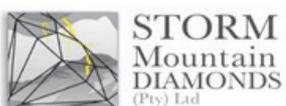




LESOTHO DIAMOND MINING INDUSTRY PERFORMANCE REPORT **2016** **2018** BY LESOTHO CHAMBER OF MINES



Lesotho Chamber of Mines





On behalf of the Lesotho Chamber of Mines, I would like to thank the four major mining companies that collaborated with the Chamber in this initiative of sharing this critical information that for many years has only been known to those who are close to the industry, in particular the government as the regulator, tax recipient and the shareholder.

As highlighted in the NSDP, the nascent and vastly growing Lesotho mining industry which is dominated by the diamond subsector is considered to be the catalyst for the economic growth and for the past years it has played an instrumental role in creating jobs and providing the necessary revenue to the government through taxes and levies.

This is the first public report that presents the performance of the Lesotho diamond mining industry and it provides the highlights of the history of each mine, productions and safety performance, investments made, contributions to the government fiscus, community empowerment, skills development and the outlook of the industry.

The report provides critical information which provokes the stakeholders (government, legislators and public) to ask very critical and pertinent questions, as to whether the country is doing enough in terms of managing the revenue accrued from the exploitation of its minerals. It is investment that drives economic growth and the question is what needs to be done to attract further investment into exploration and mining?, do we have stable, predictable and competitive mining legislation and an enabling positive regulatory framework?.

The challenge for some mining jurisdictions in Africa is that they keep on changing the rules and these frequent changes simply turn off investment and the economic opportunity cost of the lost investment is game changing in a negative sense.

The mining sector in Lesotho continues receiving wide attention, from ordinary citizens to the technocrats and legislators. It has potential to grow further and increase its contribution to the socioeconomic development of the country, and the key is collaboration between industry and government to create enabling environment to ensure greater benefits to the citizens of this country and greater returns to the investors.

Those with very little counter factual evidence have stirred very controversial discussions that left many wondering whether there are any benefits from the mining sector. The report presents cumulative statistics since the beginning of the operations and industry performance for the past three years. The Chamber will continue producing this kind of report annually to keep all stakeholders in the loop with the developments in the industry and it will continue engaging with stakeholders in good faith.

**From Mr Mohale Ralihariki
Lesotho Chamber of Mines Chairperson**

1. INDUSTRY HISTORICAL BACKGROUND

1.1 KAO MINE

Storm Mountain Diamonds (Pty) Ltd ("SMD") operates Kao Mine in the District of Botha Bothe. SMD is jointly owned by Namakwa Diamonds Limited and the Government of Lesotho. The Government of Lesotho holds 25% of the free carry shares in SMD and the operations are entirely funded by Namakwa Diamonds Limited. SMD acquired the mining lease from the insolvent estate of Kao Diamond Mines (Pty) Limited ("KDM"). The diamond resource that SMD mines at Kao is the largest kimberlite pipe in Lesotho, but of low grade. Kao kimberlite was discovered by the exploration team of Colonel Scott in the mid to late 1950s.

Since its discovery Kao kimberlite was mined by artisans and organized cooperatives. Various commercial mining enterprises dabbled with the prospects of developing this mine, however, their exploration results showed that the kimberlite body was diamondiferous, but the grade and the value of the diamonds were too low to make the development of the mine economically viable.

Despite this, and perhaps emboldened by the success at Letšeng from the beginning of the 21st century, KDM, a subsidiary of Global Resources Inc. acquired the mining lease for Kao from the Government of Lesotho in 2006. KDM commenced production in around 2006 and within no time KDM was evidently struggling with poor production. Over the 3 year period, the total production exported by KDM was merely around 7000 carats, which is only approximately one third of a month's current production volume at Kao. KDM failed to pay royalties to the Government of Lesotho during the period that it held the Kao mining lease.

But these were not its only woes. Eventually it was in debt to creditors to the tune of approximately M40 million, without the cash flow or funding to service these debts. Creditors filed for liquidation in 2009 and a provisional order was granted. KDM never got through these difficulties and was finally liquidated. The low grade, marginal diamond deposits of Lesotho had claimed another victim.

This is the context in which SMD took over the mining lease at Kao in 2010 and in which Namakwa Diamonds Limited invested, in the aftermath of an insolvent operation. SMD's success is one of the unique memoirs in the history of diamond mining in Lesotho. The committed and high-risk taking character of its investors, visionary management and dedicated team have all made it possible for the mine to continue operating.

The history of the mine since 2010 has also not been without incident. Around 2012 and 2013 there were periods that the mine struggled to pay its creditors due to production issues and high costs. If SMD had been funded by an institutional investor they would almost certainly have foreclosed on the loans during this period. SMD's investor has time and time again extended the date of loan repayments on the loans so that SMD repays as and when it has the finances to do so. This flexibility has enabled SMD to survive through difficult periods.

1.2 LIQHOBONG MINE

Liqhobong mine is operated by the Liqhobong Mining Development Company (LMDC) which is owned by Firestone Diamonds PLC (75%) and the Government of Lesotho (25%). The mine is located in Liqhobong, in the Buttha-Buthe district in the northern part of Lesotho. It is an open pit mining operation, currently utilizing the main kimberlite pipe and satellite pipe.

The kimberlite deposits at Liqhobong were discovered in the 1950s. Mining operations were first undertaken by the Liqhobong Co-Operative from 1978 to 1996 in the form of small-scale artisanal mining from the satellite and main pipes. In 1996, the mine was acquired by a Canadian junior mining company MineGem which upscaled to drilling and bulk sampling of both the satellite and main pipes.

In 2003, a company called Kopane Diamonds acquired MineGem

and continued with exploration of the satellite pipe. Firestone Diamonds acquired control of Kopane in 2010 and started operating a 100 tons per hour Pilot plant in 2011, whilst completing a feasibility study for the eventual expansion of the mine to its current state. Following the completion of the feasibility study, construction of the 500 tons per hour plant, powerline and other related infrastructure commenced in 2014. Production commenced in late 2016.

1.3 LETŠENG MINE

Letšeng Diamond Mine (LDM) is owned by Gem Diamonds Limited with 70% shares and the government of Lesotho with 30% shares. Letšeng Diamonds (Pty) Ltd holds the mining lease granted in 1999 by the Government of Lesotho. The mine is located 226km from Maseru at Letšeng-la-Terae in the north-eastern District of Mokhotlong. It sits at an altitude of 3200m above sea level. It has grown to be one of the largest open pit diamond mines in the world processing ore from two kimberlite pipes, the Main Pipe (17.0 ha) and the Satellite Pipe (5.2 ha).

The Letšeng mine pipes (the Main Pipe and Satellite Pipe) were discovered as a weathered outcrop in a stream by British Geologist, Peter Nixon in 1957. In 1959, the area was declared a government digging. Hundreds of small-scale miners started to excavate the near-surface weathered kimberlite until 1968. During this time, approximately 1.5 Mt of alluvial gravel was treated. In 1968, the property was acquired by Rio Tinto and explored through a series of underground tunnels. Nevertheless, the prospect was abandoned in 1972. De Beers subsequently acquired the deposit and mined the Main Pipe from 1973 until 1982. During this time, only little work was done on the Satellite Pipe and over 272,000 carats were recovered. The Main Pipe was mined to 120m and Satellite Pipe was mined to 20m. The Mine was closed in 1982 due to downturn in the diamond market.

Letšeng Diamonds (Pty) Ltd was incorporated in Lesotho in 1995. The mining lease was granted in 1999. JCI-Matodzi was the majority shareholder with 76% and the Government of Lesotho with 24% (7.5% Royalty). M150 million capital investment production commenced in March 2004. The mine then had single plant, which processed 2,3 million tonnes of ore produced about 50,000 carats per annum. 500 people were employed directly and indirectly.

The company achieved an annual revenue of about M566 million. Gem Diamonds took over the Mine in July 2006 through the purchase of JCI-Matodzi shares at over M900 million. The acquisition by Gem Diamonds was finalised in October 2006 with the new shareholding arrangement standing at 70% for Gem Diamonds and 30% (8% Royalty) for Government of Lesotho.

1.4 MOTHAE MINE

The Mothae kimberlite diamond mine is situated at an altitude of ~3,000 metres above sea level in the mountainous Mokhotlong-district of northern Lesotho, approximately 135 km north-east of the capital, Maseru.

First discovered in 1961 by Basotholand Diamonds, Mothae has fallen under the ownership of a number of companies, including most recently Lucara Diamond Corporation and the Government of the Kingdom of Lesotho ("GoL"). Lucara Diamond Company Limited ("Lucara") acquired a 70% stake in January 2017 for a consideration of US\$9 million (~LSL126 million) following an international tender process conducted by the Lesotho authorities following Lucara's withdrawal from the project.

The remaining 30% of Mothae is a free-carry stake held by the GoL. The Mothae Mining Lease is valid for 10 years until 28 January 2027 and is renewable for an additional period of 10 years thereafter.

The Mothae kimberlite pipe has a surface area of 8.8 hectares and consists of a main southern kimberlite lobe connected to a smaller northern kimberlite lobe by an elongate central kimberlite body. Mining is currently by open pit methods.

Lucara commenced construction of a new 1.1 million tonne per annum (150 tonne per hour) diamond plant in late 2017 after securing the initial development financing for Phase 1. In parallel with the construction of the new commercial plant, Lucara spent US\$6 million (LSL84 million) refurbishing the existing on-site sampling plant, upgrading the existing infrastructure and running the concurrent bulk sampling program. This enabled the Company to test areas of the kimberlite pipe which had not previously been tested, or where previous sampling had been inadequate.

Recoveries from the bulk sampling program included an 89 carat yellow diamond from the south-east zone and a 25 carat yellow diamond from the previously untested neck zone.

Construction of the new 1.1 Mtpa Mothae plant and related infrastructure was completed in late 2018, enabling the treatment plant commissioning phase to commence. The new plant incorporated the latest Tomra XRT

sorting technology streams for the larger size and medium size fractions and a conventional Dense Media Separation circuit with XRL technology for the recovery of smaller diamonds.

In total, the amount invested by Lucapa in developing Mothae, including the consideration cost and the bulk sampling program, totaled ~US\$38 million (LSL532 million).

Commercial production officially commenced on 1 January 2019.

The results in the first six months of commercial operations have confirmed that like the neighbouring Letseng mine, Mothae is a regular source of large and premium-value diamonds. A total of seven +50 carat diamonds have been recovered under Lucapa's ownership, the largest being a 126 carat gem-quality stone. Production has also included a high proportion of Type IIa diamonds, as well as coloured gems.

2. PRODUCTION PERFORMANCE

2.1 KAO MINE

Kao's kimberlite pipes fall within the Lemphane-Roberts belt of kimberlites in Lesotho. The Kao deposit consists of two kimberlite pipes, the Main Pipe (19.8 ha) and the Satellite Pipe (3.8 ha), located 350 metres north-west of the Main Pipe. The Main Pipe (19.8 ha) is the focus of the current mining operations and it has a resource of around 142 Mt, indicated and inferred, containing estimated 9 million carats at an average grade of 6.5 carats per hundred tons.

SMD started commercial production in 2012 and has a remaining life of mine of +20 years. The mine management has stabilised the production through cost-efficient operations, stable and sustainable production volumes and low operating costs. Output is characterised by high percentage of gem-quality stones and a frequent occurrence of fancy stones, which makes it popular in the rough diamond market.

The production and sales statistics from 2016 to 2018 are as follows:

Period	Ore Mined (tons)	Waste Mined (tons)	Tons Treated (tons)	Diamonds Recovered (carats)	Diamonds Sold (carats)
2016	2 905 488	1 839 698	3 210 848	137 862	118 397
2017	3 857 098	1 122 521	4 103 344	190 572	167 751
2018	4 424 463	931 483	4 485 244	184 132	169 707
TOTAL	11,187,049	3,983,702	11,799,436	512,566	455,855

All Kao diamonds are sold through a tender process in Antwerp, Belgium where 80% of the world's diamonds pass through. Diamonds are valued on-mine and both checked and approved by officials from the GoL prior to export which takes place bi-monthly. Upon arrival in Antwerp the marketing agents (currently Bonas Cousyns) arrange for boiling and assortment of the diamonds into relevant batches for the tender process.

Over a two week period the diamonds are then viewed by up to 200 potential buyers who then place bids on a secured platform to purchase the diamonds. At the end of the process SMD management considers all the bids on the diamonds and accepts the highest bids should they be acceptable in terms of the current market conditions and value of the diamonds. The diamond market is currently under pressure with price drops of over 30% experienced in some of the size ranges.



2.2 LIQHOBONG MINE

Liqhobong mine resource comprises of the Main Pipe and the Satellite Pipe, both covering 8.6 hectares and 1.6 hectares at surface respectively. The Satellite pipe is largely depleted, and current and future mining is only focused on the Main Pipe which has a resource of over 77 Mt at an average grade of about 23 carats per hundred tonnes (cpht), containing 18 million carats (at 1.25mm Bottom Cut Off) to a depth of 510 meters below surface.

The main treatment plant has a design capacity of 500 tons per hour. It has a conventional Dense Media Separation (DMS) circuit with X-ray technology for final recovery of diamonds. Production statistics since the mine started are as follows:

	YEAR	
	2016/17	2017/8
Waste mined	1,784,894	2,910,636
Ore Treated	1,966,493	3,802,568
Carats Recovered	365,891	835,832

The bulk of the production carats from Liqhobong Mine is classified as Run of Mine ('ROM') - which is diamonds smaller than 2 ct. The Liqhobong goods have a high occurrence of exceptional fancy yellow diamonds. Occasionally, a variety of other colours including blue, pink and purple have also been produced. There is also a notable population of intermediate size diamonds.

LMDC diamond production is currently cleaned, valued and sold by First Element Diamond Services under a fixed contract. Sales are by way of open tenders in Antwerp, Belgium and other international diamond centres approximately every 6 weeks, with each diamond parcel awarded to the highest bid received. Carats sold were as follows:

	YEAR	
	2016/17	2017/8
Carats Sold	310 376	831 637

A number of high value stones continue to be recovered at Liqhobong Mine, including our largest to date (133 carat light yellow that sold for US\$0.9 million), our second most valuable stone to date (45 carat white that sold for US\$1.2 million) and the highest dollar per carat for a stone to date (4 carat fancy pink which achieved a sale price of US\$112 781 per carat).

Liqhobong special recovered diamonds



2.3 LETŠENG MINE

2.3.1 Letšeng Mineral Resource

PHASE OF KIMBERLITE	TONS	CPHT	CARATS
K1	166 391 100	1.50	2 488 000
K6	26 400 399	2.41	637 000
K4	3 401 691	1.05	35 500
Main Pipe Total	196 193 190	1.61	3 160 500
NVK	19 044 864	2.22	423 400
SVK	41 094 669	2.66	1093 000
Satellite Pipe Total	60 139 533	2.52	1 516 4000
TOTALS	256 332 723	1.82	4 676 900

2.3.2 Production

	Waste tonnes mined	Ore tonnes mined	Ore tonnes treated	Carats recovered
2016	29 776 058	6 694 753	6 646 098	108 206
2017	29 718 985	6 717 905	6 439 299	108 513
2018	25 809 076	6 139 077	6 532 596	126 875

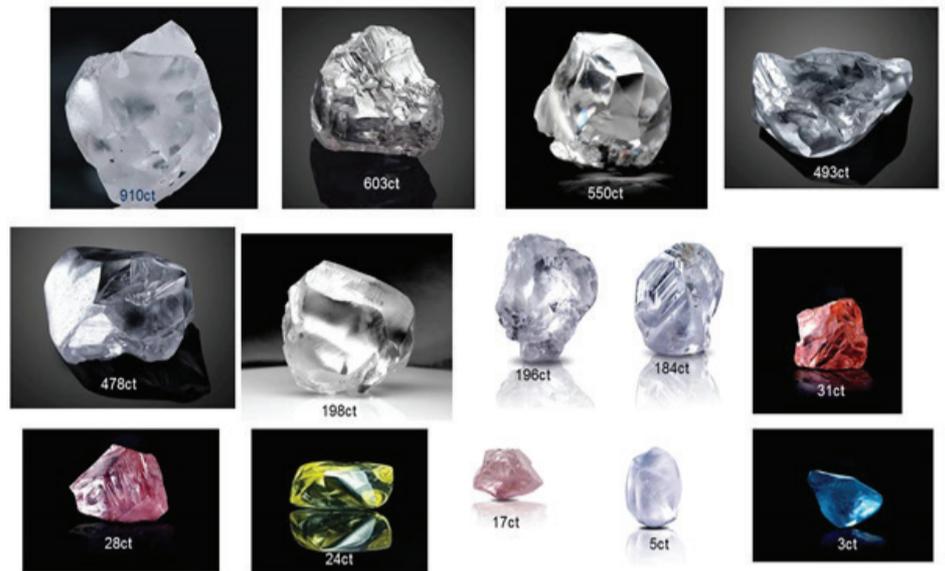
Letšeng recovered a record 15 diamonds greater than 100 carats during 2018, including the magnificent 910-carat Lesotho Legend, which was the largest diamond ever recovered at Letšeng and the fifth largest gem-quality diamond recovered globally. The trend for improved recoveries in 2018 was consistent across all size categories, with a 21% increase from 2017 for the total number of diamonds recovered greater than 20 carats.

2.3.3 Marketing and Sales

Letšeng's diamonds are predominantly sold through a tender process by Gem Diamonds sales and marketing operation in Antwerp, Belgium. Through mapping and analysis, the value of Letšeng's high-quality diamonds is determined and used to achieve the highest rough value through multiple selling channels. Following viewings by customers in either Antwerp, Belgium or Tel Aviv in Israel, Gem Diamonds' electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. All Letšeng's rough diamonds are sold on tender, unless extracted for either manufacturing or strategic partnerships.

	Carats recovered	Carats Sold	Average price per carat (US\$)
2016	108 206	108 945	1 695
2017	108 513	107 152	1 930
2018	126 875	125 111	2 131

Letšeng special recovered diamonds



2.4 MOTHAË MINE

The main southern lobe at Mothae has a surface expression of 5.05 hectares, with the neck and northern lobes producing a total combined surface area of 8.81 hectares. The kimberlite has been extensively diamond drilled and bulk sampled, enabling a JORC compliant resource to be defined to a depth of 300m.

The JORC compliant resource, which excludes the neck area, contains 1.0 million carats in 39 million tonnes (Mt) of ore at a grade of 2.7 carats per 100 tonnes ("cpht"). A total of ~25Mt of the mineral resource is planned to be mined and treated over the 13 year planned life of mine. Of this, 2.4Mt is in the Indicated category and the balance of 22.9Mt is in the Inferred category. Due to the quantity of bulk sampling required to define Measured and Indicated resources for diamonds, particularly for low grade deposits, it is not unusual for a significant portion of the mining plan for a kimberlite mine to consist of resources in the Inferred category. For a low-grade deposit, the extension of an Indicated resource is generally only achieved through progressively deeper mining of larger tonnages.

In the first six months of 2019, Mothae produced 13,267 carats of diamonds from a total of 548,450 tonnes of kimberlite material treated. Throughput, carat production and recovered diamond grades were all ahead of plan, primarily due to the efficiency of the new 1.1Mtpa diamond plant in treating the weathered kimberlite material, resulting in the liberation of additional small diamonds below the plant's 3mm bottom cut-off screen size. Cash operating costs for the first six months of operation were M178.15 (US\$12.56) per tonne treated.

	Jan – June 2019
Ore Treated	548,450
Carats Recovered	13,267

However, as referenced below, the improved operating efficiencies of the new Mothae mine have been delivered against a backdrop of challenging conditions in the global diamond sector, which have put pressure on diamond prices and operating revenues. Continued improvements in operating efficiency and cost management are therefore vital in such an environment.

Mothae diamond production is cleaned, valued and sold via a tender process conducted by Mothae's marketing agent, Bonas Couzyn in Antwerp, Belgium, with each diamond parcel awarded to the highest bid received that exceeds the reserve price. To date in 2019, including a portion of 2018 pre-production diamond recoveries, 16,795 carats of diamonds have been sold in Antwerp for total proceeds of ~US\$9 million (LSL126 million), representing an average price per carat of US\$539 (or US\$661 for the +11 sieve size fraction).

	2019 YTD
Carats Sold	16,795

Individual Mothae diamonds have achieved sale prices of up to US\$36,000 per carat.

Mothae special recovered diamonds



3. INVESTMENT, FINANCIAL PERFORMANCE AND CONTRIBUTION TO GOVERNMENT FISCUS

3.1 KAO MINE

SMD is proud to say that in contrast to its predecessors, it has operated the Kao kimberlite relatively successfully despite all the odds against it. SMD has to date paid to the Government of Lesotho royalties amounting to M358 million, mining lease payments (surface rental) of M10 million, withholding tax of M155 million, and PAYE on the salaries of employees of M131 million, a total direct benefit to GOL amounting to M654 million. From 2016 to 2018 SMD contributed to government fiscus a total amount of M289 million:

Period	PAYE (M)	Withholding Tax (M)	Surface Rental (M)	Royalties (M)	GRAND TOTAL
2016	19,078,000	20,529,546	1,741,700	33,353,291	74,702,537
2017	21,062,452	17,813,319	1,701,655	47,017,792	87,595,218
2018	23,849,378	49,031,240	1,619,698	52,160,898	126,661,214
TOTAL	63,989,830	87,374,105	5,063,053	132,531,981	288,958,969

This success has not come by accident. The Kao kimberlite deposit remains the same marginal ore body that it has always been. It has been through prudent management of expenditure on the one hand, and increasing the economies of scale on the other, that the mine has managed to become a viable business. Both the cost management and the increase in economies of scale could only have been achieved through substantial capital investment into the business. The main capital outlays have been to firstly increase the production volumes from the onset, and then to increase the production output in 2016.

A further capital outlay was to fund the extension of the national power grid from Ha-Lejone as a major cost saving initiative. This cost was M112 million. Namakwa Diamonds has supplied more than US\$110 million of the capital required to build Kao Mine. At end of financial year, 31 August 2018, SMD made a comprehensive loss of M174 million.



In the financial year 2017/18, SMD spent M509 million on procurement of goods and services, 74% was on local suppliers and 26% on foreign based suppliers, mostly on OEMs.

3.2 LIQHOBONG MINE

3.2.1. Direct payments to the Government of Lesotho

The Company has paid a total of M407.1 million to the Government of Lesotho since inception of the project in 2011 in the form of various taxes as shown below:

Direct contributions to Government of Lesotho - 31 March 2019

LSL'000	2011 - 30 June 2018	YTD Mar 2019	2011 - 31 Mar 2019
Withholding Tax	176,058	13,959	190,017
PAYE	88,035	21,584	109,619
Royalties	62,581	26,483	89,044
Mining Lease rental	2,535	394	2,929
Non-refundable input VAT	12,372	3,089	15,442
Total funds paid to GoL	341,582	65,469	407,051

In the current year starting July 2018 to 31 March 2019 a total of M65.5 million has been paid.

3.2.2 Cash injected into the local economy via payments to employees and companies registered locally

The company has paid a total of M188 million in the form of salaries to Lesotho citizens and M2.2 billion to locally registered companies who supplied goods and services to the Company since beginning of the project. Payments in the current financial year were M36 million and M318 million respectively for salaries and payment to local registered companies as at 31 March 2019.

3.2.3 Investment and Performance

In 2014, Firestone raised US\$222.4 million to bring Liqhobong Mine into production, targeting 1 million carats per annum and construction was completed in October 2016. The mine has been steadily producing ever since. The Company started the business with a total investment of M2.976 billion in fixed assets which included Processing Plant and other plant and

equipment. No major investment outside of Stay-In-Business capital has been made since 2016. The financial year ended 30 June 2018 marked the first full year of production and the Company ended in a net loss position of M310 million.

3.3 LETŠENG MINE

The total investment at Letšeng Diamond Mine to date is US\$126 000 303. Letšeng's financial performance in 2016, 2017 and 2018 was as follows:

Letšeng costs	Year ended 31 December 2016	2017	Year ended 31 December 2018	Lesotho US\$'000
Unit costs US\$				
Direct cash cost (before waste) per tonne treated ¹	10.70	11.24		
Operating cost per tonne treated ²	14.64	19.96		
Waste cash cost per waste tonne mined	2.09	2.50		
Unit costs (local currency)				
Direct cash cost (before waste) per tonne treated ¹	157.29	149.54		
Operating cost per tonne treated ²	215.13	265.57		
Waste cash cost per waste tonne mined	30.69	33.23		
Other operating information (US\$ million)				
Waste cost capitalised	70.4	84.0		
Waste stripping costs amortised	34.7	67.9		
			Revenue	
			Total revenue	262 636
			Intersegment	(262 636)
			External customers	
			Depreciation and amortisation	76 537
			- Depreciation and mining asset amortisation	8 332
			- Waste stripping cost amortisation	68 205
			Share-based equity transactions	317
			Segment operating profit/(loss)	88 815
			Net finance costs	743
			Profit/(loss) before tax	89 558
			Income tax expense	
			Profit for the year	
			Segment assets	358 646
			Segment liabilities	62 753
			Other segment information	
			Capital expenditure	
			- Property, plant and equipment ²	22 628
			- Waste cost capitalised	79 294
			Total capital expenditure	101 922

Letšeng has paid over M8.0 billion to the fiscus since Gem took over the mine in 2006. In the past three years, the contribution has been as follows:

	Royalties (US '000)	Dividends (US '000)	Lease and licence payments (US '000)
2016	14 624	13 963	126
2017	16 200	-	137
2018	20 850	20 742	131

The in-country procurement was US\$152.3 million in 2018, US\$174.3 million in 2017 and US\$121.6 million in 2016. Procurement from the local communities (PACs) was US\$1.1 million in 2016, US\$2.0 million in 2017 and US\$2.1 million in 2018. The procurement from regional communities (Leribe, Buttha Buthe was US\$24.9 million in 2016, US\$27.9 million and US\$32.3 million in 2018).

3.4 MOTHAE MINE

3.4.1 Contribution to Government fiscus and the local economy

Direct contributions to Government of Lesotho: January 2017 – July 2019

Lucapa has paid a total of LSL47 million to the GoL since its involvement in the project in 2017 in the form of various taxes as shown below:

LSL 000's	Total
Withholding Tax	11,933
PAYE	12,978
Royalties	7,532
Mining Lease rental	3,632
Non-refundable Input VAT	11,080
TOTAL	47,155

Cash injected into the local economy via payments to employees and companies registered locally

The Company has paid a total of LSL42 million in the form of salaries to Lesotho citizens and LSL215 million to Lesotho registered companies and individuals who supplied goods and services to Mothae since the beginning of the project.

3.4.2 Investment and Performance

Lucapa acquired the 70% interest in Mothae for US\$9 million and subsequently invested in excess of US\$30 million, including the bulk sampling plant, the construction and commissioning cost for the new 1.1Mtpa treatment plant and other associated infrastructure. In addition, Lucapa was able to secure

a finance commitment from The Industrial Development Corporation of South Africa for LSL100 million directly to Mothae.

For the first six months of operation, Mothae generated earnings before interest, tax, depreciation and amortisation ("EBITDA") of LSL10 million (US\$0.7 million) and is planning to generate a net profit in its first year of commercial operation.

4. HEALTH AND SAFETY PERFORMANCE

4.1 KAO MINE

At SMD, we value the health and safety of our people above everything else. Zero harm is our aim, and we are committed to developing innovative solutions to achieve it, while living up to our value to "Put Safety First". The commitment to safety is a focus point for business sustainability - a safe and healthy workplace contributes to an engaged, motivated and productive workforce. As we continue to strive for zero harm, zero tolerance on At-risk behaviour and At-risk conditions is vital. In order to achieve this, we train, equip and empower our employees to work safely every day.

Through comprehensive occupational health and safety management systems, a set of standards and guidelines that establish the foundations for safety excellence, leadership and behavioural change across SMD operations. SMD, over the past 12 months has observed an improved safety performance: all injuries frequency rates (AIFR) declined from 1.18 in June 2018 to 1.14 in May 2019 and with lost time injury frequency (LTIFR) remaining at 0.00 for three years in row. Occupational disease frequency rate remained at 0.00.

The following were the highlights for the year 2018:

- Reaching 1000 LTI free days in December, recognition and rewards were given to employees;
- Operational risk assessment conducted whereby baseline risk assessment was reviewed;
- Occupational Health, Safety and Environment management systems audit;
- Occupational hygiene survey for all occupational health stressors.

Health campaigns have been conducted for the promotion of good health, which included Cancer awareness, HIV/AIDS voluntary testing, Voluntary Male medical circumcision and blood donations. All the campaigns were organized in collaboration with several government entities as well as NGOs.

4.2 LIQHOBONG MINE

At LMDC, our conviction is that safety is an integral part of responsible business practices and will always remain a top priority. We are therefore committed to making sure that we have an occupational health and safety system which impacts all our employees at their various work places. Our strategy is therefore to spend more time on those activities of our business which present the greatest risk. The following performance highlights were for the year 2018 (Jan- Dec 2018)

- 1 Lost Time Injury (LTI) recorded in September 2018
- No occupational illnesses reported and recorded
- Compilation of Fire Risk assessment
- Occupational Health Risk Assessment for all occupational health stressors
- Completion of Health campaigns as part of promotion for good health, this covers HIV/AIDS, blood donations and Voluntary Male medical circumcision
- Successful Management of Change – i.e. transition of mining and Catering Contractors (Basil Read Mining and IFS Lesotho)

4.3 LETŠENG MINE

Letšeng is committed to identifying and mitigating the risks to the health and safety of its employees, contractors and project affected communities (PACs). Letšeng's occupational health, safety and environmental management systems underwent independent audits during 2018 to evaluate its performance against the standards published by the International Standards Organisation (ISO). Following these audits, the operation retained its ISO 14001 certification for environmental management for the fourth consecutive year and was awarded ISO 45001 certification for occupational health and safety management. The ISO 45001 standard has replaced the OHSAS 18001 standard.

4.4 MOTHAE MINE

Mothae is committed to excellence in protecting the environment and the safety and health of its employees and visitors.

In support of this commitment, Mothae has adopted the following guiding principles:

- Compliance with applicable safety, health and environmental laws and regulations both National and International and in terms of its Mining Agreement with the GoL
- Strive to increase awareness of environmental issues and the impact of the mine activities on the environment and to educate, train and motivate members of the mine community to conduct their activities in an environmentally responsible manner
- Foster openness and dialogue with all relevant stakeholders, thereby anticipating and responding to their concerns about potential hazards and impacts of operations
- Develop, design, and operate mine facilities and conduct mine activities taking into consideration the safe and efficient use of energy and materials, the sustainable use of renewable resources, the minimisation of adverse environmental impact and waste generation and the safe and responsible reuse, recycling, or disposal of wastes or by-products
- Promote the adoption of these guiding principles by agents or contractors acting on behalf of Mothae, encouraging and, where appropriate, requiring improvements in their practices to make them consistent with those of the mine, and encourage the wider adoption of these principles by suppliers
- Encourage pollution prevention and waste abatement through institutional changes, such as purchasing policies and specifications.
- Where appropriate contribute to the development of public policy, governmental programs, and educational initiatives that enhance environmental awareness and protection.

Mothae achieved two key safety milestones during the June 2019 half year - one million lost time injury ("LTI") free man hours and one year LTI free, resulting in a zero LTI frequency rate for the mine.

Apart from commercial mining in the June half, these safety milestones covered a significant part of the plant construction, which is generally considered a high-risk period. In addition, no occupational illnesses have been reported to date.

5. EMPLOYMENT

5.1 KAO MINE

5.1.1 Attracting the best talent in the country

Since the mine started its operation in 2010, it has created employment for locals from the neighbouring villages as well as Basotho nationals across the country. Attracting the right talent, growing and nurturing our talent, and the retention of key skills form the backbone of our Employee Value Proposition.

5.1.2 SMD's strategy is aimed at:

- The effective attraction and retention of employees, by providing competitive rewards, recognition and development opportunities for employees, and ensuring compliance with applicable legal instruments;
- The creation of skills, talent and leadership within our employee pool through effective employee and leadership development programs;
- Building a culture that is values-based, performance-focused and through which teams and individuals are highly motivated – in short, a transformed performance culture;
- Our recruitment, remuneration and promotion policies and procedures aim to ensure that equal opportunities are afforded to all, although there is an emphasis on achieving transformation within our workforce and in meeting our Mining Lease requirements.

5.1.3 SMD is currently facing the following challenges with regard to attraction, selection and retention:

- The market is short of sufficiently qualified and experienced local employees;
- Local talent developed through our localisation and succession processes often move on to other organisations;
- Identified understudies not being committed to their own career development growth and to the company's succession and

development program;

- If critical roles are not filled within a reasonable time, the company incurs financial losses or limits its growth;
- The organisation fights for talent in a limited talent pool, and is under a pressure to offer highly competitive packages;
- Local communities have certain expectations, which some are increasingly difficult to deliver on as the mining operations require highly specialised skills and can only take a certain number of employees in semi-skilled or unskilled positions.

5.1.4 The current staff composition is as follows:

Total headcount (including contractors) as at 30th June 2019:

710 employees

Locals : 675 Expatriates: 35

Male : 571 Female: 139

Local community: 220

5.1.5 Growing and nurturing talent

SMD is firmly committed to attracting, developing and retaining qualified individuals who will execute the business model and strategy well and exemplify the culture and behaviours that the organisation values most. While expatriate expertise is essential in establishing our mining operations, SMD is committed to the recruitment, training and development of local citizens. Through assistance in reaching their full potential in a particular discipline, it is anticipated that these employees will, in a phased approach, reduce the numbers of expatriate specialists at Kao Mine.

SMD still requires the expertise of these individuals, but we are committed to our localisation plan to address the skills imbalance. Thus, a localisation plan can be defined as an accelerated staff progression process for high potential employees who are citizens of Lesotho, and have been assessed and evaluated as having the capacity to be rapidly developed as skilled technicians, supervisors and managers within the company. SMD has developed a process for localisation planning and development. This process reflects a cyclical series of activities that include these fundamentals:

- Identifying Basotho that show the ability and potential to be developed into expatriate roles
- Do a skills gap analysis to identify the gaps for training and development
- Develop individual development plans for each identified successor
- Track, monitor and evaluate the progress made through various training methods
- Report quarterly on progress made through various training initiatives

Understudies need to be committed to the process to ensure a return on investment. We track, monitor and evaluate progress made on the skills development program quarterly as well annually through panel discussions. We have also invited the Labour Department to form part of these reviews. The company reports back to Labour Department on the progress made with all the training and development initiatives planned for understudies.

5.2 LIQHOBONG MINE

5.2.1 Human Resource challenges in securing skills

Due to the nature of the operation, LMDC realised that the shortage of mining skills posed a threat to its operations. LMDC through its Succession and Localization initiatives strives to ensure that there is skill readily available in the business as and when required to ensure that the business continues without interruptions as and when key and critical skills roles become vacant. The company also through these initiatives ensure that it retains the key personnel through career pathing and other retention mechanisms subsequently enhancing a high-performance culture.

LMDC operates in an industry and country where there is generally shortage of skilled and experienced personnel in technical positions. This has led to the competition of mining related skills among the Lesotho Mines. Recruiting for these positions is costly and time consuming. To close the aforementioned gaps, LMDC has employed a number of strategies ranging from the attraction, development of key personnel and retention. LMDC has went further to identify positions which are critical and scarce in the company and countrywide and devised means and ways of managing these key personnel.

5.2.2 Nature of Mining Operations: Skills requirements in highly specialized area

Mining is a complex operation, it is a new business in Lesotho and the roles mentioned above require some University Degrees in respective fields coupled with experience of more than ten years at senior management levels. The highly specialized areas mentioned above are strategic roles

which if not handled with care could jeopardize the business operations.

5.2.3 Total Mine Complement

The total Mine complement as at 31st May 2019 is **650**.

Locals	620 (95.4% of the total work force)
Expatriates	30 (4.6 % of the total work force)
Males	513
Females	141
Local Community	168

5.2.4 Required interventions in creating talent pool through skills transfer programs:

LMDC strongly believes in building a talent pool to meet the future needs of the Mine and have a competitive advantage. The identification of key areas and critical positions is guided by the LMDC Succession Management and Localization Policy as well as the Guidelines for Talent Management, this applies to the Business Partners/Contractors as well.

The following are required in creating a talent pool:

- Attracting talent through Recruitment and Selection of the right fit candidates
- Identifying talent through Performance Management System
- Developing Talent through Training and Development, job rotation, succession management
- Talent retention through career pathing, job rotation, coaching and mentoring etc.

5.3 LETŠENG MINE

The attraction and retention of skills remains an ongoing challenge at Letšeng. Working in a remote area and remunerating in a globally weak currency remains a challenge when attracting skilled employees. Localisation objectives, difficulties experienced in obtaining work permits for skilled expatriates and increasing competition for skilled personnel from other mining companies in Lesotho contribute to the challenges experienced in retaining the appropriate skills at Letšeng. During 2018 98% (2017: 97%) of the workforce at Letšeng comprised Basotho with a total mine complement of over 2189 employees. These percentages included both directly employed by Letšeng Diamonds and contractors.

Letšeng's success and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced human resources, especially in an environment and industry where skills shortages are prevalent and in light of the government's localisation drive. Letšeng regularly reviews human resources practices, which are designed to identify areas of skill shortages and implements development programmes to mitigate such risks. In addition, these programmes attract, incentivise and retain individuals of the appropriate calibre through performance-based bonus schemes and long-term reward and retention schemes.

5.4 MOTHAE MINE

5.4.1 Human Resource Management and Attraction/Retention of Required Skills

The Mothae skills development strategy focusses on creation of in-country skills and capacity through selective recruitment of citizen employees who are then developed to front-line and leadership positions within the Company. This strategy gives effect to the skills transfer requirements of our partner, the GoL.

The mine commenced with commercial production operations on 1 January 2019. In terms of organisational design, the mine set up a very flat manning structure with only two expatriate departmental heads. A variety of strategies have been put in place to further develop and to retain key staff in an industry short of skilled and experienced personnel, particularly in technical disciplines.

To date, Mothae has been successful in attracting and retaining key specialists that ensure operational success at all levels within the departmental business units. This has been achieved in a climate of fierce competition for available talent through the establishment of an inclusive and development-focused culture and a competitive remuneration strategy.

5.4.2 Total Mine Staff Complement

At the end of July 2019, excluding contractors, Mothae employed 258 staff members, of which 98% were Lesotho nationals and 31% were female. The overall mine staff complement, including contractors, is 377 employees, and is sub-divided into the following skill categories:

- 4% Management (16)
- 8% Supervisory (32)
- 23% Skilled (85)
- 33% Semi-skilled (124)
- 32% Unskilled (120)

Mothae's operating strategy is to retain full operational control of all core functions and it successfully operates and maintains the processing plant, engineering functions, as well as stores and procurement, camp and accommodation functions. Outsourced functions currently include mining operations, operation of the power supply generators, perimeter security & access control services and independent security surveillance monitoring and review.

6. COMMUNITY EMPOWERMENT

6.1 KAO MINE

At SMD, we recognize the importance of engaging and working in collaboration with the communities in which we operate. Therefore, we continue to play a meaningful role in the community development. The company actively engages with local communities to make a positive contribution through sustainable programs. Despite all the challenges of the past experienced by SMD in engaging with the community, we pride ourselves on the level of direct participation we continue to see in the communities that are affected by our mining operations and the benefits that it is generating. We have embarked on extensive initiatives to develop mine communities with the major focus being on:

1. Education
2. Development of Sustainable income generating projects
3. Support to local businesses
4. Health
5. Other projects that are not within the focus areas but benefit the local communities or nation at large.

Some of the key initiatives that have been delivered by the mine from 2016 include, but are not limited to the following:

6.1.1 Education

- Tuition and monthly stipend to Kao students studying at Lerotholi Polytechnic.
- Tuition, uniforms and stationary for Shishila Primary School's Top achiever
- Construction of 3 classrooms at Shishila Primary School at Kao
- Donation of chalkboards, desks and chairs along with other classroom furniture to Shishila Primary
- Provision of portable water to Shishila Primary, including a potable water tank, stand and pipes
- Fencing of Shishila Primary garden and provision of sports goal posts
- Improvement of infrastructure at Shishila Primary and the supply of a parkhome for office use
- Establishment of a fully funded preschool with over 40 children and 2 instructors, paid by the mine
- Provision of sports and playground materials to local primary schools
- Funding of Shishila Primary School trips
- Provision and installation of sea-saws for the school
- Procurement and donation of gardening tools for Shishila Primary School
- Emptying of school latrines and cleaning around toilets for hygiene purposes
- Assisting Shishila Primary with an additional teacher, paid for by the mine
- Provision of building materials for the construction of 3 classrooms at Meeling Primary school
- Supply of water tank 10 000lt and stand to Meeling Primary
- Transportation and installation of conveyors for flooring of classrooms at Mahlekefane Primary School

6.1.2 Development of sustainable income generating projects

In order to ensure economic growth, the mine established a fully equipped poultry project with offices, storerooms, poultry house, working and cleaning equipment, PPE, layer feed, medicines, cages etc. The project also came with 1000 egg layers, and the project sold the eggs to the mine and to the community. The project also employed 16 people and income from the project was for the benefit of the community.

6.1.3 Support to local businesses

- The mine buys fresh produce (vegetables) from the communities surrounding its operations
- Support of local business in the communities by using their services (hiring of vehicles from the community for transport)
- Capacitating local businesses (shops) by purchasing their goods
- Some members of the local community have been engaged by the mine in recycling of waste for income generation
- Supporting one of the local woolsheds by improving the infrastructure

6.1.4 Health

- Provision of more than 10 communal drinking water taps in the Shishila Village, the project is going with installation of more in other adjacent villages
- Ongoing construction of 202 VIP toilets in the surrounding villages
- Mine clinic provides medical care for the locals in cases of emergencies
- Free medical transportation for ill and injured community members
- Response to road accidents offsite
- Health awareness campaigns for the community

6.1.5 Other projects that are not within the focus areas but benefit the local communities or nation at large

- Maintenance and in some cases construction of access roads in the villages
- Frequent donation of food parcels, blankets and mattresses to the vulnerable Kao Residents
- Daily maintenance of Tlaeng to Kao 33Km road with the costs exceeding M7 million in 2018
- Direct employment by the mine of around 200 local community members
- Capacitating and supporting sports in the villages by sponsoring soccer tournaments and donations of sports kits.

The mine is in the process of constructing new relocation village for Tiping villagers who are directly impacted by the mining operations and the cost of relocation including compensations of the affected, construction of access roads, water reticulation and building of houses, is over M30 million.

To sustainably manage the development projects delivered by the mine to the community, there are certain set of skills required and most of the Kao community did not have privilege to complete formal education, therefore the mine collaborated with LDTC which opened a learning post at Kao in May 2019. The mine has further has embarked on extensive program of developing skills for the local community, the collaboration has been established with one of the local tertiary institution and also one of the vocational centres.

6.2 LIQHOBONG MINE

LMDC recognize the importance of integrating business values and operations to meet the stakeholder's expectations. Key among our stakeholders are the communities within which we operate. The reality is that no organisation operates in isolation; there is interaction with employees, customers, suppliers and stakeholders. We therefore recognise that Corporate Social Responsibility (CSR) is about managing these relationships to produce an overall positive impact on society, whilst making realizing Return on Investment.

LMDC has developed and adopted a CSR policy to guide the company's contribution to the communities within which we operate. Our CSR investment focus is primarily around education and training, small business empowerment, and community health, as we believe that these are likely to deliver the most significant and sustainable benefits considering the location of the project and the socio-economic needs of both the local community and the country in general.

Other areas which share the same values and principles with LMDC will also be supported as and when it may be deemed necessary. Some key community initiatives or projects delivered to date include:

6.2.1 Education

- Construction of classroom building for a pre-school at Liqhobong, Itekeng Pre-Primary School
- Donation of tables, chairs and education material to Itekeng Pre-Primary School
- Tuition support for vulnerable children at Itekeng Pre-Primary School
- Construction of two classrooms and staff room for Liqhobong Primary School
- Improvement of infrastructure for local primary schools, Liqhobong and Motete Primary Schools through provision of paints and painting tools

6.2.2 Road and Infrastructure

- Regular maintenance of the road that connects Liqhobong and Motete
- Construction of two river crossings at Kao and Ha Sello
- Construction of foot bridges for school children

6.2.3 Water and Sanitation

- Improvement of access to clean water for the community of Liqhobong and Pulane villages through provision of portable water through 26 community taps
- Construction of pit toilets for the community of Liqhobong and Pulane (ongoing)

6.2.4 Local economic empowerment

- An initiative to buy agricultural produce from the local communities has been initiated wherein the local community supplies the mine with fresh vegetables and eggs on a weekly basis

LMDC also responds to emergencies and accidents that occur in the surrounding villages when there is a need. The response entails on the scene care and management of victims in case of accidents and transfer to the nearby 'Mamohau Hospital.

6.2.5 Our future plans include:

6.2.5.1 Education

- Tuition support for a selected number of girls in the local primary and high schools to close the socio-economic gender gap in our rural society

6.2.5.2 Local economic empowerment

- Support of small business through enhancing their capacity (financial management training and development of entrepreneurial skill through trainings)
- Identification of other business opportunities for small local businesses within LMDC's operations

6.3 LETŠENG MINE

As a committed corporate citizen of Lesotho, Letšeng Diamonds Pty (Ltd) (the Company) whole-heartedly adopts and embraces the principles of Corporate Social Responsibility and Investment (CSRI), addressing the company's overall response to economic, social and environmental considerations and in addition to its regular business activities. Accordingly, the Company strives to establish strong relationships with local communities, the nation and other stakeholders through a strong and effective Corporate Social Responsibility and Investment (CSRI) strategy as an integral part of its mining business strategy. The Company takes a broader view of its role in the society and therefore realises the importance of socio-economic development, ethics, safety, health, environmental management, human rights and economic development and fair labour practices.

KEY PROJECTS	COSTS
Wool and Mohair Project	M4 641 038.29
Health Project	M4 152 401.10
Butha-Buthe Green Vegetable Project	M2 231 262.00
Liphamola Dairy Project	M6 674 931.56
High Altitude Summer Marathon (2010-2017)	M2 835 000.00
Educational Scholarships	M11 846 271.63
Classrooms and blocks in schools	M2 667 632.00
Ablution facilities in schools and villages	M 1202 116.00
Footbridge and Chief's Office	M1 083 138.00
Donations to orphans, training of youth, food security projects	M1 138 290
	M41 974 828.87

7. OUTLOOK



The aim of all community projects is to create viable and sustainable community income streams that last beyond the life of the mine and in this way, to ensure that the surrounding community derives a direct benefit from the mineral wealth of the area. In line with our ongoing desire to build meaningful, long-term and mutually beneficial relationships with our surrounding communities and to mark the recovery of the Lesotho Legend, the 910 Community Project was initiated. Following consultation with community leaders, and in line with the agricultural focus of many of our other social initiatives, the construction and development of a commercial poultry and egg farming co-operative was identified as the preferred community project. A feasibility study has been commissioned to better understand the potential socio-economic impact of this project and to determine the investment required.

6.4 MOTHAE MINE

Mothae associates itself with transparent and ethical behaviour, consistent with a sustainable development ethos. The Company is committed to Corporate Social Investment ("CSI") as an integral part of its sustainable social development program for the empowerment and economic upliftment of its host communities. All CSI initiatives are carefully considered to be consistent with the interests of mine-affected communities and stakeholders.

Some key objectives of the Mothae CSI programs include:

- Promotion and implementation of socially and environmentally desirable corporate conduct
- Promotion of sustainable development through community involvement, community development and social investment
- Building open, honest and constructive relationships with host communities and other stakeholders
- Improving the quality of life of host communities
- Full compliance with sector-wide standards, principles or guidelines

Current key focus areas are:

- Education
- Capacity building and skills development
- Community development
- Sports and culture
- Support for small businesses
- Financial assistance/sponsorship to reputed NGOs involved in the upliftment of the standard of living of the society

Some of the current initiatives include:

Take a girl child to school

An initiative that identified the three best performing girls in the district of Mokhotlong to receive a bursary from Mothae to pursue their high school education. The three qualifying girls are now furthering their education at St. James High School in Mokhotlong, Lesotho. The total investment is in excess of M60,000 per learner, with new learners to be enrolled every year.

Setting up sustainable agriculture projects

A project aimed at capacity building for local farmers to produce larger quantities of fresh produce for their household consumption, supplying Mothae and for selling to the community was kick-started in 2018 with a donation of seeds, pesticides, pesticide sprayers, watering cans and other farming tools to farmers in neighboring villages. Mothae continues to purchase agricultural produce such as potatoes, pumpkin, cabbage, butternut, beans and eggs from producers in the Mokhotlong community, with total purchases to date in excess of M500,000.

Short term employment opportunities from within neighboring villages

Mothae has been providing short term employment opportunities for at least 15 individuals for two weeks per month since mid-2018. Individuals are recruited from nearby villages, following formal registration, on a rotational basis to afford all an opportunity.

7.1 KAO MINE

The mine remains marginal. The high grade areas of the pipe have all been depleted. The continued viable operation of the mine remains challenging, with lower diamond prices affecting the profitability of the business despite good production results. The fluctuations in the diamond prices are considerable and when the markets are down then SMD can quickly become loss-making, despite good production. Production costs at SMD are going to rise in the next years due to increased waste mining necessitated by the mine plan. SMD will continue to require stay-in-business capital. While parts of this capital can be funded from reserves, large capital outlays will require investor funding. In around 7 years SMD will require significant capital to relocate its plant.

The development of Kao and other mines in Lesotho is not possible without Foreign Direct Investment. The Kao narrative shows that large amounts of money were invested in a high risk mine, without which the development of the mine would not have been possible. The investment into the mine's development has thus far resulted in direct benefit in levies and taxes to the GOL in the amount of M654 million. The mine has also created employment for more than 700 employees. Despite a challenging outlook, SMD, with a predicted life of mine of over 20 years, looks forward to working with all its stakeholders in order to operate sustainably and maximise its benefits.

7.2 LIQHOBONG MINE

7.2.1 Market Outlook – Short Term

There has been a drop in rough prices from the highs of 2013/2014, and this is impacting negatively on the overall global diamond business. Smaller, lower quality goods under pressure since Indian demonetisation event and again during 2018 mainly due to:

Oversupply of smaller diamonds (fines) from new mines – Gahcho Kue and Renard in Canada; Liqhobong in Lesotho.

Midstream finance – taken over the burden of stockpiling rough. Due to growing bad debt, bankruptcies and fraud, leading western banks withdrawing from financing market.

Perceived threat from Lab Grown Diamonds (LGD's)

7.2.2 Market Outlook – Near Term

There is no doubt the supply of natural diamonds is gradually dwindling with closure of some mines and aging of others with resultant reduction in production. However, rough diamond production is expected to decrease in short term due to depletion of existing mines, most notably Argyle mine in 2020, which is currently producing around 14 Mct per annum of mostly low value stones which should see the market begin to recover.

Paul Zimnisky (a notable diamond industry analyst) predicts that at current diamond prices, the global portfolio of diamond mines will shrink from over 50 commercial mines today to an estimated 14 by 2040, consequently production in carat volume will fall from 145 million carats to roughly 60 million carats. In order to maintain what is currently a \$90 billion natural diamond jewellery industry, diamond prices would have to more than double. Demand is still expected to exceed supply in the longer term starting with the imminent closure of Argyle in 2020.

7.2.3 Market Outlook – Long Term

The US is expected to continue to lead demand for diamond jewellery with real GDP growth of between 2% and 3%. China and India are increasingly becoming major growth centres for diamonds with expansion of their middle class and increased disposable incomes, driven by robust and modest economic growth.

It is estimated that for rough prices to grow it is essential that demand for natural diamond jewellery is stimulated through effective marketing. There are ongoing marketing initiatives driven by major players in the industry such as De Beers, Alrosa and their downstream partners.

Global management consulting firm Bain expects demand to grow up to 2% in real value terms. LMDC has a large Mineral Resource – with current Life of Mine (LOM) plan (cut 2) depleting only 38% of the total defined resource tonnes. There are two years to decide LOM extension (cut 3) based on slope angles, diamond price and exchange rate.

In Summary:

- Market recovery – at current low share price and market cap, LMDC well positioned to take advantage of recovery in diamond prices
- Recoveries of special stones – as we continue to mine deeper the possibility exists that the frequency of specials can improve.
- Operational efficiencies – further improve throughput and availability.
- X-ray Transmission Technology (XRT) – investigate incidence of the high value Type 2A stones that are potentially missed by current X-ray technology
- Lesotho consolidation – highest grade mine in Lesotho with exemplary production record and low

7.3 LETŠENG MINE



Demand for large high value rough diamonds remained resilient against global diamond market pressures. The ageing and depletion of existing diamond mines will, in the medium term, result in a steady decrease of the global diamond supply. This will be marginally offset by limited additional supply from new mines in the short to medium term. Rough diamond production has declined considerably since peaking in 2005 and is not

expected to recover to the preglobal financial crisis levels of approximately 168 million carats per annum. Rough diamond production is believed to have peaked at 151 million carats in 2017 and annual global diamond production is expected to steadily decrease to around 110 million carats by 2030.

The projected supply from new mines is expected to add an additional 21 million carats a year until 2026 and thereafter output from these mines is expected to decrease to around 16 million carats by 2030. The additional supply from these new mines is not expected to compensate for the expected growth in demand during the same period. Letšeng achieved an average price of US\$2 131 per carat during the year, retaining its standing as the highest average dollar per carat kimberlite diamond producer in the world. The increase in average US\$ per carat from last year's US\$1 930 per carat, was driven by an improvement in the size and quality (fifteen +100 carat diamonds were recovered compared to seven in 2017) of Letšeng's production during the year. The mine places Letšeng Diamonds at the top end of the diamond market in terms of the size and quality of its large diamond production, with its greater than 10 carat diamonds accounting for 80% of its revenue in 2018.

In the short term, notwithstanding the uncertain impact of man-made diamonds on the smaller, more commercial polished diamonds, it is expected that demand for polished diamonds will remain stable and that the prices for Letšeng's unique, large, high-value rough diamond production will remain robust.

The emphasis for 2019, and beyond, remains on positioning Letšeng Diamonds for continued sustainable growth by leveraging on its strengths and by focused investment. Mining is a cyclical industry, but also one that involves taking decisions that have implications over long periods of time.

Letšeng understands that it is its task to balance these periodically competing timelines and that its focus must remain on positioning the itself to thrive throughout the cycle. Going forward, Letšeng will continue to drive the rigorous approach to efficiency embodied in the Business Transformation programme and will ensure that the improvements become embedded in our operational systems and culture for the long-term benefit of all stakeholders.

Some of the key areas of focus going forward will include investing in cutting edge technology. This will ensure early identification of liberated diamonds, identification of diamonds within kimberlite, a non-mechanical means of liberating these diamonds within the kimberlite, enhancement and upscaling of detection technology to process particles up to 150mm in size and non-mechanical means of fragmenting even larger particles to liberate detected diamonds.

7.4 MOTHAE MINE

As previously noted, there has been significant pressure on rough diamond prices from the highs of 2013/2014. A perceived oversupply of lower value rough diamonds, lack of financing in the mid-stream/ manufacturing sector and high polished diamond inventories have led to a reduction in rough demand and therefore rough prices.

This is impacting all diamond miners. For most companies in the sector, sale prices being achieved are lower than forecast, directly affecting revenues and profitability. For these reasons, the shareholders of Mothae and the mine management team continue to pursue operational efficiencies and cost reductions to optimise unit costs.