth

During the period Elderton Audit Pty Ltd have not performed any other services for the Company in addition to their statutory audit and as a result the Directors are satisfied that auditors have not compromised the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid to the current auditor of the Company, Elderton Audit Pty Ltd are set out below:

	31 Dec 2021 US$	31 Dec 2020 US$
Audit services	37,562	35,194
Other services	-	-
	37,562	**35,194**

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

MILES KENNEDY

Chairman

Dated this 16 March 2022

Corporate information

Lucapa Diamond Company Limited ("Lucapa" or "the Company") is a company domiciled and incorporated in Australia. The address of the Company's registered office is 34 Bagot Road, Subiaco WA 6008. The Company, its subsidiaries and associates (collectively "the Group") are primarily involved in the exploration, evaluation, development and mining on diamond projects in Africa and Australia.

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Group complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

The basis of preparation of the financial report is set out below and in the notes to the consolidated financial statements. The financial statements were 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 an Attributable EBITDA of US$16.6 million (A$22.3 million) (2020: US$0.4 million (A$0.3 million) and a profit after tax of US$2.8 million for the full year ended 31 December 2021, (2020: a loss of US$9.7 million).

Both SML and Mothae reported record trading results and generated cash from operations following mining and processing capacity increases and an overall recovery in the global diamond market during the period.

As at 31 December 2021, the Group's assets exceeded liabilities by US$90.2 million (2020: US$70.3 million).

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

- The duration and full impact of the COVID-19 pandemic and Russia/ Ukraine conflict is still unknown, however the diamond industry has rebounded strongly following the pandemic and with a better balance seeing diamond prices reaching record levels in 2022;
- The Group's assets exceed its liabilities by US$90.2 million (A$116.7 million);
- The Group has historically been successful in raising equity and under ASX Listing Rule 7.1 the Company has the capacity to place securities to raise equity; and
- The Group has been successful in restructuring and raising debt facilities and continues to review a number of financing opportunities.

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2021

	Note	31 Dec 2021 US$000	31 Dec 2020 US$000
Revenue	2	26,791	4,612
Cost of sales	3	(22,278)	(6,518)
Gross profit/ (loss)		**4,513**	**(1,906)**
Share of profit/ (loss) of associate	10	7,554	(268)
Royalties and selling expenses		(1,293)	(302)
Corporate expenses	3	(3,485)	(1,866)
Share-based payments	12	-	(47)
Foreign exchange loss	7	(3,483)	(1,340)
Operating profit/ (loss)		**3,806**	**(5,729)**
Finance cost	4	(3,523)	(3,753)
Finance income	4	20	4
Fair value adjustments	7	2,543	(241)
Profit/ (loss) before income tax		**2,846**	**(9,719)**
Income tax expense	5	(43)	(19)
Profit/ (loss) after income tax		**2,803**	**(9,738)**
Other comprehensive income/ (loss)		911	(343)
Total comprehensive income/ (loss) for the year		**3,714**	**(10,081)**
Profit attributable to:			
Owners of the Company		4,495	(7,348)
Non-controlling interests		(1,692)	(2,390)
		2,803	**(9,738)**
Total comprehensive income attributable to:			
Owners of the Company		4,985	(7,534)
Non-controlling interests		(1,271)	(2,547)
		3,714	**(10,081)**
Earnings/ (loss) per share		**Cents**	**Cents**
Basic earnings /(loss) per share (cents)	6	0.43	(1.21)
Diluted earnings/ (loss) per share (cents)	6	0.43	(1.21)

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

Consolidated statement of financial position
as at 31 December 2021

	Note	31 Dec 2021 US$000	31 Dec 2020 US$000
Assets			
Cash and cash equivalents	7	7,366	4,136
Trade and other receivables	7	2,310	1,737
Contract assets		601	-
Inventories	8	3,058	4,965
Other current financial assets	7	9,772	-
Total current assets		**23,107**	**10,838**
Property plant and equipment	9	70,935	62,037
Non-current financial assets	7	13,012	22,739
Investment in associate	10	12,026	4,472
Total non-current assets		**95,973**	**89,248**
Total assets		**119,080**	**100,086**
Liabilities			
Trade and other payables	7	7,314	4,224
Current borrowings	7	13,344	4,755
Total current liabilities		**20,658**	**8,979**
Non-current provisions	11	1,710	1,105
Non-current borrowings	7	6,520	19,672
Deferred tax liabilities	5	26	43
Total non-current liabilities		**8,256**	**20,820**
Total liabilities		**28,914**	**29,799**
Net assets		**90,166**	**70,287**
Equity			
Share capital	12	145,542	129,716
Reserves		(4,772)	(5,102)
Accumulated losses		(44,837)	(49,831)
Equity attributable to owners of the Company		**95,933**	**74,783**
Non-controlling interests		(5,767)	(4,496)
Total equity		**90,166**	**70,287**

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

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Issued capital US$000	Share based payments reserve US$000	Foreign currency translation reserve US$000	Accumulated losses US$000	Total US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2020	116,888	1,044	(5,747)	(42,708)	69,477	(1,949)	67,528
Comprehensive income for the period							
Loss for the period	-	-	-	(7,350)	(7,350)	(2,390)	(9,740)
Other comprehensive loss	-	-	(186)	-	(186)	(157)	(343)
Total comprehensive loss for the period	**-**	**-**	**(186)**	**(7,350)**	**(7,536)**	**(2,547)**	**(10,083)**
Transactions with owners, in their capacity as owners							
Issue of share capital	13,591	-	-	-	13,591	-	13,591
Issue of options	-	54	-	-	54	-	54
Expiry of options	153	(380)	-	227	-	-	-
Transfer of reserves on exercise of options	57	(57)	-	-	-	-	-
Share issue expenses	(973)	170	-	-	(803)	-	(803)
Total transactions with owners	**12,828**	**(213)**	**-**	**227**	**12,842**	**-**	**12,842**
Balance at 1 January 2021	**129,716**	**831**	**(5,933)**	**(49,831)**	**74,783**	**(4,496)**	**70,287**
Comprehensive income for the period							
Profit/ (loss) for the period	-	-	-	4,496	4,496	(1,692)	2,804
Other comprehensive income	-	-	911	-	911	421	1,332
Total comprehensive loss for the period	**-**	**-**	**911**	**4,496**	**5,407**	**(1,271)**	**4,136**
Transactions with owners, in their capacity as owners							
Issue of share capital	16,726	-	-	-	16,726	-	16,726
Issue of options	-	74	-	-	74	-	74
Expiry of options	-	(596)	-	498	(98)	-	(98)
Transfer of reserves on exercise of options	59	(59)	-	-	-	-	-
Share issue expenses	(959)	-	-	-	(959)	-	(959)
Total transactions with owners	**15,826**	**(581)**	**-**	**498**	**15,743**	**-**	**15,743**
Balance at 31 December 2021	**145,542**	**250**	**(5,022)**	**(44,837)**	**95,933**	**(5,767)**	**90,166**

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

Consolidated statement of cash flows
for the year ended 31 December 2021

	Note	31 Dec 2021 US$000	31 Dec 2020 US$000
Cash flows from operating activities			
Receipts from products and related debtors		26,008	4,678
Cash paid to suppliers and employees		(20,254)	(9,617)
Interest and finance cost		(2,663)	(1,787)
Interest received		20	4
Net cash from/ (used in) operating activities		**3,111**	**(6,722)**
Cash flows from investing activities			
Payments for exploration costs		(2,475)	(218)
Proceeds from associate receivable		1,883	-
Payments for property plant and equipment		(12,624)	(623)
Net cash used in investing activities		**(13,216)**	**(841)**
Cash flows from financing activities			
Proceeds from issue of share capital		16,726	12,821
Share issue costs		(919)	(694)
Repayment of borrowings		(4,358)	(2,280)
Proceeds from borrowings		2,685	-
Net cash generated from financing activities		**14,134**	**9,847**
Net increase in cash and cash equivalents		**4,029**	**2,284**
Cash and cash equivalents at beginning of period		4,136	1,705
Exchange (loss)/ gain on foreign cash balances		(799)	147
Cash and cash equivalents at end of period	7	**7,366**	**4,136**
Reconciliation of profit/ (loss) after tax to cash flows from operations:			
Profit/ (loss) for the period		2,803	(9,738)
Adjustments for:			
Depreciation expense		4,962	2,922
Director and employee options		-	47
Exchange gains		799	(147)
Interest and other finance costs paid		859	2,655
Fair value (gain)/ loss on financial assets		(2,543)	242
Share of (profit)/ loss of associate		(7,554)	268
Other non cash items		(287)	(740)
Working Capital adjustments:			
Movement in inventory		1,934	(2,944)
Movement in trade and other receivables		(1,303)	369
Movement in trade and other payables relating to operating activities		3,441	344
Net cash from/ (used in) operating activities		**3,111**	**(6,722)**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.
Refer Notes 7e and 12 for details on non-cash financing and investing activities.

1. Segment reporting

Financial overview

		Exploration & Evaluation			Mining			Corporate & other	Total
		Angola	Botswana	Australia	Angola	Australia	Lesotho	Australia	
		US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Year ended 31 December 2021	**PROFIT OR LOSS**								
	External revenue	-	-	-	-	-	26,791	-	**26,791**
	Inter-segment	-	-	-	-	-	-	-	**-**
	Total revenue	**-**	**-**	**-**	**-**	**-**	**26,791**	**-**	**26,791**
	Depreciation	-	-	-	169	-	4,716	78	**4,963**
	Share-based payments	-	-	-	-	-	5	(5)	**-**
	Segment operating loss	-	-	-	7,554	-	(390)	(3,358)	**3,806**
	Net finance (costs)/ income	-	-	-	-	-	(5,406)	1,903	**(3,503)**
	Loss before income tax	-	-	-	9,918	-	(5,796)	(1,276)	**2,846**
	OTHER SEGMENT INFORMATION								
	Capital expenditure	4,279	8	36	-	8,727	3,207	14	**16,271**
As at 31 December 2021	**ASSETS AND LIABILITIES**								
	Segment assets	22,797	126	2,127	35,095	9,718	42,370	6,847	**119,080**
	Segment liabilities	-	-	-	-	1,264	12,974	14,676	**28,914**
	Inter-segment loans	-	152	2,126	-	8,391	39,694	(50,363)	**-**
Year ended 31 December 2020	**PROFIT OR LOSS**								
	External revenue	-	-	-	-	-	4,585	27	**4,612**
	Inter-segment	-	-	-	-	-	-	-	**-**
	Total revenue	**-**	**-**	**-**	**-**	**-**	**4,585**	**27**	**4,612**
	Depreciation	-	-	-	156	-	2,668	98	**2,922**
	Share-based payments	-	-	-	-	-	30	17	**47**
	Segment operating profit/ (loss)	-	-	-	(268)	-	(2,563)	(2,898)	**(5,729)**
	Net finance (costs)/ income	-	-	-	-	-	(5,306)	1,557	**(3,749)**
	Profit/ (loss) before income tax	-	-	-	(617)	-	(7,869)	(1,233)	**(9,719)**
	OTHER SEGMENT INFORMATION								
	Capital expenditure	1,451	12	98	-	-	3,726	2	**5,289**
As at 31 December 2020	**ASSETS AND LIABILITIES**								
	Segment assets	18,518	198	2,184	28,394	-	46,692	4,100	**100,086**
	Segment liabilities	-	-	-	-	-	13,386	16,413	**29,799**
	Inter-segment loans	-	144	2,026	-	-	38,466	(40,636)	**-**

1. Segment reporting (continued)

Additional information

The Group engages in business activities within the following business segments:

- exploration & evaluation projects in Angola, Botswana and Australia;
- mining in Angola and Lesotho and mine development in Australia; and
- corporate and other administrative functions in Western Australia to support and promote its activities.

The Group's operating segments are managed by geographical region as the risks and required rates of returns are largely affected by differences in the regions in which they operate.

Accounting policy

Segment disclosures are based on information that is provided to the Board of Directors, which is the Group's chief decision-making body.

An operating segment is a component of the Group that engages in business activities from which it may expend capital and generate revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

All operating segments' operating results, for which discrete financial information is available, are reviewed by the Group's Managing Director and management to assess their performance and make decisions with respect to the allocation of resources to that segment.

2. Revenue

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Revenue from contracts with customers		
Sale of goods	26,791	4,612
	26,791	**4,612**

Additional information

The Group's revenue arises from the sale of rough diamonds and from cutting and polishing of diamonds.

Accounting policy

To determine whether to recognise revenue, the following 5-step process is followed:

- Identifying the contract with a customer;
- Identifying the performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue when/ as performance obligation(s) are satisfied.

The transaction price is the amount to which the Group expects to be entitled to in exchange for the transfer of goods and services and is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Re Revenue from the sale of rough diamonds is recognised on a point in time basis.

Re Revenue from cutting and polishing partnerships:

- is considered to be variable consideration and is recognised to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been resolved. This is generally the case when cutting and polishing work has substantially been completed and relative certainty exists over the quality of the final product or when the polished diamonds have been sold;
- is recognised once a high level of certainty exists regarding factors that influence the sale prices including the size, quality and colour of the final polished diamonds. These factors are considered per individual stone.

If the Group satisfies a performance obligation before it receives the consideration, either a contract asset or a receivable is recognised in the statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

3. Expenses

Financial overview

	Note	31 Dec 2021 US$000	31 Dec 2020 US$000
Breakdown of expenses by nature			
Raw materials, consumables and other input costs		10,888	3,919
Changes in inventories of finished goods and work in progress		2,029	(2,911)
Employee benefits expenses (excluding share based payments)		6,754	4,089
Depreciation and amortisation		4,962	2,922
Auditors remuneration		47	45
Mining and short term leases		134	141
Consulting fees and other administrative expenses		949	179
Total cost of sales and coprorate expenses		**25,763**	**8,384**
Employee benefits expenses			
Wages, salaries and director remuneration		6,367	4,061
Superannuation costs		97	87
Share-based payments	12	-	46
Other associated employee expenses		290	(59)
		6,754	**4,135**
Auditors remuneration			
Elderton Pty Ltd (Auditors of parent company & consolidation)			
Audit services		38	35
Other services		-	-
		38	**35**
Other group auditors (for subsidiary companies)			
Audit services		9	10
Other services		-	-
		9	**10**
		47	**45**

Accounting policy

Expenses recognised in profit or loss are classified and presented on a functional basis.

Employee benefits

Short-term employee benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs: that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Share based payments

Refer note 12.

4. Finance cost and income

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Finance cost		
Finance cost on borrowings	3,218	3,381
Interest expense on lease labilities	208	303
Unwinding of discount rate on rehabilitation liability	97	69
	3,523	**3,753**
Finance income		
Interest income on bank deposits	20	4
	20	**4**
Net finance cost on financial instruments	**3,503**	3,749

Accounting policy

Finance income and expenses comprises interest income on funds invested, interest expense on borrowings calculated using the effective interest method and unwinding of discounts on provisions.

Interest income is recognised in the statement of profit or loss and other comprehensive income as it accrues, using the effective interest method. All borrowing costs are recognised in the statement of profit or loss and other comprehensive income using the effective interest method.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Exchange differences arising from foreign currency borrowings used to acquire qualifying assets are regarded as an adjustment to the interest cost and included in the capitalised amount. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

5. Income tax

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Current tax expense		
Current income tax charge	60	19
Current income tax adjustments relating to prior years	-	-
Deferred tax expense		
Relating to origination and reversal of temporary differences	(17)	-
Total income tax expense	**43**	**19**
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate		
Net loss before tax	2,846	(9,719)
Income tax benefit using the Australian domestic tax rate of 30%	854	(2,916)
Increase in income tax due to tax effect of:		
Non-deductible expenses	1,253	460
Tax rate differential on foreign income	290	390
Current year tax losses not recognised	-	2,610
Foreign taxes paid	60	19
Share of loss of associate	-	80
Derecognition of previously recognised tax losses	1,446	-
Decrease in income tax expense due to:		
Non-assessable income	(1,105)	(35)
Share of profit of associate	(2,266)	-
Impact of movement in unrecognised temporary differences	(215)	(258)
Utilisation of previously unrecognised tax losses	(236)	(303)
Deductible equity raising costs	(38)	(28)
Income tax expense	**43**	**19**
Recognised deferred tax assets and liabilities		
Recognised deferred tax assets		
Tax losses	7,929	9,501
Accruals & provisions	478	408
	8,407	**9,909**
Less: Set off of deferred tax liabilities	(8,407)	(9,909)
Net deferred tax assets	**-**	**-**
Recognised deferred tax liabilities		
Property plant and equipment	(8,280)	(8,809)
Capitalised interest and foreign exchange adjustments	-	-
Other	(153)	(1,143)
	(8,433)	**(9,952)**
Less: Set off of deferred tax assets	8,407	9,909
Net deferred tax liabilities	**(26)**	**(43)**
Deferred tax assets not recognised		
Tax revenue losses	12,439	11,982
Tax capital losses	4,806	5,098
Deductible temporary differences	451	644
	17,696	**17,724**

5. Income tax (continued)

Additional information

The estimated tax losses above may be available to be offset against taxable income in future years. The availability of these losses is subject to satisfying taxation legislative requirements. The deferred tax asset attributable to tax losses has not been brought to account in these financial statements because the Directors believe it is not presently appropriate to regard realisation of the future income tax benefits as probable.

Accounting policy

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit/ (loss) for the period. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date for each jurisdiction.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit/ (loss) and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit/ (loss) nor the accounting profit/ (loss).

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

6. Earnings/ (loss) per share

Financial overview

	31 Dec 2021	31 Dec 2020
	Cents	Cents
Basic earnings/ (loss) per share (cents per share)	0.43	(1.21)
Diluted earnings/ (loss) per share (cents per share)	0.43	(1.21)
	US$000	US$000
Earnings used in calculating earnings per share		
Profit/ (loss) attributable to members of the Company used in calculating basic earnings per share	4,495	(7,348)
Profit/ (loss) attributable to members of the Company used in calculating diluted earnings per share	4,495	(7,348)
	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	1,056,753,147	608,401,126
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted earnings per share	1,057,017,483	609,176,342

Accounting policy

Basic earnings/ (loss) per share is calculated by dividing the net profit/ (loss) attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares of the Company during the period. Diluted earnings/ (loss) per share is determined by adjusting the net profit/ (loss) attributable to the ordinary shareholders and the number of shares outstanding for the effects of all dilutive potential shares, which comprise share options.

7. Financial instruments and financial risk management

Financial overview

	Note	31 Dec 2021 US$000	31 Dec 2020 US$000
Summary of carrying value of financial instruments			
Financial assets			
Cash and cash equivalents	7a	7,366	4,136
Trade and other receivables	7b	2,310	1,737
Other current financial assets	7c	9,772	-
Non-current financial assets	7c	13,012	22,739
		32,460	**28,612**
Financial liabilities			
Trade and other payables	7d	7,314	4,224
Current borrowings	7e	13,344	4,755
Non-current borrowings	7e	6,520	19,672
		27,178	**28,651**
Summary of amounts recognised in profit or loss			
Fair value adjustments			
In respect of the associate receivable		2,364	(349)
On borrowing embedded derivatives		179	108
		2,543	**(241)**
Foreign exchange gain			
On revaluation of intergroup loans		(3,397)	(574)
On other financial instruments		(86)	(766)
		(3,483)	**(1,340)**
Net finance cost on financial instruments	4	3,503	3,749

Additional information

Financial risk management

The Group has exposure to market, credit and liquidity risks from the use of financial instruments. This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

7. Financial instruments and financial risk management (continued)

Market risk

- **Commodity price risk**
  The Group is focussed on its diamond mining and exploration interests in Africa and Australia. Accordingly, the Group is exposed to the global pricing structures of the diamond market.

- **Foreign exchange risk**
  The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Australian dollar, South African rand and Angolan kwanza. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations that are not in the individual business unit's functional currency. The Group manages its foreign exchange risk by monitoring its net exposures, maintaining an appropriate balance between foreign currency assets and liabilities and making use of hedging instruments. The Group does not speculate with the use of hedging instruments and derivatives. The extent of the Group's exposure to foreign currency risk at balance date is disclosed below for each category of financial instrument.

- **Cash flow interest rate risk**
  Cash flow interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group does not currently use derivatives to mitigate these exposures. The extent of the Group's exposure to interest rate risk at balance date is disclosed below for each category of financial instrument.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's potential concentration of credit risk mainly relates to amounts advanced to SML (Note 7c). The Group's short-term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to the financial assets is represented by their carrying values as at the balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate cash reserves, or from funds raised in the market, or by debt and by continuously monitoring forecast and actual cash flows. The liquidity profile of the Group's financial liabilities are disclosed in the relevant notes below.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, raise debt finance or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity and debt finance to fund exploration, mine development, evaluation activities and corporate overhead.

Fair value hierarchy

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below.

The financial assets and liabilities are classified as follows in terms of the fair value hierarchy:

- the SML receivable (Note 7c): level 3 due to the use of unobservable inputs;
- the Equigold embedded derivative: level 1 due to the use of market based and observable inputs; and
- other financial assets and liabilities approximate their net fair value, determined in accordance with the accounting policies.

7. Financial instruments and financial risk management (continued)

Accounting policy

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets of the Group are classified into either the amortised cost or fair value through profit or loss ("FVPL") categories. Classifications are determined by both the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held with the objective to hold the assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category.

Subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Leases

Contracts are assessed at inception to determine whether a contract is, or contains, a lease. It is classified as such if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A single recognition and measurement approach is applied for all leases, except for short-term leases, leases of low-value assets and leases to explore for or mine minerals and similar non-regenerative resources. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets are included under Property Plant and Equipment (refer note 9).

Lease liabilities are recognised at the commencement date of the lease and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

The Group uses its incremental borrowing rate at the lease commencement date to calculate the present value of lease payments, if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

7. Financial instruments and financial risk management (continued)

Lease liabilities are included in interest-bearing loans and borrowings.

Lease payments for short-term leases, leases of low-value assets and leases to explore for or mine minerals as well as variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Determination of fair values

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Significant accounting judgements, estimates and assumptions

Financial assets

The Group's financial assets include the receivable in respect of associate, SML, that represents the future reimbursement in US dollars of the Group's historic alluvial exploration and development costs incurred at Lulo. The recoverable amount of the receivable is reassessed using calculations which incorporate various key assumptions as per above.

7a. Cash and cash equivalents

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Balances on hand		
Bank balances	7,366	4,136
	7,366	**4,136**
Foreign exchange risk		
Cash balances exposed to foreign currency risk, based on notional amounts	4,416	1,838
Interest rate risk		
Cash balances held at variable interest rates	7,366	4,136
Average rate for 2021: 0.4% (2020: 0.2%)		

Additional information

Foreign exchange sensitivity analysis

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 100 basis points in foreign exchange rates at the reporting date would have an estimated impact of US$0.4 million (2020: US$0.2 million) before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to the statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

7b. Trade and other receivables

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Current		
GST/ VAT receivable	1,344	1,014
Prepayments and other receivables	966	723
	2,310	**1,737**
Foreign exchange risk		
Receivable balances exposed to foreign currency risk, based on notional amounts	982	459
Interest rate risk		
Non-interest bearing balances	2,310	1,737

Additional information

Foreign exchange sensitivity analysis
A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 100 basis points in foreign exchange rates at the reporting date would have an estimated impact of US$0.1 million (2020: US$0.05 million) before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to the statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

7c. Financial assets

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Non current financial assets		
Receivable in respect of SML		
At 1 January	29,415	30,260
Investment during the period	273	63
Repayment received	(1,883)	-
Transferred to Deferred exploration and evaluation costs (note 9)	(1,439)	(908)
	26,366	**29,415**
Fair value adjustment due to discounting	(4,312)	(6,676)
At end of period	**22,054**	**22,739**
Less: Current portion of receivable	(9,772)	-
Non current receivable	**12,282**	**22,739**
Security deposit for environmental rehabilitation in repect of Merlin	730	-
Total non current financial assets	**13,012**	**22,739**
Current financial assets		
Receivable in respect of SML		
Current portion of receivable	9,772	-
Interest rate risk		
Non-interest bearing balances	22,784	22,739

Additional 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, prices and delays in the timing of repayments which will decrease the fair value estimate. A discount rate of 12.27% (2020: 12.85%) has been applied in the fair value calculation.

7d. Trade and other payables

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Trade payables	2,695	1,471
Mothae deferred purchase consideration	-	1,125
Short-term advance	2,685	-
Accruals and other payables	1,934	1,628
Total	**7,314**	**4,224**
Foreign exchange risk		
Payable balances exposed to foreign currency risk, based on notional amounts	1,164	525
Interest rate risk		
Non-interest bearing balances	7,314	4,224
Liquidity risk		
Contractual maturities profile		
Payable within one year	7,314	4,224

Additional information

The short-term advance relates to monies advanced to Mothae in terms of the minimum cash price of US$630/carat contained in the partnership agreement with Safdico International Limited. The advance is non-interest bearing and repayable from future sales, polished partnership profits or in cash by 31 December 2022.

Foreign exchange sensitivity analysis

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 100 basis points in foreign exchange rates at the reporting date would have an estimated impact of US$0.4 million (2020: US$0.05 million) before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to the statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

7e. Borrowings

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Current borrowings		
Lease liabilities	1,313	1,234
Other short-term loans	12,031	3,521
Current loans - Embedded derivatives	-	-
Total	**13,344**	**4,755**
Non-current borrowings		
Lease liabilities	109	1,304
Other non-current loans	5,548	17,325
Other non-current loans - Embedded derivatives	863	1,043
Total	**6,520**	**19,672**
Foreign exchange risk		
Borrowings exposed to foreign currency risk, based on notional amounts	7,999	8,187
Interest rate risk		
Balances at variable interest rates	6,196	7,347
Average rate for 2021: 12.3% (2020: 14.3%)		
Refer interest rate sensitivity analysis below		
Balances at fixed interest rates	12,805	17,079
Average rate for 2021: 9.8% (2020: 11.0%)		
Liquidity risk		
Contractual maturities profile, including estimated interest payments and excluding the impact of netting agreements		
Borrowings		
Payable within one year	14,029	6,573
Payable after one year but less than five years	5,660	15,389
Payable after more than five years	-	-
Leases		
Payable within one year	1,450	1,446
Payable after one year but less than five years	123	1,384
Payable after more than five years	-	-
Other disclosures in respect of leases		
Cash outflow	1,688	414
Low value lease expense	29	22
Expense relating to variable lease payments not included in the measurement of lease liabilities	2,064	409
Non-cash financing recognised	222	3,115

7e. Borrowings (continued)

Additional information

Terms and conditions

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 ZAR1.8 million (US$0.11 million) until December 2022 and ZAR107k (US$6.7k) per month thereafter until May 2024. During the suspension of operations at Mothae in 2020 and early 2021, payments were 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. The terms of the loans include the following:

Equigold

- Loan facility and interest of US$4.9 million (2020: US$5.9 million) fully utilised;
- The principal balance is repayable in four quarterly payments of US$1.2 million commencing October 2022.
- Market related fees were payable on draw down and with interest payments;
- Equigold, at its election, can convert the last two quarterly payments into ordinary shares in the Company at the then market price;
- Interest is payable at 9.75% pa;
- 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 ZAR67 million (US$4.2 million) (2021: ZAR100 million (US$6.9 million)), fully utilised at the end of the period;
- The capital balance is repayable in six quarterly payments from January 2022;
- Interest is payable quarterly based on the Johannesburg Interbank Average Rate (JIBAR) plus 8.6%;
- 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.

New Azilian

- New Azilian is an entity associated with non-executive director Ross Stanley;
- Loan facility and interest of A$11.0 million (US$7.9 million) (2020: A$10.4 million (US$8.0 million)), fully utilised at the end of the period;
- The principal balance is repayable in February 2022;
- Interest is payable at 9.75% pa;
- 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.

7e. Borrowings (continued)

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$0.07 (2020: A$0.057);
- Exercise price: A$0.085 (2020: A$0.054);
- Estimated volatility: 70% (2020: 67%);
- Expiry date: 1 April 2023/1 July 2023;
- Risk-free interest rate: 1.85% (2020: 1.01%);
- USD/ AUD exchange rate: 0.727:1 (2020: 0.771:1).

Cash flow sensitivity analysis for variable rate instruments

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant through the impact on floating rate interest rates.

A change of 100 basis points in interest rates at the reporting date would have an estimated impact of US$0.5 million (2020: US$0.4 million) before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to the statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

Foreign exchange sensitivity analysis

A sensitivity analysis has been prepared to demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

A change of 100 basis points in foreign exchange rates at the reporting date would have an estimated impact of US$0.8 million (2020: US$0.8 million) before tax on the statement of profit of loss and other comprehensive income. There would be no effect on the equity reserves other than those directly related to the statement of profit of loss and other comprehensive income. The analysis is performed on the same basis as for the prior period.

8. Inventories

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Diamond inventory	1,956	4,129
Consumables and other inventory	1,102	836
	3,058	**4,965**

Additional information

During the year, US$4.3 million (2020: US$1.7 million) was recognised as an expense under cost of sales for inventories carried at net realisable value.

Accounting policy

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

9. Property plant and equipment

Financial 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 2020	21,635	19,301	20,194	183	153	389	1,633	63,488
Additions	1,561	66	712	-	10	2,889	51	5,289
Disposals	-	-	-	-	-	-	(3)	(3)
Foreign currency movements	69	(303)	(806)	(9)	(5)	380	(63)	(737)
Balance at 31 December 2020	**23,265**	**19,064**	**20,100**	**174**	**158**	**3,658**	**1,618**	**68,037**
Additions	4,323	9,705	834	-	604	313	492	16,271
Foreign currency movements	(324)	(577)	(1,647)	(14)	(13)	(287)	(148)	(3,010)
Balance at 31 December 2021	**27,264**	**28,192**	**19,287**	**160**	**749**	**3,684**	**1,962**	**81,298**
Accumulated depreciation								
Balance at 1 January 2020	-	1,168	1,245	74	10	86	335	2,918
Amortisation/ depreciation charge for the year	-	941	564	93	10	1,046	268	2,922
Foreign currency movements	-	23	3	7	-	110	17	160
Balance at 31 December 2020	**-**	**2,132**	**1,812**	**174**	**20**	**1,242**	**620**	**6,000**
Amortisation/ depreciation charge for the year	-	823	2,540	-	21	1,230	354	4,968
Foreign currency movements	-	(107)	(230)	(14)	(3)	(178)	(73)	(605)
Balance at 31 December 2021	**-**	**2,848**	**4,122**	**160**	**38**	**2,294**	**901**	**10,363**
Net carrying amounts								
At 31 December 2020	23,265	16,932	18,288	-	138	2,416	998	62,037
At 31 December 2021	**27,264**	**25,344**	**15,165**	**-**	**711**	**1,390**	**1,061**	**70,935**

9. Property plant and equipment (continued)

Additional 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 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$22.7 million (31 December 2020: US$18.5 million) in the schedule above are related to the JV.

Other assets

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

Impairment testing

The following key assumption averages were used in the impairment testing for Mothae:

- Ore volume treated: 1.6 Mtpa (2020: 1.6 Mtpa);
- US$/ carat sold: 847 (2020: 741);
- Discount rate: 10% (2020: 10%);
- ZAR/ US$ exchange rate: 15.5 (2020: 15.0).

These are considered to be level three fair value measurements in both years as they are derived from valuation techniques that include inputs that are not based on observable market data.

Accounting policy

Recognition and measurement

Items of property plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

Gains and losses on disposal of an item of property plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property plant and equipment and are recognised net within "other income" in the statement of profit or loss and other comprehensive income.

Subsequent costs

The cost of replacing part of an item of property plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense incurred.

Depreciation

Depreciation is recognised in the statement of profit or loss and other comprehensive income on a reducing balance basis over the estimated useful lives of each part of an item of property plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

- Computer equipment: 3-5 years
- Office equipment: 5-10 years
- Mine development: Lesser of life of mine or period of lease
- Mine infrastructure and plant facilities: Based on resources on a unit of production basis

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Mine development

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings, plant and equipment is capitalised as Mine development. Development includes previously capitalised exploration and evaluation costs, pre-production development costs, certain mining assets, development studies and other subsurface expenditure pertaining to that area of interest. On completion, development cost is deprecated as per above. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount is written off to profit and loss.

9. Property plant and equipment (continued)

Deferred exploration and evaluation
Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the right to tenure of each identifiable area of interest are current, and either the costs are expected to be recouped through successful development of the area, or activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Exploration assets that are not available for use are not amortised.

Exploration and evaluation assets are initially measured at cost and include acquisition of mining tenements, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation of assets used in exploration activities. General and administrative costs are only included in the measurement of exploration costs where they are related directly to operational activities in a particular area of interest.
Deferred exploration and evaluation costs in relation to an abandoned area are written off in full against profit or loss in the period in which the decision to abandon that area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Stripping activity assets
Costs associated with removal of waste overburden are classified as stripping costs. Stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future.

Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset' and included as a separate category of Property plant and equipment, if:

- future economic benefits (being improved access to the orebody) are probable;
- the component of the orebody for which access will be improved can be accurately identified; and
- the costs associated with the improved access can be reliably measured.

If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset.

The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. The expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

Right-of-use assets
Right-of-use assets are recognised at the commencement date of a lease (i.e., the date the underlying asset is available for use) and are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Joint operations
A joint arrangement in which the Group has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation.

Interests in joint operations are accounted for by recognising the Group's assets (including its share of any assets held jointly); its liabilities (including its share of any liabilities incurred jointly); its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses (including its share of any expenses incurred jointly).

9. Property plant and equipment (continued)

Significant accounting judgements, estimates and assumptions

Asset useful lives and residual values

Property, plant and equipment are depreciated over its useful life taking into account residual values where appropriate. The actual useful lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset useful lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Valuation of mineral properties

The Group carries the acquisition of its mineral properties at cost less any provision for impairment. The Group undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Group is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Exploration and evaluation assets

The Group assesses the carrying value of exploration and evaluation assets in accordance with the accounting policy noted above. The basis of determining the carrying value involves numerous estimates and judgements resulting from the assessment of ongoing exploration activities, as per the accounting policy note.

Development

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions, with inherent uncertainty, as to the future events.

Mineral resource, ore reserves and production target* estimates

Ore reserves and production target estimates are estimates of the amount of ore that can be economically and legally extracted from the mineral resources of the Group's mining properties. An ore reserve is the economically mineable part of a measured and/ or indicated resource. A production target may include lower confidence inferred resources under certain circumstances and if there are reasonable grounds to do so. Such production target estimates and changes to them may impact the company's reported financial position and results, in the following way:

- The carrying value of exploration and evaluation assets, mine properties, property plant and equipment, and goodwill may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the unit of production method, or where the useful life of the related assets change;
- Capitalised stripping costs recognised in the statement of financial position, as either part of mine properties or inventory or charged to profit or loss, may change due to changes in stripping ratios;
- Provisions for rehabilitation and environmental provisions may change where reserve estimate changes affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

The Group estimates its *mineral resource, ore reserves and production targets* based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of ore reserves and production targets are based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The Group estimates and reports ore reserves and mineral resources in line with the principles contained in the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012) published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and Minerals Council of Australia ("JORC Code").

*The term "production target" is defined to mean a projection or forecast of the amount of mineral to be extracted from a particular mining tenement or tenements for a period that extends past the current year and the forthcoming year.

10. Investment in associate

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Summarised financial information of SML		
Current assets	37,140	16,340
Non-current assets	30,333	22,598
Current liabilities	20,984	10,648
Non-current liabilities	22,054	22,739
Equity	**24,435**	**5,551**
Group's carrying amount of the investment	12,026	4,472
Revenue	80,602	28,449
Cost of sales	(34,164)	(21,736)
Administrative and selling expenses	(16,804)	(8,366)
Fair value adjustments	(2,364)	349
Profit/ (loss) before tax	**27,270**	**(1,304)**
Income tax expense	(8,386)	633
Profit/ (loss) profit for the period	**18,884**	**(671)**
Total comprehensive income/ (loss) for the period	**18,884**	**(671)**
Group's share of profit/ (loss) for the period	**7,554**	**(268)**
EBITDA	37,187	6,194
Contingent liabilities	-	-
Capital commitments		
Payable within one year		
- Approved, not yet contracted	8,127	10,592
- Approved and contracted	1,270	-

Additional information

The Group has a 40% ownership 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 7c.

Accounting policy

Associates are those entities over which the Group is able to exert significant influence, but which are not subsidiaries. A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities.

Investments in associates and joint ventures are accounted for using the equity method.

Any goodwill or fair value adjustment attributable to the Group's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

11. Non-current provisions

Financial overview

	31 Dec 2021 US$000	31 Dec 2020 US$000
Provision for environmental rehabilitation		
At 1 January	1,105	1,064
Increase during the year	610	10
Unwinding of discount rate	97	69
Foreign exchange difference	(102)	(38)
At end of period	**1,710**	**1,105**

Additional information

The provision for rehabilitation has been recognised in respect of Mothae and Merlin.

Mothae

The estimate is based on an independent expert's report of the expected rehabilitation cost over the life of the mine and discounted back to present value using a pre-tax discount rate that reflects current market assessments. Assumptions include an estimated rehabilitation timing of between 11 and 14 years, an annual inflation rate of 5.0% (2020: 5.6%) and a discount rate of 8.8% (2020: 8.9%).

Merlin

The estimate is based on the Mining Management Plan for Merlin as approved by the government of the Northern Territory of Australia and discounted back to present value using a pre-tax discount rate that reflects current market assessments. Assumptions include an estimated rehabilitation timing of 17 years, an annual inflation rate of 2.3% and a discount rate of 4.3%.

Accounting policy

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Asset retirement obligations

The Group recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a credit adjusted risk free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the credit adjusted risk free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortised or depleted to operations over the life of the related asset.

Environmental liabilities

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/ or remedial efforts are probable, and the costs can be reasonably estimated.

Significant accounting judgements, estimates and assumptions

Included in liabilities at the end of each reporting period is an amount that represents an estimate of the cost to rehabilitate the land upon which the Group has carried out its exploration and evaluation for mineral resources. Provisions are measured at the present value of management's best estimate of the costs required to settle the obligation at the end of the reporting period. Actual costs incurred in future periods to settle these obligations could differ materially from these estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates, and discount rates could affect the carrying amount of this provision.

12. Share capital and share-based payments

Financial overview

	31 Dec 2021 Number	31 Dec 2021 US$000
LISTED SECURITIES		
Movement in ordinary shares (ASX code: LOM)		
On issue at beginning of period	833,175,575	129,716
Issue of shares	433,080,000	16,726
Issue of shares on exercise of options and performance rights	6,575,903	59
Transaction costs	-	(959)
On issue at end of period	**1,272,831,478**	**145,542**
Movement in listed options (ASX code: LOMOC)		
On issue at beginning of period	113,971,605	-
Issue of options	-	-
Exercise of options	-	-
Expiry of options	-	-
On issue at end of period	**113,971,605**	**-**
UNLISTED SECURITIES		
Movement in unlisted options (A$0.08 exercise price; expire 18 December 2022)		
On issue at beginning of period	54,824,075	-
Issue of options	-	-
Exercise of options	(6,143,600)	-
Expiry of options	-	-
On issue at end of period	**48,680,475**	**-**
Movement in unlisted options (A$0.08 exercise price; expire 30 July 2025)		
On issue at beginning of period	-	-
Issue of options	5,000,000	-
Exercise of options	-	-
Expiry of options	-	-
On issue at end of period	**5,000,000**	**-**

Additional 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.

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

Share-based payments

	31 Dec 2021	31 Dec 2020
Weighted average remaining contractual life of share options and performance rights in issue (years)	1.29	1.63
Weighted average Lucapa share price during the period/ year (A$)	0.063	0.063
	US$000	**US$000**
Share-based payments recognised		
Profit or Loss		
Director and employee options	-	47
Non-cash financing and investing activities		
Share issue expenses	74	125
Loan funding	-	670
	74	**842**

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

Share options and Performance rights in issue

	Share options				Performance rights	
	Unlisted	**ASX listed (LOMOC)**	**Unlisted**	**Unlisted**	**Unlisted**	**Weighted average price (A$)**
Exercise price (A$)	**$0.44**	**$0.10**	**$0.08**	**$0.08**	**$0.00**	
Expiry date	**07-Jun-21**	**05-Jun-22**	**18-Dec-22**	**30-Jun-25**	**01-Apr-22**	
Number on issue at beginning of period	1,301,000	8,869,083	10,754,545	-	490,263	0.11
Issue of options/ performance rights	-	-	-	5,000,000	-	0.08
Exercise of options/ performance rights	-	-	-	-	(432,303)	-
Expiry/ lapsing of options/ performance rights	(1,301,000)	-	-	-	(57,960)	0.42
On issue at end of period	**-**	**8,869,083**	**10,754,545**	**5,000,000**	**-**	0.09
Exercisable at end of period	-	8,869,083	10,754,545	5,000,000	-	

Assumptions used in estimating fair value of grants in current period:	
Grant date	21-Jul-21
LOM share price at grant date (A$)	0.050
Estimated volatility	68%
Risk-free interest rate	1.34%
Fair value per option/ right (A$)	0.020

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

Accounting policy

Share capital

Equity instruments, including preference shares, issued by the Company are recorded at the proceeds received. Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from equity, net of any tax effects.

Share based payments

The fair value of options and rights granted is measured using the Black-Scholes or binomial option pricing models, taking into account the terms and conditions upon which the instruments were granted. The fair value is recognised in employee benefits expense together with a corresponding increase in equity (share-based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/ or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/ or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/ or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The amounts carried under share-based payment reserves are allocated to share capital when underlying shares are issued upon the conversion of options or rights, and to accumulated income/ losses upon the expiry of option or rights.

Determination of fair values

The fair value of options issued is measured using the Black-Scholes or binomial option pricing models. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Significant accounting judgements, estimates and assumptions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Where required, the fair value of options granted is measured using valuation models, taking into account the terms and conditions as set out above. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period, but may impact expenses and reserves.

13. Commitments and contingencies

	31 Dec 2021 US$000	31 Dec 2020 US$000
Operating lease commitments iro mining and exploration rights		
Minimum lease payments under non-cancellable operating lease agreements		
Payable within one year	126	153
Payable after one year but less than five years	376	641
Payable after more than five years	180	230
	682	**1,024**
Capital commitments		
Payable within one year		
Approved, not yet contracted	1,315	2,234
Approved and contracted	-	932

Contingencies

The Group did not have any contingent liabilities as at 31 December 2021 (2020: Nil).

14. Parent entity information

	31 Dec 2021 US$000	31 Dec 2020 US$000
Current assets	6,663	3,674
Total assets	126,506	103,690
Current liabilities	10,437	2,285
Total liabilities	14,861	16,371
Share capital	145,542	129,716
Reserves	(5,409)	(4,824)
Accumulated losses	(28,488)	(37,573)
	111,645	**87,319**
Profit/ (loss) for the period	8,587	(1,944)
Total comprehensive income/ (loss) for the period	8,587	(1,944)

15. Related party disclosures

Financial overview

	31 Dec 2021 US$	31 Dec 2020 US$
Key management personnel compensation		
Short-term employee benefits	1,327,358	597,393
Post-employment benefits	69,503	31,222
Share-based payments	-	2,763
	1,396,861	**631,378**
Other related party transactions		
The following payments, relating to office rent and associated costs were made to entities associated with non-executive director Miles Kennedy:		
Kennedy Holdings (WA) Pty Ltd	117,338	115,559
Loan facility agreement with an entity associated with non-executive director Ross Stanley:		
Amount due to New Azilian Pty Ltd (refer Note 7)	7,999,176	8,036,262
Finance cost for period	1,023,819	774,961

Additional information

Individual Directors' and executives' compensation disclosures

Information regarding individual Directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' report. Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no other material contracts involving Director's interests at period-end.

Key management personnel and director transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

16. Group information

	31 Dec 2021 %	31 Dec 2020 %
The consolidated financial statements of the Group include the following subsidiaries:		
Lucapa Diamonds (Botswana) (Proprietary) Limited		
Incorporated in Botswana		
Equity interest held	100	100
Australian Natural Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	-
Brooking Diamonds Pty Ltd		
Incorporated in Australia		
Equity interest held	100	100
Mothae Diamonds (Pty) Ltd		
Incorporated in the Kingdom of Lesotho		
Equity interest held	70	70
Lucapa (Mauritius) Holdings Limited		
Incorporated in Mauritius		
Equity interest held	100	100

Summarised financial information of subsidiaries with non-controlling interests

Mothae Diamonds (Pty) Ltd

	31 Dec 2021 US$000	31 Dec 2020 US$000
Assets and liabilities at the end of the period		
Current assets	6,536	7,008
Non-current assets	26,909	29,853
Current liabilities	11,791	12,281
Non-current liabilities	40,877	39,571
Profit or loss and cash flow items for the period		
Revenue	26,791	4,585
Loss for the period	(5,643)	(7,967)
Total comprehensive loss for the period	(4,372)	(5,420)
Cash flows from/ (used in) operating activities	6,284	(4,369)
Cash flows used in investing activities	(3,102)	(622)
Dividends paid to non-controlling intrests	-	-

17. Other significant accounting policies

The financial statements have been prepared using consistent accounting policies to those used for the prior year, except as set out below.

New or revised accounting policies

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2021:

- AASB 2020-8 Amendments to AASs – Interest Rate Benchmark Reform – Phase 2;
- AASB 2020-5 Amendments to AASs Insurance Contracts; and
- AASB 2020-4 Amendments to AASs COVID-19-Related Rent Concessions;

The adoption of these standards has not resulted in any material changes to the Group's financial statements.

The following new/ amended standards have been issued, but are not yet effective:

- AASB 2020-3 Amendment to AASB 9 – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Part of Annual Improvements 2018–2020 Cycle);
- AASB 2014-10 Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- AASB 2021-5 Amendments to AASs Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- AASB 17 Insurance Contracts;
- AASB 2021-3 Amendments to AASs COVID-19-Related Rent Concessions beyond 30 June 2021;
- AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities;
- AASB 2020-2 Amendments to AASs Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities;
- AASB 2021-1 Amendments to AASs Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities;
- AASB 2020-3 Amendments to AASB 3 Reference to the Conceptual Framework;
- AASB 2020-1 Amendments to AASs Classification of Liabilities as Current or Non-current;
- AASB 2021-2 Amendments to AASB 7, AASB 101, AASB 134 Interim Financial Reporting and AASB Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies;
- AASB 2020-3 Amendments to AASB 116 Property, Plant and Equipment: Proceeds before Intended Use;
- AASB 2020-3 Amendment to AASB 141 Taxation in Fair Value Measurements (Part of Annual Improvements 2018–2020 Cycle);
- AASB 2020-3 Amendment to AASB 1 Subsidiary as a First-time Adopter (Part of Annual Improvements 2018–2020 Cycle);
- AASB 2020-3 Amendments to AASB 137 Onerous Contracts – Cost of Fulfilling a Contract; and
- AASB 2021-2 Amendments to AASB 108 Definition of Accounting Estimates.

The requirements of these standards are currently being reviewed, but it is not currently expected to have a material impact on the Group's financial statements.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed where relevant in the individual notes above.

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Principles of consolidation

The Group financial statements consolidate those of the Company and all its subsidiaries as at the end of the period. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

17. Other significant accounting policies (continued)

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Functional and presentation currency
An entity's functional currency is the currency of the primary economic environment in which it operates. All items included in the financial statements of entities in the Group are measured and recognised in the functional currency of the entity. The Group's presentation currency is US dollars, which is also the functional currency of the Company.

Foreign currency transactions and balances
Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on retranslation are recognised in the statement of profit or loss and other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to US dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

When a foreign operation is disposed of in part or in full, the relevant amount in equity is transferred to the statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognised directly in equity.

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is a risk of default. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of profit or loss and other comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of profit or loss and other comprehensive income.

Non-financial assets
The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

17. Other significant accounting policies (continued)

Significant accounting judgements, estimates and assumptions

The Group assesses impairment at the end of each reporting year by evaluating specific conditions that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using calculations which incorporate various key assumptions, including estimating diamond prices, foreign exchange rates, production levels & recoverable diamonds, operating costs, capital requirements & its eventual disposal and latest life of mine plans.

Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value. If the information to project future cash flows is not available or could not be reliably established, management uses the best alternative information available to estimate a possible impairment.

Goods and services tax/ value added tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“GST”) or value added tax (“VAT”), except where the amount of GST or VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Receivables and payables are stated with the amount of GST or VAT included.

The net amount of GST and VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST and VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Determination of fair values

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market or, in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the ‘rounding off’ of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

18. Events subsequent to reporting date

On 18 February 2022 Lucapa announced the receipt of a US$3.6 million (A$5 million) from its associate SML, the Lulo alluvial mining company in Angola.

On 2 March 2022 Lucapa announced the repayment on 28 February 2022 of the New Azilian loan and accrued interest amounting to US$8.2 million (A$11.2 million) and the release of the related security over assets.

On 3 March 2022 Lucapa announced an updated Scoping Study for the Merlin project that reinforces the significant economic potential of the mine. This follows from the significant and rapid increase in rough diamond prices since the original Scoping Study was published on 17 December 2021.

On 8 March 2022 Lucapa announced:

- the completion of a A$12.5 million institutional share placement in order to expedite the Lulo, Brooking and Merlin exploration programs;
- the placement was corner-stoned by Sydney and Singapore based investment fund, Tribeca Investment Partners ("Tribeca"); and
- the Company is exploring strategic collaboration with Tribeca and Margot McKinney OAM, one of Australia's finest jewellers, to further its strategy to capture significant margin at retail.

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, and the remuneration report in the Directors' Report, as set out on pages 2 to 53, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial period ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in the Statement of compliance on page 15; and

   (c) Subject to the 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.

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 for the financial year ended 31 December 2021.

Signed in accordance with a resolution of the Directors.

MILES KENNEDY
Chairman

Dated this 16 March 2022

ELDERTON
AUDIT PTY LTD

Independent Auditor's Report
To the members of Lucapa Diamond Company Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lucapa Diamond Company Limited ("Lucapa" or "the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatements. Our responsibilities under those standards are further described as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key audit matters to be communicated in our report.

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Valuation of receivable from Sociedade Mineira do Lulo, Lda

Refer to Note 7c Financial Assets

Key Audit Matter	How our audit addressed the key audit matter
The Group has a receivable of US$22.05 million as at 31 December 2021 from its associated entity, Sociedade Mineira do Lulo, Lda ("SML"). This balance has been presented at its fair value, in accordance with the provisions of AASB 13 *Fair Value Measurement*. To take account of this requirement, Management of the Group has discounted the gross value receivable at an annual discount rate of 12.27%, taking account of the time value of money, based on estimated dates of cashflows from SML to Lucapa.	Our audit work included, but was not restricted to, the following: • We obtained a loan confirmation of the gross value receivable from SML to Lucapa; • We obtained the Group's calculation of the discounted cashflows from SML to Lucapa, and re-tested the workings to ensure the discounting process had been accurately performed; • We verified amount received subsequent to year end with bank statement and other supporting documents; • We obtained third party verification of the discount rate applied by Management, and evaluated the reliability of the source data; and • We evaluated the board's application of estimates and judgements, with reference to AASB 13 *Fair Value Measurement* , to ensure that the accounting applied was fully compliant with accounting standards.

Deferred Exploration and Evaluation Costs

Refer to Note 9 Property Plant and Equipment

Key Audit Matter	How our audit addressed the key audit matter
At 31 December 2021, the Group has significant exploration and evaluation expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditures represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset may exceed its recoverable amount. Management of the Group considered whether there were any indicators of impairment. The Group capitalises exploration and evaluation expenditure in line with AASB 6 *Exploration for and Evaluation of Mineral Resources*. The assessment of each asset's future viability requires significant judgement. There is a risk that amounts are capitalised which no longer meet the recognition criteria of AASB 6.	Our audit work included, but was not restricted to, the following: • We obtained evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditures by obtaining valid contracts giving the Group rights to explore, for a sample of capitalised exploration costs; • We enquired with management and reviewed budgets to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the Group's area of interest were planned; • We enquired with management, reviewed announcements made and reviewed minutes of directors' meetings to ensure that the company had not decided to discontinue activities in any of its areas of interest; and • We enquired with management to ensure that the Group had not decided to proceed with development of a specific area of interest, yet the carrying amount of the exploration and evaluation asset was unlikely to be recovered in full from successful development or sale.

Impairment of PPE

Refer to Note 9 Property Plant and Equipment

Key Audit Matter	How our audit addressed the key audit matter
As at 31 December 2021, the group has property, plant and equipment amounting to US$34.33 million related to it's Mothae operations (Mothae PPE). Loss of US$5.6 million was incurred from Mothae operations during the year ended 31	Our audit work included, but was not restricted to, the following: • Reviewed the management's impairment assessment of Mothae PPE in accordance with AASB 136 *Impairment of Assets*. • Checked the mathematical accuracy of management's

December 2021 mainly because of temporary curtailment in operations for part of the year due to COVID-19. We considered this as impairment indicator for the Mothae PPE and recoverable amount was assessed to ensure Mothae PPE is not impaired. The assessment of the recoverable amount requires significant judgment, in particular relating to estimated cash flow projections and discount rates. Due to the level of judgment, market environment and significance to the Group's financial position, this is considered to be a key audit matter.	computation of the value in use. • We have critically evaluated management's methodologies in preparing impairment model and documented basis for key assumptions. • Assessed the reasonableness of the key assumptions such as diamond price, Carat quantities, discount rate etc by evaluating underlying data and work on other audit areas. • Reviewed adequacy of the related disclosures in the financial statements.

Going Concern

Refer to Basis of Preparation on page 15 of the financial statements

Key Audit Matter	How our audit addressed the key audit matter
The Group has recorded an attributable EBITDA of US$16.6 million (A$22.3 million) (2020: US$0.4 million (A$0.3 million) and a profit after tax of US$2.8 million for the full year ended 31 December 2021, (2020: a loss of US$9.7 million). The profit for the year is mainly attributed to share of profits from associate (SML). The Group's main subsidiary, Mothae, has incurred a loss of $5.6 million. Under AASB101: Presentation of Financial Statements, the directors of the Group are required to assess the appropriateness of the preparation of the financial report on a going concern basis. The Group has prepared cash flow projections which include a number of estimates of equity raising and recovery of loan from associate. These projections are used to support the sufficiency of working capital. This area is a key audit matter due to the nature of the business, and the current financial position. Should it be inappropriate for the financial statements to be prepared on the going concern basis the values of certain assets and liabilities as set out in the financial statements might be significantly different. As such, the use of the going concern assumption requires proper and due consideration.	Our audit work included, but was not restricted to, the following: • Obtaining management's assessment of the going concern basis of preparation by reviewing future plans and tested cash flow projections prepared by the Group for consistency with our understanding of planned activities; • Held discussions with management as to any future capital raisings and tested the forecasted cash flows for the twelve month period from the date of signing the financial statements for mathematical accuracy; • Comparing forecast expenditure against actual levels of expenditure for the 2021 financial year and obtaining explanations for any significant variances; • Obtained representations from management and the directors as to the adequacy of cash resources; and • Assessed the adequacy and completeness of related disclosures in the financial statements. • Obtained a support letter from head office for the ongoing financial support of the Mothae subsidiary.

Other Information

The directors are responsible for the other information. The other information comprises the Review of Operations and Directors Report and other information included in the Group's annual report for the year ended 31 December 2021 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 8-11 of the directors' report for the year ended 31 December 2021.

In our opinion the Remuneration Report of Lucapa Diamond Company Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd

Rafay Nabeel

Audit Director
16 March 2022
Perth

A$	Australian dollar
AIFRS	Australian International Financial Reporting Standards
AGM	Annual general meeting of shareholders
ASX	Australian Securitues Exchange
Attributable	Attributable ownership in the projects based on Lucapa's holding. This is a non-AIFRS measure. For statutory reporting purposes, SML is equity accounted given Lucapa holds a 40% interest and Mothae is consolidated given Lucapa holds a 70% interest
EBITDA	Earnings before interest, taxation, depreciation & amortisation and other non-trading items *(EBITDA is a non-AIFRS measure)*
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 21	The six months ended 30 June 2021
Lucapa, the Company or LOM	Lucapa Diamond Company Limited (ASX code: LOM)
MB	Mining block
Merlin	Merlin Diamond Project, owned by Australian Natural Diamonds Pty Ltd (Lucapa 100% subsidiary)
Mothae	Mothae Diamonds (Pty) Ltd (Lucapa 70% subsidiary, GoL 30% and registered in the Kingdom of Lesotho)
Mtpa	Million tonnes per annum
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 2020 or 2021
Safdico	Safdico International, a subsidiary of Graff International
SFD	Size frequency distribution
SML	Sociedade Mineira Do Lulo Lda, (Lucapa 40% asscociate, Endiama 32% and Rosas & Petalas 28% and registered in the Republic of Angola)
Specials	Diamonds weighing in excess of 10.8 carats
the Board	The Lucapa Board of Directors
the Group	The Company, its subsidiaries and associates
the IDC	the Industrial Development Corporation of South Africa Limited
the Second Half or H2 21	The six months ended/ ending 31 December 2021
US$	United States dollar
ZAR, R or Rand	South African rand