



Sustainability Report
2014



Lucara Diamond

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Our Mission

To build a leading African-focused diamond production and development company.



Our Values

- A healthy and safe work environment
- Entrepreneurial spirit
- Creation of shareholder value
- Create positive economic and social impact on local communities where we operate
- Focus on larger-scale advanced diamond projects
- Seek value opportunities
- Contribute to the Lundin Group's history of success and excellence in wealth creation for all stakeholders



CORPORATE PROFILE

Lucara Diamond Corp. (Lucara) is a new diamond producer. Its two principal assets are the producing Karowe mine in Botswana and the Mothae project in Lesotho. The 100 percent owned Karowe Mine (Karowe) is a state-of-the-art mine which was fully commissioned in Q2 2012. At the 75 percent owned Mothae project, we have completed the trial mining stage and are reviewing a number of development options. Both Mothae and Karowe are large scale assets with tonnage and throughput upside and production has consistently included large, Type IIA stones. Lucara is a member of the Lundin Group of Companies and is listed on the TSX Exchange, NASDAQ OMX First North Exchange, and the Botswana Stock Exchange under trading symbol "LUC". The Lucara Diamond head office is located in Vancouver, Canada.



ABOUT THIS REPORT

This report is Lucara's third annual sustainability report. It is our first sustainability report that is structured in accordance with the Global Reporting Initiative's new fourth generation guidelines (GRI-G4). The report has been compiled in accordance with the 'core' level GRI G4 disclosure requirements, and includes material disclosures from the revised G4 Mining and Metals Sector disclosures. The reporting boundary of this report is limited to Karowe, Lucara's operating asset, unless noted otherwise. The data presented for Karowe generally covers the calendar year 2014.

In determining the scope, content, and boundaries of this report, Lucara applied the G4 principles and considered: its material sustainability drivers, material risks associated with its activities; operational performance; and, management's judgment of the information needs of its stakeholders. The GRI Content Index for this report is web-posted. There are no significant changes in the scope and aspect boundaries from the previous reporting period. This report has not been externally assured. Assurance of future sustainability reports will be considered taking into account stakeholder interest and other factors. Lucara welcomes your questions and comments, which can be submitted via email to csr@lucaradiamond.com.

MESSAGE FROM THE CEO

Overview

It is my pleasure to present Lucara Diamond Corp's third sustainability report to our stakeholders. It underlines our desire to operate transparently and in accordance with good international practices in the areas of health and safety, environment, and community investment.

Our second full year of operations at Karowe was a success with all operational and cost targets either being met or exceeded. Safety and Health lost-time injury frequency rates for 2014 was 0.2 (measured per 200,000 hours), and 500,000 LTI free hours had been worked on the plant optimization project. For 2014, Karowe reported 1,064,481 lost-time injury free hours and no reportable environmental incidents.

Operating Highlights of 2014

In 2014, we delivered on our major commitments to our shareholders by selling over 412,000 carats for \$266 million at an operating margin in excess of 80%. The increase in revenues of 47% or \$85.0 million compared to the prior year was due to higher prices received for the Karowe diamonds and a larger number of carats being sold in our exceptional stones tenders.

Lucara's year-end cash balance was \$100.8 million compared to a cash balance of \$49.4 million at the end of 2013. The increase in the Company's cash balance was due to its strong operating cash flows, which more than financed the Company's plant optimization expenditure of \$35 million and its dividend payment to shareholders of \$27 million during the year. The Company's Scotiabank \$50 million credit facility remains undrawn.

During the year the company was granted two precious stone prospecting licences within the Orapa area, within 15mn and 30km of the Karowe mine, respectively.



The licences cover known kimberlites where we will focus our exploration over the coming years, looking to grow our Lucara asset base in the country.

On December 22, 2014, we announced that we would divest of the Mothae project based on Lucara's development strategy and the extensive work conducted on understanding the economics of the asset.

Looking Ahead

We remain disciplined with our deployment of capital focusing on completing our plant optimization program to enhance our recovery of diamonds from Karowe and advancing into the higher value south lobe on a sustainable basis during the second half of 2015. We look forward to advancing our exploration program in Botswana and making the decision to dispose of Mothae based on our strict investment criteria.

We will achieve these objectives without compromising on health, safety, or environmental standards. Our workforce, including that of our main contractors at Karowe, already features 98 percent Botswana nationals. Our program to attract and train a number of young graduates and professionals for key positions in our operation is progressing well, and we have expanded corporate oversight and guidance in the Health, Safety, Environment and Community (HSEC) areas. The relevant board committee will continue to meet quarterly in 2015.

Our increase in water use intensity as a result of the harder ore characteristics we are experiencing is expected to stabilize during 2015. We shall closely monitor our water use intensity and investigate efficiency opportunities.

Our community investment programme will continue focussing on early stage microenterprise development in the region hosting our operation and addressing the challenges with expanding the current loan portfolio.

We will remain accountable to our stakeholders and continue to leverage the strong ties we have developed with local communities and government authorities. We will continue to strengthen and expand our innovative partnerships aimed at creating a positive and lasting legacy. As a company, we remain fully committed to the responsible development of our assets to the benefit of all stakeholders. We welcome your feedback to csr@lucaradiamond.com.

William Lamb, CEO

Sustainability Snapshot

Category	2014 Targets	Results	2015 Targets
Governance	Increase Board HSEC Committee meetings	<ul style="list-style-type: none"> <input checked="" type="radio"/> Increased from 2 to 4 meetings per year 	Continue with 4 Board HSEC Committee meetings per year
Economic Benefits	Optimize Karowe’s plant Produce and sell 400,000 to 420,000 carats Roll out training program for young graduates and professionals at Karowe	<ul style="list-style-type: none"> <input checked="" type="radio"/> Plant optimization initiated and implementation in progress <input checked="" type="radio"/> 412 000 carats sold <input type="radio"/> Training postponed to start in 2015 	Complete plant optimization project Maintain sales of 400,000 to 420,000 carats Recruit two metallurgist and a mine planning engineer in training program Appointment of two interns (Safety & Environment and Engineering)
Environmental Performance	Develop a tiered incident classification and reporting system Establish nursery and re-vegetation test plots	<ul style="list-style-type: none"> <input checked="" type="radio"/> Incident classification system implemented <input type="radio"/> Nursery and test plot were not established 	No tier 1 incidents Establish nursery and test plot in 2015
Health & Safety Performance	No fatalities No LTIs No occupational diseases Relocate diamond cleaning process	<ul style="list-style-type: none"> <input checked="" type="radio"/> Achieved <input type="radio"/> 2 LTIs recorded <input checked="" type="radio"/> Achieved <input checked="" type="radio"/> Relocated to Gabarone 	No fatalities No LTIs No occupational diseases Not further target
Stakeholder Engagement	Transition sustainability reporting from GRI-G3 to GRI-G4	<ul style="list-style-type: none"> <input checked="" type="radio"/> Recognized by community leaders for approach to engagement, transitioned to G4 	Continue engagement and GRI-G4 sustainability reporting
Community Investments	Recruit dedicated staff to assist and train loan beneficiaries, monitor and improve loan portfolio Facilitate improvement of Letlhakane abattoir	<ul style="list-style-type: none"> <input checked="" type="radio"/> Recruited staff/consultants to assist and also started training for loan grantees for Round 1 applications <input checked="" type="radio"/> Monitoring and improvement program has been drawn up for 2015 and sent to stakeholders <input checked="" type="radio"/> Project has started and new foundations have been laid 	Mentor and monitor Round 1, train and disburse funds to Round 2 and 3 grantees Complete the new abattoir
Product Integrity	Continue to follow and apply Kimberly Process	<ul style="list-style-type: none"> <input checked="" type="radio"/> Complied with Kimberly Process 	Continue to comply with Kimberly Process

NOTE | LTI IS LOST TIME INJURIES, LTIFR IS LTI FREQUENCY RATE DEFINED AS THE TOTAL NUMBER OF WORK HOURS LOST PER 200,000 WORK HOURS. NOT ACHIEVED PARTIALLY ACHIEVED ACHIEVED
HSEC = HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

OPERATIONS AND EXPLORATION

Karowe Mine

Karowe is an open pit diamond mine with an anticipated mine life of over 12 years. Karowe was officially opened by the President of Botswana, His Excellency Lieutenant General Seretse Khama Ian Khama, on August 17, 2012. Karowe, which means “precious stone”, is located in north-central Botswana and is part of the Orapa/Letlhakane Kimberlite district. This area is one of the world’s most prolific diamond producing areas.

It has a history of diamond mining dating back to 1971, when operations started at the nearby Orapa Mine, one of the largest diamond mines in the world.

Karowe lies on the northern fringe of the Kalahari Desert of central Botswana, and is characterized as flat lying sand savannah which supports vegetation comprised of trees, shrubs and grasses. The natural vegetation has been modified by many years of cattle grazing and limited arable farming. The climate is hot and semi-arid.

The property is accessed by 15 km of all-weather gravel and sand road from the tarred road linking Letlhakane to Orapa.

THE KIMBERLY PROCESS

The Kimberley Process (KP) is a joint governments, industry and civil society initiative to stem the flow of conflict diamonds (rough diamonds used by rebel movements to finance wars against legitimate governments.)

The Kimberley Process started when Southern African diamond-producing states met in Kimberley, South Africa, in May 2000, to discuss ways to stop the trade in ‘conflict diamonds’ and ensure that diamond purchases were not financing violence by rebel movements and their allies seeking to undermine legitimate governments.

It resulted in the creation of the Kimberley Process Certification Scheme (KPCS) and came into force in 2003. The KPCS imposes extensive requirements on its members to enable them to certify shipments of rough diamonds as ‘conflict-free’ and prevent conflict diamonds from entering the legitimate trade.

Under the terms of the KPCS, participating states must meet ‘minimum requirements’ and must put in place national legislation and institutions; export, import and internal controls; and also commit to transparency and the exchange of statistical data. Participants can only legally trade with other participants who have also met the minimum requirements of the scheme, and international shipments of rough diamonds must be accompanied by a KP certificate guaranteeing that they are conflict-free.

Lethakane is the nearest population centre to the Karowe mine, with an estimated population of 25,000. Electric power is provided by Botswana Power Corporation's national grid.

Water requirements for Karowe - and other mining operations in the region - are primarily met by groundwater resources.

Karowe has been advancing a plant optimization project to modify the process plant. This programme was initiated in order to treat harder, more dense ore extracted from deeper portion of the pit and maintain plant capacity of 2.5 million tonnes per annum. The plant optimization includes also the incorporation of new x-ray transmission technology, which is the first to be implemented in Botswana.

Completion and full commissioning is targeted for the second quarter of 2015. Lucara is a participant to the Kimberley Process Certification Scheme (KPCS).

Botswana Prospecting Licences

Lucara was awarded two precious stone prospecting licenses within the Orapa Kimberlite field in close proximity to the Karowe Diamond mine during the year. The Company has ordered a bulk sampling plant and will commence work programs on the two prospecting licenses during 2015. Both prospecting Licenses host known diamondiferous kimberlites.

Mothae Project

The Mothae Diamond Project is situated at an elevation of 2,900 meters above mean sea level in the Maluti Mountains in the northeast of Lesotho. The project is located approximately 150 km northeast of Maseru, the capital, and is characterized by undulating highland plateau and a cool subtropical continental climate. The Mothae mining lease covers an area of 20 km².



The Project hosts a large diamondiferous Kimberlite pipe with an estimated surface extent of 8.8 hectares and is located adjacent to and directly on trend with the Letseng diamond mine, owned by Gem Diamonds.

Mothae Diamonds, which is owned 75% indirectly by Lucara through Mothae Diamonds Holdings Inc. and 25% by the Lesotho Government, holds a 100% interest in the Mothae Project. Mothae Diamonds Holdings Inc. is the operator of the Mothae Project. The Mothae Project is served by a modest infrastructure. Surface water is abundant in the area. The high plateau is characterized by alpine grassland with sporadic scrub in more sheltered areas and valleys. Boggy swamps are quite common in the mountains, especially at the heads of valleys and overlying Kimberlite pipes; these usually comprise gravel, a thick soil horizon and surface peat. A trial mining program was completed in September 2012.

On December 22, 2014, the company announced it would divest of the Mothae project.

The Company's decision to cease development resulted in an impairment charge of \$18.8 million in 2014, which is included in other expenses and reflects a write-down of the Mothae project's carrying value of \$18.8 million. The Company also incurred a \$2.4 million restoration charge to increase its Mothae closure cost provisions to \$2.9 million.



OUR MATERIAL ISSUES

Our material risks, opportunities and challenges are those issues we consider to have the most significant impact on our ability to generate sustainable value. We review these issues on an ongoing basis to ensure that we achieve our strategic goals. We apply the GRI principles for defining report content through our stakeholder engagement processes and applying management judgment. We consider the sustainability context of our performance and we evaluate our significant economic, environmental and social impacts that substantively influence the assessment and decisions of stakeholders.

As a young enterprise, we currently focus on our business objectives, risks, external environment and feedback from our stakeholders in determining our material issues. We then rank our material issues by analysing and prioritising the information derived from the various inputs. These are then built into our strategy and

incorporated into our operational management processes. We report on these material issues along with the related GRI-based sustainability aspects to our stakeholders in our annual sustainability report, this report. The GRI aspects that we deem material for our business are listed and indicated as such in the GRI referenced content index, which is posted in the Social Responsibility section of our website (<http://www.lucaradiamond.com>).

We are aware that the materiality and boundaries of our sustainability issues may shift over time and new issues may develop as the organization matures. We shall report on these changes annually.

Our top 10 material sustainability issues, related risks, impacts and management approach at Karowe are summarized in the table below.

Material Issues	Context/ Risk	Potential Impact	Management Approach
Electricity Supply Security	BPC (Botswana Power Cooperation) experiencing capacity problems leading to load shedding, high reliance on electricity import from South Africa where electricity shortage is also rife	Operational downtime and reduced ability to achieve production targets	Regular update meetings with BPC for operational planning Alternative electricity source negotiations with service providers
Water Supply Security	Complete reliance on groundwater, over exploitation of groundwater resources Well field expansion constraints as other mines have drilled around Karowe	Insufficient groundwater recharge leading to borehole yields declining Reduced ore processing ability and inability to achieve production targets	Water conservation initiatives Storm water harvesting Optimisation of current processing systems
Mineral Resource Performance	Uncertainty in mineral resource performance	Insufficient sustainable product delivery	Continuous business model updating Operational capacity building Resource definition projects

Material Issues	Context/ Risk	Potential Impact	Management Approach
Availability of Appropriate Technology and Skills	The new circuits and technology implemented not attaining the expected efficiencies	Inadequate production to sustain required economic performance	Plant optimization to address yield challenges Technical partnership with OEM (Original Equipment Manufacturer) Maintaining dynamic resource models
Stakeholder Engagement	Addressing concerns of stakeholders Applying ethical business standards	Social upliftment of the region Infrastructure development in the region Failure will negatively affect Lucara’s ability to grow its business in the region	Focus on community engagement Addressing community concerns and needs Financial assistance programme for local entrepreneurs
Safety and Health Performance	Legal responsibility for work place health and safety Mining remains an inherently hazardous industry	Physical and mental harm to employees Reputational damage Operational safety stoppages Loss of revenue	Implementation of a comprehensive safety management system Regular wellness, health and safety awareness drives
Regulatory and Legal Compliance	Meeting all regulatory requirements	Fines and penalties License to operate	Internal governance measures, controls and assurance Audit programme
Labour Relations	Staff turnover Skills development	Loss of skills Inadequate economic benefit for employees Inadequate development of staff	Plant optimization to address yield challenges Technical partnership with OEM (Original Equipment Manufacturer) Maintaining dynamic resource models
Environmental Stewardship	Water supply Extreme weather events due to climate change (drought, rainfall) Pollution prevention Tailings and slimes dam management	Physical threats that may hamper production Reputational impact Limitations to expansion Tailings and slimes dam failure	Recruitment planning and recent appointments Training programmes in place
Business Expansion	Economic growth needs for both the company and for the country of Botswana	Growth of the company and positive economic impact on the local communities	Continued exploration programme Two new exploration licences acquired

GOVERNANCE AND ETHICAL CONDUCT

We continue to build a leading and responsible African-focused diamond production and development company.

We have adopted and apply good international corporate governance principles aligned with our values and the requirements of publically listed mining companies. We believe that we cannot sustain good financial and operational performance without simultaneously achieving our objectives in health and safety, environmental stewardship, human resource development, and community investment. We also believe that our transparent approach to doing business is critical to fully engaging our stakeholders in a meaningful, mutually beneficial, relationship. Examples of this approach are highlighted in the Stakeholder Engagement section of this sustainability report.

Our vision of corporate responsibility is premised upon a set of principles which guide our relationships with shareholders, employees, partners, governments, and the communities affected by our operations. We have also adopted a Corporate Social Responsibility Charter which is available on our website (www.lucaradiamond.com).



OUR CORPORATE RESPONSIBILITY PRINCIPLES

1. We consider the health and safety of our employees and adjoining communities in all aspects of our operations.
2. We initiate and promote ongoing dialogue and engagement with a broad range of stakeholders, maintained in a spirit of transparency and good faith.
3. We exercise vigilance in protecting the environment and seek ways to minimize our environmental footprint. We strive to always meet or exceed regulatory requirements in our environmental performance.
4. We conduct our activities in accordance with accepted standards in the protection and promotion of human rights.
5. We recognize that every community is unique and we respect the cultural and historical perspectives and rights of those affected by our operations.
6. We provide a rewarding and meaningful livelihood to our employees. We provide suitable training opportunities and resources are made available to employees to assist them in performing their duties.
7. We seek to provide employment, business and economic opportunities for local communities from our existing operations and new projects.
8. We seek to provide lasting benefits to the communities where we work by promoting sustainable social and economic initiatives. We work consultatively with our community partners to ensure that our support matches their needs.
9. We maintain high standards of corporate governance, ethics, and honesty in all of our dealings, and operate in compliance with Canadian, Swedish and Botswana stock exchange listings and disclosure requirements, and the local laws wherever we work.
10. We engage with our industry peers, associations, governments, non-governmental organizations, and civil society to contribute to best practice development and track evolving global standards.

Our Code of Business Conduct and Ethics, which is available on our website (www.lucaradiamond.com), sets out key guiding principles that Lucara and its subsidiaries expect from their employees, directors and officers.

This Code is designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;



- Avoidance of conflicts of interest, including disclosure to an appropriate person of any material transaction or relationship that reasonably could be expected to give rise to such a conflict;
- Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, regulatory authorities and in other public communications made by the Company;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting to an appropriate person or persons of violations of this Code;
- Accountability for adherence to this Code.

We have an ethics hotline for the reporting of unethical behaviour and fraud. In 2014, only one case of inappropriate conduct was lodged through our “spill the beans” programme. For 2015, we plan to conduct refresher awareness training on the mechanisms of our ethics programme to stimulate more feedback.

In line with the Government of Canada’s Corporate Social Responsibility Strategy for the Canadian International Extractives Sector, we are supportive of global initiatives that address a wide range of corporate responsibility related issues.

These include

- The OECD Guidelines on Multinational Enterprises;
- The Kimberly Process;
- The Global Reporting Initiative (GRI);
- The Voluntary Principles on Security and Human Rights; and
- The IFC Performance Standards on Social and Environmental Sustainability.

We are also a member of the Botswana Chamber of Mines. In 2014, Karowe’s General Manager continued serving as the Deputy Chair of the Botswana Chamber of Mines.

Lucara is also guided by the rules and regulations of the NASDAQ OMX (Stockholm) Exchange, details regarding these rules can be found at www.nasdaqomx.com.

Board of Directors

Lucara has an experienced board and management team with extensive diamond development and operations expertise. The Board of Directors is primarily responsible for supervising the management of Lucara’s business and affairs.

Its authority is determined by the provisions of the British Columbia Business Corporations Act and by Lucara’s Board Charter. The Board regularly reviews its guidelines and policies and, not less than annually, considers how its corporate governance practices

align with guidelines established by the Canadian regulatory authorities, including the Toronto Stock Exchange.

The Board meets as required to conduct its business, which includes the approval of the quarterly and annual audited consolidated financial statements.

The Board has established committees to assist with fulfilling its responsibilities in accordance with the provisions of the company’s Board Charter. Nonetheless, the Board acknowledges that the delegation of authority to its committees does not detract from the Board’s responsibility to discharge its fiduciary duties to the company. The following Board committees are in place.

Audit Committee

The Audit Committee consists of three Board members, each of whom is independent and financially literate. The audit committee reviews and reports to the Board on the integrity of the consolidated financial statements of the Company.



The Audit Committee has oversight responsibility for internal controls, accounting and auditing activities.

Corporate Governance and Nominating Committee

This Committee is comprised of three independent Board members and assists the Board in identifying qualified individuals for Board membership, develops and implements corporate governance guidelines, and reports annually to Lucara's shareholders on its system of corporate governance.

Safety, Health, Environmental and Community Relations Committee

This Committee is comprised of three Board members, a majority of whom are non-executive Board members. This Committee assists the Board in its oversight of health, safety, environment and

community risks and compliance with related legal and regulatory requirements.

Compensation Committee

The Compensation Committee is comprised of three independent members of the Board. The Compensation Committee is responsible for administering the Corporation's executive compensation program and oversees incentive plans approved by the Board and shareholders.

Sustainability in Our Supply Chain

At Lucara we believe that outsourcing some of our operational activities doesn't mean outsourcing our responsibilities or risks—or that our responsibility ends once our diamonds are sold. We understand that we have a role to play throughout the lifecycle of our products and services.



This is why we adhere to the Kimberly process. Supply chain sustainability management is important to maintaining the integrity of our brand, ensuring business continuity and managing our operational costs.

By virtue of our ongoing business relationships, Lucara makes direct economic impacts in the region through payments to employees, suppliers and governments and indirect economic impacts through monetary flows throughout and job creation within our supply chain and beyond.

Lucara used over 860 suppliers related to its primary activities, products and services during 2014. The total monetary value of payments made to all our suppliers for 2014 was in excess of \$113.4 million.

Our most material suppliers during 2014 were our two mining contractors and our processing plant contractor. Kalcon and MCC, our main mining contractors, maintained 424 and 217 employees

on site, respectively. Minopex, our processing plant contractor, maintained 92 employees on site.

Kalcon’s three-year contract with Lucara expired at the end of 2014. Following a tender process, we commissioned EQSTRA as our main mining contractor to take us forward for the next six-year term. The focus for 2015 is the smooth and seamless transitioning without any production interruptions.

We expect our suppliers to apply ethical business conduct, and to demonstrate their performance and progress related to environmental, ethical and health and safety issues, as well as labour practices. We plan to update our supplier screening process going forward by taking into account their sustainability performance on relevant matters.

Moving into our third year of production, Lucara will engage with its significant suppliers to further encourage sustainability performance.



ECONOMIC PERFORMANCE

Lucara's Karowe mine in Botswana successfully completed its second full year of operations in 2014, improving on the previous year's recovery of large and exceptional stones.

During 2014, its second full year of operations, Karowe recovered 815 special stones (+10.8 carats; 2013: 732 special stones).

This included 27 stones greater than 100 carats (2013: 17 stones) and 4 stones over 200 carats (2013: 4 stones).

Adjusted earnings per share was \$0.24 per share for the year ended December 31, 2014 (2013: adjusted earnings per share was \$0.17) and \$0.05 per share for the quarter ended December 31, 2014 (2013: adjusted earnings per share was \$0.05).

Lucara's strong earnings have resulted in a return on capital employed ('ROCE') of 63% during the year. ROCE increased from

37% in 2013 following the increase in sales from the exceptional stone tender and Lucara's operating and capital cost discipline.

In 2014, Lucara paid a special dividend of CA\$ 0.04 per share in addition to its regular dividend of CA\$ 0.04 per share. The total dividend paid in 2014 by the Company of US\$27 million was equivalent to a dividend yield of 3.7% based on the TSX closing price on December 31, 2014 and a dividend cover of 3.4 times using adjusted net income.

During the reporting year, Lucara had sales totalling 412,136 carats for gross proceeds of \$265.5 million at an average price of \$644 per carat. The increase in revenues of 47% or \$85.0 million compared to the prior year was due to higher prices received for the Karowe diamonds and a larger number of carats being sold in the exceptional stones tenders, which contributed \$135.6 million to revenues.



The exceptional stone sales resulted in an average price of \$32,471 per carat in 2014 (2013: \$24,290 per carat), with the remaining tenders achieving \$318 per carat (2013: \$249 per carat).

Lucara's EBITDA for the year was \$173.4 million compared to the previous year of \$102.9 million. The strong operating margins were largely due to the exceptional stone sales and the Company's focus on cost control, which resulted in a cost per tonne treated of \$28 compared to guidance of \$31-\$33 per tonne.

Lucara's year-end cash balance was \$100.8 million compared to a cash balance of \$49.4 million at the end of 2013. The increase in Lucara's cash balance was due to a strong operating cash flows, which more than financed plant optimization expenditure of \$35 million and dividend payment to shareholders of \$27 million during the year. Lucara's Scotiabank \$50 million credit facility remains undrawn.



ENVIRONMENTAL PERFORMANCE

During 2014, no major environmental incidents were recorded.

We recognize that our operations can have significant environmental impacts on local communities throughout the life cycle of our mining operations. Some of these impacts include land use changes, environmental degradation, and population influx. These impacts are offset by increased economic opportunities and development in the areas of infrastructure, health, education, and micro-enterprise.

In line with our Environmental Policy, which is available on our website (www.lucaradiamond.com), we conduct environmental impact assessments and evaluate how to avoid, mitigate or control potentially significant impacts, implement appropriate monitoring and management systems, comply with applicable legislation, and plan for mine closure.

Environmental performance is managed on site by a dedicated Environmental Officer who reports to the SHE and Community Relations Manager, who then reports directly to the Safety, Health, Environmental and Community Relations Board Committee.

ECONOMIC PERFORMANCE KAROWE (\$ million)

	2012	2013	2014
Revenues	55.1	180.5	265.8
Operation Costs	42.8	56.7	70.2
Employee Compensation	5.1	5.8	7.6
Local Procurement (southern Africa)	30.2	44.6	80.4
Payments to Government (Royalty)	5.5	18.1	26.6
Payments to Government (Taxes Expensed)	0	14.8	73.3
Payments to Capital Providers (Lucara Cash calls)	7.6	57.0	0
Community Investments (Karowe)*	0.02	0.06	0.05
Economic Value Retained	1.7	99.9	161.4

*Lucara also contributed \$250,000 to the Lundin Foundation toward an upgrade / expansion of the Letlhakane Abattoir.

BOTSWANA & DIAMONDS

Currently a country of just over 2 million people, Botswana was considered one of the poorest countries in Africa when it achieved independence from Great Britain in 1966.

Since the first diamond mine opened over forty years ago, Botswana's economy has been fueled primarily by mining. In addition, according to the World Bank, Botswana's good governance practices, combined with prudent macro-economic and fiscal management, have led to its real rate of GDP rising an average of 4.6% annually between 1994 and 2011.

Botswana continues to make inroads regarding its historically high rates of poverty. Over the past 40 years, Botswana's economic progress has transformed living standards for many citizens, with poverty rates declining from over 50% at independence, to just above 19% at the end of 2014.

Botswana hosts one of the best regulated and strongest performing mining sectors in Africa, with diamonds the main commodity.

– Botswana Mining Report Q1 2015 - a new market research report on companiesandmarkets.com

More recently the processing of rough diamonds, or diamond beneficiation, has been successfully introduced by the government in an attempt to diversify Botswana's economy. Until this shift, all rough diamonds had been exported from the country and processed elsewhere.



We comply with local environmental laws and regulations and apply the IFC guidelines where needed, to advance environmental protection and minimize environmental risks. Lucara has not received any fines or monetary sanctions for non-compliance with environmental laws and regulations during 2014.

Environmental Management Plan

The environmental management plan developed for Karowe in accordance with Botswana's Environmental Assessment Act (2011) and EIA Regulations (2012) was revised and updated during 2014 to provide for the new process plant optimization project.

The new environmental management plan includes the following updated or additional management and monitoring plans:

- Waste Management Plan
- Biodiversity Action Plan
- Health and Safety Plan
- Groundwater Control Plan
- CSI and Labour Plan
- Heritage Plan
- Stakeholder Engagement Plan
- Grievance Response Procedure
- Emergency Response Plan
- Closure and Rehabilitation Plan

Our environmental management plan is aligned to ISO 14001 and an annual gap analysis is undertaken by an independent auditor.



Water Management

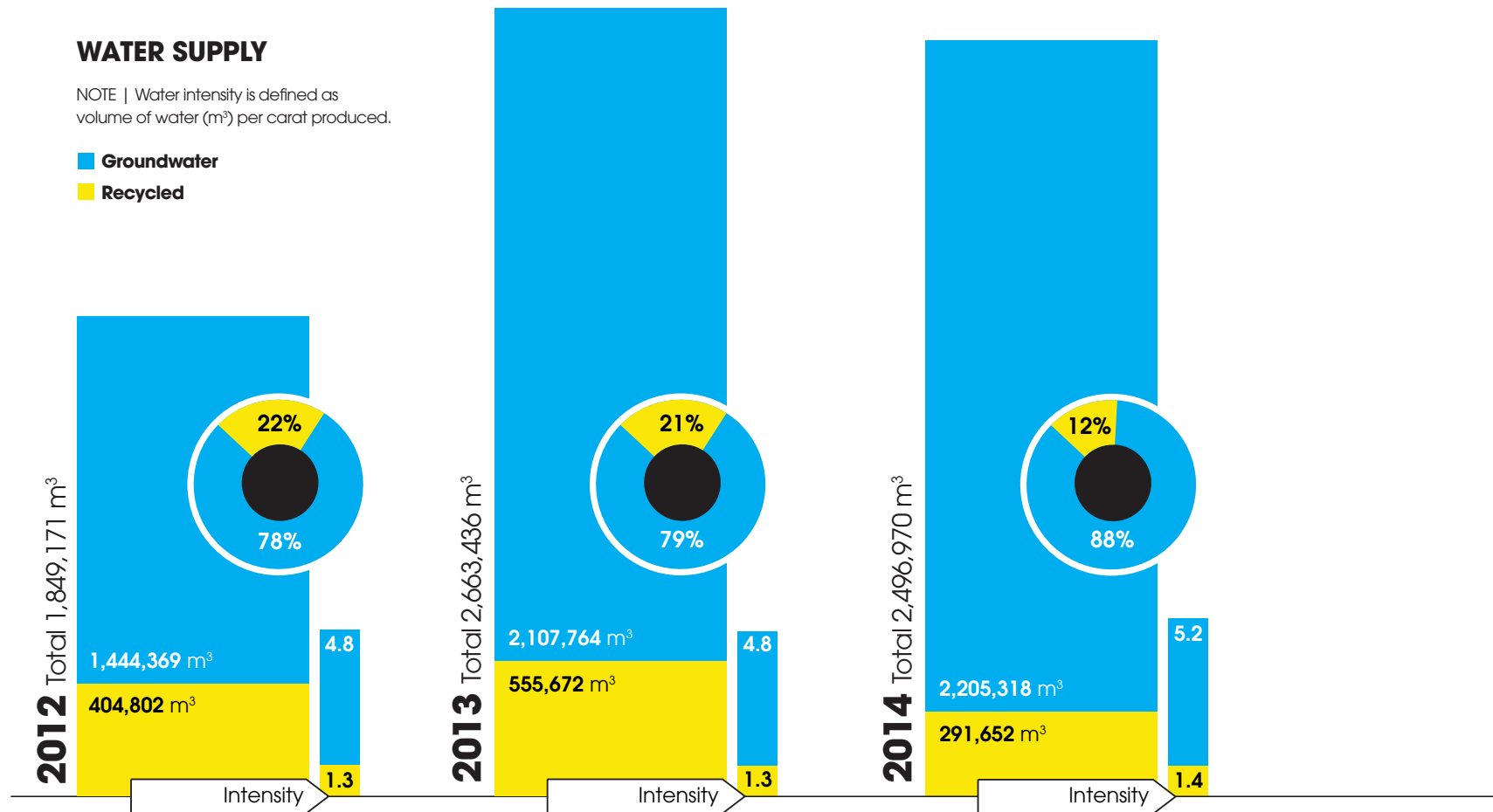
Karowe lies on the northern fringe of the Kalahari Desert of central Botswana and the climate is hot and semi-arid. This means that access to and management of water is an important issue not only for our operation, but also for local communities, and other diamond mining operations in the region. There are no dams in the region, and all the water comes from groundwater resources.

Our overall water footprint in 2014 has increased in tandem with a 3% increase in ore milled, and remains within our water abstraction rights. The increase in water use intensity and the reduction in percentage water recycled is attributed to changes in the ore characteristics (harder ore), processing and reduced water recovery from the slimes dam.

WATER SUPPLY

NOTE | Water intensity is defined as volume of water (m³) per carat produced.

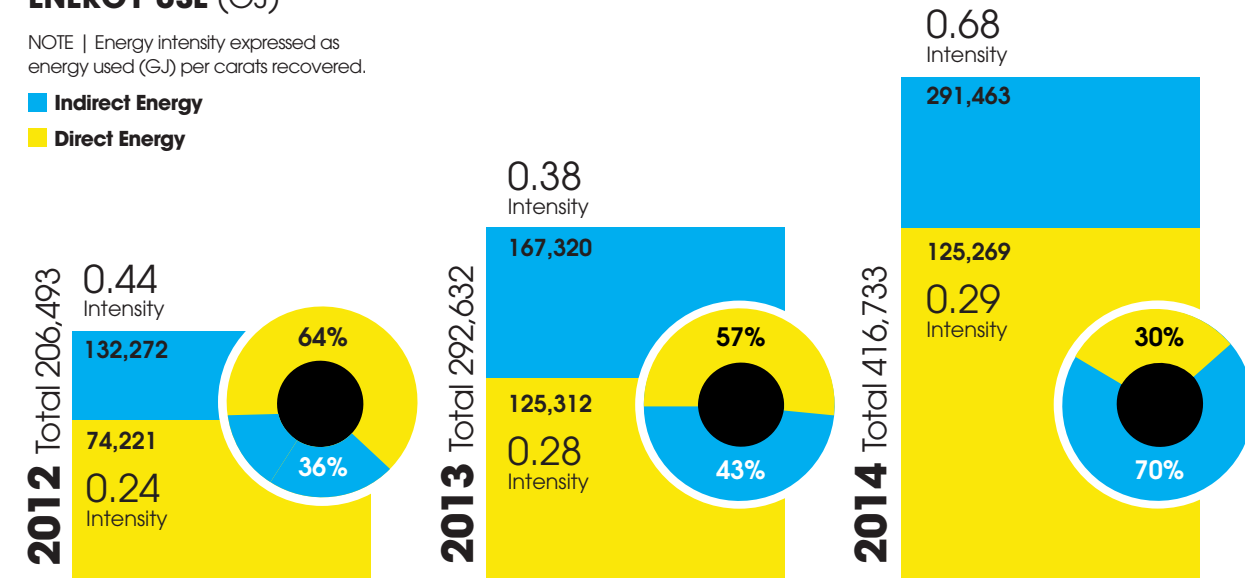
- Groundwater
- Recycled



ENERGY USE (GJ)

NOTE | Energy intensity expressed as energy used (GJ) per carats recovered.

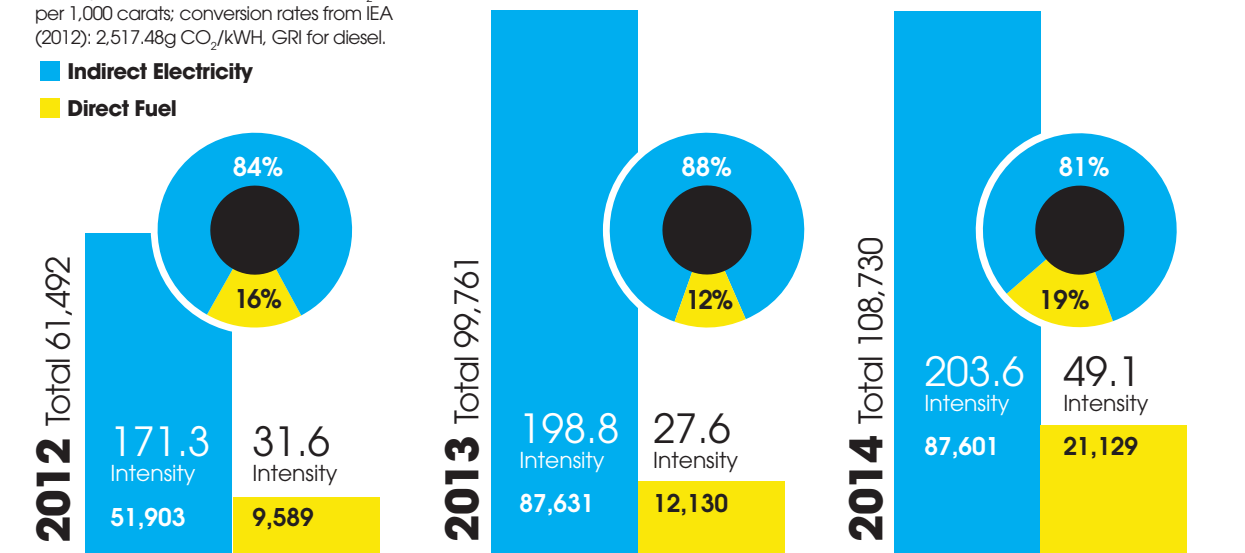
■ Indirect Energy
■ Direct Energy



GHG (tons CO₂)

NOTE | GHG intensity expressed as CO₂ (tons) per 1,000 carats; conversion rates from IEA (2012): 2,517.48g CO₂/kWh, GRI for diesel.

■ Indirect Electricity
■ Direct Fuel



We continue to monitor our impact on groundwater. We share our water use data with the local water board and other regional diamond mining operations to improve the understanding of the cumulative impacts related to the decline in regional groundwater levels.

Energy and Carbon Emissions

We recognize that mining is an energy intensive activity. We also note that the national Botswana Power Corporation continued experiencing delays in bringing the Morupule B Power Plant fully on stream during 2014.

This has resulted in load shedding exercises (brown outs) throughout Botswana from time to time. Although this process has not affected our operation, it highlights the importance of remaining vigilant about our energy consumption.

The electricity we source from the national power grid to operate our mill accounts for the bulk of our indirect energy use.

Botswana generates its electricity mainly from burning coal, which has a relatively high greenhouse gas (GHG) intensity.

Climate Change is emerging as an important global environmental challenge. Potential adverse physical impacts from Climate Change to our operation may include changes in frequency and distribution of precipitation patterns.

These may, in turn, affect storm water run-off and re-vegetation efforts required for mine closure. It may also further increase competition for groundwater resources.

Any multilateral treaty imposing carbon constraints on Botswana, which relies materially on coal-burning thermal power plants to supply its growing energy needs, may impact energy generation options or increase costs. Such costs may be passed on to large industrial consumers.

Diesel fuel consumed by the mining truck and equipment fleet operating at Karowe accounts for the bulk of our direct energy use and has increased significantly. In 2014 we began with an elevated calcrete stripping programme with the aim to expose kimberlite ore in a new push back known as 'Cut 2' that will be mined by 2018.

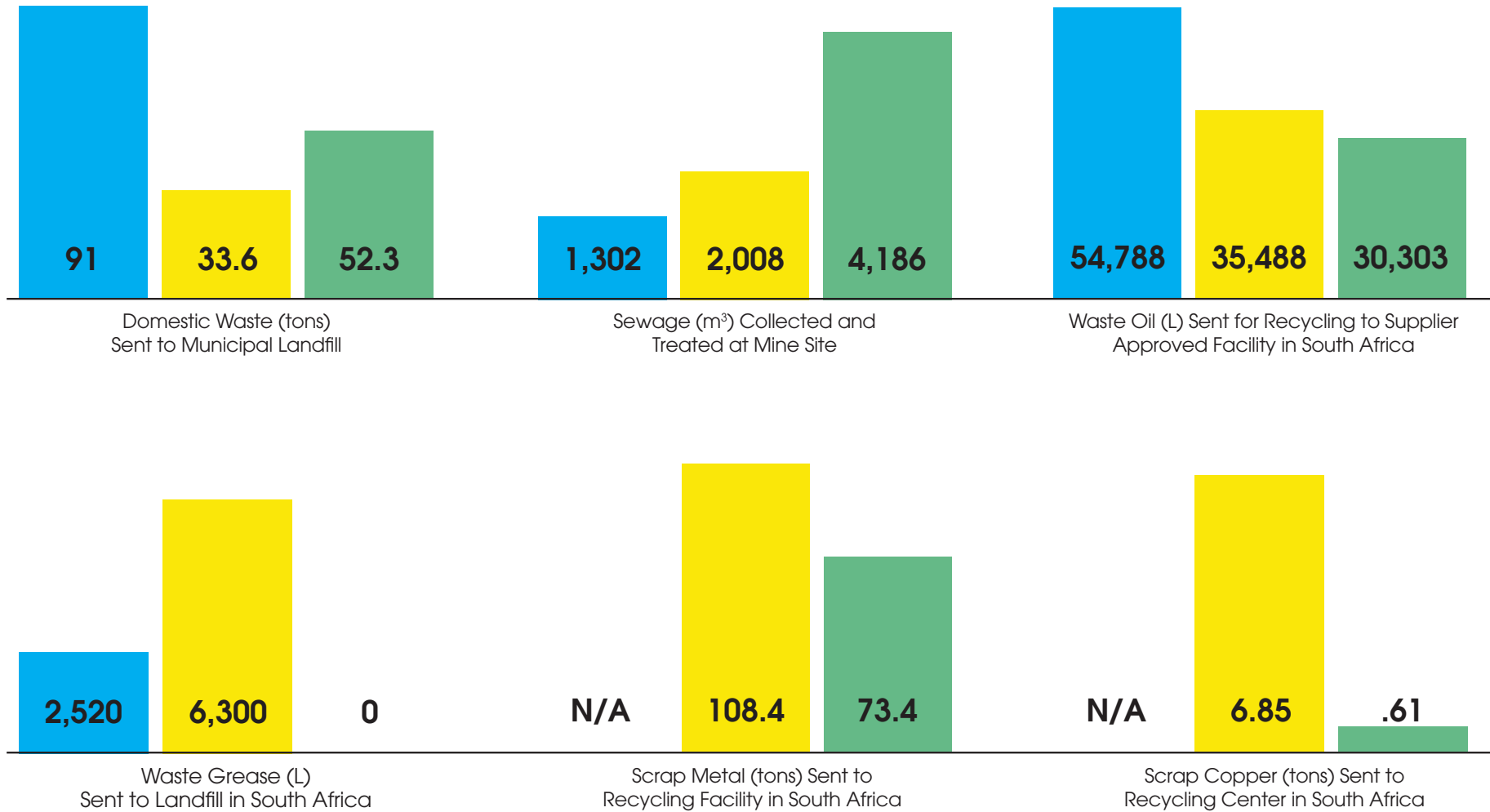
This process marked the beginning of a 4-year waste stripping programme and continued higher fuel use for 2015 is anticipated.

Additional fuel use increase in 2014 was also due to the mining and building up of an adequate 'life-of-mine' stockpile of ore for contingency and strategic purposes, including some lower grade ore stockpiled for processing towards the end of life-of mine.



Waste Disposal ■ 2012 ■ 2013 ■ 2014

NOTE | 2012 data includes construction period (approximately two years);
N/A = Not available



Waste Management

Our environmental management plan details our waste management strategy and approach. We segregate our waste streams into three main categories. These are inert, general, and special wastes. The latter includes different classes of hazardous wastes.

The construction of our mine site landfill was completed and commissioned during 2014 and is now being used to dispose of wastes which are non-hazardous and are not recycled or reused off-site. We have a small waste incinerator mainly for oil rags and recovery area waste for security reasons. All transformers are certified PCB free before being allowed on site.

We also operate a sewage treatment plant at Karowe eliminating the need for transporting sewage to the municipal sewage treatment plant.

A review of our statistics shows that domestic waste quantities as well as sewage treated increased in 2014, reflecting the impact of increased activities during the processing plant optimization on waste generation.

A further reduction of waste oil volumes in 2014 is a result of the re-use of waste oil for blasting. We do not discharge any effluent at Karowe mine.

Our diamond cleaning facility has been relocated to Gabarone during 2014. The cleaning process uses hazardous acids to remove host rock materials and clean recovered rough diamonds. An amount of 2,200 litres of hazardous waste (mixture of very corrosive acids) from the diamond cleaning facility was transported across international boundaries into South Africa for safe disposal at a registered hazardous waste facility during 2014.

Dust Fallout Management

Dust fallout concentrations observed during 2014 at 11 sites around Karowe and the access road were below the applicable residential and non-residential area standards.

We apply water for dust suppression on the mine access road and haul road since communities along the access road can be affected by dust. No grievances have been recorded concerning dust fallout during 2014. We shall continue monitoring our dust fallout and respond with mitigation measures as needed.

Biodiversity

The broader area hosting the Karowe deposit has been modified through many years of cattle grazing and other pastoral activities. The region also hosts several other diamond projects and operations.

No rare or endangered plant species were identified during the environmental impact assessment stage for the Karowe project. However, larger species of Mopane trees as well as a large stand of Acacia erioloba were recorded as valuable or rare in the project area.

A biodiversity action plan has been developed for Karowe. This plan highlights the need to clear vegetation only when required, protect woody vegetation where practicable, establish an Acacia erioloba nursery, and implement an invasive species eradication program.

We have not set up the Acacia erioloba nursery yet as planned due to staff turnover during 2014. This is now planned for implementation during 2015.

Waste Rock and Tailings Management

The open cast mining of our deposit requires the removal of overburden and waste rock to provide access to the diamond-bearing Kimberlite ore. In 2014 we began with an elevated overburden stripping programme with the aim to expose kimberlite ore in a new push back known as 'Cut 2' that will be mined by 2018. This process marked the beginning of a 4-year waste stripping programme that saw the amount of overburden stripped in 2014 increasing by 86% from the previous year.

KAROWE'S LAND MANAGEMENT DATA (hectares)

	2012	2013	2014
Total Amount of Land Owned	1,523	1,532	1,523
Total of Land Disturbed and Not Yet Rehabilitated	359	363	388
Total Amount of Land Newly Disturbed within Reporting Period	359	3.81	29
Total Amount of Land Rehabilitated within Reporting Period	0	0	0
Total Amount of Land Rehabilitated and Handed Over to Local Government	0	0	0

NOTE | Karowe is an open pit mine with anticipated mine life of over 12 years

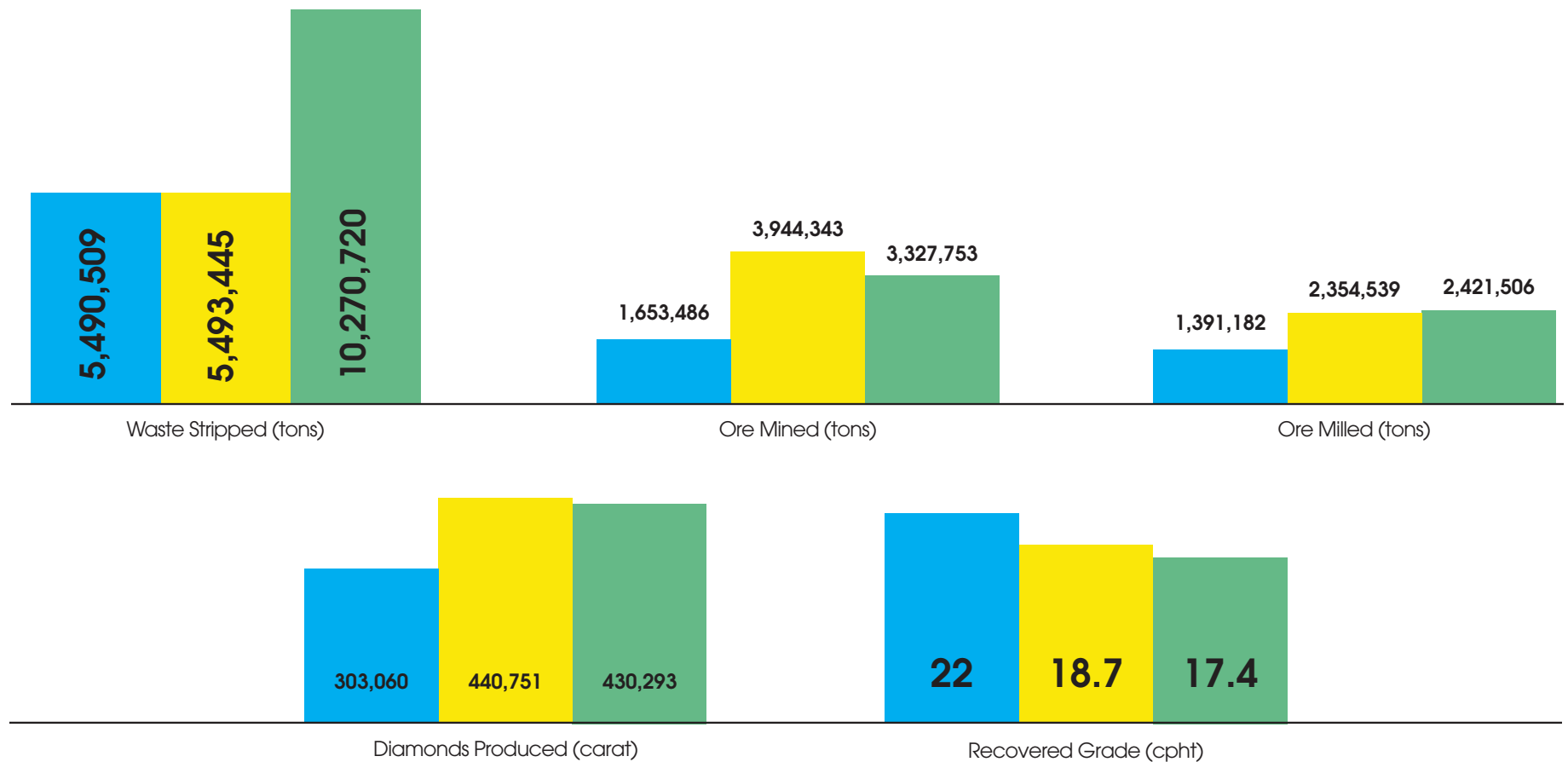
Ore mined reduced by 16% during 2014 while the ore milled increased by 3%. The waste product emerging from crushing and processing of the ore to remove the diamonds comprises coarse and fine tailings (slimes) materials, which are deposited in designated areas.

Our slimes dam and coarse tailings facilities' stability is monitored by internal and external technical specialists. We also provide statutory reporting requirements with regard to tailings management to the Government Department of Mines.

We have not experienced significant spillage of tailings, slimes, or other significant process materials during 2014.

PRODUCTION STATISTICS ■ 2012 ■ 2013 ■ 2014

NOTE | CPHT = Carat per Hundred Tons Ore Milled



Emergencies and Incidents

We have an emergency preparedness and response plan in place as part of our environmental management plan for Karowe. The plan covers Safety, Health and Environment. We maintain an incident register, and record and report significant environmental incidents and spills. A tiered classification and reporting system has been introduced in 2014. During 2014, no major environmental incidents were recorded.

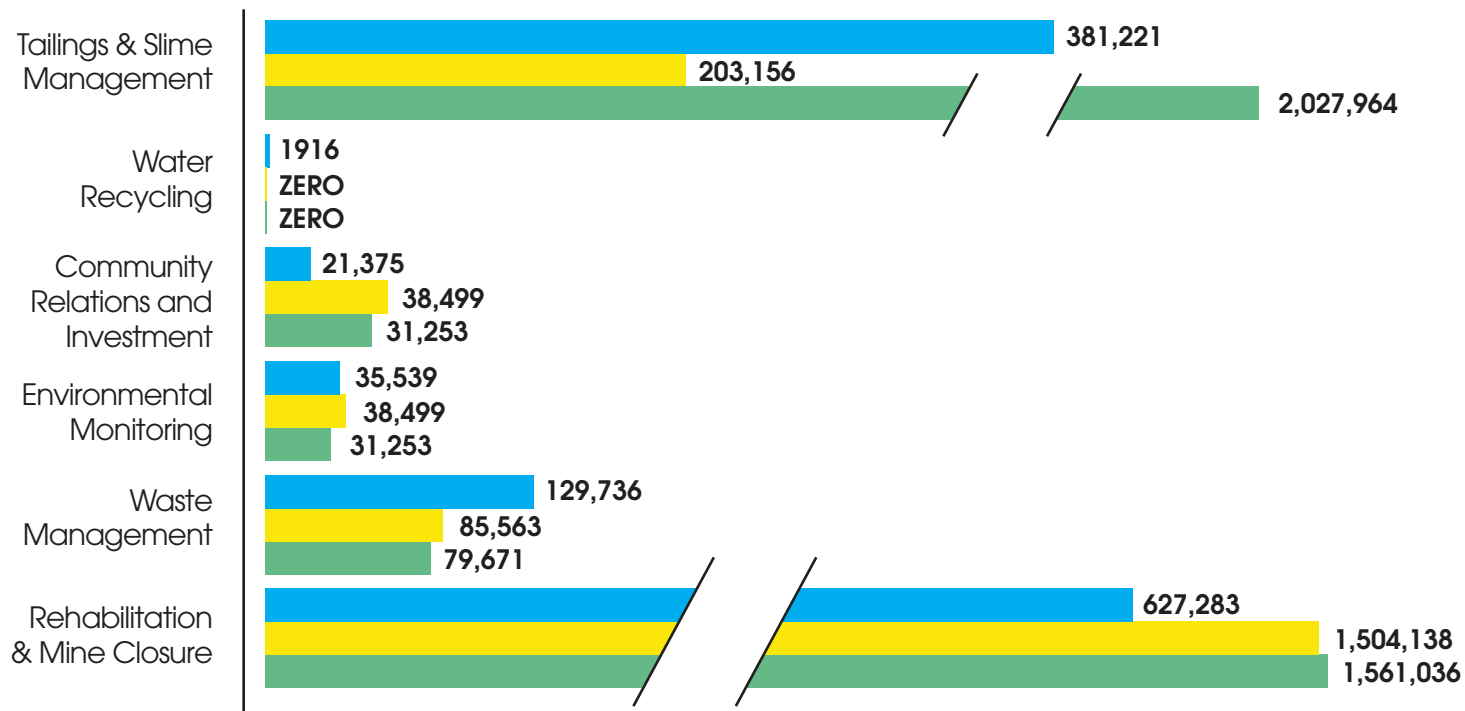
Two lost time injuries were reported during the year. More detail on this is provided in the safety section of this report.

Environmental Expenditures

The most significant expenditures related to broader environmental aspects and management of our facilities relate to the construction and phased expansion of our tailings and slimes facilities, and rehabilitation and mine closure related activities, including financial provisioning.

The tailings and slimes management expenditure increased significantly during 2014. Given the scarcity of water in our region we optimised the original slimes dam design from a large single dam to a segmented system that helps improve water collection from the dams for recycling in the mill.

KEY ENVIRONMENTAL EXPENDITURES (\$) 2012 2013 2014



Decommissioning and Site Restoration

We generate and regularly update mine closure plans or other similar studies to plan for future decommissioning and site restoration activities.

A conceptual mine closure plan for Karowe was part of its environmental management plan developed in 2010. During the following year, a high level cost estimate was made to define the costs for both unscheduled (premature) and scheduled mine closure.

Karowe's closure and rehabilitation plan was further updated in 2013 and again in 2014 to provide for the new processing plant optimization project.

Lucara's closure and site provisions have been calculated based on total estimated rehabilitation costs discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments.

We applied a pre-tax discount rate of 8.4 percent as at December 31, 2014 (10.8 percent as at December 31, 2013) and an inflation rate of 5.3 percent as at December 31, 2014 (5.8 percent as at December 31, 2013) for Karowe.

The rehabilitation costs are expected to be incurred in 2015 for the Mothae project and 2026 for the Karowe mine. The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately \$23.0 million (December 31, 2013 -\$15.9 million).



LABOUR, HEALTH & SAFETY

Our workforce in Botswana totalled 881, we improved our retention rate at Karowe, and recorded a low lost time injury frequency rate of 0.2.

Human Resources

At the end of 2014, our workforce in Botswana – including the contract mining groups and process/mill contractor - numbered 881 (2013: 504). Of these, 98 percent were Botswana nationals, up 2% from 96% in 2013. Our female workers, typically low in the mining sector, makes up 13% of our workforce.

During 2014 we have appointed one new graduate in mine planning and two in the process department. For 2015, we plan to introduce a graduate internship scheme for six graduates in the mine's technical and commercial departments.

Cleaning and gardening services, previously appointed as temporary staff, are now included as permanent staff with all accompanying benefits.

At the end of 2014, we recorded an annual staff turn-over rate of 7%, which is down significantly from 13.1% in 2013.

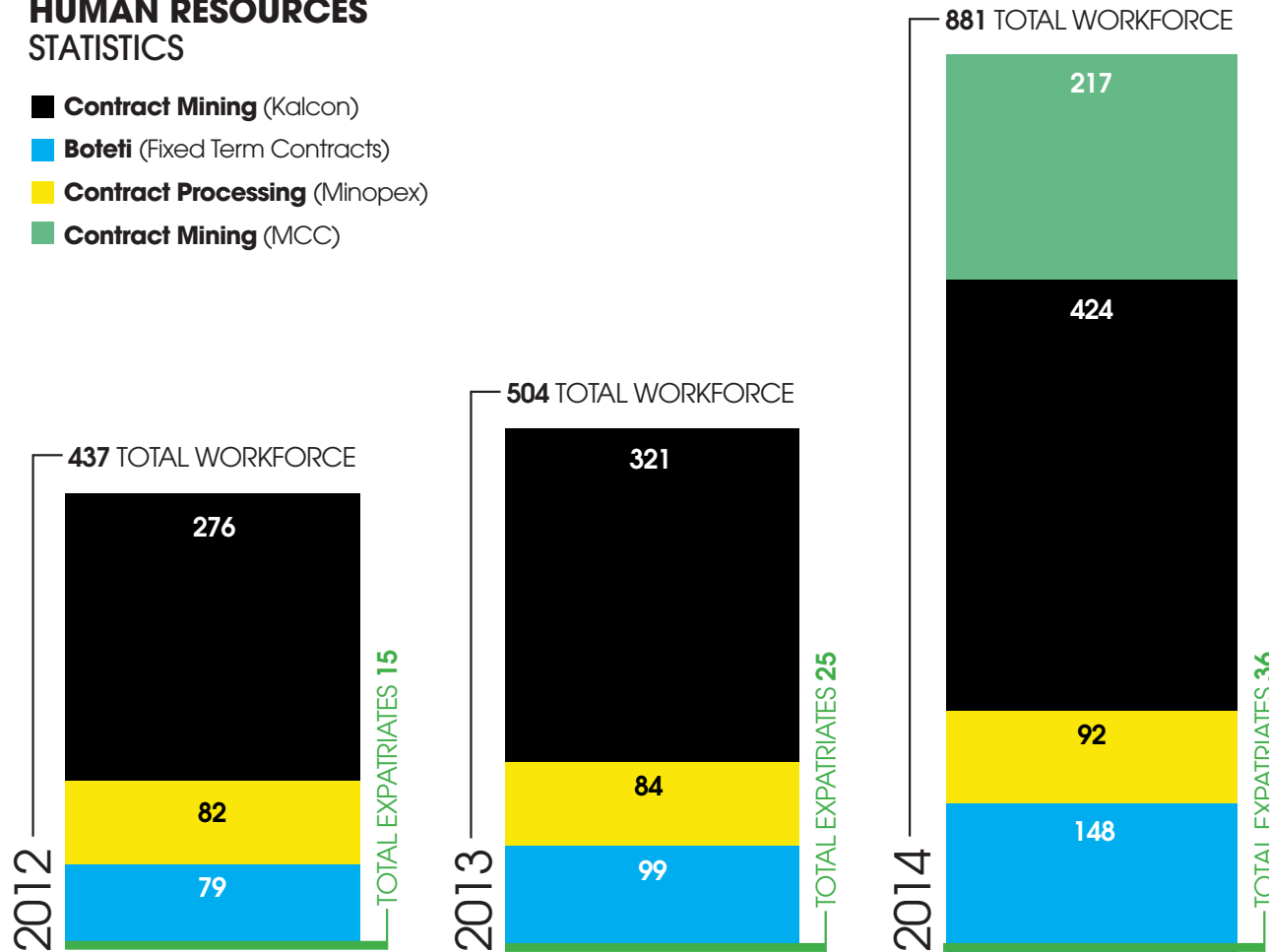
At Karowe, we continue to implement our human resource (HR), training and development policies, along with localisation and succession plans. All employees receive annual career development reviews. We track progress on a weekly and monthly basis. The HR Manager reports directly to the General Manager on HR related progress and any relevant labour issues. In 2014 we developed an employee handbook to provide guidance and assist employees on communication and compliance matters at the Karowe mine.

Our full-time workforce generally receives a housing allowance, medical aid subsidy, gratuity, and group life insurance. Although the Karowe operation is not unionized, we do not place any form



HUMAN RESOURCES STATISTICS

- **Contract Mining** (Kalcon)
- **Boteti** (Fixed Term Contracts)
- **Contract Processing** (Minopex)
- **Contract Mining** (MCC)



Total Proportion
BOTSWANA NATIONALS
2012 **97%**
2013 **96%**
2014 **98%**

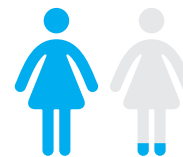
Turnover at
BOTETI
2012 **12.7%**
2013 **13.1%**
2014 **07.0%**

GENDER SPLIT



768 MALE

- TOTAL WORKFORCE 881 -



113 FEMALE

of restriction on right of association. We are in the process of investigating ways to maintain good workplace relationships including the formulation of work committees which will have representation from the various departments where issues can be discussed and resolved.

Karowe did not experience any strikes or lockouts during the reporting period and no incidents of discrimination or other types of human right violations were recorded during 2014. All employees are trained on our grievance reporting procedure.

Occupational Health and Safety

We recognise that working on a mining site presents health and safety risks that need to be carefully managed. In line with our Occupational Health and Safety Policy, which is available on our website (www.lucaradiamond.com) and in the workplace, we believe there is a clear relationship between safe and healthy workplaces, and optimal production results. Our line managers, supported by professional safety staff, are held accountable for the safety performance and management at each site.

All employees are given safety training at commencement of employment and thereafter, regularly throughout their career. They are expected to be engaged in maintaining safe work sites through involvement in health and safety committee meetings, and by conducting safety inspections.

Each site maintains a Joint Health and Safety Committee (JHSC) which addresses new regulations, site procedures, and actions to improve health and safety, and an emergency response capability suited to its working environment and risks.

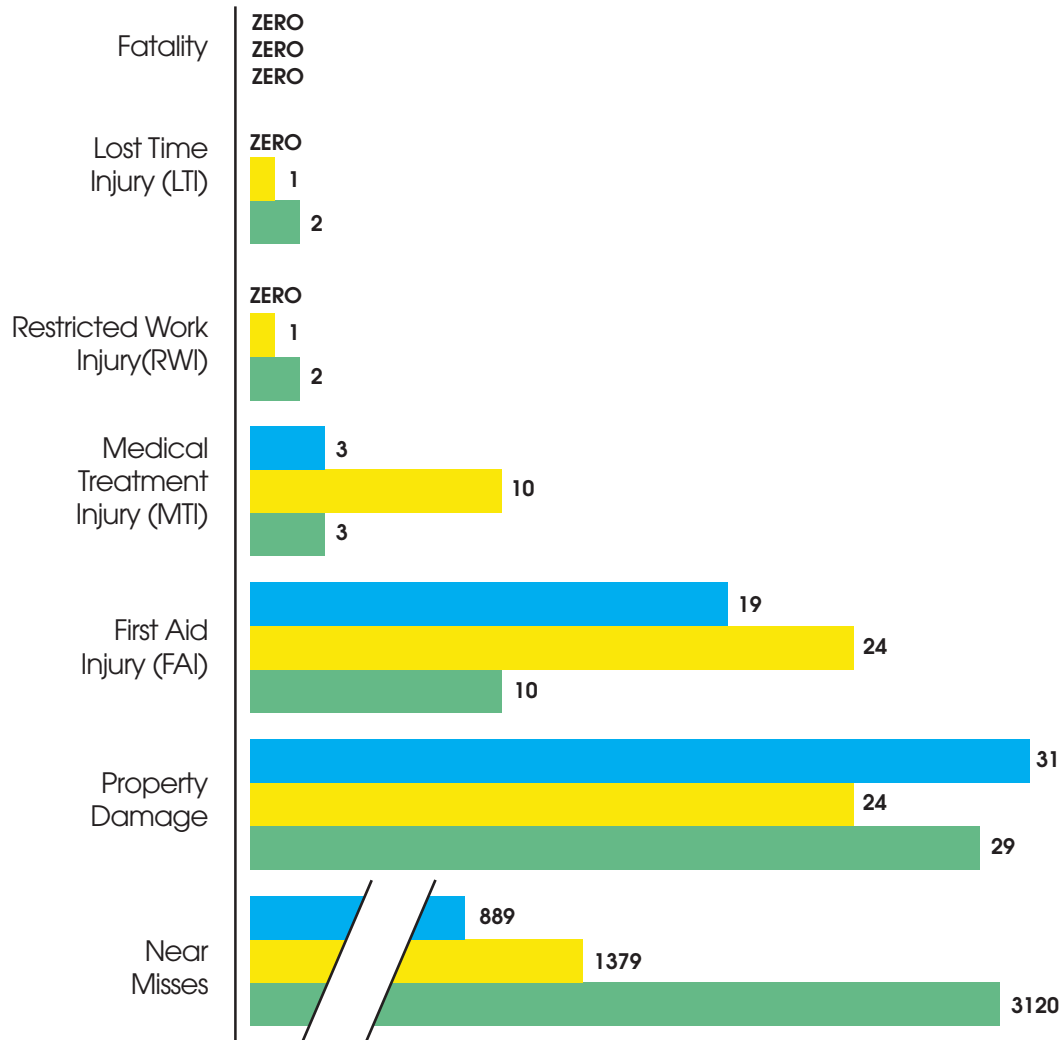
Safety and Health coordinators reports to the Safety, Health, Environmental & Community Relations Manager who, in turn, reports to the General Manager. Each shift has a qualified Safety, Health and Environmental representative. By year end 2014 we had 20 appointed first aiders, 29 Safety, Health and Environmental representatives and 23 fire team members. Our target is to train 5% of our workforce on first aid annually.

A supervisory performance monitoring programme was introduced during 2014. This area was identified and targeted to further strengthen our safety programme. We now look at the individual safety performance of supervisors in terms of leading indicators such as planned task observations, procedures briefed, toolbox talks held, number of near misses, closure of inspection findings and training conducted.

We recorded two lost time injuries during 2014. Both were finger injuries resulting in amputations. One incident happened while working on a drilling rig and the other incident was caused by the moving parts of a rotation auger. The seriousness of this year's lost time injuries resulted in a sharp increase in the number of shifts lost for the year. The relative small rise in LTIFR was as a result of a significant increase in exposure hours as a result of the production ramping up and the increased process plant optimization activities on site. Parallel with the increased exposure hours, the number of near misses also increased significantly.

SAFETY STATISTICS ■ 2012 ■ 2013 ■ 2014

N/A = Not available. LTIFR = LTIs*200,000/exposure hours. Severity Rate = Days lost to LTIs and RWIs *200,000/exposure hours. RWI = Restricted Work Injury. Property Damage = Incidents where property was damaged.

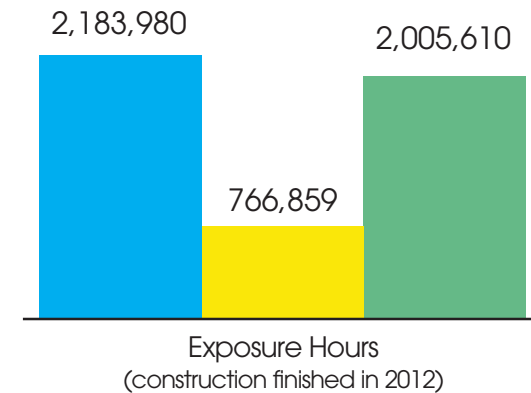


Absenteeism Rate

2012 **N/A**
 2013 **0.2**
 2014 **0.1**

Days Lost LTI	Days Lost RWI
2012 0	2012 0
2013 3	2013 3
2014 18	2014 6

LTIFR	Severity Rate
2012 0.0	2012 0.0
2013 0.17	2013 0.8
2014 0.2	2014 0.4



Cultivating a Safety Culture

We have launched the “Karowe Diamond Cardinal Sins” awareness raising drive to influence safety behaviours as a means to address our highest safety risk areas in 2014. The “Cardinal Sins” are posted in all workplaces to keep awareness up.

KAROWE DIAMOND MINE CARDINAL SINS

1. Speeding
2. Overtaking on haul roads
3. Engaging in physical fighting
4. Rendering safety devices inoperable
5. Concealing an incident or injury on duty
6. Operating plant without completing pre-start check list
7. Working on equipment / machinery without lock out or isolation
8. Coming to work under the influence of intoxicating liquor or narcotics

Two teams from Karowe competed in the Botswana Chamber of Mines Inter Mine first aid competition in 2014. This friendly competition attracted a total of 16 teams from eight mines. Our teams placed eighth and 12th overall. We shall continue participating in this competition and are working towards improving our teams’ positions going forward.

We had a number of safety campaigns during 2014 to promote a safety awareness culture at Karowe. A ‘walk-the-talk’ campaign was held and included activities such as a wellness walk, safety plays and the award of bicycles to best safety, health and environmental performers.

A road safety campaign was introduced during 2014 at a well-attended event at Karowe. Road safety education was conducted in the community and reflective vests were handed out to the local community.



Our primary health care and occupational health services include Occupational Health Services, Primary Health Care and Emergency Response. The Senior Occupational Health Nurse reports to the SHE & Community Relations manager.

We conduct medical examinations for pre-employments, periodic, exit, transfer as well as out of cycle medicals for Karowe employees and sub-contractors. We keep medical data in accordance with International Labour Organisation (ILO) standards. Two private medical doctors offer occupational health services.

Our health care unit offers daily consultation to employees and dispensing of drugs. Health promotion is rendered to all employees and contractors in an effort to prevent workplace injuries and occupational diseases. Topics covered include: HIV/AIDS, Tuberculosis, Ebola outbreaks, Diabetes, and Hypertension.

The clinic offers a continuous emergency response service for all incidents and accidents. Referrals are sent to Orapa or Letlhakane hospitals.

OCCUPATIONAL HEALTH INITIATIVES FOR 2015 AND BEYOND

- Improving the quality of Hearing Protection devices (Personal Protective Equipment)
- Introducing software to monitor Occupational Health Programmes
- Improving our system for drug monitoring
- Introducing an electronic patient filing monitoring system
- Improvement of ergonomics at the clinic by:
 - providing shade & chairs for patients
 - providing air-conditioning in all offices
 - providing ramps to wheel in patients
 - structural changes to avail more office space





CSR CHARTER

Lucara recognizes that effective stakeholder engagement can create value and mitigate risk for both the company and its stakeholders. We acknowledge that mining is, by definition, finite and, therefore, will work to provide lasting benefits in the communities where we live and work.

Lucara will:

- Work consultatively with community partners to ensure that our support matches their priorities
- Ensure that our support is focused on sustainable community development rather than dependency
- Impact positively on the quality of life of members of the local community
- Seek opportunities to maximize employment and procurement for local communities through the provision of suitable training opportunities and resources
- Conduct our activities to meet or exceed accepted standards in the protection and promotion of human rights

STAKEHOLDER ENGAGEMENT

Our pro-active approach to engagement enables and supports our social license to operate.

Since the beginning of the Karowe Project, we have been engaging with our communities and other stakeholders in a structured way. We maintain a community liaison office in Lethakane, the town closest to our mining operation. We also participate regularly in traditional kgotla or community meetings at the 18 villages in the Bote-ti Sub-District.

The objective of these kgotla meetings is to inform communities about on-going activities at Karowe, such as the micro-lending facility and progress on the abattoir upgrade project (see Community Investment section), discuss any issues of concern, and identify collaboration opportunities. Such opportunities realized in 2014 include a road safety awareness event, conducting a village clean-up day, holding a wellness event and supporting local sports events.

Our key stakeholder groups, how we engage with them, the issues raised and how we respond to issues are summarised in the following table.

Lucara's Key Stakeholders

Stakeholders	Methods and Frequency of Engagement	Issues Raised by Stakeholders	Lucara's Response to Issues
Directly Affected Land Users, Owners	Direct meetings with land owners, meetings with the Sub-Land Board	Dust emissions	We suppress dust at Karowe as well as along the access road from Letlhakane
Employees and Contractors	Spill the Beans (ethical conduct and hotline), direct engagement through HR department, performance reviews, employee events, training, newsletters	Compensation and benefits, health and safety, job security and advancement	Decent compensation, health and safety awareness campaigns, training and leadership development opportunities
Governments	Consultation, permits, inspections, strategic community investments, applying GIIP (Good International Industry Practice), meetings, annual reporting	Positive economic impacts, Kimberly Process, diamond viewing and sales in Botswana, diversification, Canadian CSR Strategy for the Canadian International Extractive Sector	Royalties payment, social investment, sustainability reporting
Local Communities	Regular Kgotla meetings, grievance mechanism	Economic impacts in communities, local employment, community investments	Strategic Investments, community events and projects, e.g. abattoir upgrade project, community donations for schools
Customers and End-users	Regular tenders	Conflict free diamond supply chain	Kimberley certification, tight security, government inspections
Shareholders	Analyst briefings, media releases, quarterly and annual financial reporting, annual sustainability reporting,	Good corporate governance, financial performance, risk management, dividends	GRI reporting, financial disclosure
Financial Institutions	As required	Risk management, financial performance	Applying GIIP, Equator Principles, GRI sustainability reporting

Minister of MEWR's Visit

The Minister of MEWR (Minerals, Energy and Water Resources), Honorable Kitso Mokaila toured Karowe Diamond mine in September 2014 to learn more about the mine's operations as well as challenges it experienced.

The Minister commended Karowe for its application of innovative strategies in terms of its technology and mining processes applied resulting in high production efficiencies.

Community Engagement

As in previous years, Karowe's Community Liaison Officer participated in traditional kgotla meetings in the eighteen villages of the Boteti Sub-District during 2014. Attending these meetings provides an opportunity to present the latest developments and plans at Karowe, and listen to community feedback on the micro-lending scheme, as well as other involvements in the

community. We are receiving warm feedback and have developed cordial relationships with community members who generally are willing partners to participate in our community activities.

These community meetings have helped bring together the different communities in the Boteti sub-district as they are now able to work together to bring development to the region.

- Kgosi Kegapetswe

A prevailing sentiment across the meetings was gratitude that Karowe had been responsive to the local communities by making multiple visits to the villages in 2014, and for the fact that the mine is making good on its promise to help develop the area.



COMMUNITY FEEDBACK

On November 19, 2014, Karowe Mine held a community meeting with members of the villages of the Boteti sub-district in Letlhakane, Botswana. Mine leader Mr. Mojaki opened the meeting by discussing the mine's history of putting worker safety and security first, and remarked that their good management and spirit of working together with the communities helped make the mine profitable and successful again in 2014.

Of the villages represented, the overriding sentiment was that there exists a good working relationship between the mine and the communities. The Community Liaison Officer, Ms. Mokgweetsi, was given particular praise from the members present. Other areas of commendation were regarding good conduct by mine employees, the education of women on PMTCT (Prevention of Mother-to-Child Transmission), STI and HIV/AIDS, regular updates from Karowe to the villages about mine performance, and environmental awareness on the part of the mine, including a clean-up campaign.

Discussions about the mine's positive role in promoting health, safety, and security were also repeatedly mentioned, and accolades were given regarding the Wellness Day event held at Mmatshumo Village. Appreciation was also repeatedly given for the construction of the abattoir, which will improve the lives of the community of Boteti.

Some projects the communities requested help with from the mine were: developing playgrounds in one of the villages, and constructing a 13 km gravel road to assist getting the

harvest from the fields to the village of Mosu. Other community suggestions included installing dustbins to improve cleanliness, building a bus shelter, and fencing in a playground that is being destroyed by animals in the area.

Mokgweetsi, the community liaison officer, thanked all of the villages for taking health, safety and security measures seriously. The General Manager Mr. Ndlovu followed by thanking the communities for recognizing the good work of the mine, and reiterated that the mine was there to help the communities. He called for the communities to help the mine hold the employees of the mine accountable in both conduct and safety.

In his vote of thanks, village leader Kgosi Kopano thanked the mine for fulfilling its promise of hiring locals, and echoed his appreciation for Mokgweetsi. He also suggested that the mine help with transport to future meetings, and to hold future meetings outside of Letlhakane.



Community Involvement

We continued our active support and involvement in local community activities during 2014. We participated in the annual Letlhakane clean-up campaign. We spent a weekend with Mmatshumo community sharing in the virtues of an active lifestyle. It was a wellness campaign with Karowe employees joining in with the villagers in aerobics, netball, foot-ball and tug-of-war activities.

We also contributed to a crime prevention event in Kedia. We sponsored the local Karowe Cycle Challenge that attracted many participants from other mines and members from the Letlhakane community.

Our Karowe Masters soccer team was crowned the 2014 champions of the Badira Mmogo Social league.

We plan to extend our donations programme to support top performers in local primary and secondary schools for the best performance in Maths, English, Science and Sport going forward.

Grievance Mechanism

Karowe maintains a formalized grievance mechanism. This allows us to receive, log and acknowledge any grievances which may be associated with our operations from time to time. All grievances are assessed, prioritized and forwarded for action to the appropriate department tasked to investigate and resolve issues of concern. Once grievances are closed, they remain subject to monitoring.

During 2014, only one grievance relating to inappropriate conduct was lodged, investigated and handled appropriately. We plan to conduct refresher awareness training on the grievance mechanism to stimulate more feedback in 2015.



COMMUNITY INVESTMENT

Lucara Diamond aims to create sustainable value in host communities and countries in which we operate.

Our operations contribute to the social and economic development and wealth of host communities through a number of channels:

- Wages and salaries paid to employees and contractors
- Taxes, royalties, and fees
- Procurement of goods and services
- Installation/upgrading of local infrastructure
- Support of community development programs

Lucara also contributes directly to the Lundin Foundation, a community investment arm of the Lundin Group of Companies. The Foundation supports, through a combination of grants and impact investments, innovative, vertically-integrated approaches

to poverty alleviation in the areas of agriculture, financial services for the poor, and private sector development.

For Karowe, the Lundin Foundation developed an innovative partnership with Barclays Bank Botswana and the Local Enterprise Authority (LEA) to support early stage microenterprise development in the region hosting our operation. Through this program, the Lundin Foundation provides a 75 percent guarantee on start-up and asset-based grants issued by Barclays to businesses resident operating in the Boteti Sub-District, with a particular focus on youth-and women-led enterprises.

The performance of the initial loan portfolio was below our expectations due to differing interpretations of the legal agreements and insufficient capacity building for loan applicants. The facility received 68 applicants in 2013, of which seven were approved. However, due to the underperformance, we restructured our approach and the program. In 2014, we hired a dedicated staff to assist approved recipients with training, monitor the loan portfolio,



and instigate additional interventions that may be required to further improve the success rate of beneficiaries and, in turn, the loan program.

In 2014, 19 new applications were received, which were still in the evaluation phase by year-end. Applications varied and included a cosmetics business, two beef production enterprises, two tuck shops, a fishing project, two hardware shops, a piggery enterprise, two poultry projects, two hawkers start-ups, a general dealer, a welding and fabrication business, a hair salon, a restaurant, a campsite and a horticulture project. The focus for 2015 will be on encouraging more applications for livestock and other farming related enterprises.

Following an earlier review of community investment options in horticulture, ecotourism, and livestock, an upgrade and expansion of the Boteti Sub-District Council's abattoir at Letlhakane was identified as a priority community investment target. The challenges at this facility are exemplified by the Botswana Department of

Veterinary Services' temporary revocation of the abattoir's license due to health and sanitation concerns in 2013.

The expansion of the Letlhakane abattoir, funded through Lundin Foundation at a cost of \$700,000, will help ensure that the facility continuously meets all national health, quality, and safety standards. The ground breaking ceremony to mark the expansion of the abattoir was performed during 2014. William Lamb, Lucara CEO, accompanied by other Directors and senior company officials, performed the ground breaking with the Letlhakane Chief, Mr. Kegapetswe and the Central District Council Secretary, Mr. Dipholo, for the new and upgraded Letlhakane Abattoir. The project is expected to enable a threefold increase in daily throughput of cattle and goats.

The Foundation intends to further explore ways in which maximum benefits can be commuted to rural livestock owners through low-cost interventions in improved animal health and welfare.



CAUTIONARY STATEMENT

Forward looking information

This document contains statements about expected or anticipated future events and financial results of Lucara that are forward-looking in nature and are based on Lucara's current expectations, estimates and projections. This forward-looking information is subject to certain risks and uncertainties, such as legal and political risk, civil unrest, general economic, market and business conditions, the regulatory process and actions, technical issues, new legislation, competitive and general economic factors and conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and management's capacity to execute and implement its future plans. The actual results, activities, performance or achievements of Lucara may differ materially from those projected by management. A discussion of factors that may affect Lucara's actual results, performance, achievements or financial position is contained in the filings by Lucara with the Canadian provincial securities regulatory authorities on the system for electronic document analysis and retrieval ("SEDAR") at www.sedar.com. All currencies mentioned in this presentation are in United States Dollars ("US\$") unless otherwise mentioned.

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