



QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Highlights

Lulo Diamond Project, Angola

Sociedade Mineira Do Lulo (SML) (Lucapa 40% and operator)

Increased Mining and Production

- Diamond production – up 147% to 5,313 carats
- Recovered diamond grade – up 88% to 10.6 cphm³
- Average diamond size – up 46% to 1.9 carats per stone
- Specials recovered – up 182% to 79
- Volume treated – up 31% to 50,349 bcm

Strong Cash Generation

- US\$14.6m gross proceeds (A\$19.2m) from two diamond sales
- Total 2016 sales of US\$51m at an average price per carat of US\$2,983 – the highest price per carat achieved for run of mine diamond production in the world for 2016
- US\$14.1m SML cash balance plus 2,921 carat unsold diamond inventory
- Cash distribution proposed to SML partners following audit of 2016 accounts

Successful Plant Improvements

- Commissioning of new XRT large diamond recovery circuit and larger screens, providing capacity to recover individual diamonds of up to 1,100 carats
- Installation of larger diamond sort house and new diamond deep boiling facility to complete plant development and improvement program

Projecto Lulo – Exploration

- New five year kimberlite exploration licence approved by Angolan Minister of Mines and Geology
- Priority kimberlite drilling program stepped up with second rig in operation and third new rig in Angola and scheduled to be in operation in the March 2017 Quarter. Kimberlite material intersected at three priority targets to date
- Pitting, trenching and auger drilling completed for updated JORC alluvial resource, scheduled for release in the March 2017 Quarter

Other Projects

- Priority lamproite and kimberlite drilling targets successfully defined at Brooking in Western Australia and Orapa Area F in Botswana
- Continued assessment of new projects in known diamond provinces

Lucapa – Corporate

- US\$4.3m (A\$5.7m) cash balance - in addition to US\$14.1m SML cash balance
- Proposed post-audit SML distribution will increase Lucapa's cash balance

INTRODUCTION

Lucapa Diamond Company Limited (ASX: **LOM**) (“Lucapa” or “the Company”) is a growing diamond producer and explorer. Lucapa’s flagship asset and principal investment is the Lulo Diamond Project (“Lulo”) – a partnership with Empresa Nacional da Diamantes E.P. (“Endiama”) and Rosas & Petalas over a 3,000km² concession in Angola’s Lunda Norte diamond heartland.

Lulo, through mining company Sociedade Mineira Do Lulo (“SML”), generates strong cash flows from alluvial mining where it recovers large premium-value diamonds of up to 404 carats. Special diamonds account for ~30% of the diamond weight, but more than 90% of overall diamond revenues, underlining the large-diamond nature of the resource and its future potential.



Diamonds from unsold inventory at the end of the Quarter

Lucapa and its Lulo partners are advancing their search to identify the primary kimberlite source or sources of these exceptional alluvial diamonds.

Lucapa is also conducting exploration programs at two other projects - Orapa Area F in Botswana’s Orapa diamond field and Brooking in the West Kimberley lamproite province in Western Australia. Both projects are considered prospective for diamond discoveries.

Lucapa’s strong balance sheet and cash generating ability leave the Company well-positioned to advance development and exploration at Lulo and to conduct the exploration programs at Orapa and Brooking, while also continuing to assess new opportunities.

Lucapa has a primary listing on the ASX with a secondary listing on the Frankfurt Stock Exchange. The Company has appointed Panmure Gordon & Co as its UK financial adviser.

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Lucapa, as operator of Lulo and in its own right, undertook multiple workstreams during the December 2016 Quarter (“the Quarter”). These workstreams included:

- The mining, production and sale of Lulo alluvial diamonds
- Drilling and exploration of priority Lulo kimberlite targets
- Pitting, trenching and auger drilling to update the Lulo JORC alluvial diamond resource
- Installation and commissioning of new XRT large diamond recovery circuit, diamond deep boiling facility and larger sort house to complete 2016 Lulo plant improvement program
- Exploration programs at the Brooking and Orapa Area F projects to define priority lamproite and kimberlite drilling targets
- Continued assessment of new projects in known diamond provinces with the potential to deliver continued growth for Lucapa in the international diamond sector

LULO DIAMOND PROJECT, ANGOLA

Alluvial Diamond Sales

During the Quarter, SML sold two parcels of Lulo alluvial diamonds weighing a total of 4,677 carats for total gross proceeds of US\$14.6 million (Table 1).

The December Quarter sales took total gross sales for calendar 2016 to US\$51 million (A\$69.5 million), up 440% on the prior year, at an exceptional average price per carat of US\$2,983.

This represented the highest price per carat achieved for any run of mine diamond production in the world in 2016.

SML held cash of US\$14.1 million at the end of the Quarter, along with an unsold diamond inventory of 2,921 carats. The next sale of Lulo diamonds is scheduled for January 2017.

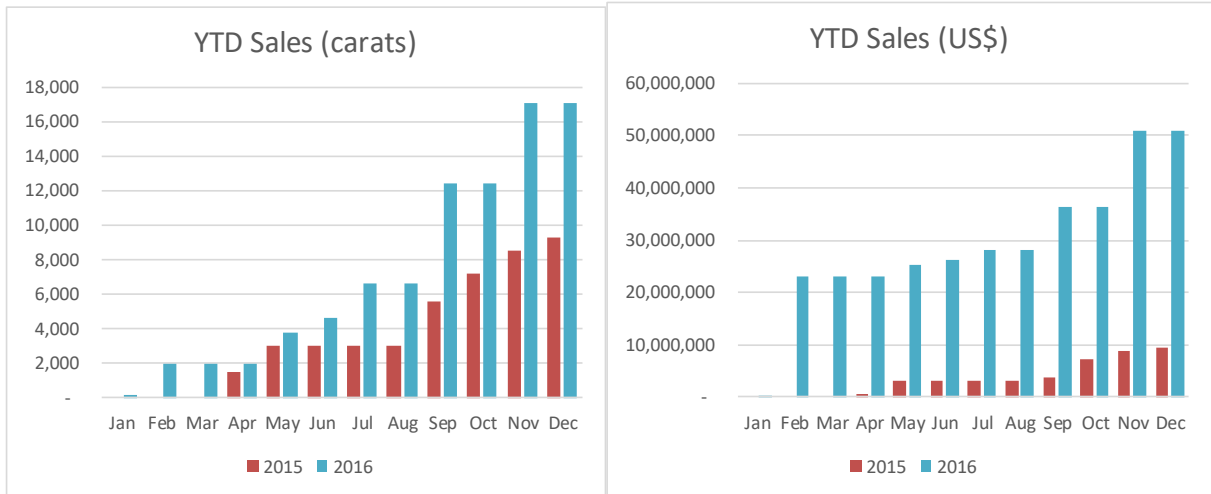
SML’s strong cash position supports a distribution to Lucapa and its SML partners, which is proposed once SML’s 2016 accounts are audited.

	Q4 15	FY 15	Q4 16	FY 16	Var Q4 16 to Q4 15	Var FY 16 to FY 15
Actual Sales (carats)	3,778	9,327	4,677	17,115	24%	84%
Actual Sales (US\$)	5,811,003	9,445,063	14,548,230	51,048,891	150%	440%
Actual Price per Carat (US\$)	1,538	1,013	3,111	2,983	102%	195%
Actual Sales (A\$)	8,091,593	12,782,166	19,183,603	69,465,870	137%	443%
Actual Price per Carat (A\$)	2,141	1,370	4,102	4,059	92%	196%
Diamond Inventory (carats)	152	152	2,921	2,921	1,820%	1,820%

Table 1: Diamond sales and average prices

Note: The Quarter Actual Sales only reflect a 24% increase on the prior year quarter as diamond production from both November and December 2016 was held in inventory for sale in January 2017.

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Alluvial Diamond Mining

SML produced 5,313 carats of alluvial diamonds in the Quarter (Table 2). This was an increase of 147% on the corresponding quarter in 2015 and also the highest quarterly production achieved during the Angolan wet season.

The December Quarter production included 79 specials (individual diamonds weighing more than 10.8 carats), up from 28 in the previous corresponding period, further underlining Lulo's ability to regularly produce large premium-value diamonds. These specials included four +70 carat diamonds and a 54 carat gem and brought to 269 the number of Specials produced at Lulo in 2016.

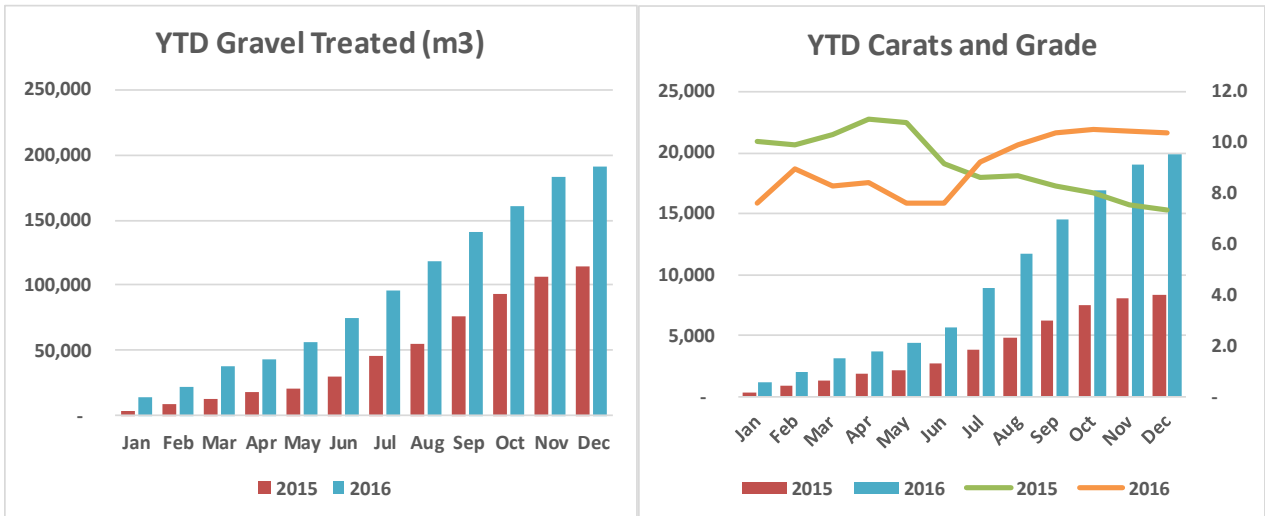
	Q4 15	FY 15	Q4 16	FY 16	Var Q4 16 to Q4 15	Var FY 16 to FY 15
Actual Treated m ³ (bulked)	38,402	112,587	50,349	189,366	31%	68%
Actual Carats Recovered	2,151	8,394	5,313	19,833	147%	136%
Actual Grade Recovered (cphm ³)	5.6	7.5	10.6	10.5	88%	40%
Actual No of Stones Recovered	1,594	7,625	2,838	11,709	78%	54%
Actual Avg Stone Size Recovered	1.3	1.1	1.9	1.7	46%	54%
Number of Specials Recovered	28	86	79	269	182%	213%
Specials Carat Weight	764	2,084	1,898	7,075	148%	239%

Table 2: SML alluvial diamond production for the December Quarter and calendar year

The average size of the diamonds produced in the Quarter was an exceptional 1.9 carats per stone, compared to 1.3 carats in the previous corresponding quarter.

The average diamond grade was 10.6 carats per 100 cubic metres (cphm³), up from 5.6 cphm³ in the previous corresponding quarter.

Volumes treated during the Quarter rose 31% to 50,349 bulk cubic metres (bcm).



Alluvial Development and Improvement Program

The 2016 alluvial development and improvement program was completed during the Quarter with the commissioning of the new XRT large diamond recovery circuit, larger sort house and diamond deep boiling facility. This followed the successful commissioning of the new wet front end module at the 150 tonne per hour diamond plant during the previous quarter.



New XRT and recovery sort house

The XRT technology and larger screens will, as part of the new coarse recovery stream, provide capacity to recover individual diamonds up to 1,100 carats. The new XRT technology is also more effective in recovering higher quality low-luminescing Type IIa diamonds.

As previously announced, SML began stockpiling all oversize material in February 2016 following the recovery of the record 404 carat *4th February Stone*, which sold for US\$16 million (A\$22.5 million). Stockpiled material will be processed during the March 2017 Quarter in batches in addition to fresh gravels from the alluvial mining blocks.

Kimberlite Exploration

The kimberlite exploration program aims to locate the source, or sources, of the large premium-value alluvial diamonds being mined at Lulo.

This program has focused primarily on the priority targets in the area near the high-value Mining Block 8 (Figure 1), which has been a regular source of large valuable alluvial diamonds of up to 404 carats.

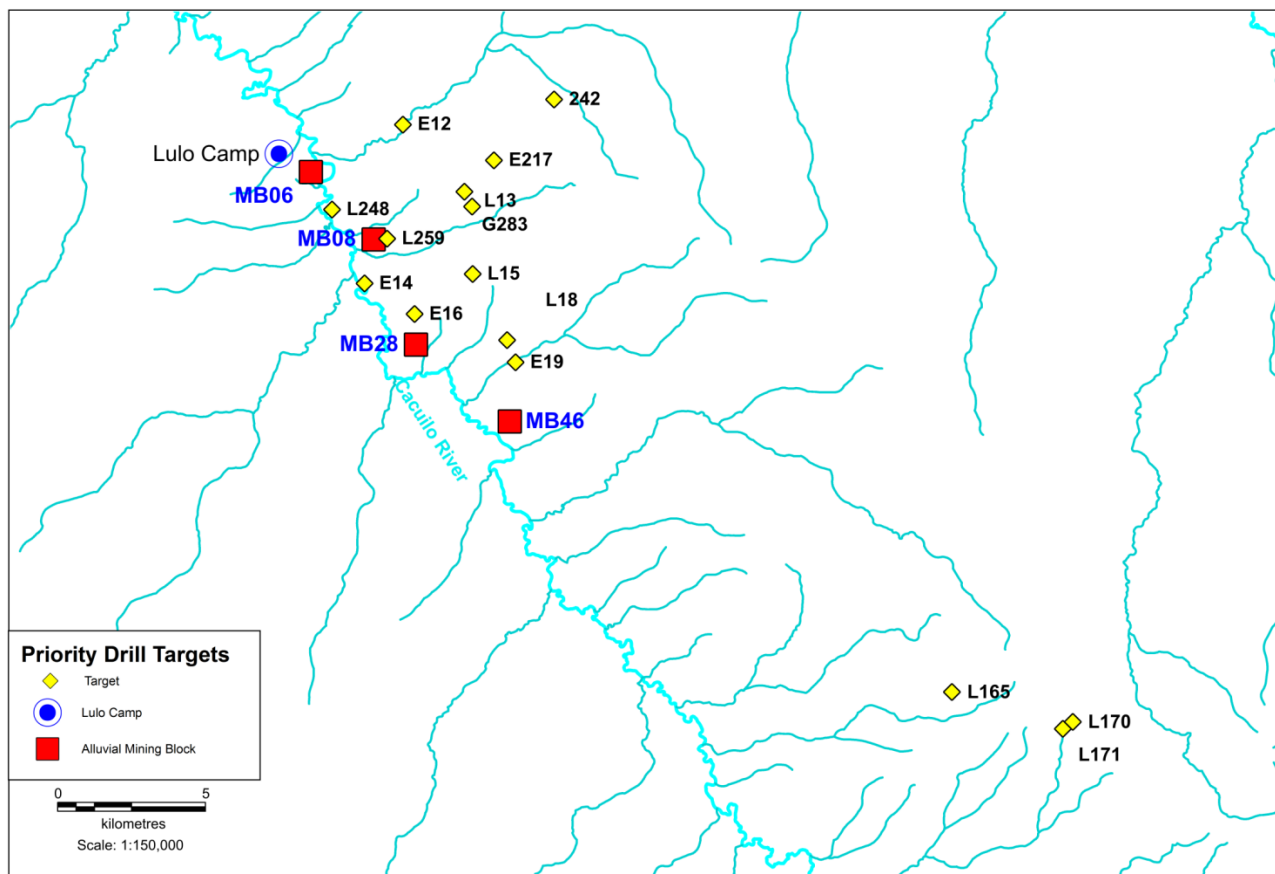


Figure 1: Priority Lulo kimberlite targets scheduled for ongoing drill testing

Drilling of priority kimberlite targets commenced mid-2016 using a mobile Sedidrig rig, which has also been used for alluvial resource expansion auger drilling. During the Quarter a second contract (Rosanstroi) rig with PQ capability was mobilised to site, enabling other priority targets to be drilled concurrently.

In addition, a new Hanjin D&B35 all-terrain, high-capability rig capable of drilling to 2,000m arrived in Angola from Korea during the Quarter. This new rig is scheduled to be operational during the March 2017 Quarter, bringing to three the number of rigs involved in the kimberlite drilling program.

A total of 26 mainly wide-spaced core holes were drilled to an average depth of 35m at the ~100 hectare L259 target by the end of the Quarter, in areas where ground conditions allowed (Figures 1 and 2).

No visible volcanoclastic kimberlite was identified in the drill core. Infill drilling will continue in untested areas at L259 throughout the March 2017 Quarter, with deeper drilling proposed once the new Hanjin rig is operational.

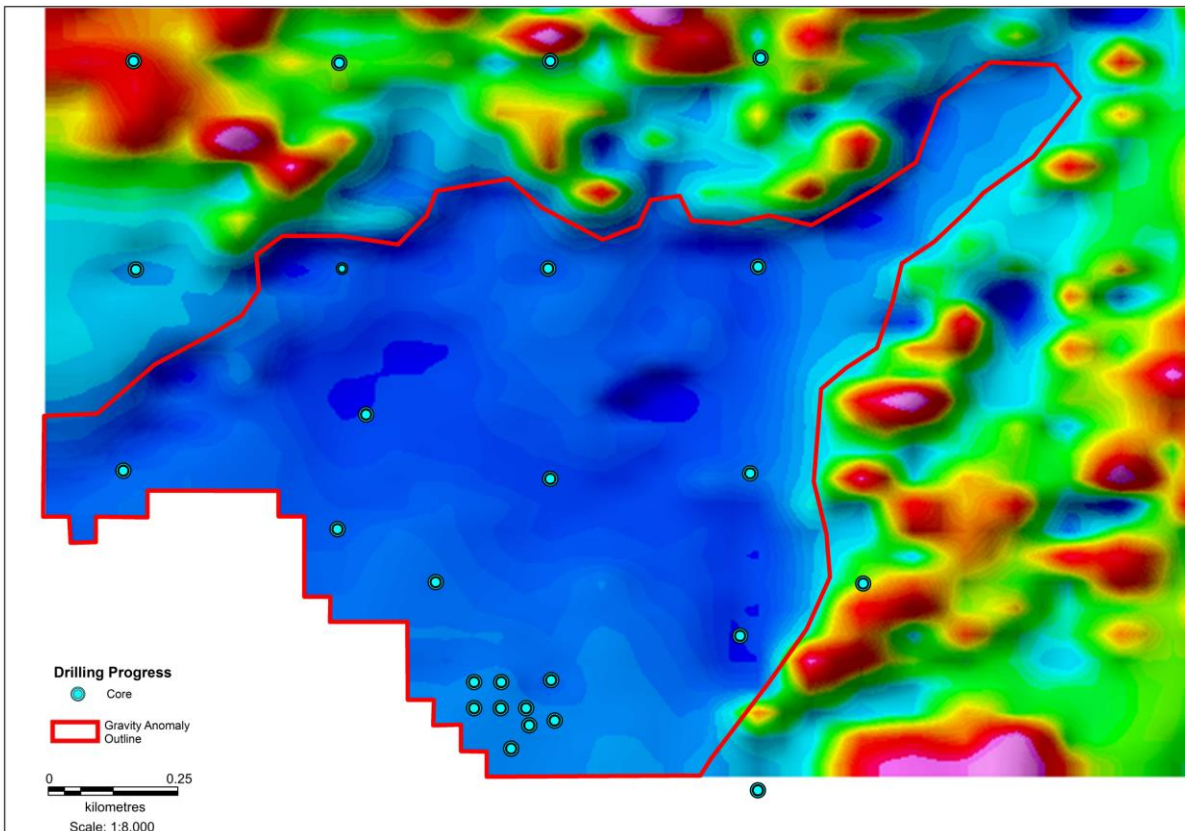


Figure 2: Location of core holes drilled at L259

Six holes were drilled to a depth of ~70m at the L18 target, located ~6km from L259 (Figure 1), which was prioritised for drill testing after a purple G10D garnet was recovered from mineral chemistry analysis of drill core from this target. Near-surface kimberlite material was intersected in four holes from ~4.5m, including coarse magma pyroclasts.

One hole was drilled at L171, intersecting weathered kimberlite material from surface. Additional drilling is planned at L171, along with the proximal L170 and L165 targets (Figure 1), when ground conditions permit. The accessible L171 target was prioritised for drilling due to its proximity to the diamond-bearing L170 kimberlite and L165, where purple G10D garnets were recovered from mineral chemistry analysis.

Subsequent to the end of the Quarter, one hole was drilled at L248, between Mining Blocks 8 and 6 (Figure 1). Steeply-dipping kimberlite crater-infill was intersected in the core from this hole, with further drilling being undertaken.

Drilling will continue at L259 and other accessible priority kimberlite targets throughout the March 2017 Quarter, with the sequencing remaining conditional on access and ground conditions.

Drill targeting may also be guided by the results of the helicopter-borne Time-Domain Electromagnetic (“TDEM”) survey to be flown over the Caculo River and valley area to help identify any additional non-magnetic kimberlite targets and to improve the definition of known targets. Due to permitting delays, this survey is now scheduled to be flown in the March 2017 Quarter, weather permitting.

Further details of the Lulo kimberlite exploration program are set out in the ASX announcement of 19 January 2017.

Kimberlite Exploration Licence

During the Quarter, the Angolan Minister of Mines and Geology, the Honourable Francisco Manuel Monteiro de Queiroz, formally approved a new kimberlite exploration licence for the Lulo project.

As announced to the ASX on 28 November 2016, the new licence is for a period of five years and covers the entire 3,000km² Lulo concession.

The Ministerial approval enables the Lulo partners to finalise a Ministerial Investment Contract, which will include a program of kimberlite exploration activities for the five year period.

Exploration to Expand and Update the JORC Alluvial Resource

Alluvial pitting, trenching and auger drilling programs were conducted at Lulo during the Quarter to open up new mining blocks to expand and update the JORC alluvial resource from that announced to the ASX on 15 December 2015.

As announced to the ASX on 19 January 2017, a total of 488 exploration pits and 130 auger drill holes were completed by the end of the Quarter.

These programs focused on proving up extensions to Mining Blocks 6 and 8 and establishing a new area of alluvial gravels at Mining Block 28, located ~ 4km south (upstream) of Mining Block 8 (Figure 1).

Preliminary bulk sampling of alluvial gravels from the new Mining Block 28 area produced two +20 carat diamonds, including a 24 carat Type IIa D-colour gem.

Gravels from the E41 and E57 alluvial terraces near E46 were also bulk sampled.

This drilling and sampling information has been provided to ZStar Mineral Resource Consultants of Cape Town, South Africa, for the purposes of updating the Lulo JORC alluvial diamond resource, which is expected to be released in the March 2017 Quarter.

The ASX announcement of 19 January 2017 provides further details of the alluvial resource exploration activities undertaken at Lulo.

OTHER DIAMOND PROJECTS

Lucapa was successful in defining a series of priority lamproite and kimberlite drilling targets during the Quarter at both the Brooking Diamond Project in Western Australia’s Kimberley region and at the Orapa Area F Diamond Project in Botswana.

Both projects are known diamond provinces. Brooking is located within 40km of the Ellendale diamond field in Western Australia's Kimberley region, which was formerly the world's leading producer of rare, fancy yellow diamonds. Orapa Area F is located ~40km east of the prolific Orapa diamond mine in Botswana and within 4km of the BK02 kimberlite being bulked sampled by TSX-listed Lucara Diamond Corp.

Brooking Diamond Project, Western Australia

At Brooking, detailed ground EM surveys were completed during the Quarter over key target areas defined by the Company's preliminary exploration work, which validated positive historic results including the recovery of macro and micro diamonds and lamproite indicator minerals.

The EM surveys successfully identified four well-defined conductors potentially associated with lamproite, a host rock for diamonds (Figure 3). The conductors are all located in drainage basins where diamonds and indicator minerals were recovered from earlier field sampling programs, while two conductors were also coincident with positive results from Mobile Metal Ion ("MMI") geochemical analysis for nickel and other rare earth elements, which are also associated with lamproite bodies.

Lucara considers the results to be highly encouraging. The Company is planning to drill test all four conductors, as well as the previously-identified Katie's Bore and Santa Fe Dam targets (Figure 3). This reverse circulation (RC)/core drilling program will be subject to heritage clearances and conditional on suitable weather and ground conditions.

The ASX announcement of 9 January 2017 provides further details of the Brooking exploration program.

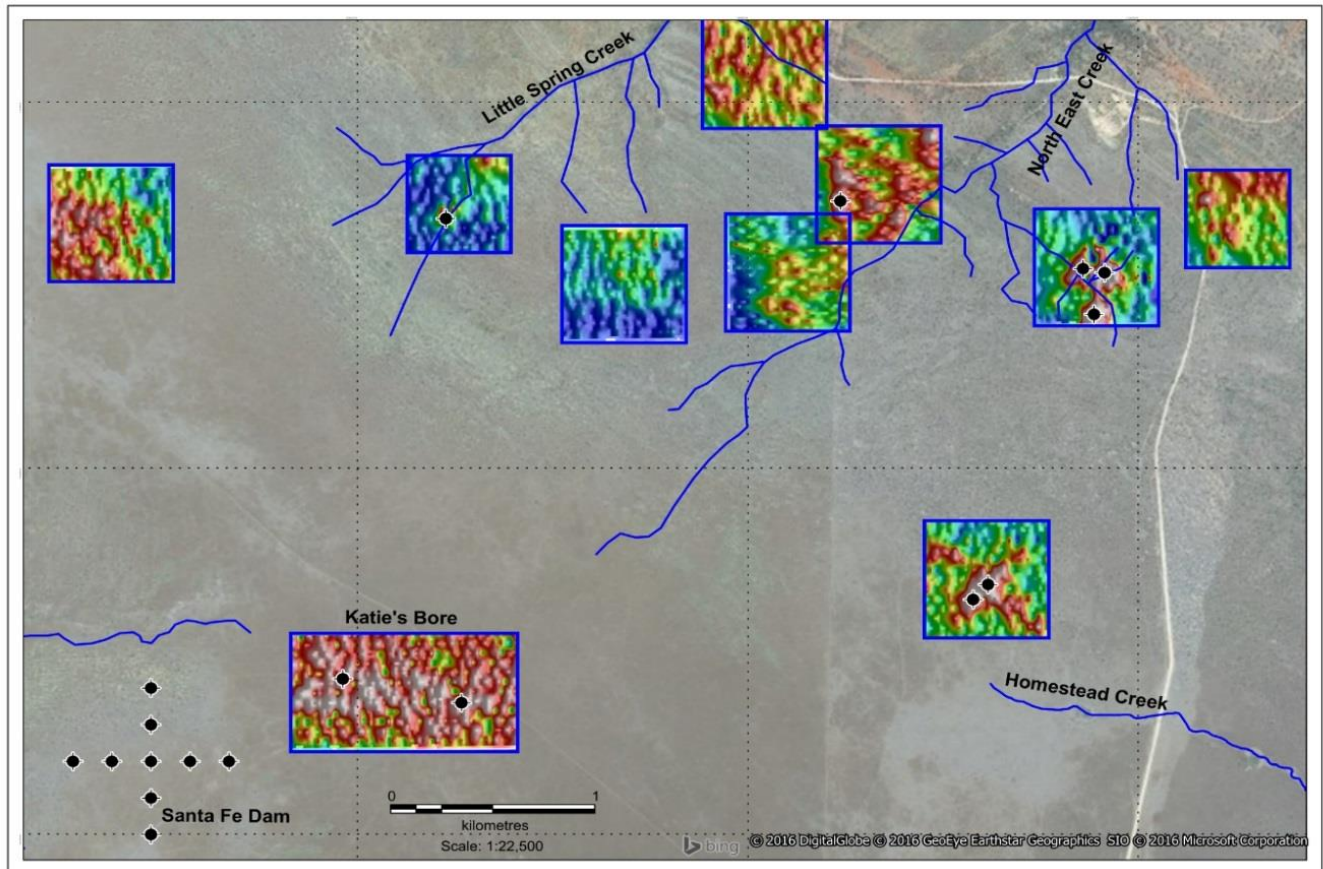


Figure 3: EM results and planned drilling targets at the Brooking Diamond Project, Western Australia

Orapa Area F Diamond Project, Botswana

During the Quarter, Lucapa also completed a preliminary exploration program at Orapa Area F, which contains two known kimberlites (BK14 and BK38) and a larger magnetic anomaly (AN01).

This work program – which involved ground magnetic, EM and gravity surveys, along with EM soundings and MMI soil geochemical analysis – was successful in defining a doubled-lobed coincident gravity/magnetic feature at AN01.

This well-defined magnetic anomaly measures approximately 350 metres x 150 metres (Figure 4) and represents a priority drilling target within the prolific Orapa diamond field. An RC drilling program will commence at AN01 when suitable weather and ground conditions permit.

The ASX announcement of 9 January 2017 provides further details of the Orapa Area F exploration program.

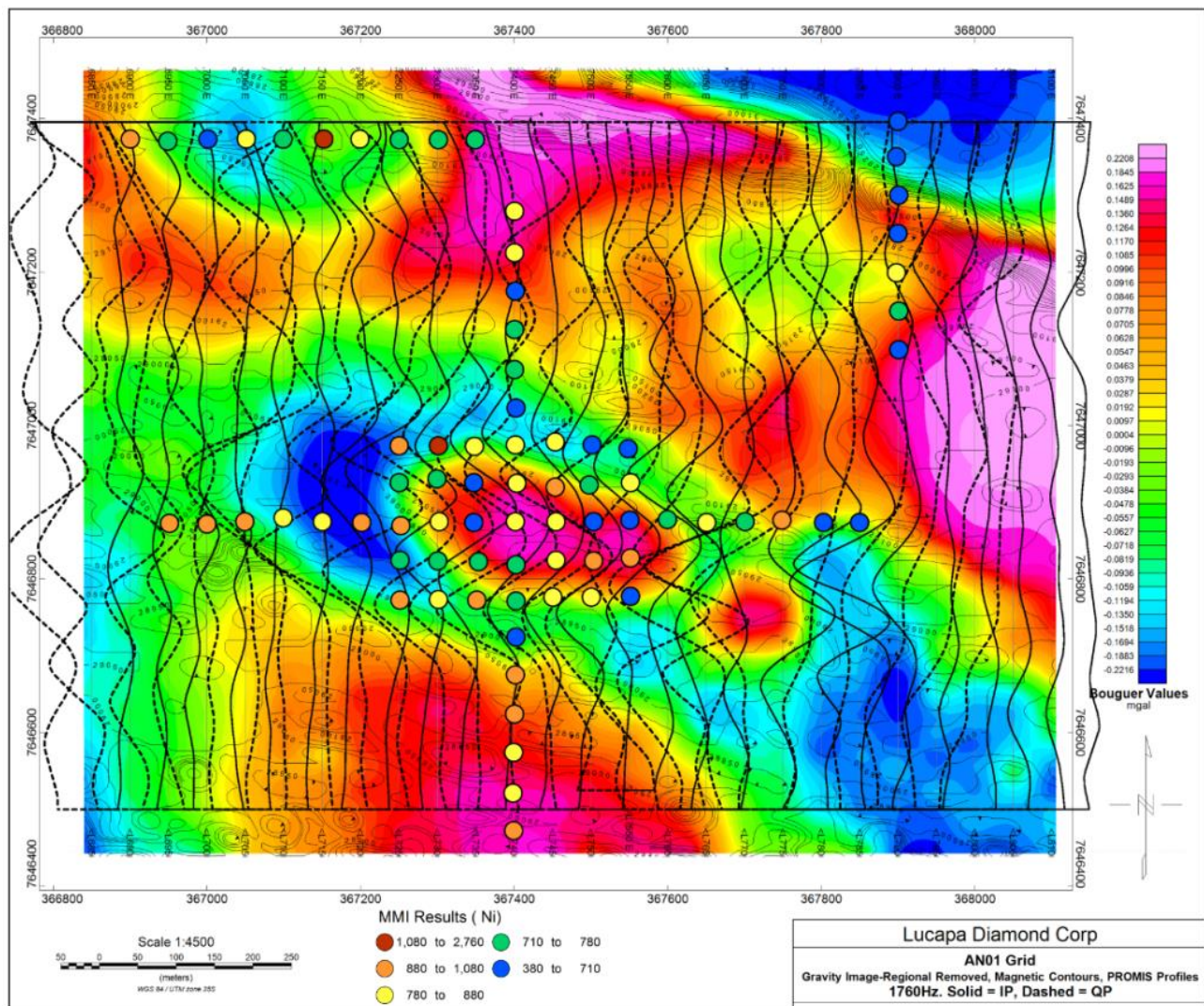


Figure 4: Gravity, magnetic and EM results and MMI data from AN01 at Orapa Area F, Botswana

LUCAPA – CORPORATE

At the end of the Quarter, Lucapa’s cash balance stood at US\$4.3 million (A\$5.7 million). In addition, SML (Lucapa 40% owner and operator) held cash of US\$14.1 million (A\$19 million) along with a diamond inventory of 2,921 carats.

The next sale of Lulo diamonds is scheduled for January 2017, which will further increase SML’s cash balance.

A distribution to the SML partners is proposed from the audited 2016 accounts, which will further strengthen Lucapa’s cash balance.

During the Quarter, Lucapa continued to assess diamond opportunities with the potential to position the Company for continued growth in the diamond sector.

For and on behalf of the Lucapa Board.

STEPHEN WETHERALL
CHIEF EXECUTIVE OFFICER

Schedule of Tenements as at 31 December 2016					
Country	Type	Size (km²)	Period	Interest (%)	End date
Angola	Exploration (primary) Kimberlite	3,000	2 years	39	05/2016*
Angola	Exploration (secondary) Alluvial	1,500	2 years	40	05/2016*
Angola	Mining (secondary) Alluvial	1,500	10 years	40	07/2025
Botswana	Reconnaissance	16.2	3 years	75	09/2018
Australia	Exploration License	120.99	5 years	80	12/20
Australia	Exploration License	13.08	5 years	80	03/19
Australia	Exploration License (Application)	29.44	5 years	80	

** Extensions to the licences approved during the Quarter by the Angolan Minister of Mines & Geology*

Competent Person's Statement

Information included in this announcement that relates to previously released exploration data was disclosed under JORC Code 2012. That information has not materially changed since it was last reported and is based on and fairly represents information and supporting documentation prepared and compiled by Albert Thamm MSc FAusIMM (CP), who is a Corporate Member of the Australasian Institute of Mining and Metallurgy. Mr Thamm is a Director of Lucapa Diamond Company Limited. Mr Thamm has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves. Mr Thamm and consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

No New Information

To the extent that announcement contains references to prior exploration results and Mineral Resource estimates, which have been cross referenced to previous market announcements made by the Company, unless explicitly stated, no new information is contained. The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant market announcements and, in the case of estimates of Mineral Resources that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

Forward-Looking Statements

This announcement has been prepared by the Company. This document contains background information about the Company and its related entities current at the date of this announcement. This is in summary form and does not purport to be all inclusive or complete. Recipients should conduct their own investigations and perform their own analysis in order to satisfy themselves as to the accuracy and completeness of the information, statements and opinions contained in this announcement. This announcement is for information purposes only. Neither this document nor the information contained in it constitutes an offer, invitation, solicitation or recommendation in relation to the purchase or sale of shares in any jurisdiction.

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