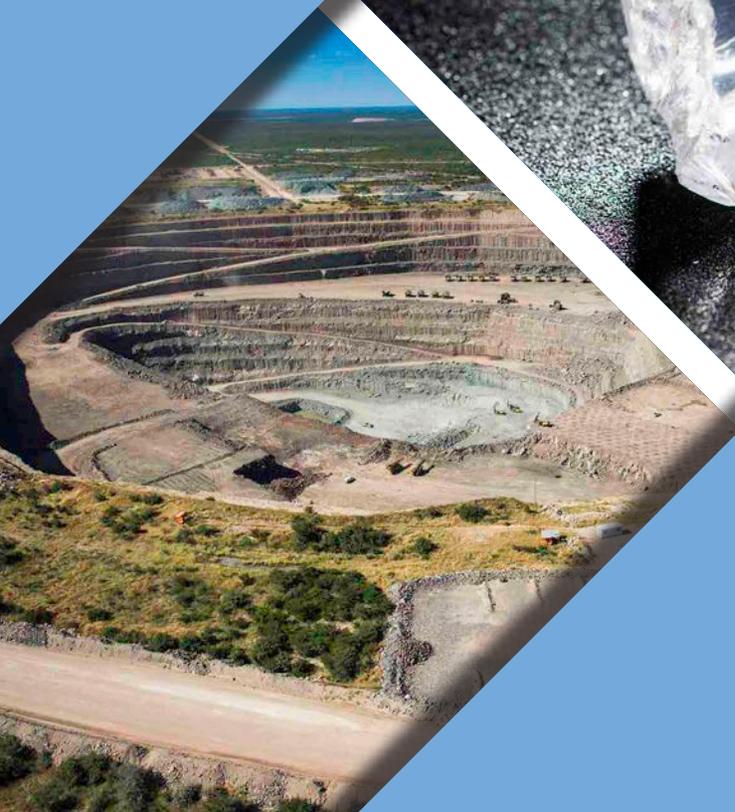
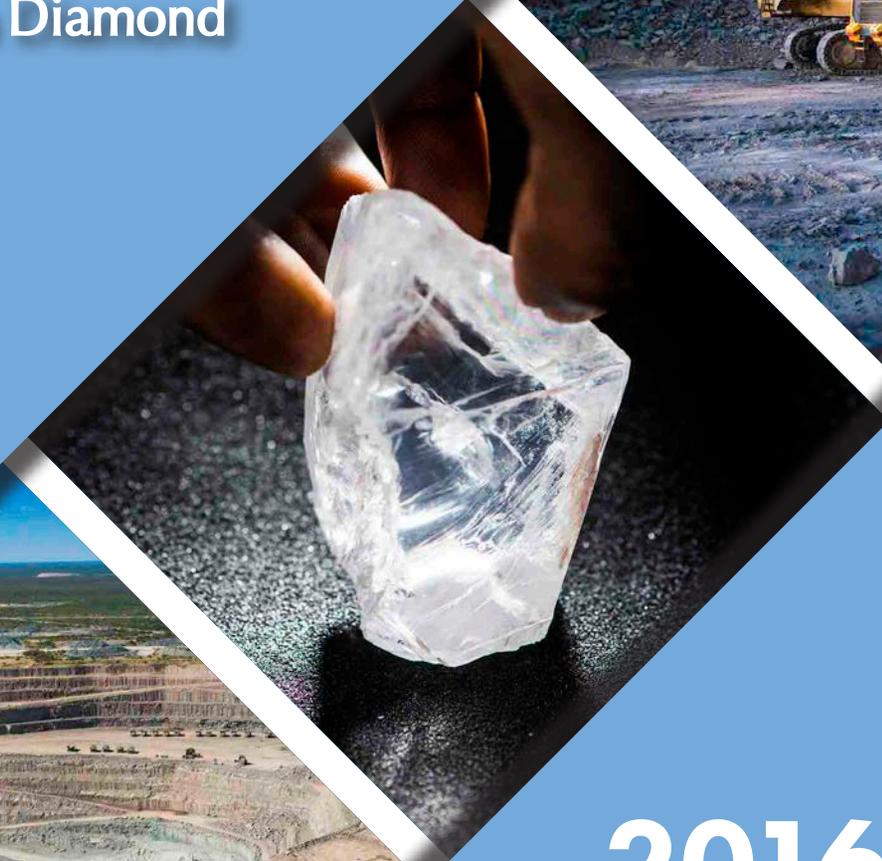




Lucara Diamond



2016

SUSTAINABILITY

REPORT





Lucara wins 2016 PDAC Environmental & Social Responsibility Award

In March 2016, Lucara received a major international award for environmental and social responsibility. The award from PDAC (Prospectors & Developers Association of Canada) honours outstanding initiative, leadership and accomplishment in protecting and preserving the natural environment and/or in establishing good community relations during an exploration program or operation of a mine. The award to Lucara was in recognition of the company's inclusive stakeholder engagement strategy, targeted and sustainable community investment initiatives, and respect for the natural environment.

President & CEO William Lamb and Karowe Community Liaison Officer, Ms Kgalalelo Mokgweetsi, with the PDAC award



OUR MISSION

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

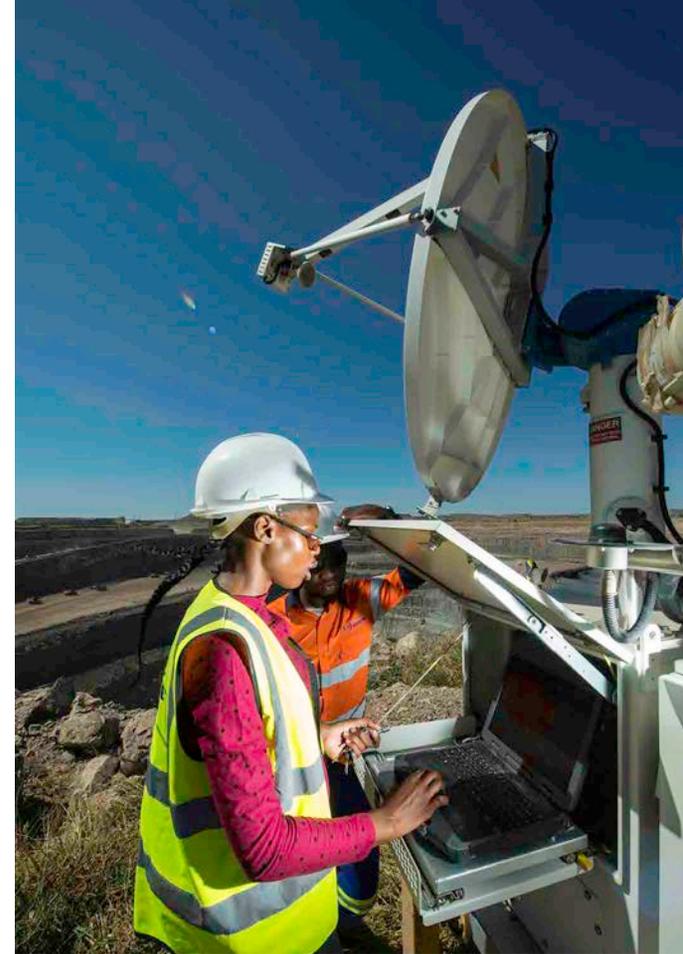


OUR VALUES

- 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

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CORPORATE PROFILE

Lucara Diamond Corp. (Lucara) is an established diamond producer with the Karowe Mine in Botswana as its principal asset and sole mining operation. The Karowe Mine (Karowe), commissioned in 2012, is a state-of-the-art operation, which has consistently delivered large, Type IIA stones. Lucara is a member of the Lundin Group of Companies and is listed on the TSX Exchange, NASDAQ Stockholm Exchange, and the Botswana Stock Exchange under trading symbol 'LUC'. The Lucara head office is in Vancouver, Canada. The Karowe Mine is owned and operated by Boteti Mining (Pty) Ltd, Lucara's wholly owned subsidiary in Botswana. References to "we", "our", "us", "Lucara" or "the Company" mean Lucara and its subsidiaries unless the context otherwise requires.

Lucara markets and sells its stones (rough diamonds) from Gaborone through regular and exceptional stone tenders to an international customer base in compliance with the Kimberley Process Certification Scheme.





ABOUT THIS REPORT

This is Lucara's fifth consecutive annual sustainability report and is prepared in accordance with the GRI Standards: Core option, and the G4 Mining and Metals Sector Disclosures. The reporting boundary is limited to Karowe, Lucara's operating asset, unless noted otherwise. The data presented for Karowe generally covers the calendar year 2016 with data from the two previous years provided for comparison. Our previous sustainability report covered the 2015 calendar year.

In determining the scope, content, and boundaries of this report, Lucara applied GRI guidance taking into account the following aspects: our material sustainability drivers; material risks associated with our activities; operational performance; and the information needs of our stakeholders. The GRI Content Index is included at the end of this report.

There are no significant changes in the scope and topic boundaries from the previous reporting period. This report has been subject to moderate assurance in accordance with AA1000 Assurance Standard (2008). The assurance statement is included in this report. We welcome questions and comments from stakeholders and readers, which can be submitted via email to csr@lucaradiamond.com.

MESSAGE FROM THE PRESIDENT & CEO

I am pleased to present Lucara Diamond Corp's 2016 sustainability report. This is our fifth such annual report, and the first completed in accordance with the new GRI Standards (Core), and subject to external assurance.

In this report, we highlight our business and sustainability performance, which was also recognized by the Company being the recipient of the prestigious Prospectors & Developers Association of Canada 2016 Environmental & Social Responsibility Award.

Operating Highlights

We maintained our award-winning health and safety performance, recording five million staff-hours without a lost time injury¹.

Despite challenging diamond market conditions, we generated record revenues of \$295.5 million or \$824 per carat, and paid \$149.7 million in dividends. Towards the end of 2016, we selected a new mining contractor who was fully mobilized at the Karowe Mine during Q1/2017.

We advanced growth opportunities, including through exploration drilling at BK02 and AK11, and investment in Tsodilo Resources Limited, which has title to the BK 16 project located 28 km northeast from our Karowe Mine.



¹ Health and safety statistic definitions aligned with those required by Botswana Chamber of Mines

Stakeholder Engagement

Supported by our award-winning community liaison officer and other team members, we continue to implement a structured engagement plan, and participate regularly in traditional 'kgotla' (or community) meetings at the 18 villages in the Boteti Sub-District in which our mine is located.

We also participated and contributed to numerous other community-oriented initiatives detailed in the report. No community grievances were lodged during 2016. We believe this reflects the success of our pro-active and comprehensive engagement program.

Community Investment

Our community investments and support reflect the priorities and concerns of our local stakeholders, and good international practice. After the successful completion of the expansion and upgrade of the Letlhakane Abattoir, a public-private partnership which revitalized a critical economic asset, our community investment program focused on the Karowe Emerging Entrepreneur Fund. This is a micro-lending program that provides technical assistance and access to capital to aspiring entrepreneurs. Examples highlighted in this report include a woman-owned brick manufacturing business which generated 10 permanent jobs.

Through the Lady Khama Charitable Trust, we also supported three charitable organizations in Botswana focused on vulnerable women and children, and protection of endangered wildlife.

Continuous Improvement

We continued to implement additional innovative diamond recovery technologies at the Karowe Mine in Botswana. We registered our membership with the Responsible Jewellery Council, a standard setting and certification organization. Through its code of practices, the Responsible Jewellery Council addresses responsible ethical, human rights, social and environmental practices for businesses relevant to the diamond and jewellery supply chain. Lucara is also a founding member of the Diamond Producers Association, created to maintain and enhance consumer demand for, and confidence in diamonds, and to maintain a strong sustainability focus. Lucara has begun reviewing the recommendations of the assurance statement and report. We will continue to fine-tune our sustainability reporting procedure and quality control measures going forward.

Contributing to UN SDGs

2016 marked Botswana's 50th year of independence, a period during which it evolved from one of the poorest African countries to an economically stable nation. An initial mapping of our activities against the United Nations Sustainable Development Goals (SDG) shows that our royalty and tax payments (over \$115 million in 2016) supports the Botswana government's efforts towards No Poverty (SDG 1). Our payroll, procurement, community investments and support for local micro-enterprises contribute to Decent Work and Economic Growth (SDG 8). And our compliance with the Kimberly Process, designed to stem "conflict diamonds", pursuing certification for the Responsible Jewellery Council, and payment disclosure practices² contribute towards Peace, Justice and Strong Institutions (SDG 16).

² In June 2017, Lucara will publish a report documenting payments made to governments in accordance with Canada's Extractive Sector Transparency Measures Act and the EU Transparency and Accounting Directive.

Looking Ahead

We remain committed to delivering sustainable value to all our stakeholders. We will continue to focus on operating performance at the Karowe Mine, and seek resource expansion and other growth opportunities in a safe, environmentally responsible, and ethical manner. We will also continue our structured engagement and community investment programs.

Adopting the new GRI Standards, introducing external assurance, and pursuing certification under the Responsible Jewellery Council encourages us to further improve our environmental and social management practices and systems, and helps bolster confidence in our ethical conduct and reporting practices.

Positioned at the start of the responsible and ethical diamond supply chain, our general emphasis has been to generate confidence in our operations and products. Continuing to move forward, we plan to work more closely with our top-tier supply chain members on shared and material sustainability risks and opportunities.

Overall, we remain committed to responsible mining and welcome your feedback to csr@lucaradiamond.com.

William Lamb,
President & CEO



SUSTAINABILITY SNAPSHOT

○ Not Achieved ● Partially Achieved ● Achieved

Category	2016 Targets	Results	2017 Targets
Governance	Continue with 4 Board HSEC ¹ Committee meetings per year	● 4 meetings held	4 Board HSEC Committee meetings in year
Economic Benefits	Achieve sales of 340,000 to 380,000 carats	● 358,806 carats sold	290,000 to 310,000
Environmental Performance	No Level 1 incidents ² Explore large tyre disposal options License and commission on-site landfill	● No Level 1 incidents ○ No tyre disposal option yet identified ● Landfill in operational condition. Licensing process progressing	No Level 1 incidents Explore tyre disposal options Obtain full landfill licence
Health & Safety Performance	No fatalities No LTIs ³ No occupational diseases	● No fatality ● LTI zero ● No occupational diseases	No fatalities No LTIs No occupational diseases
Stakeholder Engagement	Continue structured engagement program, and sustainability reporting	● Continued as described in this report. Received PDAC sustainability award	Continue structured engagement program, and GRI sustainability reporting
Community Support	Mentor and monitor Round 1 and 2 grantees. Disburse funds to Round 3. Complete, open and monitor the new abattoir	● Achieved, including support to 3 new entrepreneurial businesses ● Abattoir officially opened and operating	Focus on mentoring for success of existing businesses that have received our support Optimization of abattoir Inauguration of community-based Village Initiatives Fund
Product Integrity	Continue to comply with Kimberley Process (KP)	● Maintained ongoing compliance with KP	Continue to comply with KP. Pursue certification under Responsible Jewellery Council (RJC)

1. HSEC = Health, Safety and Environment Committee

2. Level 1 Environmental incident is 'Minimal environmental harm'

3. LTIs are reported according to the Botswana Chamber of Mines specification

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 and of most relevance to our environmental and social impacts. We review these issues on an ongoing basis to ensure we achieve our strategic goals. We apply the GRI principles for defining report content, including through stakeholder engagement and management judgment.

We 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 take into account that our materiality and issue boundaries may shift over time and new issues may be raised by key stakeholders.

Our top 10 material sustainability issues are summarised on the following pages with related risks, potential impacts and our management approach.



Material Issue	Boundary & Relevant Disclosures*	Content/Risks	Potential Impact	Management Approach	Targets / Commitments
Electricity Supply Security	External control. 302-1, 302-3	Botswana Power Corporation (BPC) has ongoing capacity challenges, relying on imports for back-up. Main imports are from South Africa, which also has supply challenges.	Karowe has not experienced significant power loss, but the risk remains. Power loss will cause operational downtime and additional re-start costs. Power dips of less than one second are occasionally experienced which can cause short term interruption and some cost.	Regular update meetings with BPC for operational planning. Power-dip protection technology was installed.	To monitor the situation and maintain good communication with BPC, monitor electricity use and efficiency at Karowe.
Water Supply Security	Internal 303-1, 303-2, 303-3	The mine is reliant on groundwater supply in a dry region, sometimes experiencing drought. Perception that Karowe could contribute to regional water shortage problems.	The risk of insufficient groundwater supply is considered low. Restrictions would reduce ore processing ability and impact on production targets. Negative perceptions of the mine's water use could impact on its reputation.	Karowe employs a fulltime hydrogeologist to monitor, manage and report on water use and status, including an annual report to regulators. Impacts on regional groundwater levels are monitored, and show no significant impact.	Comply with abstraction permit and its conditions. Avoid negative impact on other water users and the natural environment, and act in the event any are detected. Communicate on our water use and impacts with stakeholders as appropriate.

Material Issue	Boundary & Relevant Disclosures*	Content/Risks	Potential Impact	Management Approach	Targets / Commitments
Mineral Resource Performance	Internal control of exploration and planning, but dependent on geology. 201-1	Uncertainty in future mineral resource performance.	Poor resource would impact on product delivery, projected life of mine and economic performance.	Continuous business model updating. Operational capacity building. Regular resource definition projects.	To continue to invest in exploration activities within the existing AK06 licence area, and in new licences in the vicinity.
Availability of Appropriate Technology and Skills	Internal, external. 201-1, 401-1	New installed technology not achieving its aims.	Inadequate production to sustain required economic performance.	Continued plant optimization to address any resource issues and challenges. Maintain dynamic resource models. Provide attractive remuneration packages to attract and retain good talent.	Maintain technical partnership with OEM (original equipment manufacturer). Continue with internship programs.
Stakeholder Engagement	Internal. Obtaining social licence is external. 102-40 to 102-44	Addressing concerns of stakeholders. Applying ethical business standards.	Negative impact on social licence and/or reputation. Failure may negatively affect Lucara's ability to operate and grow.	Focus on community engagement, including dedicated office in Letlhakane.	Respond to, and address community concerns and needs and grievances. Maintain our financial assistance program for local entrepreneurs.
Health and Safety Performance	Internal policy and practice. 403-1, 403-2	Mining is a more dangerous than average industry.	H&S incidents impact our workers and their families. Poor results can also impact on our productivity and reputation.	Ongoing implementation of our rigorous health, safety and wellness programs, including training, awareness raising and events.	Apply strict H&S targets. Promote training, awareness and vigilance among our workers.
Environmental Stewardship	Internal policy and practices. External receptors of impact. 304-1, 304-2	Water supply. Extreme weather events. Causing pollution. Tailings and slimes dam management.	Impact on availability of water resources for other users and the natural environment. Reputation. Non-compliance. Tailings or slimes dam failure.	Continue to implement and update our Environmental Management Plan. Monitor our impacts and react appropriately.	Comply with our objectives to minimise the impact of our operations on the natural environment, including after mine closure.
Business Growth	Internal business management. External influences on diamond market. 201-1	Economic growth needs for the company and for Botswana.	Threat to business continuity and economic growth to Botswana.	Continue exploration programs and efficient working practices.	To manage for effective business growth and longevity.
Regulatory and Legal Compliance	Internal policy and practice to ensure compliance. External control of regulations and enforcement. 102-16, 103-2, 307-1	Meeting all regulatory requirements.	Fines and penalties. Reputation and social licence to operate. Lose access to Kimberley Process compliant diamond markets.	Internal governance measures, controls and assurance, including Kimberley Process. Compliance audit program.	To remain always compliant through responsible and ethical business management. Implement Responsible Jewellery Council practices and certification program.
Labour Relations	Internal policy and practice. 102-16, 102-41, 102-43, 103-2, 401-1, 401-2, 403-1, 403-2	Excessive staff turnover. Critical skills and staff shortages.	Dissatisfied, unproductive workers. Strikes or lock-outs. Poor match of workers to skills requirements. Loss of productivity.	Employee surveys and exit interviews. Investment in skills development. Grievance mechanism. Effective collaboration with contractors.	To value and motivate all employees and contractors. To create a conducive work environment.

* For Disclosure descriptions, see GRI Index



Lucara Diamond



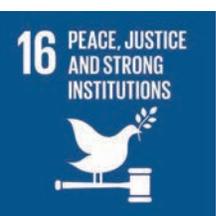
Lucara Diamond Supports the Sustainable Development Goals

OUR CONTRIBUTIONS TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs), defined by the United Nations in September 2015, represent the world's post-2015 agenda for equitable, socially inclusive and environmentally sustainable economic development (www.un.org/sustainabledevelopment).

The mining industry has a major opportunity to mobilize significant human, physical, technological and financial resources to advance the SDGs. There are 17 SDGs in total covering a wide range of environmental and social issues, a sub-set of which have the most relevant links to the impacts of mining and opportunities for the industry to address them.

In this section, we map where our own current activities contribute to relevant SDGs. This represents a first step towards integrating SDGs more formally into our sustainability agenda.

SDG	How we Contribute
	<p>The mining sector has been key to producing the economic conditions to lift Botswana out of poverty in the 50 years since independence. We make an indirect but important contribution to the Government’s programs for eradicating poverty. Lucara contributes through direct and indirect employment (see SDG8 below), and payment of taxes and royalties (totaling US\$ 115.1 million in 2016), which in turn support the Government in its social protection programs and community investments throughout the country.</p>
	<p>At Lucara, we maintain high health and safety standards for our workers, complimented by programs to promote well being through monitoring and fun sports events. This extends to the local communities who are also invited to sports events, and a one-day ‘health and sports’ event at a local village, rotating annually to different villages. Our philosophy is that healthy workers are vital, for resilient communities as well as for a sustainable business. For example, we employ a nurse permanently on site, and have twice weekly visits by doctors to support and advise our workers.</p>
	<p>Our internship program currently employs six graduates to provide them with working experience in a range of professional-level disciplines. This will increase their prospects of good long-term employment whether with Lucara or other employers. We also sponsor school prizes in local communities, including for mathematics, science and English, for which we contributed \$1,800 in 2016.</p>
	<p>We provide employment to staff and contractors who work for our business. During 2016, our mine employed more than 700 people as direct employees and main operational contractors, plus work for short-term contract projects. We also provide support to business development and entrepreneurial activities in the local community, as described in the Community Investment and Support section of this report, of which our 2016 investments totalled approximately US\$500,000. In addition, we indirectly support employment and economic growth in the local community via local suppliers, and the money our workers spend in the local communities.</p>
	<p>We disclose our payments to the government of Botswana, comply with in the Kimberley Process to stem the flow of ‘conflict diamonds’, and are pursuing certification under the Responsible Jewellery Council. Our commitment to ethical business practices contribute to setting the standard for Botswana.</p>



OPERATIONS & EXPLORATION ACTIVITIES

Karowe Mine

Karowe is an open pit diamond operation fully commissioned in 2012 and with an anticipated life of mine through to 2026. Active investigation of new prospects within the mine and vicinity may extend the life (see below). The mine 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, and includes the Orapa Mine, one of the largest diamond mines in the world. The name Karowe means "precious stone" in the local Tswana dialect and was chosen through a school competition to replace the original 'AK06 Kimberlite' designation.

Karowe lies on the northern fringe of the Kalahari Desert of central Botswana in a terrain of flat lying sandy savannah supporting vegetation of trees, shrubs and grasses. The natural vegetation has been modified by historic cattle grazing and limited arable farming. The climate is hot and semi-arid with an average temperature of 21 °C and average annual rainfall of 370 mm. There are no permanent surface water bodies in the vicinity of the mine.

The property is accessed by 15 km of all-weather gravel and sand road from the tarred road linking Letlhakane to Orapa. Karowe is one of four mines within 20 kilometres of the town of Letlhakane, which has a population of approximately 25,000.

Karowe's electric power supply is provided via Botswana Power Corporation's national grid. Our water requirements are met by groundwater we must abstract to lower the water table for open pit stability.

Karowe is the first diamond mine to use a new X-ray transmission technology to identify liberated diamonds in the ore. Its main objectives are to maximize diamond recovery and to maintain a milling capacity of 2.5 million tonnes per annum as ore hardens and grade reduces with increasing mine depth.

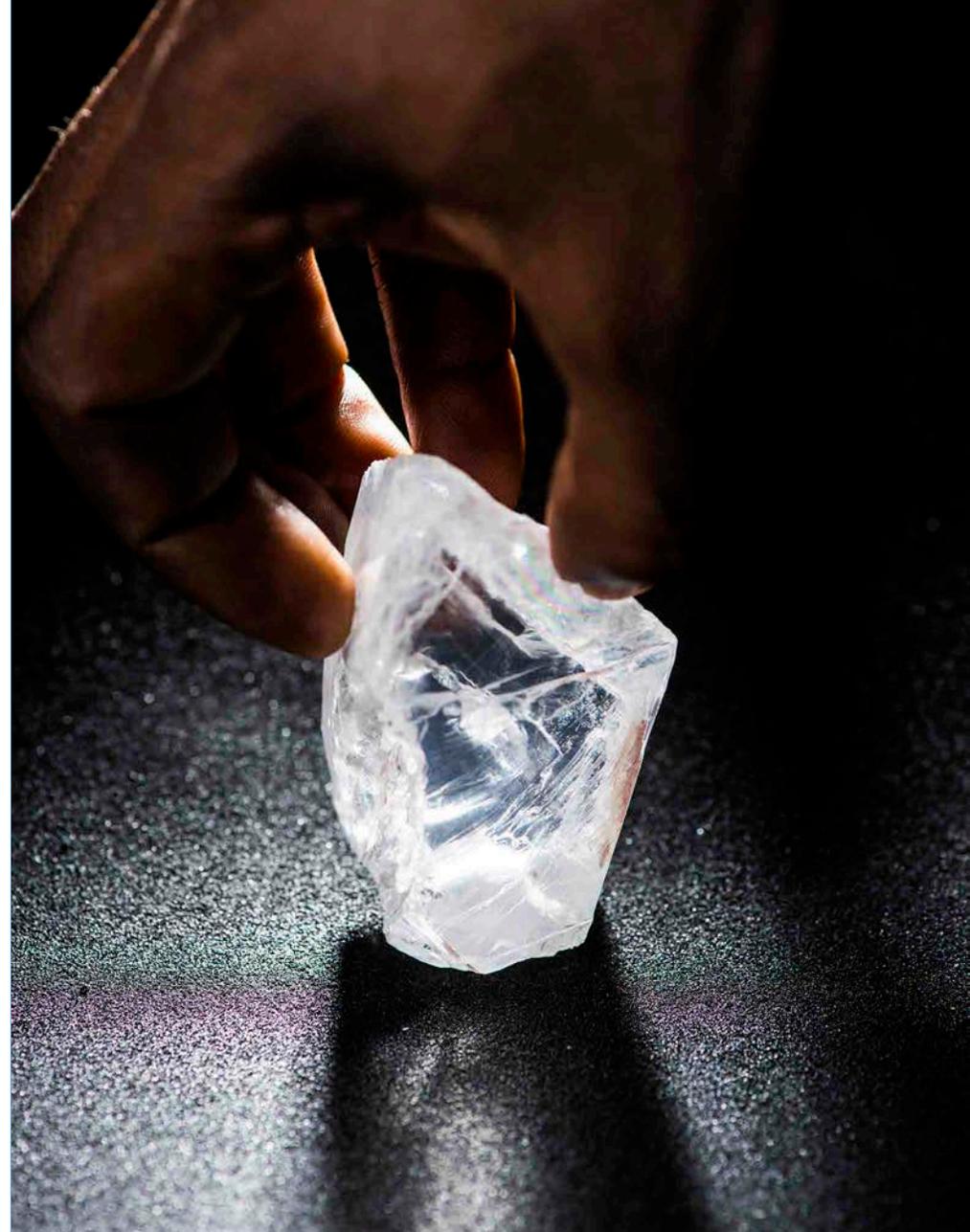
The success of the Karowe Mine to date

In its short history, the Karowe Mine has yielded many large high quality diamonds:

- 130 diamonds sold for more than US\$ 1 million each
- 21 diamonds sold for more than US\$ 5 million each
- 7 diamonds sold for more than US\$ 10 million each
- The 813 carat Constellation diamond, a single rough diamond sold in 2016 at a record price of US\$ 63.1 million
- Recovery of the 1,109 carat Lesedi La Rona in 2015, the world's second largest gem quality diamond ever found

Lucara participates in and complies with Botswana's commitment to the Kimberley Process Certification Scheme, which attests our diamonds are tracked from the point of recovery, through every step to point of sale internationally, and guaranteed to be of 'conflict free' origin.

In January 2017, we appointed Aveng Moolmans as our new mining contractor replacing our former mining contractor, Eqstra Botswana, to provide the full suite of mining services at the Karowe Mine. Full mobilization was completed in March 2017. We expect the change in mining contractor to have no material impact on our 2017 production.



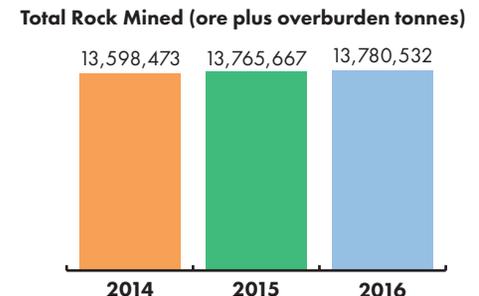
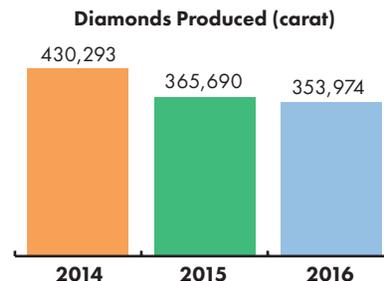
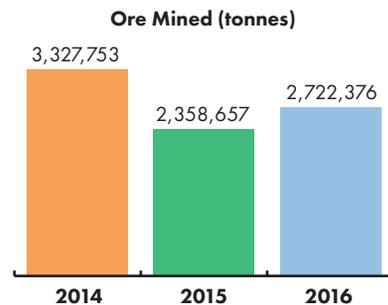
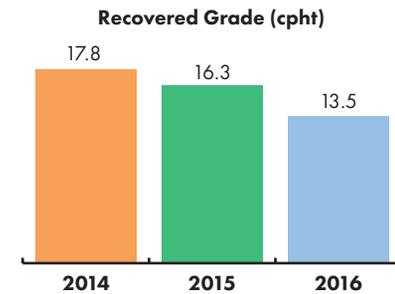
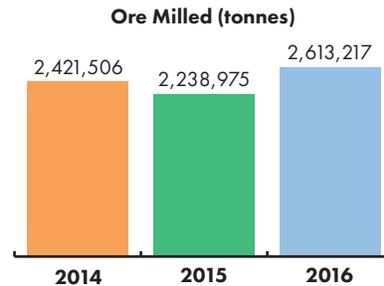
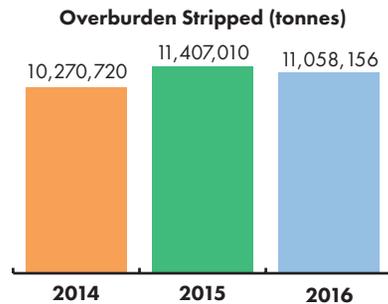
The Constellation diamond weighing in at 813 carats was sold at a record price of US\$63.1 million

Production Results

The success of the upgraded ore processing technology implemented in 2015 is reflected in an increase in milled ore volumes, to achieve the highest rates to date. Despite a declining ore grade over time (as reflected in the Company's resource statements), we saw only a small decline in the total carats of diamonds produced, and within our 2016 target range of 340,000 to 380,000 carats. We expect current recovered grade to continue as more material is processed from the lower grade, but higher value, south lobe.

The amount of ore milled increased by 17 percent, due to a combination of recovery from 2015 when new processing technology was installed, and because the mill continued to process ore stockpiles while mining had stopped.

PRODUCTION STATISTICS





Botswana Exploration and Prospecting Projects

The Karowe Resource Upgrade drilling commenced on a planned 10,000 metre drill program designed to investigate the AK06 kimberlite at depths below 400 metres with a target to bring inferred mineral resources into the indicated category in support of underground mining. At the end of 2016, the drilling component was 92 percent complete, and was completed in early 2017.

Lucara was awarded two new prospecting licences in 2014 within the Orapa Kimberlite field, in close proximity to the Karowe Diamond Mine, where diamondiferous kimberlite is known to occur. Environmental approval was obtained for the investigation program in early 2016.

Bulk sampling and delineation drilling were completed over two of the target kimberlites (BK02, AK12). Results from the Bulk Sampling Plant were sufficiently interesting for BK02 to warrant a second sample, but subsequent results led us to conclude that no further work will be undertaken at this time. Results from AK12 failed to meet expectation, so the project was terminated and the sampling site re-contoured and rehabilitated.



GOVERNANCE & 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 publicly listed mining companies.

To enhance understanding and to ensure compliance with our Code of Conduct, our President & CEO and VP Legal conducted training sessions on compliance with the code for employees and contractors at the Karowe Mine and the Boteti head office.

A training session was held for members of the board by a law firm to cover the requirements under the new Extractive Sector Transparency Measures Act and OSC Whistleblower Program.

Corporate Responsibility

Our vision of corporate responsibility is founded upon a set of principles which guide our relationships with shareholders, employees, suppliers, partners, governments, and the communities affected by our operations.

Our commitment to meaningful corporate responsibility is recognized by our receipt of the PDAC 2016 Environmental & Social Responsibility Award “for outstanding leadership in environmental protection and good community relations.”

Corporate responsibility is central to our strategic and operational thinking. 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 believe our transparent approach to doing business is the only way to fully engage our stakeholders in a meaningful and mutually beneficial relationship.

Our Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics, 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;
- Avoidance of conflicts of interest;
- Full, fair, accurate and timely disclosure;
- Compliance with applicable governmental laws, rules and regulations;
- Prompt internal reporting of violations of this Code;
- Accountability for adherence to this Code.

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.

We have a Whistleblower Policy to allow anyone, including employees of Lucara or its subsidiaries, to submit any concerns in confidence or anonymously regarding accounting, internal accounting controls or auditing matters by its employees, officers and directors. All reports are assessed by the Audit Committee, which recommends corrective and/or disciplinary actions to the Board, if appropriate. In 2016, there were no confirmed incidents of corruption by employees of Lucara or its subsidiaries.

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

- The OECD Guidelines on Multinational Enterprises;
- United Nations Guiding Principles on Business and Human Rights
- The Global Reporting Initiative;
- The Voluntary Principles on Security and Human Rights;
- The IFC Performance Standards on Social and Environmental Sustainability

In addition, we follow additional international initiatives designed to stem the flow of conflict diamonds, increase transparency and deter corruption in the extractive sector as defined by the Kimberley Process, Canada's Extractive Sector Transparency Measures Act (ESTMA) and the EU Transparency and Accounting Directive. Lucara will be publishing, prior to June 30, 2017, a report documenting payments made to governments in accordance with the ESTMA legislation and the EU Transparency and Accounting Directive.

Karowe's General Manager continued serving as Deputy Chair of BCM in 2016.



Board of Directors

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

The Board's 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, at least annually, 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, including for approval of 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 Board Charter, but recognises delegation to committees does not discharge the Board's responsibility to its fiduciary duties. The following Board committees are in place.

Audit Committee comprising three independent and financially literate Board members. It reviews and reports to the Board on the integrity of the consolidated Company financial statements. The committee also has oversight responsibility for internal controls, accounting and auditing activities.

Corporate Governance and Nominating Committee comprising three independent Board members. It assists the Board in identifying qualified individuals for Board membership, develops and implements corporate governance guidelines, and reports annually to Lucara's shareholders on corporate governance.

Health, Safety, Environmental and Community Relations Committee

comprising three Board members, a majority of whom are non-executive. It assists the Board in oversight of health, safety, environment, and community risks and compliance with related legal and regulatory requirements.

Compensation Committee comprising three independent members. It is responsible for administering the Corporation's executive compensation program and overseeing incentive plans.



Supply Chain Sustainability

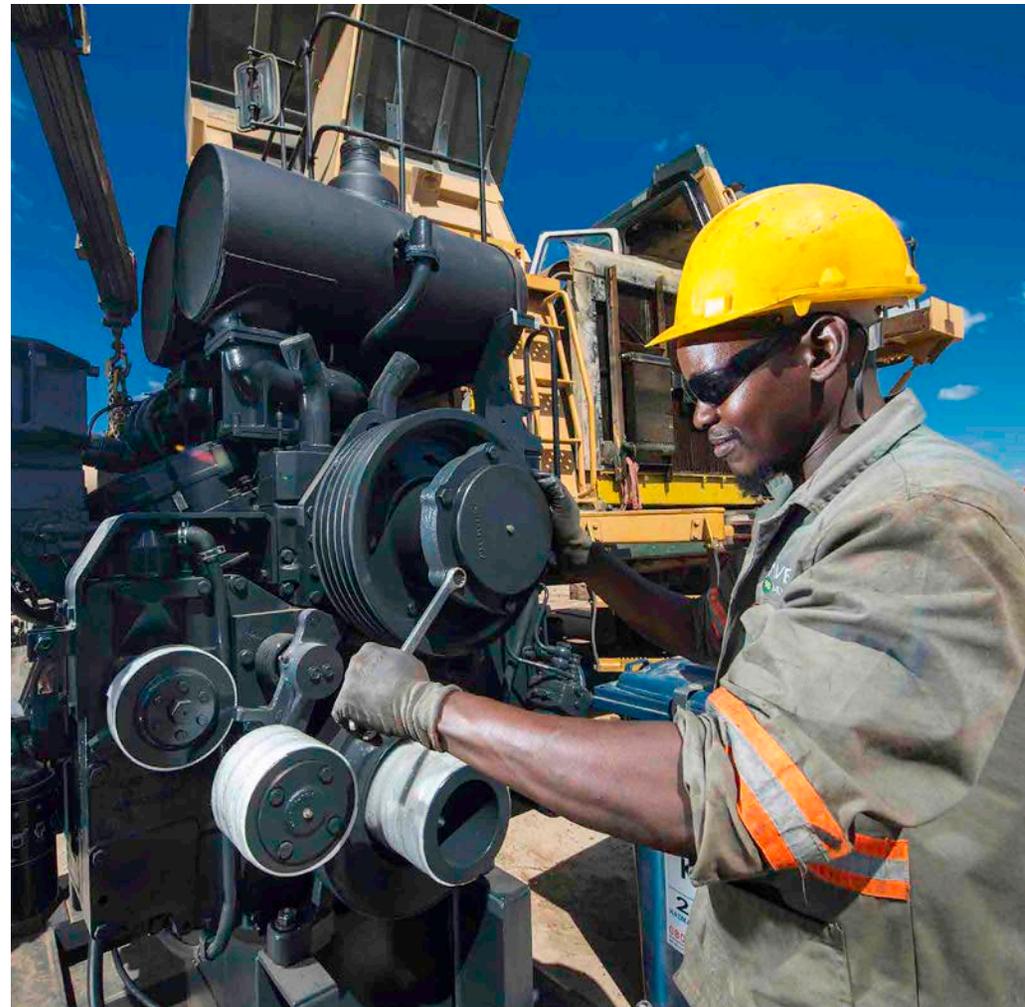
Boteti Mining's supply chain relies on national and international suppliers to provide materials and services for its operations, project development, exploration activity and diamond sales. Technical equipment may be sourced outside of Botswana; however, where practical Boteti aims to source materials and services from Botswana, thereby generating benefit for the local town, Lethlakane and for the country. Materials typically sourced internationally have included large capital items such as the mine's mill and Tomra X-ray machines.

Boteti Mining uses contractors where such companies may carry out tasks more efficiently or more effectively than itself. The Karowe Mine currently uses mining and ore processing contractors, representing our most material suppliers and with a workforce totalling 528 in 2016 during full operation. These contractors source mining equipment including trucks, loaders and other vehicles, crushing equipment, fuel and lubricants, explosives, and safety equipment. We also engage a contractor for the security of our diamonds in their transport from the mine site to secure storage and for subsequent sales.

In 2016, 82% of goods and services were sourced from Botswana. These statistics are monitored by Boteti Mining, and form part of its procurement decision making. Boteti supplier contracts include a requirement to comply with Boteti's code of conduct as well as a requirement to respect human rights and maintain a harassment free working environment. During 2017, the Company will start visiting local suppliers to confirm adherence to the Company's Code of Conduct and Business Practices.

Lucara's rough diamonds are at the start of the supply chain of the diamond trading, polishing and jewellery sector. Our adherence to the Kimberley Process Certification Scheme (KPCS) ensures tracking and ethical trade of produced diamonds from mine to end customer.

Lucara makes positive direct economic impact in the region through payments to our workers, suppliers and governments, and positive indirect economic impact by way of monetary flows and job creation throughout our supply chain and beyond.



Moving into our fifth year of production, we will continue to engage with our significant suppliers to further promote sustainability performance. Contracts with suppliers are continuously updated to reflect appropriate compliance to sustainability performance.

In 2016, Lucara registered for membership of the Responsible Jewellery Council (RJC), whose more than 900 members spanning the jewellery supply chain from mine to retail, commit to the RJC Code of Practices. We intend to complete RJC certification in 2017, which includes an independent audit of our practices and operations against the code. Further information on the RJC and its Code of Practices can be found at www.responsiblejewellery.com

Lucara is a founding member of the Diamond Producers Association (DPA, www.diamondproducers.com). The DPA, formed in May 2015 by seven leading diamond companies, exists to maintain and enhance consumer demand for, and confidence in diamonds, and to maintain a strong focus on sustainability. Its focus is broad, from employee health and safety and working conditions to partnership with local communities, supply chain integrity, environmental management, financial transparency and product disclosure.

The Kimberley Process

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



The Kimberley Process, which came into force in 2003, was the outcome of a meeting of southern African diamond-producing states in Kimberley, South Africa in May 2000, held to discuss the stopping of 'conflict diamonds' and their financing of rebel movements. The KPCS imposes extensive requirements on its members to enable certification of rough diamond shipments as 'conflict-free' and prevent conflict diamonds from entering the legitimate trade.

KPCS participating states must meet minimum requirements and 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 trade legally with other participants meeting the minimum requirements. Our international shipments of rough diamonds are accompanied by a Kimberley Process certificate guaranteeing their 'conflict-free' status.



HEALTH & SAFETY

Cultivating a Health and Safety Culture

Successful health and safety awareness requires much more than just training and rules. It requires a regular program of communication to ensure that all employees and workers (including contractors) constantly keep it in mind in every aspect of their daily activities and duties.

Our approach to health and safety is encompassed in our program of behaviour based safety (BBS). This program is headed by our list of 'Cardinal Sins' posted in all work places and intended to maintain awareness and influence safety behaviours to address our highest safety risk areas.

We encourage our employees to report all unsafe conditions and near misses in order for us to identify and mitigate those risks. We promote a specific 'Stop & Fix' policy to encourage our people to address or report risks as soon as they are spotted and require pre-task risk assessments to be undertaken. Our safety drives during 2016 included a continuation of our focus on road safety.

We launched a new campaign called 'Clean Slate'. This encourages employees to think afresh on how they work and manage their lives, specifically in the areas of health, safety and wellbeing. It covers four main themes:

1. Stress-free environment
2. Good state of mind
3. Good financial wellness
4. Zero harm

We display it on posters in the work environment, backed up by themed articles in our employee newsletters, such as to 'Avoid Complacency' and to 'Make a Promise - not to ignore hazards'.

Our safety performance continues to improve, indicating more and more employees are taking responsibility for their safety and that of others.

Our primary health care and occupational health services include Occupational Health Services, Primary Health Care and Emergency Response.

Occupational Health and Safety

Working on a mine site presents a level of health and safety risks that need to be carefully managed. We are committed to create and maintain a healthy and safe working environment for all employees, contractors and visitors. We actively educate and work with all employees and contractors to avoid conditions that may result in injury.

In accordance with our Occupational Health and Safety Policy, we endeavour to integrate health and safety into all of our business processes and activities. This is achieved through training, routine awareness communication, pre-emptive risk assessment of potential hazards and provision of appropriate safety clothing and equipment.



'Clean Slate' poster displayed in working areas

All levels of management, supervisors and contractors have a responsibility to ensure the safety of all employees and workers under their direction, and to ensure they are properly trained and equipped. Every individual employee and worker, whatever their role, has a responsibility to comply with policy, and to take accountability for their own safety and that of their co-workers.

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

Each shift maintains a Joint Health and Safety Committee 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. Each shift also includes staff trained and appointed as first aiders, as Safety, Health, Environment representatives and as members of our fire response team.

Safety and health coordinators report to the Safety, Health, Environment & Community Relations Manager who, in turn, reports to the General Manager.

Our supervisory performance monitoring program was maintained during 2016. This looks 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 are proud of our improved safety performance in 2016, achieving an LTIFR of 0.0 (0.08 in 2015) and with no lost time injuries recorded (one in 2015). We also recognise there are some areas we need to apply more attention, such as the rising trend in 'near misses', although this is partly explained by improved vigilance and reporting.

Karowe Diamond Mine Cardinal Sins (updated 2016)

1. Reckless Driving.
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 authorization or failing to complete pre-start checklist.
7. Working on equipment/machinery wilfully without lockout or isolation.
8. Coming to work under the influence of intoxicating substances.



Toolbox talks are regularly held to keep staff informed of important issues and updates

We conduct medical examinations on all employees and workers, including contractors, at start of employment, yearly, and when employment terminates. We keep medical data in accordance with International Labour Organisation standards. We employ two private medical doctors to visit the mine site two times per week to be available for anyone who wishes to consult them. We have an onsite health care unit with an Occupational Health Nurse to provide consultation, to dispense medicines and make referrals to the doctors as appropriate. The nurse reports to the SHE & Community Relations manager.

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

We have created a culture of health promotion for all employees and workers in an effort to prevent workplace injuries and occupational diseases. Topics covered include: HIV/AIDS, tuberculosis, diabetes, and hypertension.

No noise induced hearing loss or other occupational diseases cases were recorded in 2016.

Health & Safety Awards

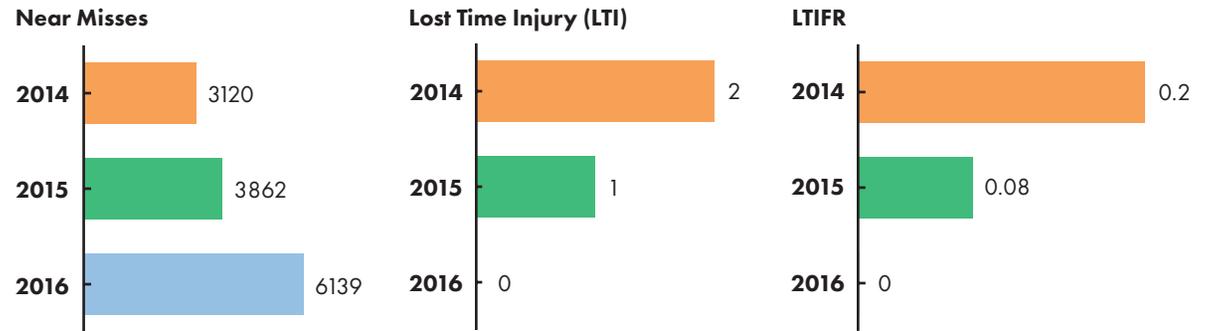
The high priority we give to health and safety was recognised by three awards we received from the Botswana Chamber of Mines in 2016 for our 'best of mines' 2015 safety results.

These were for: Best Total Reportable Injury Frequency Rate; Best Classified Injury Frequency Rate; and Most Improved Classified Injury Frequency Rate.



Boteti received three awards in 2016 from the Botswana Chamber of Mines for their Health and Safety record (based on 2015 results)

HEALTH & SAFETY STATISTICS



LTI is reported according to the Botswana Chamber of Mines specification

ADDITIONAL HEALTH & SAFETY STATISTICS	2014	2015	2016
Fatality	0	0	0
Absenteeism Rate	0.10	0.30	0.31
Restricted Work Injury (RWI)	2	0	3
Medical Treatment Injury (MTI)	3	2	0
Days Lost LTI	18	31	0
Days Lost RWI	6	0	31
First Aid Injury	10	14	10
Severity Rate	0.40	2.44	2.33
Exposure Hours	2,005,610	2,540,440	2,664,553
Property Damage	29	16	23



Occupational Health Initiatives of 2016

1. Regular twice-weekly site visits and consultations by health experts to identify health risks for our people.
2. Communicating medical exam compliance to the workforce. Advising people when they are due for examination, but with flexibility to fit in with work and private schedules.
3. Medical examinations for specific exposure groups, such as staff having greater exposure to radiation.
4. Peer education training to all employees.
5. Quarterly wellness measures for staff, such as assessment of BMI and blood pressure, a fun sports day and guest speaker on wellness.
6. Awards and gifts for employees with best and most improved wellness indexes.
7. Community wellness day was celebrated in Mosu village in May. The villagers were encouraged to voluntarily test for a range of indicators, including diabetes and hypertension, and to take part in fun healthy activities (We plan to do this for a new village each year).
8. Karowe Mine hosted an annual cycling event in June for workers and the community.
9. Employees participated in the BOT50 National Marathon, sponsored by Lucara as a contribution to Botswana's 50 years of independence celebrations.





ECONOMIC PERFORMANCE

Lucara's Karowe Mine in Botswana successfully completed its fourth full year of operations in 2016 continuing to recover high numbers of large and exceptional stones.

During 2016, Karowe recovered a total of 652 special stones greater than 10.8 carats (727 in 2015) with an average stone size of 26.6 carats (36.7 in 2015). A total of 18 stones greater than 100 carats were recovered (47 in 2015) including 3 greater than 200 carats (20 in 2015). No stones greater than 300 carats were recovered, compared to the successful run of seven such exceptionally large stones in 2015. Although our recovery of larger stones was reduced, the total of carats recovered was just 3% less despite an expected decrease in ore grade with mine depth.

During the year the Company had sales totalling 358,806 carats for gross proceeds of \$295.5 million at an average price of \$824 per carat. Excluding the sale of the 813 carat Constellation diamond, the 2016 average price sold was \$649 per carat. The exceptional stone sales resulted in an average price of \$34,301 per carat from the sale of 2,624 carats in 2016 (2015: \$31,597 per carat from the sale of 3,114 carats), with the regular tenders achieving \$400 per carat (2015: \$335 per carat).

The Company recorded EBITDA for the year of \$185.4 million (2015: \$133.9 million) and an operating margin of 81% (2015: 78%). The increase in EBITDA and operating margin was largely due to the sale of the Constellation, an 813 carat Type IIA diamond sold for a world record rough diamond price of US\$63.1 million or US\$77,649 per carat.



ECONOMIC PERFORMANCE (US\$ MILLION)	2014	2015	2016
Direct Economic Value Generated			
Revenues	265.8	223.8	295.5
Economic Value Distributed (see supplemental information below)			
Operating costs for ore processed	65.4	64.5	69.2
Capital procurement	44.3	23.6	25.3
Exploration expenditures	–	1.0	4.1
Sales and marketing and administrative costs	8.8	7.4	9.9
Community investments (Karowe) ¹	0.1	0.3	0.1
Royalties and taxes to government			
Payments to Government (Royalty)	26.6	22.4	29.5
Payments to Government (Tax)	41.6	44.7	85.6
Economic Value Retained	79.1	60.2	71.8

1. In addition, Lucara contributes CAN\$250,000 annually to the Lundin Foundation, and in 2016 donated US\$253,000 to the Lady Khama Charitable Trust (see Community Investment and Support)

SUPPLEMENTAL ECONOMIC INFORMATION (US\$ MILLION)	2014	2015	2016
Employee Compensation	7.6	8.4	8.1
* Local Procurement	80.4	79.1	93.0
	88.0	87.5	101.1

* 'Local' is defined as southern Africa

Lucara's year-end net cash balance was down at \$53.3 million (\$134.8 million in 2015), reflecting our investments in improved technology and higher dividend payment.

Lucara paid \$29.5 million in royalties and \$85.6 million in taxes to the Government of Botswana in 2016. The Company has a residual 2016 tax payable balance of \$9.2 million (forecast to be paid during the second quarter of 2017). Lucara's Scotiabank \$50 million credit facility remains undrawn.

Botswana and Diamonds

Botswana proudly celebrated 50 years of independence in 2016, a period during which it evolved from one of the poorest African countries with a population of around 600,000, to become economically stable and successful with 2.2 million inhabitants.

Since its first diamond mine opened over forty years ago, Botswana's economy has been fuelled primarily by mining. According to the World Bank, Botswana's good governance practices, combined with prudent macro-economic and fiscal management, led to its real rate of GDP rising an average of 4.6 percent annually between 1994 and 2011, although growth has since levelled off and slightly contracted, reflecting the weaker global economy.

More recent data indicates the economy in Botswana contracted by 0.3%, compared to a growth of 3.2% in 2014, mainly due to a decline in mining production, owing to weak global demand for diamonds. Extended drought further exacerbated economic performance, adversely affecting agriculture. In addition, electricity and water supply disruptions had unfavorable impact on manufacturing, trade, tourism, transport and communications sectors.,

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 percent at independence, to just over 19 percent in 2016.

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. Previously, all rough diamonds were exported for processing.

Despite an economic slowdown in recent years, Botswana's growth prospects are promising with real GDP growth projected to pick up slightly in 2016-17. The country performs well among African countries in terms of business environment indicators, reflecting the government's commitment to policies and a regulatory environment that foster private sector development. The World Economic Forum, Global Competitiveness Report 2016-2017 has raised Botswana's ranking from 71 to 64 out of 140 economies, which corresponds to third position in sub-Saharan Africa.

Sources: The Global Competitiveness Report 2016-2017 of the World Economic Forum; World Bank; 2016 African Economic Outlook report 2016.



ENVIRONMENTAL PERFORMANCE

Overview

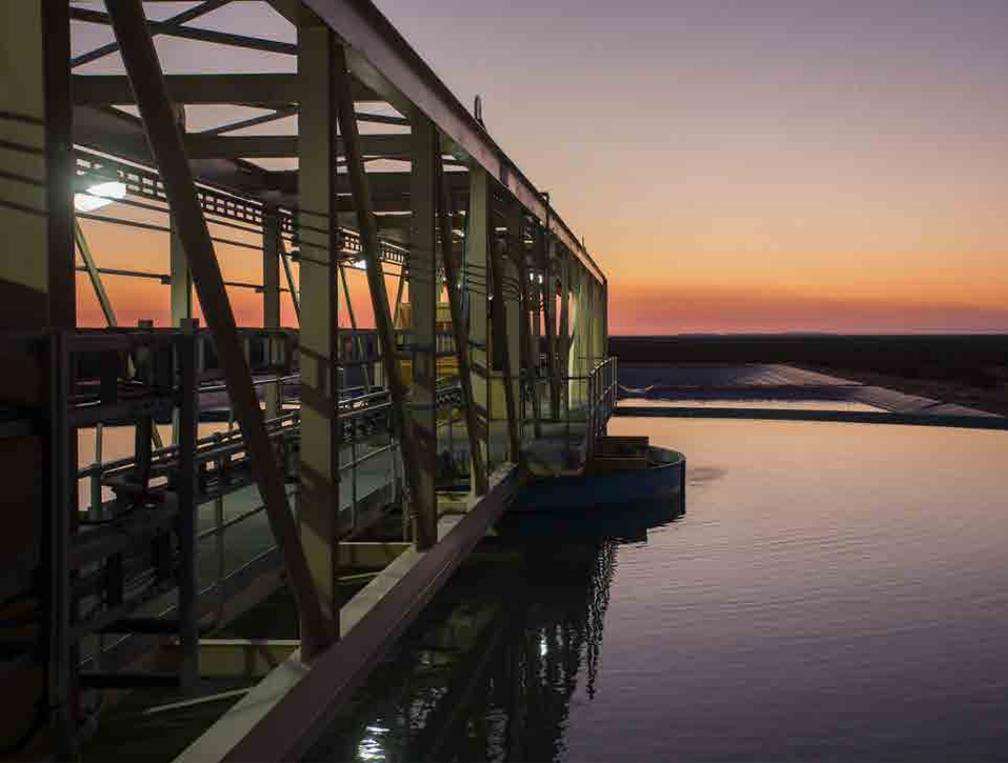
Lucara is committed to sustainable development, which requires that we apply the precautionary principle by conducting environmental and social impact assessments, develop appropriate management systems and plans to minimize and monitor the short and long term adverse impacts of our activities on the natural environment, and pursue continuous improvement. Our commitments are set out in Boteti's Environmental Policy, which we review every two years and was updated in January 2017.

Environmental performance is managed at Karowe by a dedicated Environmental Officer reporting to the Safety Health and Environment (SHE) and Community Relations Manager.

During 2016, no major environmental incidents were recorded. We did not receive any fines or monetary sanctions for non-compliance with environmental laws and regulations during 2016.

We promote environmental awareness where all employees, contractors, other parties and visitors conduct themselves in ways to protect the environment and actively seek to mitigate potential adverse impacts through effective and efficient waste management, water use, energy use, biodiversity conservation practices and implementation of our closure plan.





Key aspects of our environmental policy are summarised as follows:

- Conduct all activities in compliance with our Environmental Management Plan, applicable legislation and other requirements;
- Apply international best practices in the absence of legislation (guided by the Equator Principles and International Finance Corporation Guidelines);
- Integrate the management of environmental, social, cultural and economic issues into company business practices and planning;
- Wise use of resources, prevention of environmental impacts, including pollution prevention;
- Implement, maintain and improve environmental management systems;
- Communicate openly with government authorities, employees, local communities and the public on our environmental commitments and performance.

Environmental Management Plan

Our environmental management plan is developed in accordance with Botswana's Environmental Impact Assessment Act (2011) and EIA Regulations (2012), and was last updated in January 2016. The plan is aligned to ISO 14001 and subject to an annual gap analysis undertaken by an independent auditor. It includes the following subject specific plans:

- Health And Safety Plan
- Biodiversity Action Plan
- Groundwater Control Plan
- Corporate Social Investment and Labour Plan
- Heritage Plan
- Stakeholder Engagement Plan
- Grievance Response Procedure
- Emergency Response Plan
- Community Health Safety and Security Management Plan
- Waste Management Plan

The Closure and Rehabilitation Plan was last reviewed and updated in 2016.

The most material aspects of environmental impact and management are addressed in the following sub-sections.

Energy and Carbon Emissions

Mining is an energy intensive activity dependent on a reliable power supply.

Karowe operations, particularly its mill, run on electricity supplied by Botswana Power Corporation (BPC) via a substation located within the Karowe Mine lease area, and connected to a main substation at Orapa.

The power supply to Botswana as a whole faces ongoing challenges and risks of interruption. BPC operates two coal-fired power stations at Palapye, in eastern Botswana, and supplies the whole country. BPC's Morupule A power station was out of service, but refurbishment commenced in 2016, due to be completed in 2017. The newer Morupule B power station had experienced operational challenges after its 2014 completion. Its operation has recently stabilised, but reliability remains uncertain. Botswana still has some challenges to ensure a long-term reliable and independent energy supply.

Occasionally, BPC resorts to power shedding (selected suspension of supply) in parts of the country. However, the associated business interruption risk to Karowe is low because the mining industry is granted priority. Karowe experienced no major power interruptions during 2016.

Botswana also purchases and imports power from other countries in the region, including South Africa (approximately 40% of total demand in 2016), which itself experiences power shortages and occasional load shedding. Through a combination of refurbishment, upgrading and supply contracts with South Africa, the security of BPC's supply is expected to improve over time.

The electricity from the national grid to operate our mill accounts for the bulk of our indirect energy use. Indirect energy use increased 17 percent in 2016 compared to 2015 reflecting the increase in the tonnage of ore processed and harder ore from greater depth.

Even without major power interruptions, we experience occasional power supply dips of one second or less. We have installed new power supply dip-proofing technology to protect against downtime and related costs.

We have started a process of improving energy efficiency. We plan to monitor our energy usage (in time and place) to help us to focus on where to target further improvements. We will review options to introduce renewable energy, for example solar power at boreholes sites to supplement the use of diesel generators.

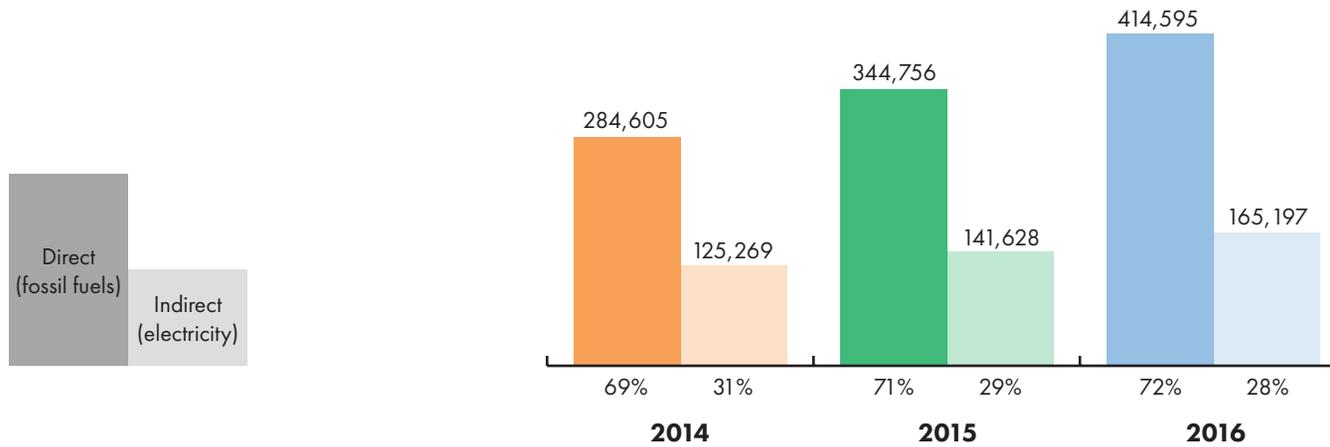
Diesel fuel, consumed by the mining truck and equipment fleet operating at Karowe, accounts for the bulk of our direct energy use. Direct energy use increased by 20 percent in 2016 compared to 2015, reflecting a trend as the mine develops, harder ore is produced from greater depth, and as we continue our exploration programme.

We report our energy intensity in two ways: gigajoules per 1000 carats produced (GJ/1000 carats) and gigajoules per 1000 tonnes of ore milled (GJ/1000 t). The intensity in GJ/1000 carats has increased year-on-year reflecting the decreasing trend in ore grade. Energy intensity relative to tonnes of ore milled, shows an increase for direct energy (fossil fuels), reflecting the increase in diesel use for mining mentioned above. The indirect energy intensity (electricity) is more stable, indicating a relatively steady efficiency and throughput in the milling operation.

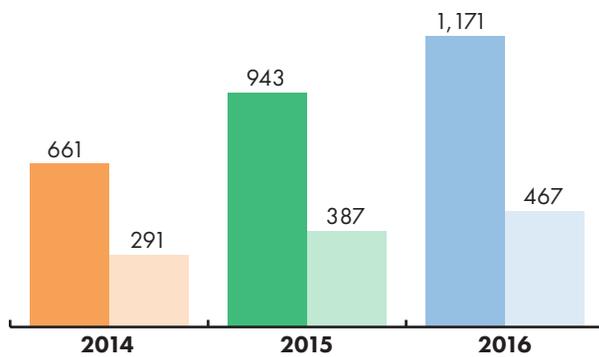
Our greenhouse gas (GHG) emissions are derived principally from our energy use. Our mining operation uses fossil fuel powered vehicles and our electricity is derived entirely from the national grid supplied by Botswana's coal power plants, supplemented by imported largely coal power based supplies.

The trends in our GHG emissions consequently reflect those of our direct (Scope 1) and indirect (Scope 2) energy use. With regard to GHG intensity, our emissions per 1000 carats continue to increase as ore grade reduces as the mine deepens. Our emissions per 1000 tonnes of ore milled show a relatively stable trend compared to 2015.

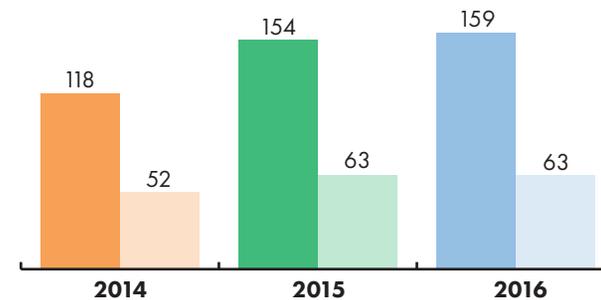
ENERGY USE (GJ)



Intensity (GJ/1000 carats produced)

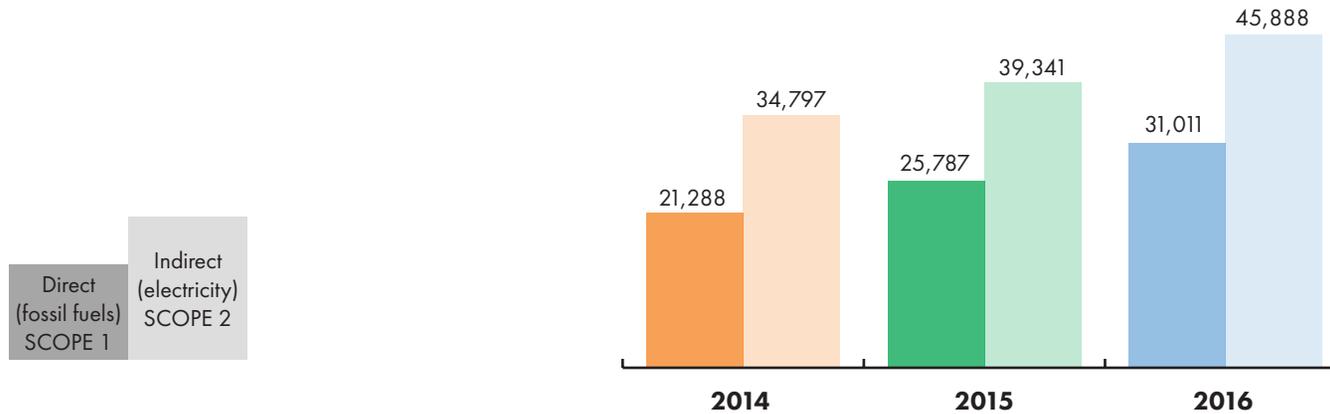


Intensity (GJ/1000 tonnes ore milled)

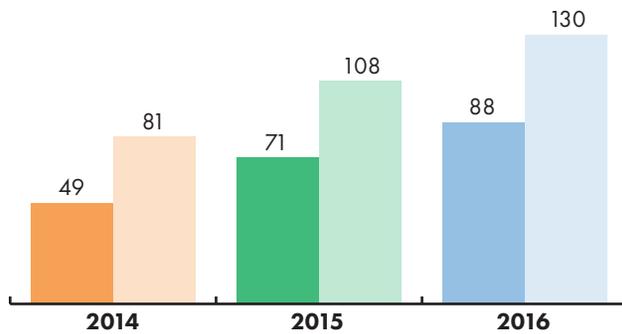


Minor restatement of direct energy use in previous years due to small adjustment in diesel-GJ conversion factor.

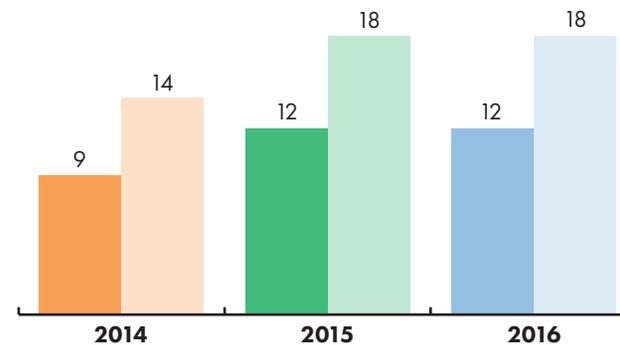
GREENHOUSE GAS EMISSIONS (tCO₂e)



Intensity
(tCO₂e/1000 carats produced)



Intensity
(tCO₂e/1000 tonnes ore milled)



Based on dominant energy sources: diesel fuel (Scope 1) and electricity (Scope 2)
 Minor restatement of Scope 1 emissions in previous years due to small adjustment in diesel-GJ conversion factor.
 Restatement of Scope 2 emissions for previous years due to change of tCO₂-kWh conversion factor.
 GHG conversion factor for electricity from Clean Development Mechanism for southern Africa Pool 2013
 GHG conversion factor for diesel from Climate Registry

Climate Change

Climate change is recognised as an important global environmental challenge. In Botswana, related impacts could affect rainfall patterns, soil erosion and groundwater recharge. Botswana already has a challenging climate with risks to agricultural production, food security and water availability.

As part of the December 2015 Paris Agreement to combat Climate Change, Botswana communicated its intent to achieve an overall emissions reduction of 15 percent by 2030, using 2010 as the base year. Botswana also communicated that it would be targeting mainly the energy and transport sectors for mitigation of GHG emission reductions.

Projected effects of climate change in Botswana and its government's policy responses are not expected to materially impact Karowe's operations in the near to medium term.

Water Use and Management

With no permanent surface fresh water bodies in the region, water access and management are important issues, not only for our operation, but also for local communities, and other mining operations in the region.

Our dedicated on-site hydrogeologist carefully manages and monitors our water use and potential impacts. We issue a detailed annual groundwater monitoring report to the regulators.

We pump water from 120 to 240 metre deep boreholes strategically located around the mine to keep groundwater levels low and the mine excavation dry, stable and safe. We use this water, supplemented by small amounts of rainwater entering the mine pit, for all our needs at the mine site, including process water, dust suppression and drinking water.

Our community relations office, located in the Letlhakane township, and our administrative and marketing offices located in Gaborone and Vancouver, use small volumes of piped municipal water. These volumes are not considered to be material in the context of our mining operation and are not reflected in our water use and intensity statistics.

The aquifers we pump from are extensive across central Botswana, and are the source of water for other mining operations and for municipal water supply at Letlhakane township (located at a distance of approximately 20 km). Measurements at monitoring boreholes show we cause no measurable impact on water levels beyond approximately 200 metres from the mine. Hand dug wells used by some local farmers are too shallow to connect with the aquifer we pump from, and therefore, are not impacted by our pumping.

The natural groundwater quality is slightly brackish with total dissolved solids of approximately 2400 mg/l. We treat some of the water with an onsite reverse osmosis treatment plant to provide high quality drinking water for mine and office workers.

The volume of water we abstract is defined principally by the water we must pump to maintain groundwater levels low enough to ensure the open pit remains dry, stable and safe. Water volumes vary from year-to-year depending on a number of factors, including hydrogeological conditions and our water needs. Total water abstraction increased in 2016. The water use intensity expressed as 'cubic metres per carat' increased in 2016, but this mostly reflects the lower total carats recovered. The intensity expressed as 'cubic metres per tonne of ore milled' is also higher. We will continue to review any trends and implications of our increased water intensity during 2017 to identify any need for management action. We believe water supply for the mining operations is secure for the long term.



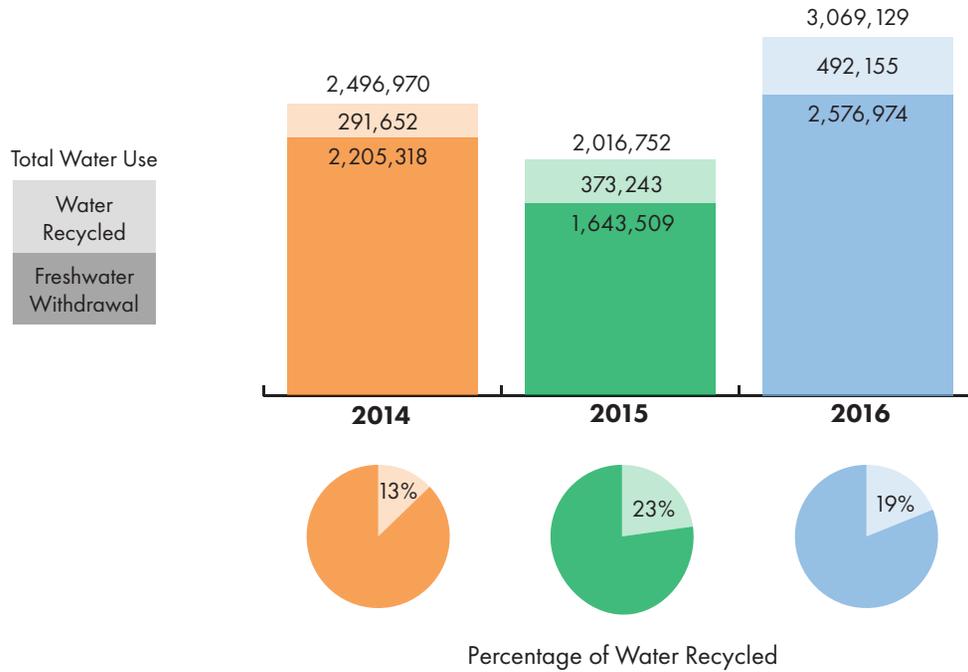
We recycle water back to the mill by decanting water from the slime dams, which in 2016 was equivalent to 19 percent of groundwater withdrawals. We increased the total volume of water recycled, although at a reduced percentage of abstractions. No water is discharged from the site. Some losses occur as water is trapped in the stored tailings or slimes, evaporation from the slime dams and seepage from their base into the ground, and some is used for dust suppression on our access road.

Low rainfall conditions across Botswana from 2015 into late 2016, although serious for the country, did not impact on our access to water due to the large physical capacity of the aquifer. Neither did our abstractions exacerbate the drought conditions due to the absence of connection between the aquifer and surface water or shallow aquifers. Our water

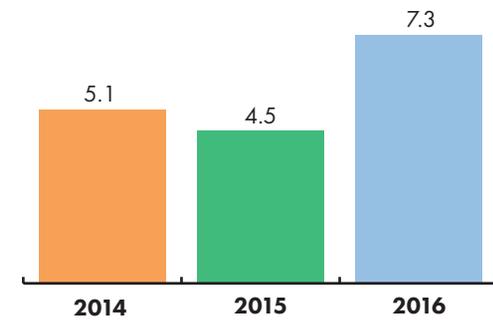
monitoring confirmed this. We do not expect our water requirements to exceed about 2.5 million m³/year for the current operation compared to a permit limit of 8 million m³/year.

We apply responsible international practices to avoid groundwater pollution. Our onsite landfill is lined with an impermeable membrane; transformers are PCB free and constructed to prevent leakage; and we treat our sanitary wastewater to a high quality for safe use as lawn irrigation around our onsite offices. The solid waste arising from treatment is generally recycled or incinerated on site. The flocculent we use to separate slime solids from the mill process water is a safe product, routinely used for wastewater treatment around the world, and classed as non-hazardous.

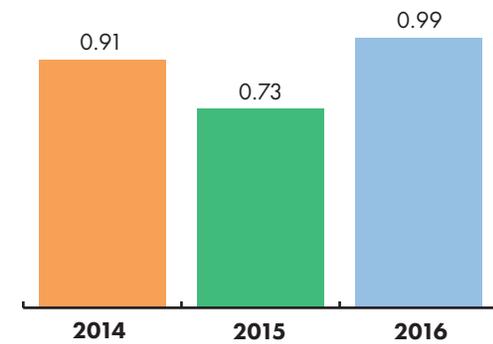
WATER USE (m³/y)



Intensity (m³/carat) Cubic metres extracted per carat produced



Intensity (m³/tonne) Cubic metres extracted per tonne ore milled



Waste Management

Our environmental management plan details our waste management strategy and approach. We segregate our waste streams into three main categories: inert, general, and special wastes, the latter including classes of hazardous waste.

We have four waste management facilities within the mine lease area: a landfill, sewage treatment plant, mobile incinerator and a salvage yard.

The landfill for non-hazardous non-recycled waste, was completed in June 2014 in accordance with Botswana's Department of Waste Management and Pollution Control guidelines and include a protective membrane. The ongoing licensing process is expected to achieve approval in 2017.

Our sewage treatment plant treats sanitary waste to a quality compliant for surface water discharge, including disinfection of pathogens. We use the treated water to irrigate lawns and gardens around our office buildings, and discharge no other effluent. Some solid waste from wastewater treatment is incinerated and some stored as fertiliser for future land restoration areas.

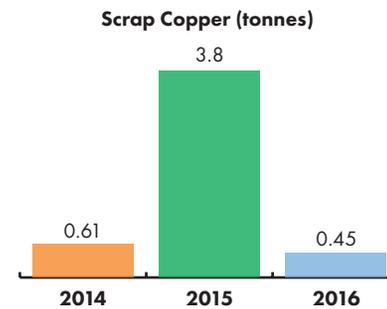
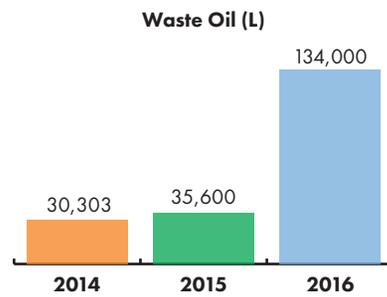
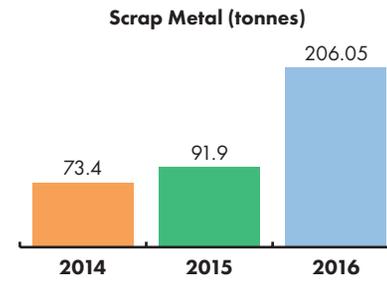
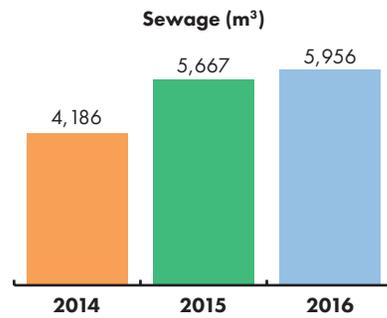
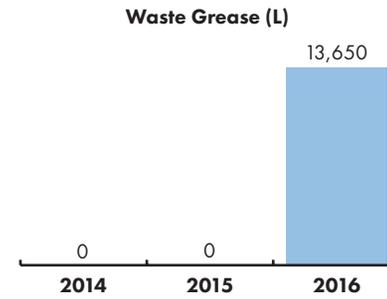
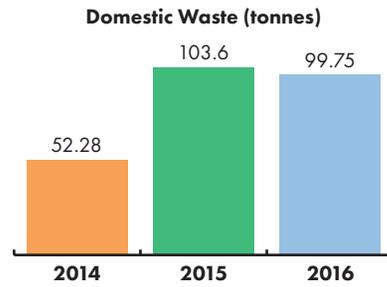
We have a small mobile waste incinerator, mainly for oil rags and for recovery area waste for security reasons. We plan to install a second incinerator outside of the recovery area in 2017. Our salvage yard is used to sort and store a range of waste materials, including scrap metal, light vehicle tyres, oil, grease and fluorescent tubes, prior to removal off site to appropriate facilities. Oil is stored in a bunded area with periodic removal and offsite disposal. Used car batteries are stored safely and periodically removed for recycling or safe disposal.

Hazardous waste generated consisted of used chemicals stored within two 210 litre barrels, and taken to an appropriate offsite facility. Our diamond cleaning facility, which uses hazardous acids, is located in Gaborone. Effluent from the diamond cleaning process is neutralised before discharge to a municipal industrial waste facility.

We do not yet have a long-term plan for disposing of, or recycling large truck tyres. We store them onsite and continue to review the long-term options. Where feasible, tyres are re-treaded for extended life.

Our generation of domestic waste and sewage in 2016 was generally unchanged from 2015. Waste oil volumes showed a significant increase. The reason is because the previous mining contractor used waste oil as an additive in its blasting operations, whereas the 2016 contractor was unable to do so for lack of a required blending equipment. The new contractor for 2017 is expected to restart adding waste oil as an additive for blasting operations. For waste grease, the figure for 2016 reflects the fact it was stored on site (in bunded areas) through 2014 and 2015, and removed in bulk in 2016. General scrap metal waste was higher in 2016 due to a larger than normal occurrence of machinery repairs.

WASTE DISPOSAL



Dust Fallout Management

Dust fallout concentrations observed during 2016 at 11 sites around Karowe and the access road were in compliance with the South African residential and non-residential area standards we use as our benchmark. We routinely apply water for dust suppression on the unpaved mine access road since adjacent communities can be affected. We monitor dust levels and respond with mitigation as needed. No grievances were recorded concerning dust fallout during 2016.

Biodiversity

The main natural vegetation types are mopane woodland and savannah scrub on mostly level, sandy terrain. A variety of large animals occur in the region, including gemsbok, hartebeest, wildebeest, kudu, ostrich, springbok and impala. Small animals include various snake species, lizards and tortoises. Bird life is not particularly diverse, but includes the protected cape vulture.

The broader area hosting the Karowe deposit was historically modified through cattle grazing and other pastoral activities. The region also hosts several other diamond projects and operations.

Mining operations result in vegetation and wildlife being disturbed and removed in the operational footprint areas. The environmental impact assessment concluded the overall impact was low since the area used for the Karowe operation contained no rare or endangered species. Some species in the area are threatened by human gathering and hunting by the local communities, but we prohibit such activities on the mine lease area, therefore providing some protection.



Our biodiversity action plan highlights the need to clear vegetation only when required, protect woody vegetation where practicable, and implement an invasive species eradication program. In accordance with our environmental management and mine closure plans, we intend to replace topsoil and re-vegetate disturbed areas using native plants. During 2016, we restored the ground and soil at the AK12 exploration area.

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. The volume of waste rock varies year-to-year depending on geology and progress of ore mining.

The amount of overburden stripped in 2016 decreased by 20 percent from 2015 and ore mined reduced by 13 percent, due in part to the transition to a new mining contractor from December.

The reject 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. The stability of our slimes dams and coarse tailings facilities are monitored by internal and external technical specialists. We provide statutory reports with regard to tailings management to Botswana's Government Department of Mines. No significant spillages of tailing or slimes were experienced during 2016.

Business Continuity Management

We continue to apply a framework for business continuity implemented in 2015, to ensure we can continue to deliver critical services following a disruptive event. The objective is to build high-level resilience in all departmental services and sites when facing major adverse events. This adaptive capability also increases security awareness, minimises financial impacts and effects on service delivery targets, improves understanding of functions and opportunities for improvement, enhances stakeholder confidence, protects corporate assets and reputation, and strengthens relationships with emergency response partners.

We maintain an incident register, and record and report significant incidents. A tiered classification and reporting system was maintained in 2016. No major environmental incidents were recorded in 2016.



Land Management

The area of disturbed land continued to increase in 2016 due to ongoing execution of the mining plan, mainly due to growth of waste rock storage areas.

KAROWE LAND MANAGEMENT DATA (hectares)	2014	2015	2016
Total Amount of Land Owned (Licensed)	1,523	1,523	1,523
Total of Land Disturbed and Yet not Rehabilitated	388	422	465
Total Amount of Land Newly Disturbed Within the Reporting Period	29	34	43
Total Amount of Land Rehabilitated Within the Reporting Period	0	0	0
Total Amount of Land Rehabilitated and Handed Over to Local Government	0	0	0

Environmental Expenditures

As for previous years, our most significant environmental expenditures related to management and extension of our tailings and slimes facilities, and activities associated with preparations for eventual mine closure and rehabilitation, including financial provisioning.

KEY ENVIRONMENTAL EXPENDITURES (US\$)	2014	2015	2016
Tailings and slimes management (capital)	2,027,964	1,505,397	2,275,052
Environmental Monitoring	31,253	43,206	69,460
Waste Management	79,671	82,926	107,979
Rehabilitation and mine closure	1,561,036	1,157,579	1,294,395
Total	3,699,924	2,789,108	3,746,886

Decommissioning and Site Restoration

Lucara's closure and site provisions are 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.

The 2016 Liability Update calculated an increase in maximum scheduled closure costs due to increases in the area of stockpiles and tailings dump. The projected maximum is approximately \$20 million for a projected Life of Mine to 2026.



OUR PEOPLE

During 2016, our workforce in Botswana – including main contractors (mining and processing) totalled 713. This figure was reduced temporarily to 366 by the end of the year due to the suspension of mining activity in the pit. The total workforce increased once the new mining contractor was mobilized in early 2017.

Of the 2016 total, 98 percent were Botswana nationals. We apply an equal opportunities approach with regard to gender, although the proportion of women in the mining sector is typically low. With the directly employed Boteti employees, women represented 29 percent. We do not currently have the statistics for the full workforce, but plan to collate these for future reporting. The turnover rate of our directly employed Boteti staff was 7 percent.

We continue to employ six graduates in our internship program introduced in 2015. This provides them with valuable professional experience to increase their prospects for future long-term employment, either in our organisation or elsewhere.

We offer training and development support to our employees, along with localisation and succession plans. All employees receive annual career development reviews as part of our robust performance management system. Exit interviews and periodic employee surveys, provide us with further information to use in our quest to improve employee satisfaction.

Our employee handbook provides guidance and assistance to our employees on communication and compliance matters such as grievance procedures, disciplinary code, statutory labour requirements, labour case law and good labour practice. All employees are provided with financial literacy training to give them advice on how to wisely and safely manage their money.

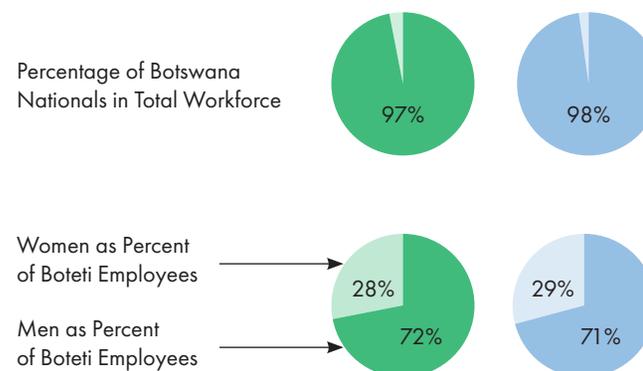
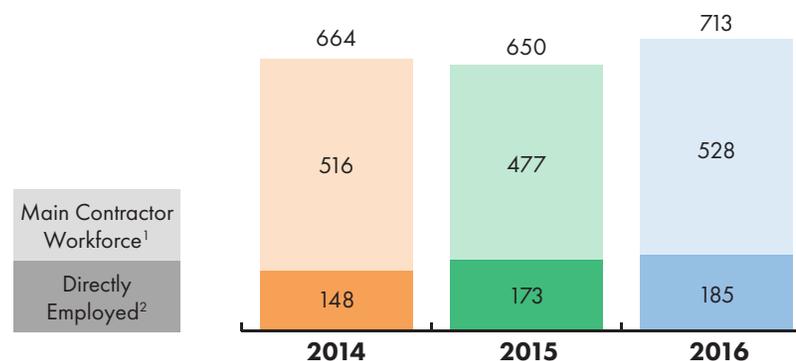
A total of 180 of Boteti staff are employed under contracts of unlimited duration. Our permanent contract employees receive a housing allowance, medical aid subsidy, gratuity, and group life insurance. A retirement age of sixty-five enables employees to have access to financial assistance by banks. In place of a formal pension scheme, employees on unlimited duration contracts are paid a gratuity every three years. Financial literacy training is provided on an annual basis to empower employees with the knowledge to invest their gratuity payout.

Although the labour force is not formally unionized, we place no restriction on right of association. Botswana labour legislation requires trade union recognition when at least one third of the workforce are eligible and members. We recognised the Botswana Mine Workers Union (BMWU) who represented about a third of our main contractor's workforce. This means that the contractor must engage with the union on any employment, labour and wage matters before a final decision is made.

We maintain good workplace relationships and an open door policy where employees are free to raise issues and discuss them with management.

Karowe did not experience any strikes or lockouts during the reporting period, and no complaints of discrimination or other types of human right violations and/or related grievances were recorded during 2016.

HUMAN RESOURCES STATISTICS



¹ 'Main Contractors' refers to the principal operational contractors (for mining and ore processing)

² 'Directly Employed' includes all Lucara and Boteti staff employed through a Botswana contract.

Contractor workforce for previous years restated due to adjustment to cover main contractors only. Directly employed number for 2015 is restated due to adjustment to exclude temporary workers.



STAKEHOLDER & COMMUNITY ENGAGEMENT

Mining has a significant impact on local communities and the natural environment, which can be both positive and negative. Mining also has a finite lifetime, which can leave a vacuum in the local community if not well managed and planned for.

We are committed to listening to our stakeholders and endeavour to address their concerns and needs. Our activities are designed to have a clear positive economic impact on local communities, but we also support economic diversification so as to contribute to a long-term legacy of local economic stability once the mine is closed.

We have a written Stakeholder Engagement Plan (appendix to our Environmental Management Plan). The plan sets out our objectives, mechanisms and responsibilities for stakeholder engagement during pre-construction, construction, operation and closure and our approach to, frequency of, and responsibility for consultation with all relevant stakeholders.

Since the beginning of development of the mine, we have engaged with our communities and other stakeholders in a structured way. Our award winning Community Liaison Officer maintains a dedicated office in Letlhakane where all stakeholders can receive information, present questions or concerns, or log their grievances.

We participate regularly in traditional 'kgotla' or community meetings at the 18 villages in the Boteti Sub-District in which our mine is located. The objective of these kgotla meetings is to inform communities about on-going activities and on progress of our community investment projects, to discuss any issues of concern, and to identify new initiatives and collaboration opportunities.

The cornerstones of our community support are the expanded and upgraded Letlhakane Abbatoir and the Karowe Emerging Entrepreneur Fund (KEEF). KEEF is a micro-lending program to support entrepreneurial initiatives of benefit to the community.

Continuing activities in 2016 included a road safety awareness event, a village clean-up day, and a village wellness event (rotated between villages each year) where we assess villagers against a range of health indicators and organise a fun sports day.

Once again we sponsored the annual Karowe Cycle Challenge, involving our workers and attracting participants from their families, from the local communities and other nearby mines. We also participated in the annual Letlhakane clean-up campaign.

A prevailing sentiment across the community engagement meetings is gratitude that Lucara is responsive to local communities, making multiple visits to the villages each year, and for making good on our promise to help with economic development in the region.

The table on the following page lists our key stakeholder groups, how we engage with them, issues they have raised and our responses.

Lucara's Corporate Social Responsibility 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, we 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



Lucara's Key Stakeholders	Methods and Frequency of Engagement	Key Issues Raised by Stakeholders	Lucara's Response to Issues
Directly affected land users and owners	Direct meetings with land owners and sub-land board	Dust emissions	Suppress dust at the mine and along access road. Monitor dust levels.
Employees and contractors	Regular awareness and motivation programs. Direct engagement through HR department, performance reviews, employee events, training and newsletters.	Compensation and benefits, health and safety, job security and advancement.	Acceptable compensation, health and safety awareness programs, training and leadership development programs.
Governments	Consultation, permits, inspections, strategic community investments, applying Good Industry Practices (GIP), meetings and annual reporting.	Positive economic impacts, Kimberley Process, diamond viewing and sales in Botswana, diversification, Canadian Enhanced CSR Strategy for the Canadian International Extractive Sector.	Disclosure of payments, social investment and sustainability reporting.
Local communities	Regular 'kgotla' (village council) meetings, grievance mechanism, dedicated office in Letlhakane to receive and inform public visitors.	Economic impacts in communities, local employment, community investments.	Strategic investments, community events and projects, community donations for schools, swift addressing of grievances raised, transparency on environmental data.
Customers and end-users	Regular tenders, memberships and attendance in industry associations.	Conflict-free diamond value chain.	Kimberley certification, Responsible Jewellery Council membership, Diamond Producers Association membership government inspections.
Shareholders	Analyst briefings, media releases, quarterly and annual financial reporting, annual sustainability reporting.	Good corporate governance, financial performance, risk management, dividends.	Assured sustainability, financial disclosure.
Financial institutions	As required.	Risk management, financial and operating performance.	Applying Good International Industry Practice, Equator Principles, sustainability reporting.



New venue for weddings and community celebrations supported by Lucara

Grievance Mechanism

Karowe maintains a formalized grievance mechanism to receive, log and acknowledge any grievances which may be associated with our operations. All grievances are assessed, and acted on as appropriate.

However, no community grievances were lodged during 2016, which we believe is a reflection of our comprehensive engagement program, which helps us maintain an ongoing positive and transparent dialogue with our communities and stakeholders.

Record of Grievances and their Outcome

YEAR	NUMBER	COMMENT
2014	1	Related to 'inappropriate conduct' and was addressed
2015	2	<ul style="list-style-type: none"> i. Soil dump too close to a community. Soil dump removed. ii. Local farmer complained about falling groundwater levels. We were able to show our abstractions were not the cause of any impact.
2016	0	No grievances recorded



COMMUNITY INVESTMENT & SUPPORT

Lucara Diamond is committed to creating sustainable value in the host communities where we operate. We contribute to the social and economic development and wealth of our host community and Botswana through a number of channels:

- wages and salaries paid to employees and contractors
- taxes, royalties, and fees
- procurement of goods and services
- installation or upgrading of local infrastructure
- support of community development programs

Lucara is a contributing partner to the Lundin Foundation, the community investment arm of the Lundin Group of Companies. We contribute CAN\$ 250,000 annually to the fund (including 2016), which typically spends the money on community projects in the subsequent year. The Lundin Foundation (www.lundinfoundation.org) designs and manages community investments across four pillars: resource governance, education/skills training, local procurement, and economic diversification.

Lucara has worked in partnership with the Lundin Foundation on two major initiatives in our mine area: building a new abattoir and the Karowe Emerging Entrepreneur Fund (KEEF). We also supported the Lady Khama Charitable Trust, as explained below. In this chapter, we give examples of successful support.

As in 2015, we donated approximately \$1,800 to five secondary schools in six villages for the best performers in Mathematics, Science, English and extra curricula activities.

The Letlhakane Abattoir

In partnership with the Central District Council, we supported the upgrade and expansion of the slaughterhouse to a modern and certified abattoir, with increased processing capacity and adherence to national health standards. The upgraded Letlhakane Abattoir started operation in May and was formally opened in August 2016, by the Honorable Mr Patrick Ralotsia, Minister of Agriculture.

Livestock plays an important role in households in the area. Prior to our intervention, the slaughterhouse could not keep up with growing demands of the local market, or meet health and sanitary standards. The knock-on benefits to the local community include increased livestock income for farmers, increased supply of available meat locally, and reduced health and hygiene risk for consumers.

The abattoir is managed by Letlhakane District Council and has been steadily increasing monthly processing capacity. We continue to support management through targeted technical assistance and training programs.

About the Lundin Foundation

Founded in 2005, the Lundin Foundation designs, implements, and monitors initiatives aimed at commuting measurable and sustainable benefits to populations impacts by extractive companies. These initiatives are divided into four thematic areas:

- Strengthening resource governance
- Education and skills training
- Local procurement
- Economic diversification

Employees at the successful new abattoir





KEEF support in September 2015 enabled Mr Dithamano Ngweyagae to increase his heard from 10 to 146 goats during 2016.

The Karowe Emerging Entrepreneurs Fund

The Karowe Emerging Entrepreneurs Fund (KEEF) provides financing to early stage micro-businesses in Letlhakane and other communities close to our mine. KEEF offers dedicated business development services to local entrepreneurs and access to financing. Since 2015, KEEF has funded eight high potential businesses operating in a range of sectors including manufacturing, agriculture, and retail. The aim is to help high potential entrepreneurs develop and grow their business, create jobs and contribute to a strong, diversified local economy.



Brick Manufacturing Business

Among the successful entrepreneurs is Ms. Onneille Alogeng who took over a fledgling brick manufacturing business in Letlhakane, Letlhamaosu Investments. During her first year of operation, she overcame a number of challenges and has now created ten permanent jobs. The business revenues continue to grow month-by-month, with hopes to secure a delivery vehicle in 2017 to augment its supply capacity. Customers range from walk-in individuals to commercial enterprises.

“My business has given me hope for the future and has changed my life when I least expected. I feel my family future is secured with this achievement.”

(Ms. Onneille Alogeng)



Fabric Shop

Mabel Thobolo is a mother of 4 children with a strong entrepreneurial spirit. She had previously been running small fabric sales and managed a mini-bus service, but had larger ambitions. KEEF helped her to open a fabric shop in Letlhakane, supplying local tailors and dressmakers and becoming one of the main suppliers in the Boteti district. She now employs three people with plans to expand.



Tailoring Business

Chiyapo Kitsiso is a single mother who first launched her tailoring business after winning a youth entrepreneur competition and start-up funding in 2011. After successful re-payment of the loan, KEEF has provided additional support to expand her business in Letlhakane to become a qualified supplier of school uniforms. Mrs Kitsiso continues to grow her business, hiring designers to expand her services.

Other projects financed include a new wedding venue, a new hardware shop, and new poultry farm. Collectively our supported projects include significant participation of entrepreneurial women.



Lucara contributed US\$252,000 to the Lady Khama Charitable Trust in support of vulnerable women and children, and wildlife protection



Supporting the Lady Khama Charitable Trust

In 2016, Lucara donated the proceeds of the sale of three rough diamonds to support the Lady Khama Charitable Trust, created in 2002 by His Excellency the President of Botswana, in memory of the former First Lady. The diamonds, ranging from 5.44 to 5.88 carats generated US\$252,000 for the charity, and at the request of Lucara, was used to support three charitable organisations focused on key themes: vulnerable women and children and wildlife protection.

These were:

- i. The Grandmothers' Support Group (part of the Botswana Retired Nurses Association). This is a social support group for women who in turn help support and care for children orphaned by the AIDS epidemic. The funds have helped to acquire property and establish a classroom and meeting place for the support group and children.
- ii. Shonaquip, a charity providing special purpose wheel chairs for children, most commonly disabled by cerebral palsy, spina bifida and road traffic accidents. The funds helping to support the purchase of 15 wheelchairs a year for at least three years.
- iii The Tlhokomeal Trust, a wildlife organisation supporting the protection of endangered species. The funds will support such services as wildlife monitoring vehicles and night and infra-red viewers.

ASSURANCE STATEMENT

Independent Assurance Report to the Management and Stakeholders of Lucara Diamond Corporation

Introduction

Ibis ESG Assurance (Ibis) was commissioned by the Lundin Foundation to conduct an independent third party assurance engagement in relation to the sustainability information in Lucara Diamond Corporation's (Lucara) Sustainability Report (the Report) for the financial year that ended in December 2016.

Ibis is an independent and licensed provider of sustainability assurance services. The assurance engagement was led by Petrus Gildenhuys with support from Simon Clarke, both directors and sustainability assurance practitioners of Ibis.

Petrus is a Lead Certified Sustainability Assurance Practitioner (LCSAP) with 20 years' experience in sustainability performance measurement involving both advisory and assurance work. Simon is a sustainability assurance and climate change practitioner with 15 years' consulting experience.

Assurance Standard Applied

This assurance engagement was performed in accordance with AccountAbility's AA1000AS (2008) standard and was conducted to meet the AA1000AS Type II moderate level requirements.

Respective Responsibilities and Ibis's Independence

Lucara, is responsible for preparing the report and for the collection and presentation of sustainability information within the Report, notwithstanding any third-party support in compiling the Report. Ibis' responsibility is to Lucara and in accordance with the terms of reference agreed through the Lundin Foundation.

Ibis applies a strict independence policy and confirms its impartiality to Lucara in delivering the assurance engagement. This assurance engagement is the first sustainability report assurance engagement conducted at Lucara by Ibis.

Assurance Objectives

The purpose of the assurance engagement was to provide the management of Lucara and their stakeholders with an independent moderate level assurance opinion on whether the Report:

- Adheres to the AA1000APS (2008) AccountAbility principles of inclusivity, materiality and responsiveness.
- Alignment to the GRI Standards in respect of the 'core' reporting requirements. (p 57-61)
- Fairly presents the following selected disclosures:
 - Total amount of water used and water use intensity (p 37)
 - Total direct and indirect energy used and energy use intensities (p 33)
 - Scope 1 and 2 GHG emissions and intensities (p 34)
 - Waste disposed in the different categories (p 39)
 - Number of fatal injuries (p 25)
 - Lost Time Injury Frequency Rate (LTIFR) (p 25)
 - Absenteeism rate (p 25)
 - Percentage of Botswana nationals in workforce (p 44)
 - Directly employed staff turnover (p 43)
 - Community investment spend (p 28)

Work Performed By Ibis

Ibis performed the assurance engagement in accordance with the AccountAbility AA1000AS (2008) Type II requirements. The following suitable assessment criteria was used in undertaking the work:

- AA1000APS (2008) (AccountAbility Principles Standard) published criteria for inclusivity, materiality and responsiveness respectively;
- The GRI Standards; and
- The completeness, accuracy and validity of reported data.

Our assurance methodology included:

- Interviews with relevant functional managers at Lucara's Karowe operation to understand and test the processes in place for adherence to the AA1000APS stakeholder engagement principles and the selected disclosures in the assurance scope
- Testing, on a sample basis, the measurement, collection, aggregation and reporting of data
- Inspection and corroboration of evidence in support of satisfying the assurance criteria at the operation
- Reporting the assurance observations to management as they arose to provide an opportunity for corrective action prior to completion of the assurance process
- Assessing the presentation of information relevant to the scope of work in the Report to ensure consistency with the assurance observations

Engagement Limitations

Ibis planned and performed the work to obtain all the information and explanations believed necessary to provide a basis for the assurance conclusions for a moderate assurance level in accordance with AA1000AS (2008).

The evidence gathering procedures for moderate assurance are more restricted than for high assurance and therefore less assurance is obtained with moderate assurance than for high assurance as per AA1000AS (2008).

Conversion factors used to derive emissions and energy used from fuel and electricity consumed, are based upon information and factors derived by independent third parties. The assurance work has not included examination of the derivation of those factors and other third party information.

Assurance Conclusion

In our opinion, based on the work undertaken for moderate assurance as described, we conclude that the subject matters in the scope of this assurance engagement have been prepared in accordance with the defined reporting criteria and are free from material misstatement in respect of:

- Lucara's adherence to the AA1000APS principles of inclusivity, materiality and responsiveness;
- The report's alignment with the GRI Standards' core requirements; and
- The selected disclosures identified under assurance objectives above and as presented in the published Report

Key Observations and Recommendations

Based on the work set out above, and without affecting the assurance conclusions, the key observations and recommendations for improvement are as follows:

In Relation to the Inclusivity Principle

Lucara has a formal Stakeholder Engagement Plan ("SEP") that sets out the objectives, mechanisms and responsibilities for stakeholder engagement. The SEP outlines the approach to, frequency of, and responsibility for consultation with relevant stakeholders. Specific focus on community engagement is evident. However, a planned consultation tracker to keep record of stakeholder engagement actions taken on key issues and grievances raised have not been implemented. It is recommended that the SEP is updated to reflect current stakeholder engagement activities and a comprehensive understanding of stakeholder needs and concerns. Furthermore, the implementation of the planned consultation tracker is recommended for improved management and record keeping purposes.

In Relation to the Materiality Principle

Evidence observed confirmed that Lucara has maintained due process in mapping and disclosing its material stakeholder topics in a transparent and balanced manner. The established materiality determination process was reformed in 2016, and integrated with the internal risk management process. The Report explains why the identified issues are material, how the opportunities and risks they present are addressed, how performance is measured, and what the future focus elements in these areas are. The materiality section of the Report was also revised to reflect the issue boundaries, related disclosures and the shifting of material topics as determined during 2016.

In Relation to the Responsiveness Principle

Lucara's Community Liaison Officer at Karowe engaged extensively with communities in key villages in the Boteti Sub-district during 2016 to share information on Lucara's activities and to obtain community feedback. Responses to issues raised were found to be directly related to the stakeholder concerns and were conducted in a timely, fair and appropriate manner without prejudice to any one stakeholder group. Improved recordkeeping of Lucara's responses through the planned consultation tracker referred to above is recommended.

In Relation to GRI Reporting

The report addresses the 'core' reporting requirements satisfactorily.

In Relation to the Selected KPIs

Several data inconsistencies were identified at operational level during the audit that were consequently corrected by Lucara management. This points to the need for improved internal data quality controls. It is recommended that Lucara formalises an operational sustainability reporting procedure covering the relevant definitions, controls and recordkeeping measures for

all sustainability performance indicators. Management review and sign-off of sustainability data should be a key data quality control aspect. Given the international market into which Lucara reports, it is recommended that, for public sustainability reporting, the international best practice definition for Lost Time Injuries as recommended by the International Council on Mining and Metals (ICMM) is considered going forward.

A comprehensive management report detailing specific findings and recommendations for continued sustainability reporting improvement has been submitted to Lucara management for consideration.



Petrus Gildenhuys

Director, Ibis ESG Assurance

Ibis Environmental Social Governance South Africa (Pty) Ltd

Johannesburg, 15 May 2017



AA1000
Licensed Assurance Provider
000-156

The assurance statement provides no assurance on the maintenance and integrity of sustainability information on the website, including controls used to maintain this. These matters are the responsibility of Lucara.

Lucara's response to the assurance statement:

"Following the recommendations highlighted in this assurance statement and the management report, Lucara has already begun reviewing the recommendations. We will continue to fine-tune our sustainability reporting procedure and quality control measures going forward."

GRI INDEX

Disclosure No.	Title	Location/Information/Reason for Omission	Page
101 - Reporting Principles, Using GRI Standards, Making claim - Lucara's 2016 Sustainability Report was prepared in accordance with the GRI Standards (2016): Core option. GRI notified of use of Standards by sending e-copy to standards@globalreporting.org			
General Disclosures			
102-1	Name of the organization	Corporate Profile	1
102-2	Activities, brands, products and services	Corporate Profile	1
102-3	Location of headquarters	Corporate Profile	1
102-4	Location of operations	Corporate Profile	1
102-5	Ownership and legal form	Corporate Profile	1
102-6	Markets served	Corporate Profile	1
102-7	Scale of the organization	Corporate Profile; Economic Performance and Our People	1, 27, 43
102-8	Information on employees and other workers	Our People	43
102-9	Supply chain	Supply Chain Sustainability	19
102-10	Significant changes to the organization and its supply chain	Corporate Profile; Operations and Exploration Activities	1, 11
102-11	Precautionary Principle or approach	Environmental Performance	30
102-12	External initiatives	Governance and Ethical Conduct	15
102-13	Membership of associations	Governance and Ethical Conduct	15
Strategy			
102-14	Statement from senior decision maker	Message from the President & CEO	3
Ethics and integrity			
102-16	Values, principles, standards and norms of behaviour	Governance and Ethical Conduct; Health & Safety	15, 21
Governance			
102-18	Governance structure	Governance and Ethical Conduct	15

Disclosure No.	Title	Location/Information/Reason for Omission	Page
Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholder and Community Engagement	45
102-41	Collective bargaining agreements	Our People (we have no collective bargaining agreements)	43
MM4	Number of strikes and lock-outs exceeding one week's duration by country	Our People (no strikes or lock-outs)	44
102-42	Identifying and selecting stakeholders	About This Report; Sustainability Snapshot; Stakeholder and Community Engagement;	2, 6, 45
102-43	Approach to stakeholder engagement	Stakeholder and Community Engagement;	45
102-44	Key topics and concerns raised	Our Material Issues; Stakeholder and Community Engagement	7, 45
Reporting practice			
102-45	Entities included in the consolidated financial statements	About This Report, Corporate Profile, Economic Performance	2, 1, 27
102-46	Defining report content and topic Boundaries	Our Material Issues	7
102-47	List of material topics	Our Material Issues	7
102-48	Restatements of information	Restatements of data on Production Statistics, Energy, GHG emissions and HR data as noted beneath relevant charts.	13, 33, 34, 44
102-49	Changes in reporting	No significant changes since previous reporting period	Here
102-50	Reporting period	About This Report (2016 calendar year, unless otherwise stated)	2
102-51	Date of most recent report	About This Report (2015 calendar year).	2
102-52	Reporting cycle	About This Report (annual)	2
102-53	Contact point for questions regarding the report	About This Report; back cover (csr@lucaradiamond.com)	2, Back Cover
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Cautionary note regarding forward looking statements

Certain of the statements made and contained herein and elsewhere constitute forward-looking statements as defined in applicable securities laws. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “expects”, “anticipates”, “believes”, “intends”, “estimates”, “potential”, “possible” and similar expressions, or statements that events, conditions or results “will”, “may”, “could” or “should” occur or achieved.

Forward looking statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included herein should not be unduly relied upon. In particular, this release may contain forward looking information pertaining to the following: the estimates of the Company’s mineral reserve and resources; estimates of the Company’s production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine, start-up, exploration and development plans and objectives, production costs, exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rate; expectations regarding the need to raise capital; possible impacts of disputes or litigation and other risks and uncertainties describe under Risks and Uncertainties disclosed in the Company’s Annual Information Form.

There can be no assurance that such statements will prove to be accurate, as the Company’s results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading “Risk Factors” in the Company’s most recent Annual Information Form available at <http://www.sedar.com>, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters).

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law.



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