



Lucara Diamond Corp.

Sustainability Report 2013



OPEN PIT AT KAROWE IN BOTSWANA

Corporate Profile

Lucara Diamond Corp. (Lucara) is a new diamond producer. Its two principal assets are the producing Karowe mine in Botswana and the Mothae project in Lesotho. The 100 percent owned Karowe Mine (Karowe) is a state-of-the-art mine which was fully commissioned in Q2 2012. At the 75 percent owned Mothae project, we have completed the trial mining stage and are reviewing a number of development options.

Both Mothae and Karowe are large scale assets with tonnage and throughput upside and production has consistently included large, Type IIA stones. Lucara is a member of the Lundin Group of Companies and is listed on the TSX Exchange, NASDAQ OMX First North Exchange, and the Botswana Stock Exchange under trading symbol "LUC".

About this Report

This report is Lucara's second annual sustainability report. We continue to use the reporting framework and guidelines of the Global Reporting Initiative (GRI-G3) and the associated Mining and Metals Sector Supplement. The scope of this report is limited to Karowe, Lucara's operating asset, unless noted otherwise. The data presented for Karowe generally covers the calendar year 2013. In determining the scope, content, and boundaries of this report, Lucara considered: the material risks associated with its activities; operational performance; and, management's judgment of the information needs of its stakeholders. Lucara has self-declared a GRI Application Level B for this report. The GRI Content Index for this report is web-posted. This report has not been externally assured. Assurance of future sustainability reports will be considered taking into account stakeholder interest and other factors. Lucara welcomes your questions and comments, which can be submitted via email to csr@lucaradiamond.com.

Lucara is committed to responsible development of its assets to the benefit of all stakeholders and its operations are planned and structured with long-term success in mind.



▶ Operations & Exploration

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▶ Labour, Health & Safety

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▶ Community Investment

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Lucara aims to operate according to the highest standards and seeks to achieve leading environmental, social, and health and safety performance.

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Message from the CEO

Overview

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

We marked 2013 with the first full year of operation at the Karowe Diamond Mine in Botswana. Karowe continued to produce a large number of exceptional stones, achieving proceeds of \$180.5 million, or \$411 per carat. This includes three exceptional stone tenders achieving revenues of \$72.1 million (2,971 carats at \$24,290 per carat). Higher than forecast revenues significantly strengthened our balance sheet, enabling full repayment of a \$50 million debenture and \$4.5 million commercial debt facility. Lucara enters 2014 free of debt and with an undrawn \$25 million credit facility.

Having completed the trial mining phase at the Mothae Diamond Project in Lesotho in 2012, we continue to evaluate development options.

Highlights

In 2013 we rolled out a staff training program in Botswana that highlighted our policies and expectations regarding ethical conduct and our whistleblower policy.



William Lamb, CEO

The training was tailored to concerns and dilemmas commonly faced in different departments.

Despite continued vigilance, we were unable to repeat the award-winning health and safety performance we achieved at Karowe in 2012. Having said that, we still recorded an impressive Lost Time Injury Frequency Rate of 0.17 in 2013.

No major environmental incidents were recorded. Water management continues to form a significant aspect of our mining operation. Although our total water footprint increased in tandem with the increase in production, the water use intensity of Karowe remained largely unchanged. Over 20 percent of our water requirements were obtained through recycling.

In May 2013, His Excellency the Right Honourable David Johnston, Governor General of Canada, visited Karowe, and met with local community leaders and dignitaries. This provided an opportunity to celebrate Karowe's stakeholder engagement activities and our strategic community investments developed through our partnership with the Lundin Foundation.

In March 2013, Botswana's Minister of Trade and Industry, the Honourable Dorcas Makgato-Malesu, officially launched the Lundin Foundation micro-enterprise loan guarantee program, which is being delivered in collaboration with Barclays Bank Botswana and the Local Enterprise Authority. While this has been a partial success, we plan to provide increased training and support to loan beneficiaries with a view to maximizing the benefits of the scheme.

We also expect to fund the capital costs for an upgrade/expansion of the Letlhakane Abattoir (estimated to be approximately \$700,000) in partnership with the District Council, who provided assurances that it will attend to all required permits, cover operating expenses, and support efforts aimed at ensuring that benefits are realized by rural livestock owners.

Looking Ahead

In 2014, Lucara will continue to focus on operational excellence, cost discipline, and the completion of its plant optimization project. We will achieve these objectives without compromising on health, safety, or environmental standards.

Our workforce at Karowe already features 96 percent Botswana nationals. Following a review of our staff retention and succession options, we are developing a program to attract and train a number of young graduates and professionals for key positions in our operation.

We are planning to expand corporate oversight and guidance in the Health, Safety, Environment and Community (HSEC) areas. The relevant board committee, which met twice in 2013, will meet four times in 2014.

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

William Lamb, CEO



Sustainability Snapshot

| Category | 2013 Targets | Results | 2014 Targets |
|--|---|---|--|
| Governance | Continue to progress as a responsible corporation 2 HSEC Committee meetings | ○ Rolled out training program on ethics to all employees in Botswana | Increase Board HSEC Committee meetings from 2 to 4 per year. |
| Economic Benefits | Produce 400,000 carats of diamond for sale | ○ Recovered 440,750 carats | Upgrade Karowe's plant, produce and sell 400,000 to 420,000 carats Roll out training program for young graduates and professionals at Karowe |
| Environmental Performance | Explore water conservation opportunities 25% recycled water Define risk and reporting classification No reportable incidents Test waste rock, set up re-vegetation test plots | ○ Updated environmental management plan Updated mine closure plan Updated groundwater model, installed new well-field 21% water recycling No material environmental incidents | Develop a tiered incident classification and reporting system Establish nursery and re-vegetation test plots |
| Health & Safety Performance | No fatalities, no LTIs, no occupational diseases | ○ 1 lost time injury LTIFR of 0.17 | No fatalities, no LTIs, no occupational diseases Relocate hydrofluoric acid treatment process |
| Stakeholder Engagement | Continue pro-active and structured approach | ○ Recognized by community leaders and dignitaries for approach | Transition sustainability reporting from GRI-G3 to GRI-G4 |
| Community Investments | Roll-out microcredit loan guarantee scheme Explore upgrade of Lethakane abattoir | ○ Microcredit scheme launched, performing below expectations | Recruit dedicated staff to assist and train loan beneficiaries, monitor and improve loan portfolio Facilitate improvement of Lethakane abattoir |
| Product Integrity | Follow Kimberly Process | ○ Complied with Kimberly Process | Continue to follow and apply Kimberly Process |

NOTE | LTI IS LOST TIME INJURIES, LTIFR IS LTI FREQUENCY RATE DEFINED AS THE TOTAL NUMBER OF WORK HOURS LOST PER 200,000 WORK HOURS.
HSEC = HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

○ NOT ACHIEVED ○ PARTIALLY ACHIEVED ○ ACHIEVED



RIGS DRILLING A SERIES OF BLAST HOLES AT KAROWE

Operations & Exploration

Karowe Mine

Karowe, which means “precious stone”, is located in north-central Botswana and is part of the Orapa/Letlhakane Kimberlite district. This area is one of the world’s most prolific diamond producing areas, and has a history of diamond mining dating back to 1971, when operations started at the nearby Orapa Mine, one of the largest diamond mines in the world.

Karowe is an open pit mine with an anticipated mine life of over 15 years. Karowe is the mine developed from Lucara’s AK6 Project.

The Kimberlite deposit at Karowe (previously known as the “AK6 Kimberlite”) comprises a single, tri-lobate Kimberlite pipe, which is pinched at surface. The pipe consists of a core of Kimberlite, covering an area of 4.2 hectares, surrounded by an area where the Kimberlite is capped by basalt or basalt breccia. Drilling has shown that the Kimberlite bulges to a maximum area of 7 hectares at depth (120 m).

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



LUCARA IS REVIEWING DEVELOPMENT OPTIONS FOR THE MOTHAE PROJECT IN LESOTHO

The property is accessed by 15 km of all-weather gravel and sand road from the tarred road linking Lethakane to Orapa. Lethakane is the nearest population center to the Karowe mine, with a population of 25,000. Electric power is provided by Botswana Power Corporation's national grid. Water requirements for Karowe and other mining operations in the region are primarily met by groundwater resources.

Mothae Project

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

estimated surface extent of 8.8 hectares and is located adjacent to and directly on trend with the world-famous Letseng diamond mine, owned by Gem Diamonds.

The Mothae Project is served by a modest infrastructure. Surface water is abundant in the area. The high plateau is characterized by alpine grassland with sporadic scrub in more sheltered areas and valleys. Boggy swamps are quite common in the mountains, especially at the heads of valleys and overlying Kimberlite pipes; these usually comprise gravel, a thick soil horizon and surface peat.

A trial mining program was completed in September 2012. The Mothae project remains on temporary care and maintenance as we review development options.





WASTE ROCK BEING DELIVERED TO DESIGNATED AREAS

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 publically listed mining companies. We believe that we cannot sustain good financial and operational performance without simultaneously

achieving our objectives in health and safety, environmental stewardship, human resource development, and community investment. We also believe that our transparent approach to doing business is critical to fully engaging our stakeholders in a meaningful, mutually beneficial, relationship. Examples of this approach are highlighted in the Stakeholder Engagement section of this sustainability report.

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

Our Guiding 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, Nordic 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.



Spill the beans
on unethical behavior and fraud.

Don't support it. Report it.

0800 600 644



Our Code of Business Conduct and Ethics, which is available on our website (www.lucaradiamond.com), sets out key guiding principles that Lucara and its subsidiaries expect from their employees, directors and officers. In 2013, we rolled out an employee training program on ethical conduct, anti-corruption guidance, and our whistleblower policy. The training focused on concerns and dilemmas germane to the activities of different departments. Course modules delivered selectively included basic human rights for security staff, money laundering in the diamond environment, corruption prevention, and ethics hotline.

In line with the Government of Canada's Corporate Social Responsibility Strategy for the Canadian International Extractives Sector, we are supportive of global initiatives that address a wide range of corporate responsibility related issues. These include: the OECD Guidelines on Multinational Enterprises; the Kimberly Process; the Global Reporting Initiative (GRI); the Voluntary Principles on Security and Human Rights; and the IFC Performance Standards on Social and Environmental Sustainability. We are also a member of the Botswana Chamber of Mines. In 2013, Karowe's General Manager served as the Deputy Director of the Botswana Chamber of Mines.



COLLECTION OF EXCEPTIONAL DIAMONDS SOLD IN 2013

Economic Performance

Lucara's Karowe mine in Botswana completed its first full year of operations in 2013, recovering a series of large and exceptional stones.

Karowe was officially opened by the President of Botswana, His Excellency Lieutenant General Seretse Khama Ian Khama, on August 17, 2012. During 2013, its first full year of operations, Karowe sold 438,717 carats and realized proceeds of \$180.5 million, or \$411 per carat. This includes three exceptional stone tenders achieving revenues of \$72.1 million (2,971 carats at \$24,290 per carat).

At year-end 2013, Karowe held a diamond inventory of approximately 67,000 carats, including a selection of exceptional stones totaling over 1,000 carats.

Strong diamond recoveries allowed Lucara to significantly strengthen its balance sheet over the course of 2013, through full repayments of a \$50 million debenture and \$4.5 million commercial debt facility. The Company is now free of debt and maintains an undrawn \$25 million credit facility.

In December 2013, the Company announced an updated resource estimate for Karowe which was followed by filing an updated independent NI 43-101 Technical Report for the Karowe Mine on SEDAR (www.sedar.com). This shows an Indicated Resource value of \$3.2 billion, up from \$2.2 billion previously. In 2014, the Company is planning a capital expenditures of \$45 to \$50 million to optimize Karowe's plant, improve large diamond recovery, and enable sustainable processing of more competent (harder) ore.

ECONOMIC PERFORMANCE KAROWE (\$ million)

| | 2012 | 2013 |
|---|------------|-------------|
| Revenues | 55.1 | 180.5 |
| Operation Costs | 42.8 | 56.7 |
| Employee Compensation | 5.1 | 5.8 |
| Local Procurement (southern Africa) | 30.2 | 44.6 |
| Payments to Government (Royalty) | 5.5 | 18.1 |
| Payments to Capital Providers (Lucara Cash calls) | 7.6 | 57.0 |
| Community Investments (Karowe)* | 0.02 | 0.06 |
| Economic Value Retained | 1.7 | 99.9 |

*In addition to its direct community investments, Lucara contributed funds used to establish a microenterprise loan guarantee facility with Barclays Bank and support planning for the expansion and upgrade of the Letlhakane abattoir. Please visit Community Investment section (page 33) for further details.

Botswana & Diamonds

Botswana is the world's leading diamond producer. The diamond sector continues to be the mainstay of the economy. It accounts for about one-third of GDP, more than 45 percent of government revenue, and about 70 percent of export earnings.

Botswana's prudent management of its vast diamond resources stands out in Africa as an exemplary case of harnessing natural resources effectively and efficiently for human development. At Independence, Botswana was one of the poorest countries on the continent, ranking amongst the least developed countries of the world.

Within the past four decades, the country transformed itself into an upper-middle-income state.

Botswana has also made unprecedented progress in eradicating extreme poverty. Using the \$1 per day poverty line for defining extreme poverty, the extremely poor population in Botswana has declined by 72.2 percent from 23.4 percent in 2002/03 to 6.5 percent in 2009/10. However, using a more commonly used \$2 per day benchmark, over 20 percent of Botswana's population still fall in the extreme poverty category, which compares unfavorably with other upper-middle-income-comparators.



ENVIRONMENTAL AND WATER MANAGEMENT ARE IMPORTANT ASPECTS OF OUR OPERATION

Environmental Performance

During 2013, no major environmental incidents were recorded.

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

In line with our Environmental Policy, which was revised in March 2013 and is available on our website (www.lucaradiamond.com), we regularly conduct environmental impact assessments and evaluate how to avoid, mitigate or control potentially significant impacts, implement appropriate monitoring and management systems, comply with applicable legislation, and plan for mine closure.

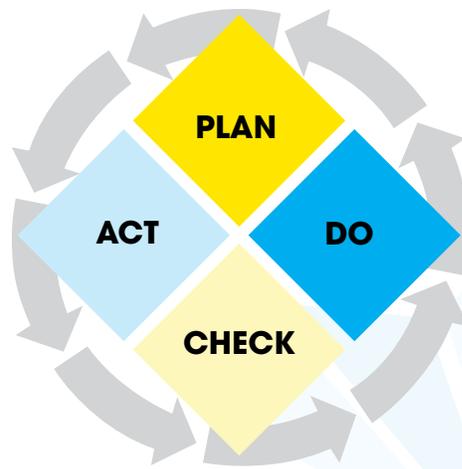
We comply fully with local environmental laws and regulations and apply the IFC guidelines where needed, to advance environmental protection and minimize environmental risks.



Environmental Management Plan

The environmental management plan developed for Karowe in 2010 was revised and updated in June 2013 to be more fully aligned with Botswana's Environmental Assessment Act (2011) and EIA Regulations (2012). The new environmental management plan includes the following updated or additional management and monitoring plans:

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



We have also developed and implemented an environmental management system which is generally aligned with ISO 14001 principles.

Water Management

Karowe lies on the northern fringe of the Kalahari Desert of central Botswana and the climate is hot and semi-arid. This means that access to and management of water is an important issue not only for our operation, but also for local communities, and other diamond mining operations in the region.

In 2013, we further analyzed and modelled our water use requirements, drilled and completed a series of additional groundwater wells, and continued to recycle over 20 percent of water needed for our operation.

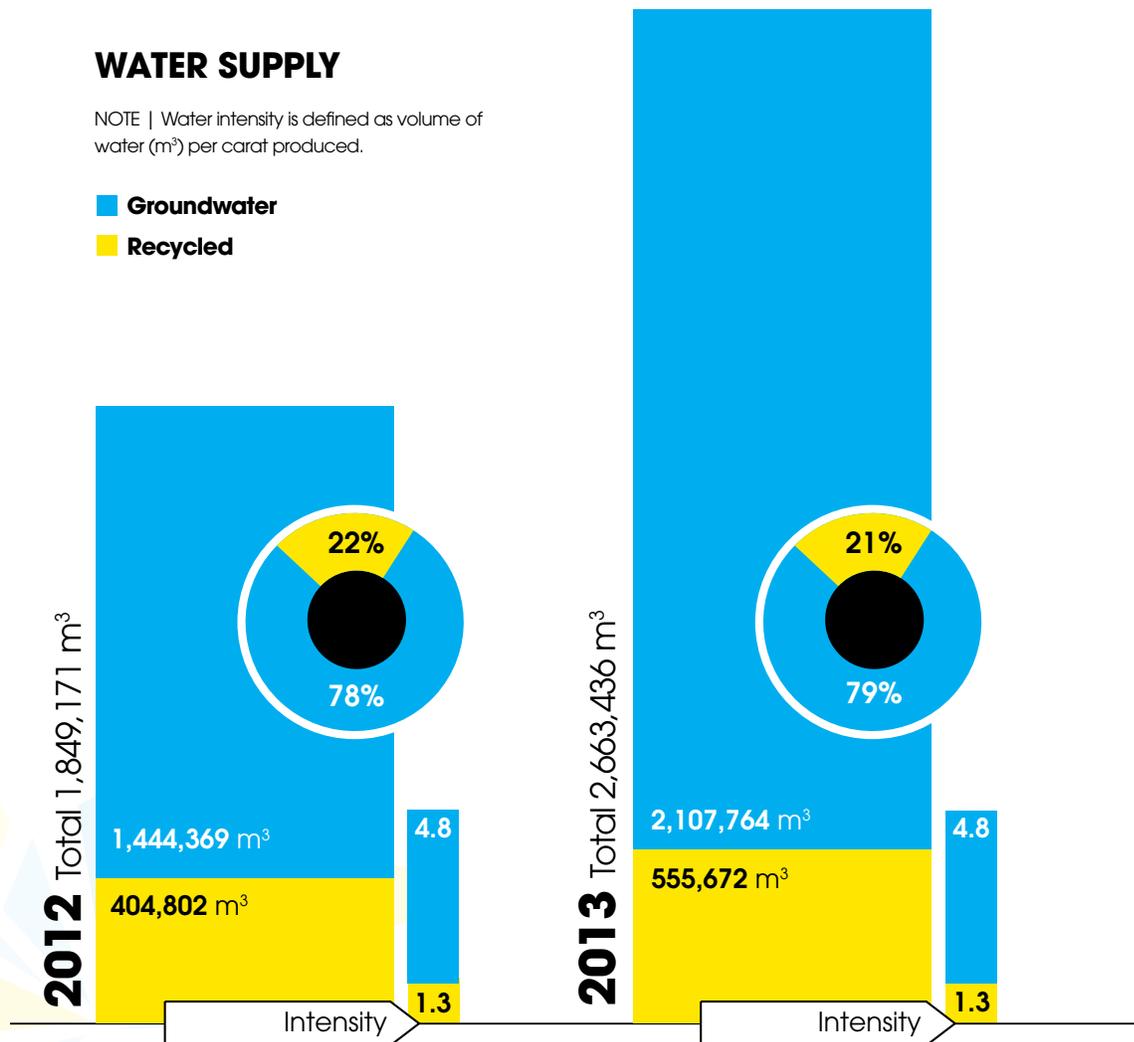
This was achieved by collecting and re-directing water reporting to our slime dams and storm-water collection ponds back to our plant. Although our overall water footprint has increased in tandem with increase in production, our water use intensity has remained largely unchanged from the previous reporting period.

Sharing our data with the local water board and other regional diamond mining operations improves understanding of the cumulative impacts related to the decline in regional groundwater levels.

WATER SUPPLY

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

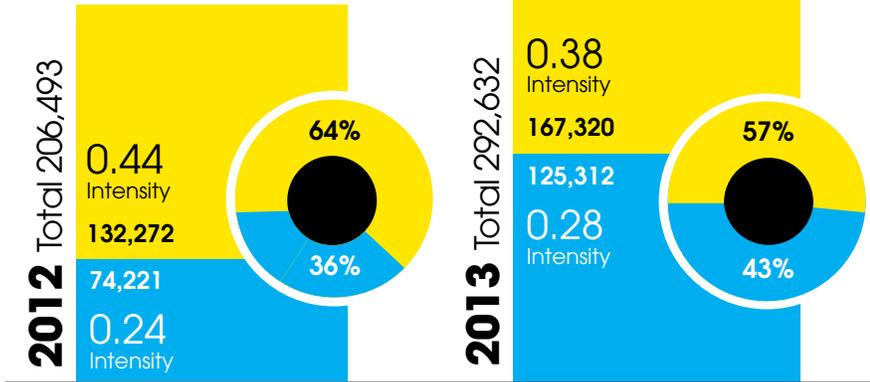
- Groundwater
- Recycled



ENERGY USE (GJ)

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

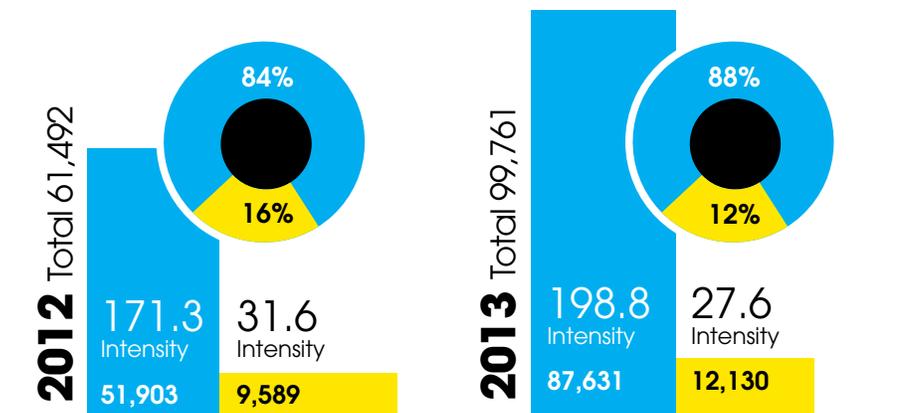
■ Indirect Energy
■ Direct Energy



GHG (tons CO₂)

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

■ Indirect Electricity
■ Direct Fuel



Energy and Carbon Emissions

We recognize that mining is an energy intensive activity. We also note that the national Botswana Power Corporation has been experiencing delays in bringing the Morupule B Power Plant on stream. This has resulted in load shedding exercises

(brown outs) throughout Botswana from time to time. Although this process has not affected our operation in any significant way, it highlights the importance of remaining vigilant about our energy consumption.

Diesel fuel consumed by the mining truck and equipment fleet operating at Karowe accounts for the bulk of our direct energy use. The electricity we source from the national power grid to operate our mill accounts for the bulk of our indirect energy use. Botswana generates its electricity mainly from burning coal, which has a relatively high greenhouse gas (GHG) intensity.

Climate Change is emerging as an important global environmental challenge. Potential adverse physical impacts from Climate Change to our operation may include

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



TOP SOIL STRIPPING AHEAD OF FUTURE DEVELOPMENT OF LANDFILL

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

Waste Management

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

Although we continue to utilize the Serowe municipal landfill, we have started the construction of a lined, on-site landfill facility. Once completed and approved, which is expected during 2014, this facility

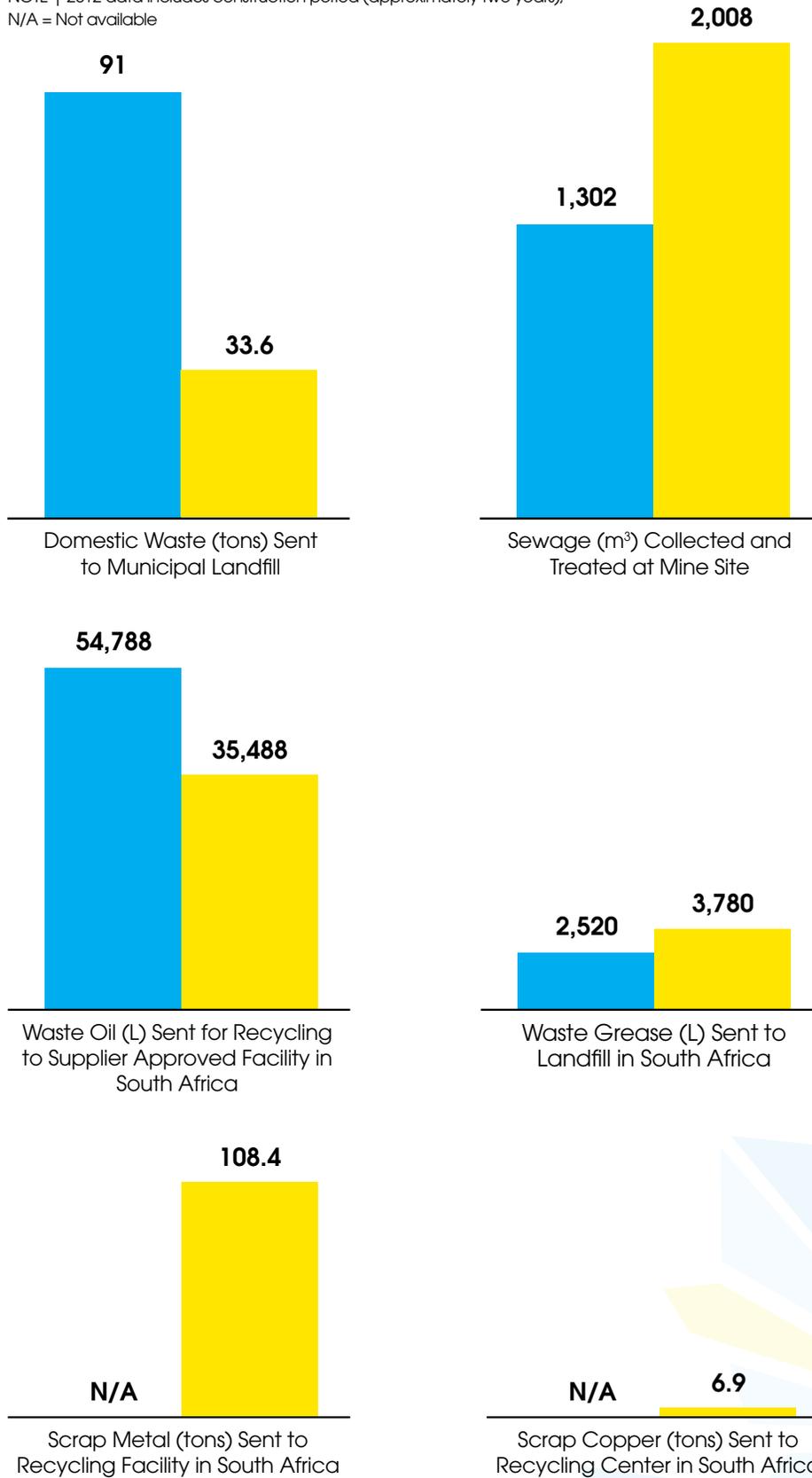
will be used to dispose of wastes which are non-hazardous and are not recycled or reused off-site.

In 2013, we also constructed and started operating a sewage treatment plant at Karowe. This means that we successfully terminated the collection and transport of sewage by tanker for disposal and treatment at the municipal sewage treatment plant.

A review of our statistics shows that domestic waste quantities decreased in 2013, reflecting the completion of mine construction activities in 2012. A reduction of waste oil volumes in 2013 is a result of re-use of waste oil for blasting and improved data capture. Replacing chemical toilets with flushing toilets and better data capture resulted in an increase of sewage recorded in 2013.

Waste Disposal ■ 2012 ■ 2013

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





Biodiversity

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

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

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

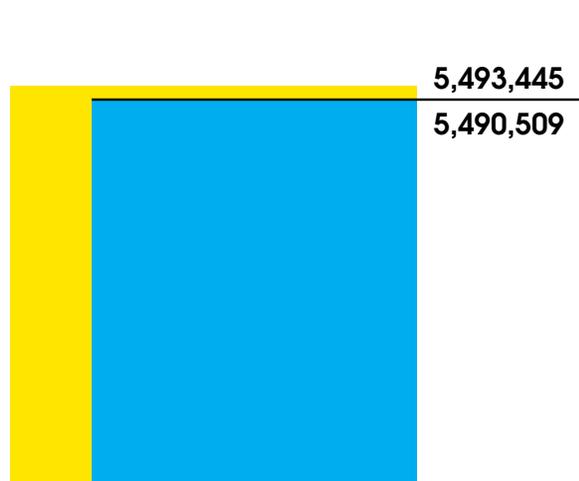
Although we did not set up the *Acacia erioloba* nursery in 2013, we have budgeted for this to be developed during 2014.

Waste Rock and Tailings Management

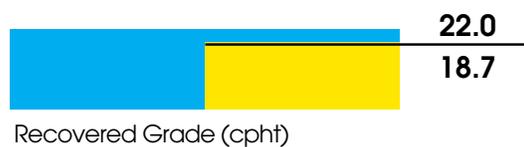
The open cast mining of our deposit requires the removal of overburden and waste rock to provide access to the diamond-bearing Kimberlite ore. Our statistics show a significant increase of ore mined and milled, and diamonds recovered during Karowe's first full year of operation in 2013. The waste product emerging from crushing and processing of the ore to remove the diamonds comprises coarse and fine tailings materials, which are deposited in designated areas.

PRODUCTION STATISTICS ■ 2012 ■ 2013

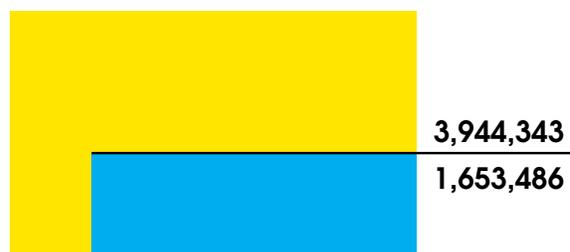
NOTE | CPHT = Carat per Hundred Tons Ore Milled



Waste Stripped (tons)



Recovered Grade (cpht)



Ore Mined (tons)



Ore Milled (tons)



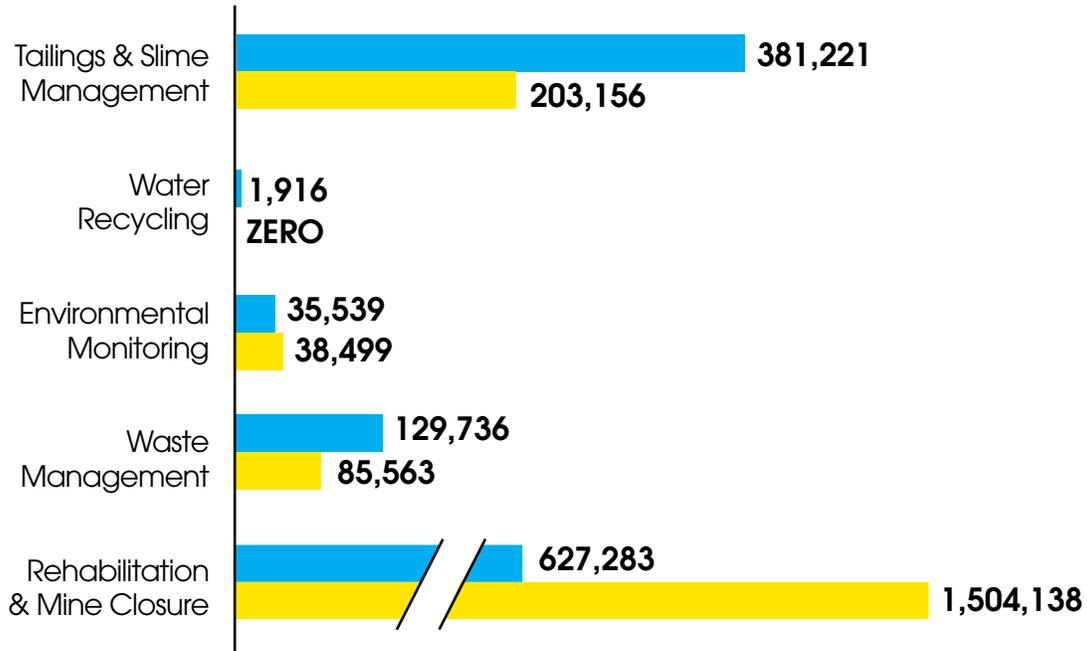
Diamonds Produced (carat)

KAROWE'S LAND MANAGEMENT DATA (hectares)

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

NOTE | Karowe is an open pit mine with anticipated mine life of over 15 years

KEY ENVIRONMENTAL EXPENDITURES (\$) ■ 2012 ■ 2013



Emergencies and Incidents

We have developed an emergency preparedness and response plan as part of our environmental management plan for Karowe. The plan covers Safety, Health and Environment. We maintain an incident register, and record and report significant environmental incidents and spills.

No significant environmental incidents were recorded during the reporting period. A tiered classification and reporting system is expected to be finalized in 2014.

The most hazardous chemical on our site is Hydrofluoric Acid, which is used to clean

recovered rough diamonds from any attached host rock materials. An occupational exposure incident experienced in 2013 is described in the health and safety section of this sustainability report.

Environmental Expenditures

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



WE UPDATED KAROWE'S CLOSURE AND REHABILITATION PLAN IN 2013

Decommissioning and Site Restoration

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

A conceptual mine closure plan for Karowe was part of its environmental management plan developed in 2010. During the following year, a high level cost estimate was made to define the costs for both unscheduled (premature) and scheduled mine closure. Karowe's closure and rehabilitation plan was further updated in 2013.

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

We applied a pre-tax discount rate of 10.8 percent as December 31, 2013 (10.4 percent as December 31, 2012) and an inflation rate of 5.8 percent as December 31, 2013 (6.2 percent as December 31, 2012) for Karowe. We applied a pre-tax discount rate of 9.9 percent as December 31, 2013 (9.9 percent as December 31, 2012) and an inflation rate of 6.0 percent as December 31, 2013 (6.1 percent as December 31, 2012) at the Mothae Diamond Project. The rehabilitation costs are expected to be incurred between 2022 and 2025. The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately \$15.9 million (December 31, 2012 - \$16.9 million).



BOTSWANA NATIONALS COMPRISED 96 PERCENT OF THE WORKFORCE AT KAROWE

Labour, Health & Safety

Our workforce totalled 504 in 2013, and we recorded a lost time injury frequency rate of 0.17.

Human Resources

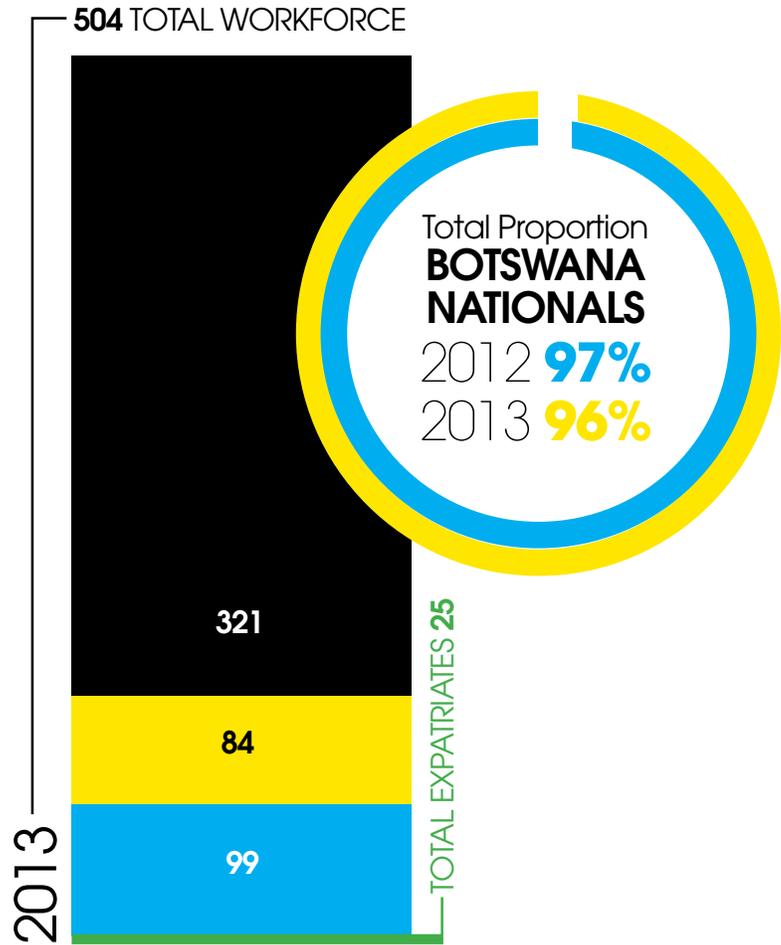
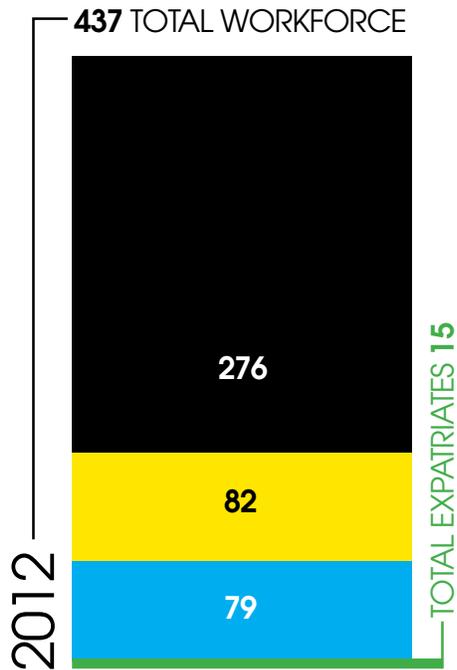
At the end of 2013, our workforce - including contract mining group and process/mill contractor - in Botswana numbered 504. Of these, 96 percent were Botswana nationals.

At the end of the reporting period, we recorded an annual staff turn-over rate of 13.1%, which is up slightly from 12.7% in 2012. Following a comprehensive review of our staff retention and succession options, we are developing a program to attract and train a number of young graduates and professionals for key positions in our operation. We expect our new training program to be further formalized and implemented in 2014.

Our full-time workforce generally receives housing allowance, medical aid subsidy, gratuity, and group life insurance. Although the Karowe operation is not unionized, we do not place any form of restriction on right of association. We also did not experience any strikes or lockouts during the reporting period. We did not record any incidents of discrimination or other types of human right violations.

HUMAN RESOURCES STATISTICS

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



Occupational Health and Safety

In line with our Occupational Health and Safety Policy, which is available on our website (www.lucaradiamond.com), we believe there is a clear relationship between safe and healthy workplaces, and optimal production results. Our line managers, supported by professional safety staff, are held accountable for the safety performance and management at each site.

All employees are given safety training at commencement of employment and

thereafter, regularly throughout their career. They are expected to be engaged in maintaining safe work sites through involvement in health and safety committee meetings, and by conducting safety inspections.

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



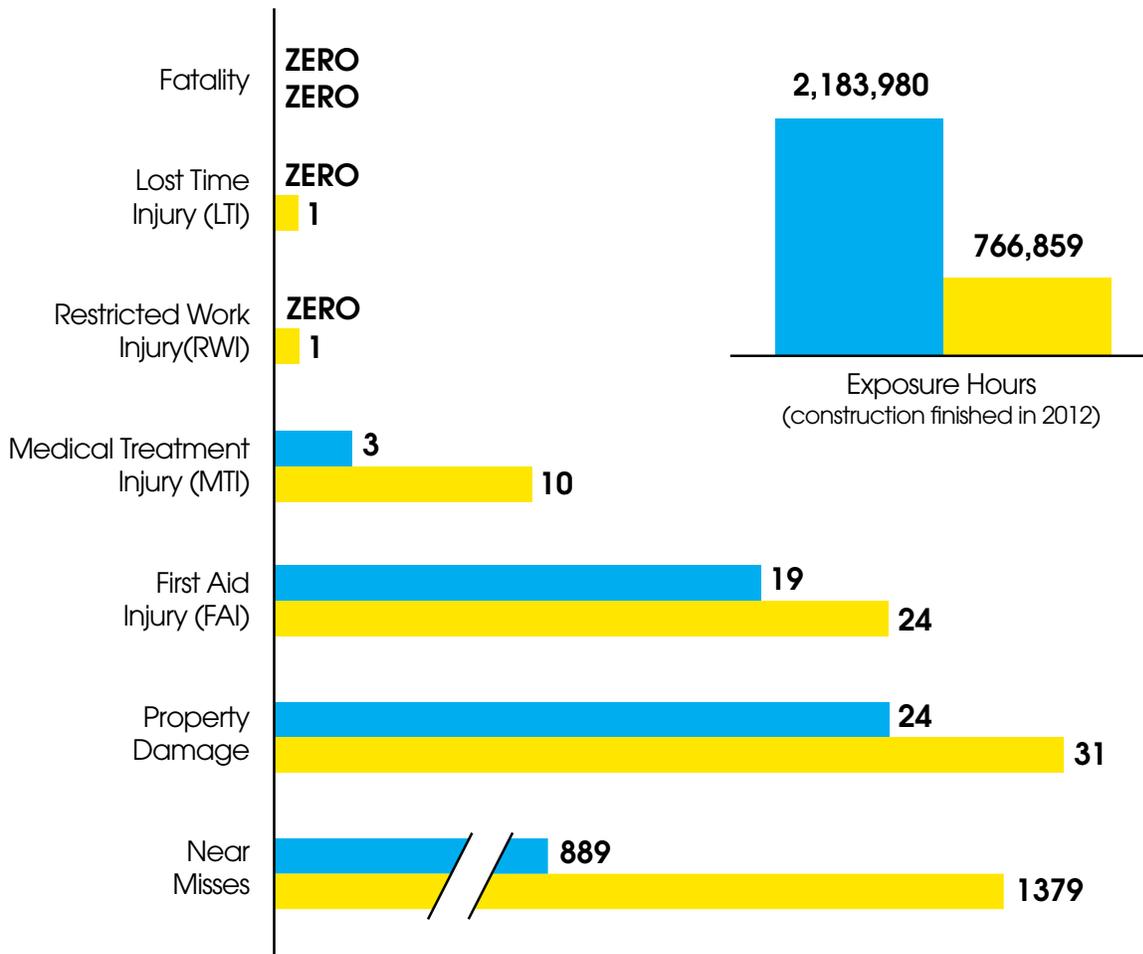
SORTING KAROWE'S DIAMONDS

In 2013, Karowe was unable to repeat the award-winning health and safety performance achieved during the previous year. In 2013, we recorded one lost time injury, and, unrelated, an event involving hydrofluoric acid fume exposure as a result of equipment malfunction at Karowe's diamond sorting house. As a precautionary measure,

all potentially exposed personnel were seen by a medical officer in the nearest hospital and were subsequently declared fit for duty. In response, procedures and the functionality of the facility was reviewed to ensure the safety of personnel working.

SAFETY STATISTICS ■ 2012 ■ 2013

N/A = Not available. LTIFR = LTIs*200,000/exposure hours. Severity Rate = Days lost to LTIs and RWIs*200,000/exposure hours. RWI = Restricted Work Injury.



Absenteeism Rate

2012 **N/A**
2013 **0.2**

Days Lost LTI

2012 **0**
2013 **3**

Days Lost RWI

2012 **0**
2013 **3**

LTIFR

2012 **0.0**
2013 **0.17**

Severity Rate

2012 **0.0**
2013 **0.8**



STAFF AND COMMUNITY MEMBERS ENJOYING RECEPTION HOSTED AT KAROWE TO WELCOME HIS EXCELLENCY THE RIGHT HONOURABLE DAVID JOHNSTON, GOVERNOR GENERAL OF CANADA, AND OTHER DIGNITARIES

Stakeholder Engagement

Our pro-active approach to engagement enables and supports our social license to operate. It also attracted visits by His Excellency the Right Honourable David Johnston, Governor General of Canada, and other dignitaries.

Since the beginning of the Karowe Project, we have been engaging with our communities and other stakeholders in

a structured way. We maintain a community liaison office in Letlhakane, the town closest to our mining operation. We also participate regularly in traditional *kgotla* or community meetings at the 18 villages in the Boteti Sub-District.

The objective of these *kgotla* meetings is to inform communities about on-going activities at Karowe, such as the launch of the micro-lending facility and plans to upgrade the abattoir (see Community Investment section), discuss any issues of concern, and identify collaboration opportunities. Such opportunities realized in 2013 include enhancing visibility of non-motorized transport vehicles to improve their safety, conducting a village clean-up day, and supporting women empowerment initiatives.



KAROWE CONTINUES TO CONDUCT STRUCTURED STAKEHOLDER ENGAGEMENT AND PARTICIPATES IN TRADITIONAL KGOTLA OR COMMUNITY MEETINGS

CSR Charter

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

Lucara will:

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



RIBSON GABONOWE, MANAGING DIRECTOR OF BOTETI, WELCOMING HIS EXCELLENCY THE RIGHT HONOURABLE DAVID JOHNSTON, GOVERNOR GENERAL OF CANADA, AND TRIBAL LEADER KGOSI KEGAPETSWE TO A RECEPTION HOSTED AT KAROWE.

***Kgotla* with the Governor General of Canada**

In May 2013, His Excellency the Right Honourable David Johnston, Governor General of Canada, visited Karowe, and met with local community leaders and dignitaries. The Governor General commended the facility for both its positive contribution to the local community, as well as to its adherence to safety, health, and environmental standards. During his tour of the mine, His Excellency commented that: "It is pleasing to note that Karowe Diamond Mine has contributed immensely to the welfare of the communities near its operation. It is also clear that the mine observes environmental health regulations."

He issued his comments after a presentation by Baruntshi Kegapets, the Chief of the Letlhakane village. The Chief spoke about the active role that Karowe had taken in the community in regards to both its everyday operation, as well as in assisting vulnerable members of the community, such as the disabled and the poor.

William Lamb, Lucara's Chief Executive Officer, echoed the positive tone of the gathering by emphasizing the positive working relationship Lucara has had with the communities in the mine's area of operation. In his closing remarks, Botswana's Minister of Foreign Affairs and International Cooperation, Honourable Phandu Skelemani, praised Karowe for enhancing the livelihoods of the communities in the Boteti Sub District.

Community Feedback

Similar to the previous year, Karowe's Community Liaison Officer participated in traditional *kgotla* meetings in the eighteen villages of the Boteti Sub-District in October 2013. Attending these meetings provides an opportunity to present the latest developments and plans at Karowe, and receive community feedback on the microlending scheme, as well as the planned upgrade of the abattoir in Letlhakane.

Local residents were able to ask about particular requirements for the microloans that were available, and most expressed their gratitude for the opportunity that the loans provided. Some suggested that the microloans be spread evenly across the eighteen villages. One villager commented that she hoped for: "one project in each and every village which we can pride ourselves with and enjoy the fruits of the Karowe Mine."

There was also broad support for the abattoir facility upgrade. A few community members in outlying areas felt it was too far to travel, or were concerned about their inability to transfer animals there due to Red-Zone restrictions (regarding foot-and-mouth disease.) It was repeatedly asserted, however, that the facility would be a great benefit because the Boteti District features more cattle than any other district in Botswana.

A prevailing sentiment across the meetings was gratitude that Karowe had been responsive to the local communities by making multiple visits to the villages in 2013, and for the fact that the mine is making good on its promise to help develop the area. For example, in Mokobaxane, tribal leader Kgosi Kaponene thanked Karowe for its continued support for the people of his village. He said:

"So far now many events have been brought by Karowe mine to improve the lives of the people in Mokobaxane, and we are happy to associate ourselves with Karowe Mine as we know what the mine is doing for the community."

- Tribal Leader

At the meeting in Letlhakane, where the improved abattoir will be located, village leader Kgosi Ivy Kelebogile had high praise for the leadership of the mine. He concluded the meeting by commenting that: "We want to give special thanks to Karowe Mine who have shown their commitment to the welfare of the people of Boteti, and to the good relationship and consultancy that they show. We are now looking forward to see projects coming up in all the 18 villages of Boteti, and that will leave a mark that will never be forgotten."



KAROWE CONTINUED TO OFFER MINE SITE TOURS TO COMMUNITY LEADERS IN 2013

Grievance Mechanism

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

The development of Karowe resulted in a small scale resettlement impact involving four cattle posts and two farms during the main construction phase (2010-2012).

Following the deterioration of the water quality of a replacement borehole provided to one affected farmer, he expressed his dissatisfaction with the compensation and relocation outcomes by lodging a grievance in 2011.

In 2013, following provision of interim solutions, we assisted with the relocation of this farmer to a new location which featured a suitable replacement borehole. This process closed this long-standing grievance. We have not recorded any new grievances at Karowe in 2013.

Lucara's Key Stakeholders

| Stakeholders | Interests and Concerns | Engagement & Approach |
|---|---|---|
| Directly affected land users, owners | Compensation, access to water, dust emissions (mainly during project construction phase) | Direct meetings, Letlhakane Sub-Land Board (responsible for tribal land) |
| Employees and Contractors | Compensation and benefits, health and safety, job-security and advancement | Direct meetings, performance reviews, training, newsletters |
| Governments | Positive economic impacts, Kimberly Process, diamond viewing and sales in Botswana, diversification, Canadian CSR Strategy for the Canadian International Extractive Sector | Royalties, consultation, permits, inspections, strategic community investments, applying GIIP, meetings, sustainability reporting |
| Local Communities | Impacts, local employment, community investments | Engagement, grievance mechanism, strategic investments |
| Customers and End-users | Conflict diamond-free supply chain | Tight security, government inspections, Kimberly certification |
| Shareholders | Good corporate governance, financial performance, risk management, dividends | Disclosure, analyst briefings, media releases, sustainability reporting |
| Financial Institutions | Financial returns, risk management | Applying GIIP (Good International Industry Practice) and following Equator Principles, sustainability reporting |



A CEMENT BLOCK MANUFACTURING ENTERPRISE WAS ONE OF THE BENEFICIARIES OF LUNDIN FOUNDATION'S MICRO-LENDING SCHEME

Community Investment

In partnership with the Lundin Foundation, we launched a micro-lending scheme, and committed funds to the expansion and upgrading of the Letlhakane abattoir.

As a member of the Lundin Group of Companies, Lucara contributes funding annually to the Lundin Foundation. The Foundation assists Lucara with the selection, design, and management of strategic

community investments in areas in which Lucara has exploration, development, or production activities. Lucara's key community investment projects for Karowe and Mothae are highlighted in this section.

For Karowe, the Lundin Foundation developed an innovative partnership with Barclays Bank Botswana and the Local Enterprise Authority (LEA) to support early stage microenterprise development in the region hosting our operation. Through this program, the Lundin Foundation provides a 75 percent guarantee on start-up and asset-based loans issued by Barclays to businesses resident or operating in the Boteti Sub-District, with a particular focus on youth- and women-led enterprises. This program was officially launched by Botswana's Minister of Trade and Industry, The Honourable Dorcas Makgato-Malesu, in March 2013.



PILOT EGG ENTERPRISE IN MOKHOTLONG DISTRICT, LESOTHO

provided assurances that it will procure all required permits and cover operating expenses. The Foundation intends to further explore ways in which maximum benefits can be commuted to rural livestock owners through low-cost interventions in improved animal health and welfare.

At Mothae, the Lundin Foundation, in partnership with CARE, completed a very promising pilot egg enterprise in Mokhotlong District, Lesotho. Both survival and production rates of layers exceeded our expectations and have demonstrated commercial viability. All eggs produced (roughly 200 trays/week) during 2013 were sold to the neighbouring Let'seng mine.

During 2014, efforts will be concentrated in six areas:

- Organization/registration of egg producers into a formal company or cooperative
- Improvement of producer access to affordable inputs
- Expanding/diversifying markets for producers
- Ongoing capacity building/business development assistance for the producers (production, finance, and management)
- HACCP (Hazard Analysis and Critical Control Point) certification, a system that helps food business operators to ensure the food produced is safe to eat
- Establishment of banking relationship and/or internalization of working capital to ensure long-term viability

Cautionary Statement

Forward looking information

This document contains statements about expected or anticipated future events and financial results of Lucara that are forwardlooking in nature and are based on Lucara's current expectations, estimates and projections. This forward looking information is subject to certain risks and uncertainties, such as legal and political risk, civil unrest, general economic, market and business conditions, the regulatory process and actions, technical issues, new legislation, competitive and general economic factors and conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and management's capacity to execute and implement its future plans. The actual results, activities, performance or achievements of Lucara may differ materially from those projected by management. A discussion of factors that may affect Lucara's actual results, performance, achievements or financial position is contained in the filings by Lucara with the Canadian provincial securities regulatory authorities, including Lucara's 2013 annual MD&A filed on February 20, 2013 on the system for electronic document analysis and retrieval ("SEDAR") at www.sedar.com. All currencies mentioned in this presentation are in United States Dollars ("US\$") unless otherwise mentioned.

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