



Lucara Diamond



2017

SUSTAINABILITY REPORT

BUILDING A LEADING AFRICAN-BASED OPERATION

IN THIS REPORT



- 01 Corporate Profile
- 02 About this Report
- 03 Message from the Chief Executive Officer
- 05 Our Contributions to the UN SDGs
- 08 Our Material Issues
- 11 Operations & Exploration Activities
- 15 Governance & Ethical Conduct
- 21 Health & Safety
- 25 Economic Performance
- 28 Environmental Performance
- 42 Our People
- 44 Stakeholder & Community Engagement
- 48 Community Investment & Support
- 50 Assurance Statement

OUR MISSION

TO BUILD A LEADING AFRICAN-FOCUSED DIAMOND PRODUCTION AND DEVELOPMENT COMPANY

OUR VALUES



A healthy and safe work environment



Entrepreneurial spirit



Creation of shareholder value



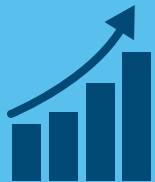
Create positive economic and social impact
on local communities where we operate



Focus on larger-scale advanced diamond projects



Seek value opportunities



Contribute to the Lundin Group's history of success
and excellence in wealth creation for all stakeholders

Corporate Profile

Lucara Diamond Corp. (Lucara), headquartered in Vancouver, owns a 100% interest in the Karowe Diamond Mine which is operated by its wholly owned subsidiary Boteti Mining (Pty) Ltd, and has been in production since 2012. Karowe, which means "precious stone" in the local Tswana dialect, lies on the northern fringe of the Kalahari Desert in north-central Botswana within the Orapa/ Letlhakane Kimberlite district, one of the world's most prolific diamond producing regions.

Lucara is a member of the Lundin Group of Companies and is listed on the TSX Exchange, Nasdaq Stockholm and the Botswana Stock Exchange under the symbol "LUC".



About this Report

This is Lucara's sixth consecutive annual sustainability report. It 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 cover the calendar year 2017 with comparisons to the two previous years. This report has been subject to moderate assurance in accordance with AA1000 Assurance Standard (2008) and forms part of this report. The report's GRI Content Index is available at www.lucaradiamond.com (CSR/Sustainability). For feedback or questions on this report, please email csr@lucaradiamond.com



	<p>This is our Communication on Progress in implementing the principles of the United Nations Global Compact and supporting broader UN goals.</p>
	<p>We welcome feedback on its contents.</p>

OUR UN GLOBAL IMPACT INDEX IS INCLUDED WITH THE GRI INDEX (SEPARATE WEB-POSTED DOCUMENT)

Message from the Chief Executive Officer



As we reflect on our fifth full year of production at our 100% owned Karowe diamond mine in Botswana, Lucara is proud to have achieved a strong record in safety, health and environmental stewardship, while at the same time working to maximize economic and social benefits to our local communities of interest. Sustainability underpins our core values as a Company and is fundamental to how we do business, not only for the duration of our mining activities but also well beyond.

Our sixth sustainability report, which has been completed in accordance with GRI Standards (Core), and subject to limited external assurance, aims to report on our progress while at the same time recognizing our commitment to a journey of continual improvement. In addition, we contribute to a number of UN sustainable development goals (SDG's), focused on Poverty (SDG1), Good Health and Well-being (SDG3), Quality Education (SDG4), Decent Work & Economic Growth (SDG8), Peace, Justice and Strong Institutions (SDG16).

Fostering a safe and healthy working environment for our employees remains a top priority for Lucara. In 2017, we reported two lost time injuries and a lost time frequency rate of 0.13, up from zero in 2016. Always striving for zero, we re-doubled our efforts to engage our workforce and build awareness through a number of focused initiatives, including our ongoing "stop and fix" campaign. In response, we have seen increased reporting rates of near misses and vigilance in addressing all safety incidents.

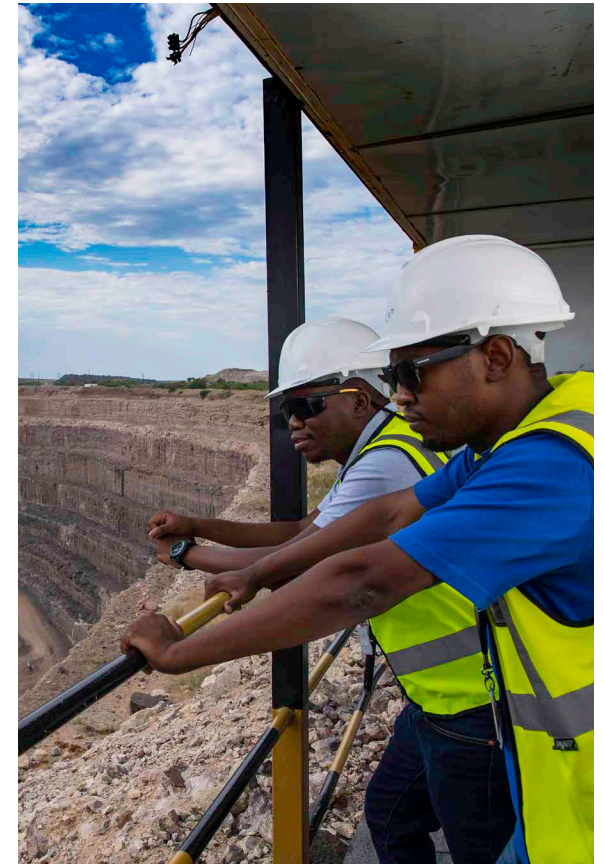
The Company generated revenues of \$220.8 million in 2017 versus \$296 million in 2016, largely because of lower ore volumes mined and processed, however, we achieved a comparable year over year average diamond price of \$848 per carat and paid \$29.4 million in dividends. Capital projects to enhance diamond recoveries and reduce yield constraints in the plant were completed on time and within budget, and, are performing well. Another important milestone for the year was the completion of a positive, preliminary economic assessment examining the underground potential at Karowe and aimed at expanding mine life from 2026 to 2036. In response to this positive result, a pre-feasibility study has been initiated in 2018 to evaluate this opportunity further.

Lucara's approach to community engagement and investments in 2017 is consistent with past years, and is done in collaboration with the Lundin Foundation, targeting outreach to 18 local villages situated in and around the Karowe mine. Lucara also maintains a dedicated community engagement office in Letlhakane, the largest urban centre proximal to our minesite. These efforts have helped us to successfully attract and retain a large local workforce of close to 1200 people, 98% of whom are Botswanan. In addition, Lucara paid out a total of \$45.5 million in taxes and royalties in 2017 and supported local business and community development through our Karowe Emerging Entrepreneurs Fund and Karowe Village Initiative, respectively, together with direct investments in local infrastructure and services.

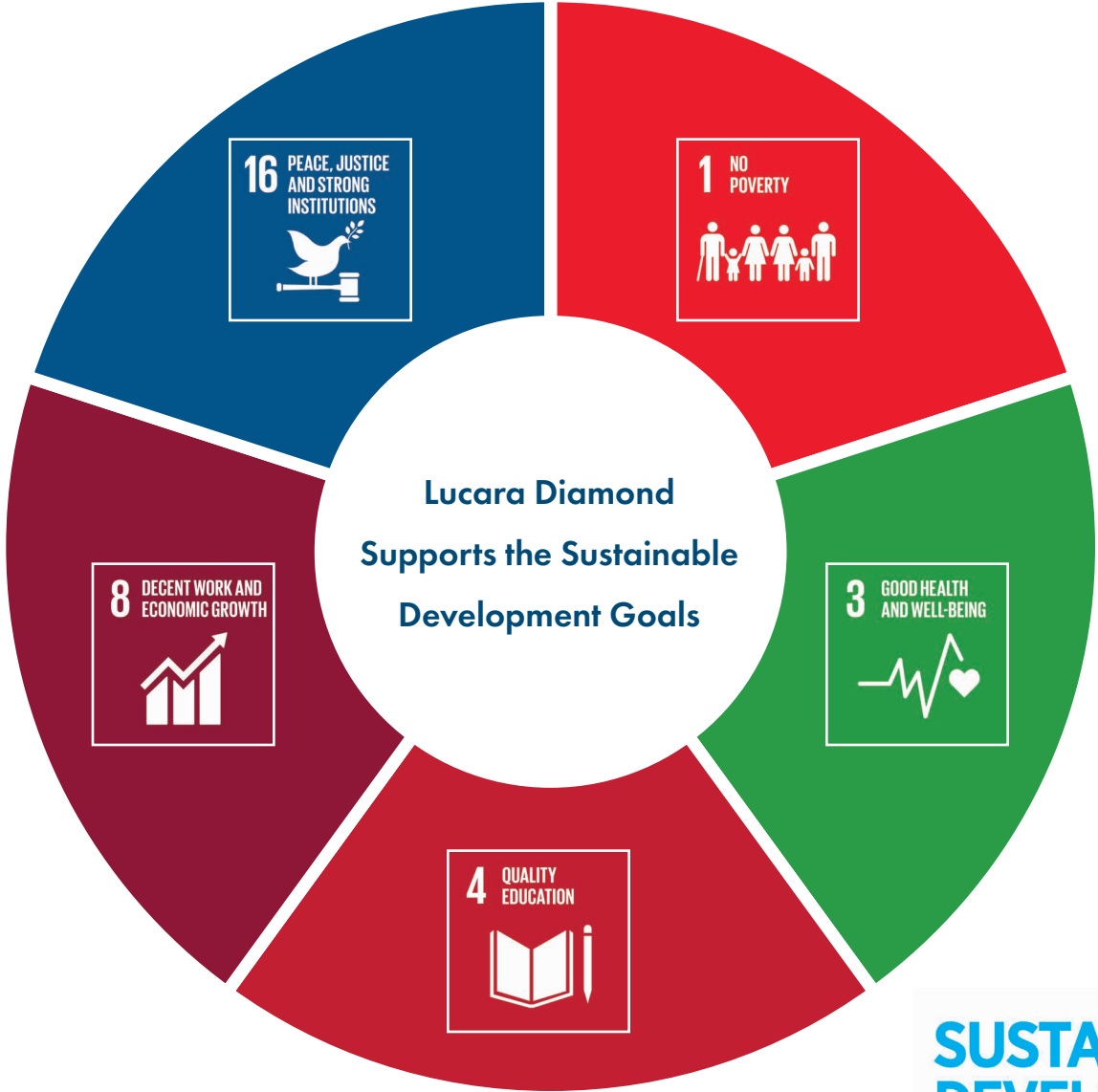
In keeping with our reputation as a leader in innovation, in February 2018, Lucara announced the acquisition of Clara Diamond Solutions Corp. (Clara), a company whose primary asset is a secure, digital sales platform that will transform how rough diamonds are sold and help ensure confidence in diamond provenance throughout the value chain. Lucara also holds certification from the Responsible Jewellery Council, a membership in the Diamond Producers Association and adheres to the Kimberley process to help promote ethical practice and conduct throughout the diamond supply pipeline.

Lucara believes that sustainability is a long-term commitment that requires focus and discipline to help drive continuous improvements in all areas of our business and is fundamental to our success as an organization and in delivering broad based, lasting economic and social benefits to all of our stakeholders and the communities in which we live and work. We would like to acknowledge the support of our employees, shareholders, customers, governments and local communities as we continue to progress on this important journey, and we would welcome any feedback to csr@lucaradiamond.com.

Eira Thomas
CEO Lucara Diamond Corp



Our Contributions to the UN 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 United Nations has identified a total of 17 SDGs covering a wide range of sustainability issues. A sub-set of these SDGs have the most relevant links to the mining sector. This means that our industry has a major opportunity to mobilize significant human, physical, technological and financial resources to advance the SDGs in partnership with other actors.

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





SDG 1: No Poverty

Support of a growing economy through procurement and payments to government.

The mining sector has been key to producing the economic conditions to lift Botswana out of poverty since independence in 1966. We make an indirect but important contribution to the government’s programs aimed at eradicating poverty. Lucara contributes through direct and indirect employment (see also SDG8 below), and payment of taxes and royalties (totaling US\$45.5 million in 2017), which in turn supports the government in its social protection programs and community investments throughout the country.



SDG 3: Good Health & Well-Being

Actions to promote the health, safety and wellbeing of our workers, their families and communities.

At Lucara, we maintain high health and safety standards for our workers (including subcontractors), complimented by programs to promote and monitor their well-being. We employ a nurse permanently on site, supported by a medical doctor who conducts twice-weekly site visits to consult and advise our workers. Workers are encouraged to participate in BMI and blood pressure monitoring programs. Our local communities are invited to sports events rotating annually to different villages. These events are combined with medical health screening opportunities. We are also planning a new multi-purpose sports complex in Lethlakane. Our philosophy is that healthy workers are vital, for resilient communities and a sustainable business.

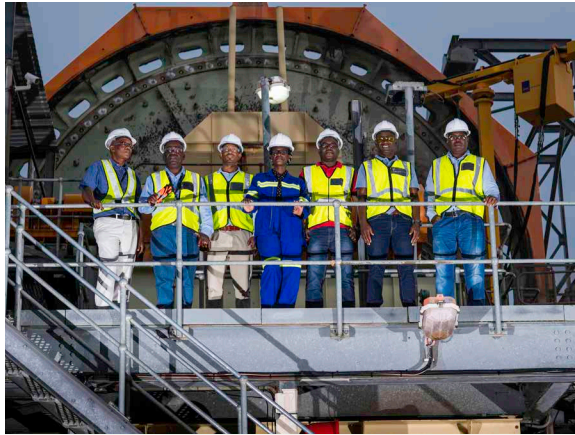


SDG 4: Quality Education

Graduate internships and educational prizes for local schools.

Our internship program employs six graduates to provide them with working experience in a range of professional-level disciplines. This will increase their prospects of long-term employment 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 2017.





SDG 8: Decent Work & Economic Growth

High quality jobs to Botswana nationals and support to local businesses and entrepreneurs.

We provide employment to staff and contractors who work for our business. In Botswana, 98 percent of our workers are local nationals. During 2017, our mine employed more than 850 people as direct employees and main contractors, excluding short-term contract projects. During the same period, we continued to provide financial and advisory support to entrepreneurial and job creation activities in local communities. In addition, our local procurement and spending by our workers contributes indirectly to local employment and economic development.



SDG 16: Peace, Justice & Strong Institutions

Transparency and ethical business practices.

We disclose our payments to the government of Botswana, comply with the Kimberley Process, and in 2017, achieved certification under the Responsible Jewellery Council 2013 Code of Practices. The certification was renewed for a three year period until March 2021. Our commitment to ethical business practices contributes to promoting the highest standards for Botswana.

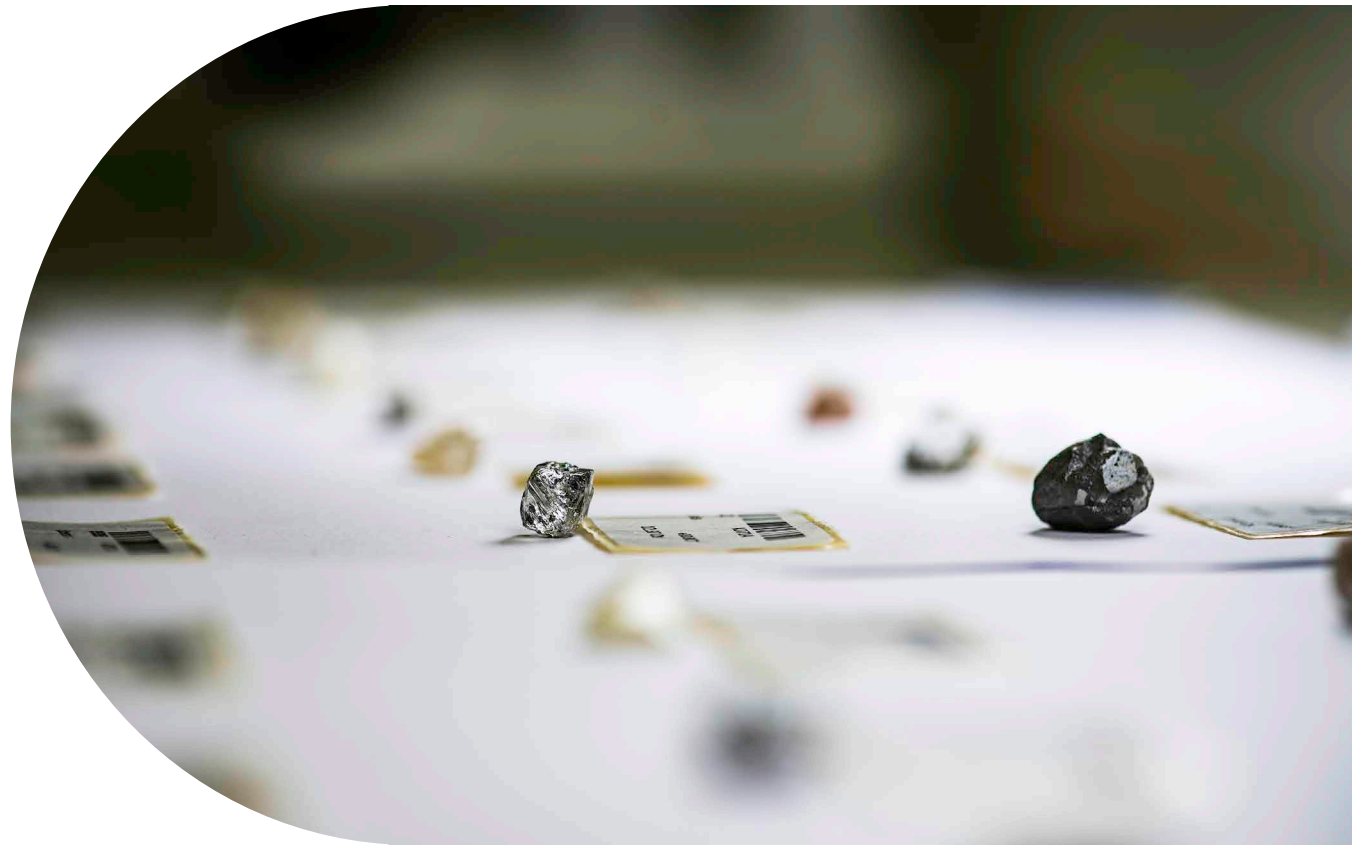


Our Material Issues

In determining the scope, content, and boundaries of this report, Lucara applied GRI Standards taking into account our previous sustainability reporting, careful consideration by our management teams of our risks and impacts (positive and negative), and our understanding of the information needs, interests and concerns of our people and other stakeholders.

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.

This includes regular engagement with village and community representatives across the district surrounding the Karowe mine, to be aware of our neighbours' expectations and concerns, be accountable about our operations and social investments, and identify opportunities for improvement.



We rank our material issues by analysing and prioritising the information. These are built into our overall strategy and incorporated into our operational management processes. Our materiality and issue boundaries may shift over time as new issues may be raised by key stakeholders or when we experience changes to our risk and impact profile.

Our material sustainability issues are summarised in the following pages, highlighting why they are important, our general approach, commitments and targets. Each is addressed in greater detail in the main chapters covering risks and actions as appropriate.

OUR MATERIAL ISSUES

	HEALTH & SAFETY	EMPLOYEE RETENTION & DEVELOPMENT	COMPLIANCE	WATER & ENERGY MANAGEMENT
WHY IMPORTANT	Safe and healthy workers are critical for business sustainability and reputation.	A stable and satisfied workforce with career development prospects creates a more productive and sustainable business.	Non-compliance damages reputation and social licence to operate and can result in fines and negative external impacts.	Water and energy are critical resources for business sustainability and important to managing our external impacts.
BOUNDARY	All employees, workers, contractors and visitors on mine site, including travel to/from site.	All employees, workers and main contractors.	All aspects of our business and operations, internal and external.	Internal and external.
APPROACH	Recognising that mining can be dangerous, we remain pro-active in training, awareness, monitoring, response and corrective action to incidents and concerns raised.	Investment in skills development. Listening to workers through a grievance mechanism and exit interviews. Effective collaboration with contractors.	Internal governance measures, management systems, monitoring, controls and assurance, including Kimberley Process (KP) and Responsible Jewellery Council (RJC) compliance.	Employ water and energy experts, responsible planning, monitoring water impacts, engagement with relevant stakeholders (power supply company, regulators and local communities).
COMMITMENTS	Apply strict targets, and establish and promote constant vigilance and awareness for all workers.	To value and motivate all employees and contractors. To create a conducive work environment. Promote health and wellbeing.	To remain always compliant through responsible and ethical business management. Continue to comply with KP and implement RJC practices and certification program.	Monitor impacts to and from our business, maintain good relations with stakeholders, apply transparency and efficiency improvements.
TARGETS	Zero harm	Low turnover	Achieve and demonstrate compliance	Recycle at least an average 700m ³ /day of water from slimes dam.
GRI DISCLOSURE(S)	403-1, 403-2	102-16, 102-41, 102 43, 103-2, 401-2, 403-1, 403-2	102-16, 103-2, 307-1	302-1, 303-1, 303-2, 303-3

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

OUR MATERIAL ISSUES (continued)

	MINERAL RESOURCE PERFORMANCE	BUSINESS GROWTH	ENVIRONMENTAL STEWARDSHIP	STAKEHOLDER ENGAGEMENT
WHY IMPORTANT	Ongoing mineral exploration is important for maximising the potential, value and life of the resource.	To maintain and maximise the potential for the business and its support to local economic development and confidence of shareholders.	Poor performance will impact on our licence to operate, on our neighbouring communities, and may impact on our access to essential resources, such as water supply.	We cannot sustain our business without addressing relevant concerns of our stakeholders, which includes all those who are dependent on our business, and who may be impacted by it.
BOUNDARY	Internal control of exploration and planning, but dependent on geology.	Internal management. External influences, including markets.	Internal and external, including local communities and natural environment.	Internal and external.
APPROACH	Ongoing exploration in the vicinity of the mine in accordance with licences, using advanced technology.	Continue exploration programs, investment in technology and people, maintain dynamic resource models and efficient working practices.	Continue to implement and update our Environmental Management Plan. Monitor our impacts, engage with stakeholders and react appropriately.	Identifying our stakeholders, pro-active engagement with them, listening, and responding appropriately. This includes our dedicated office in Letlhakane.
COMMITMENTS	Forward planning and exploration activities within the existing AK06 licence area, new licence areas, and further assessment of the underground mining potential.	Continued business growth through maximising the resource and within product quality.	Comply with our objectives to minimise the impact of our operations on the natural environment, including mine closure.	Respond to, and address community concerns, needs and grievances. Maintain our financial assistance for local community programs.
TARGETS	For new exploration results to extend the life of mine by 10 years to 2036	Achieve sales of 270,000 to 290,000 carats	No Level 1 incidents ² Landfill: address items raised from inspections and complete licensing process	Initiate development of 3 community-owned Karowe Village Initiatives (KVI). Support development of new Lesedi La Rona sports complex (construction to start 2019).
GRI DISCLOSURE(S)	201-1	201-1	302-1, 302-3, 303-1, 303-3, 304-1, 304-2, 307-1	102-4, 102-44

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

Operations & Exploration Activities



Karowe is currently an open pit diamond mine operation that achieved commercial production in July 2012. Open pit mining operations have an anticipated life of mine ending in 2026.

In November 2017 a Preliminary Economic Assessment ("PEA") for underground development at the Karowe mine was completed. Based on the positive results of the PEA it is anticipated that underground development may extend Karowe's mining operations by an additional 10 years post completion of the open pit mining. In addition to potential underground development, active exploration and assessments are ongoing with a view to further extending the life of our operations.

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

Karowe's electric power supply is from Botswana Power Corporation's national grid. Our water requirements are provided by a combination of the groundwater we abstract for open pit stability and a local wellfield.

Karowe is the first diamond mine to use a new X-ray transmission (XRT) technology to recover large diamonds. The main objective of the XRT circuits is to maximize diamond recovery while maintaining a milling capacity of 2.5 million tonnes per annum as the ore properties become harder, fresher and higher yielding as the mine deepens.

Lucara supports Botswana's commitment to the Kimberley Process Certification Scheme, which attests our diamonds are tracked from the point of recovery, through every step of supply chain integrity, up to and including point-of-sale internationally, and guaranteed to be of "conflict free" origin.

Two important capital projects to improve diamond recovery were completed on schedule during the reporting period: the Mega Diamond Recovery ('MDR') and the Sub-middles X-ray transmission technology.

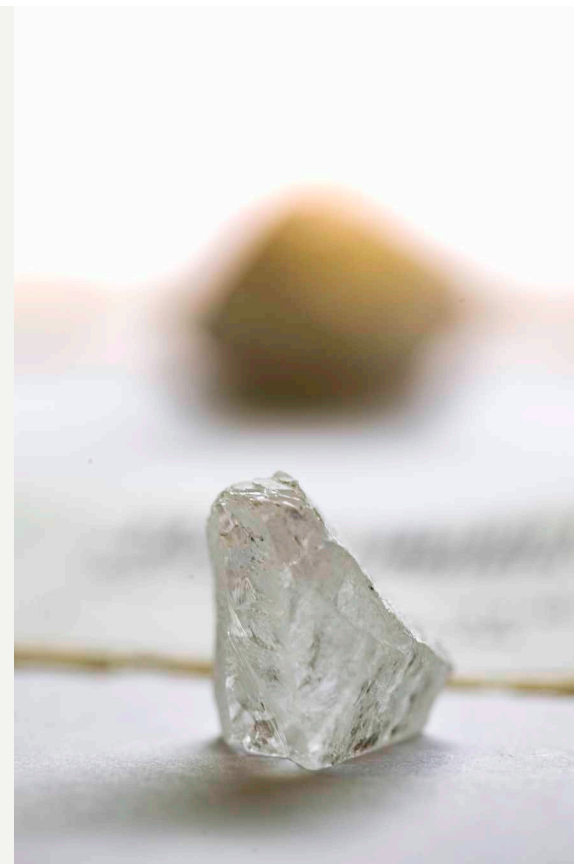
We experienced a longer than anticipated ramp-up of our new mining contractor, Aveng Moolman, as well as contractor operating inefficiencies which have since been addressed and efficiency improvements are being observed. Slow ramp up led to a reduction in planned mining and processing of fresh south lobe ore. As a result stockpile material was temporarily substituted for processing, resulting in fewer recovered carats than originally budgeted.

From October 2017, we appointed Lazenby Holdings as the new process contractor. The transition to Lazenby to manage the processing mill, bulk sampling, and tailings facilities, has increased capabilities on the operation of Karowe's new circuits and we anticipate continued cost reductions and increased operational utilization going forward.

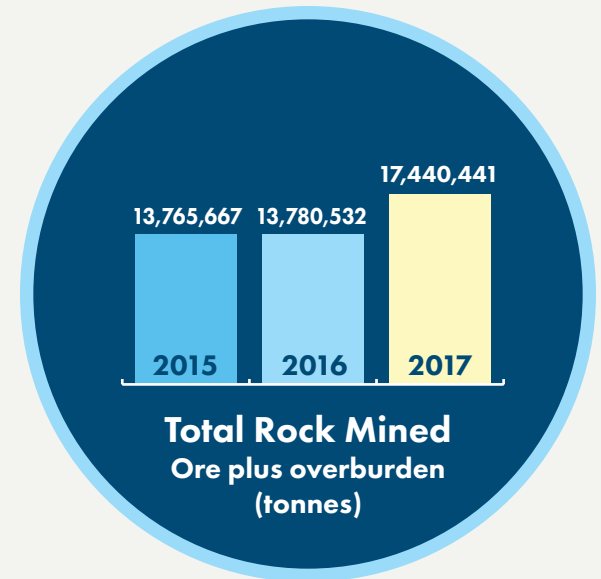
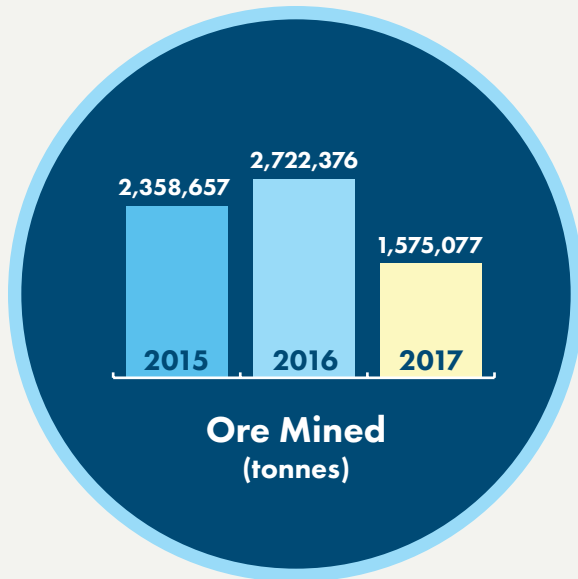
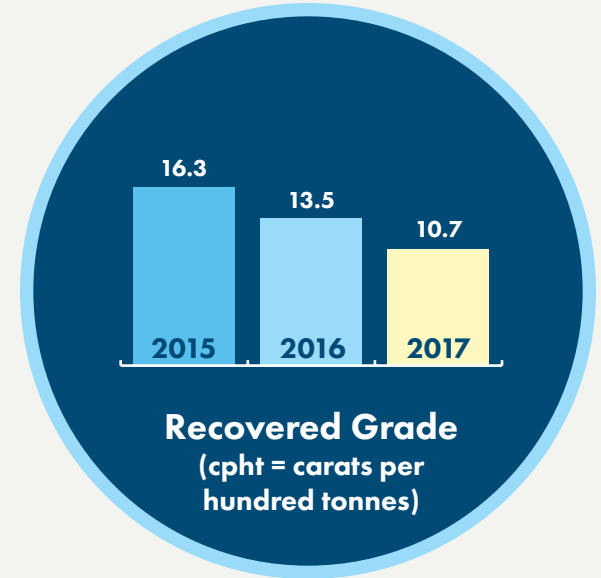
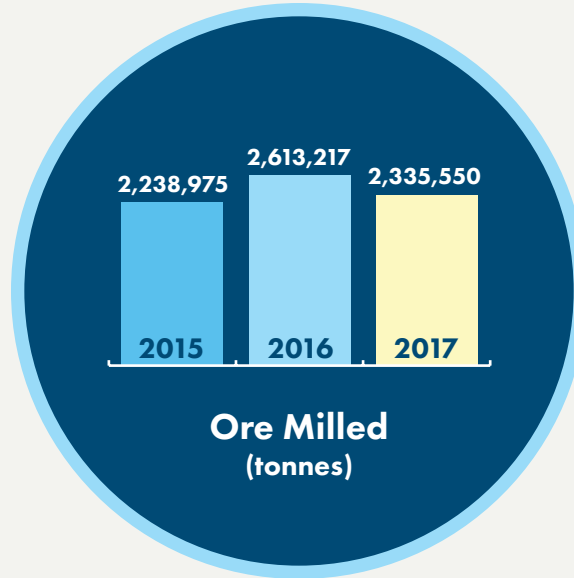
The Success of the Karowe Mine to Date

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

- 154 diamonds sold for more than US \$1 million each, the breakdown of which is as follows:
 - ◆ 130 diamonds sold for between US \$1m and US \$5m each
 - ◆ 15 diamonds sold for between US \$5m and US \$10m each
 - ◆ 9 diamonds sold for more than US \$10m each
- The 813 carat Constellation diamond, a single rough diamond sold in 2016 at a record price of US\$ 63.1 million
- The 1,109 carat Lesedi La Rona diamond recovered in 2015, the second largest gem quality diamond on historical record, sold in 2017 for US \$53 million



PRODUCTION STATISTICS



Production Results

Ore and waste mined in 2017 was 1.6 million tonnes and 15.9 million tonnes respectively. Tonnage processed was 2.3 million tonnes and just below the forecast range of 2.4 to 2.6 million tonnes.

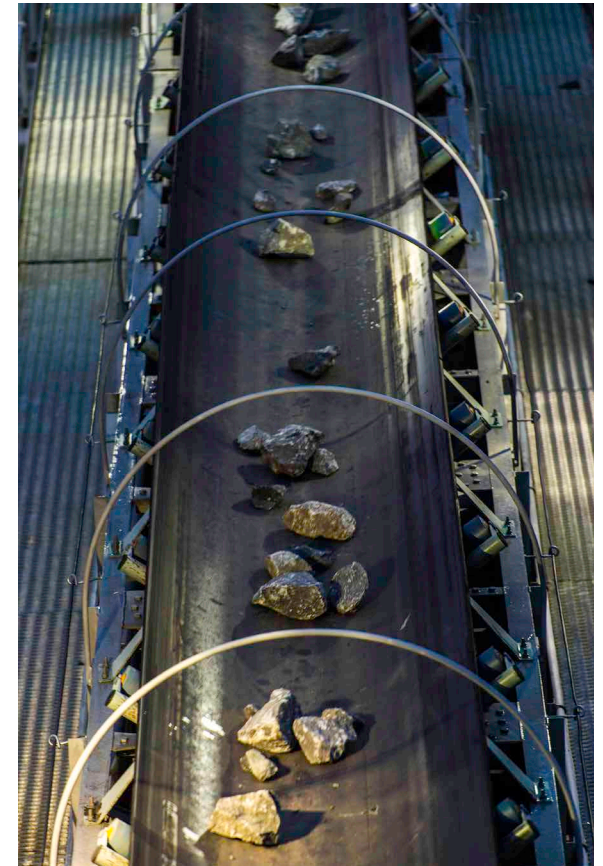


Exploration & Prospecting Projects

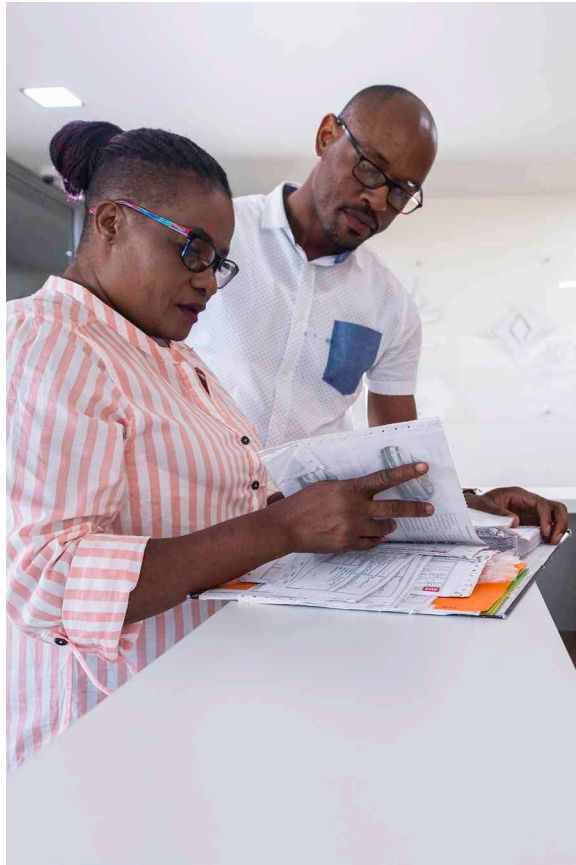
The Karowe Resource Upgrade drill program was completed in early 2017. It was designed to investigate the AK06 kimberlite at depths below 400 metres with a target to bring inferred mineral resources into the indicated category in support of underground mining. Sampling is complete and analysis and results of the final modelling are expected in Q2 2018.

In addition to our investigation of underground mining potential (mentioned near the start of this section), we obtained renewals for two prospecting licences first issued in 2014 within the Orapa Kimberlite field, in close proximity to the Karowe Diamond Mine, and for which we have environmental approval.

Bulk sampling and delineation drilling were completed over the AK11 target, and delineation drilling was completed over the AK13 target. Treatment of the AK11 sample is in progress. The BK02 surface excavation sample site has been 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. In February 2018, we became a signatory to the United Nations Global Compact so as to demonstrate our commitment to implement, disclose and promote its human rights, labour, environment and anti-corruption principles. Our UN Global Compact Index is included with the separate GRI Index document.

To enhance understanding and to ensure compliance with our Code of Conduct, our business leaders and senior managers, employees and main contractors are required to undertake training on compliance with the code. Senior management also undertake training on other relevant standards and compliance programs, for example, on requirements under the Extractive Sector Transparency Measures Act and United States Office of Special Council 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.

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.

We continue to apply our commitment to corporate responsibility as recognized by our receipt of the PDAC 2016 Environmental & Social Responsibility Award "for outstanding leadership in environmental protection and good community relations."

Our Code of Business Conduct & Ethics

Our Code of Business Conduct and Ethics, which is available on our website: www.lucaradiamond.com (Investor/Corporate Policies & Governance), sets out corporate guiding principles that Lucara and its subsidiaries expect from their employees, directors, and officers. The Code includes a section on human rights and harassment free working environment, and prohibition of child and forced labour. The ultimate responsibility of human rights policy rests with our board.

We also require our contractors and suppliers to comply with the principles of our Code of Business Conduct and Ethics. Contractors must conduct their business affairs with honesty and integrity and with a respect for the fundamental human rights and dignity of individuals. Contractors must operate in full compliance with all laws, rules and regulations applicable to the countries in which they operate including anti-bribery laws, insider trading laws, competition laws and prohibition of forced labour and child labour laws.

Our Code of Business Conduct & Ethics is designed to deter wrongdoing and to promote:

- Honest and ethical conduct
- Respect for human rights and harassment free workplace
 - Avoidance of conflicts of interest
- Maintenance of confidentiality of Company information and protection of its assets and resources
- Full, fair, accurate, timely and clear disclosure of reports and documents submitted to regulatory authorities and for external communications
- Compliance with all applicable governmental laws, rules and regulations including for insider trading, competition and anti-bribery laws
- Prompt internal reporting of violations of this Code
 - Accountability for adherence to this Code

Our 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, 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

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 2017, 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
- United Nations Global Compact (from February 2018)



Product Stewardship

We comply with the Kimberley Process Certification Scheme and received our first certification as a diamond producer under the Responsible Jewellery Council scheme in August 2017. Lucara is also a founding member of the Diamond Producers Association. Additional information about these organizations is provided in the box below.

RESPONSIBLE STEWARDSHIP & CERTIFICATION SCHEMES

Kimberley Process Certification Scheme (KPCS)

The Kimberley Process is an international certification program designed to remove conflict diamonds – defined as rough diamonds used to finance wars against governments - from the global supply chain. The KPCS imposes extensive requirements on its members (governments and companies) to enable certification of rough diamond shipments as ‘conflict-free’ and prevent conflict diamonds from entering the legitimate trade.



Responsible Jewellery Council (RJC)

The RJC is an international not-for-profit standards and certification organisation. Its membership spans the jewellery supply chain from mine to retail. RJC Members commit to, and are independently audited against, the RJC Code of Practices, an international standard on responsible business practices for diamonds, gold and platinum group metals. The code addresses human rights, labour rights, environmental impact, mining practices, product disclosure and other important topics in the jewellery supply chain.



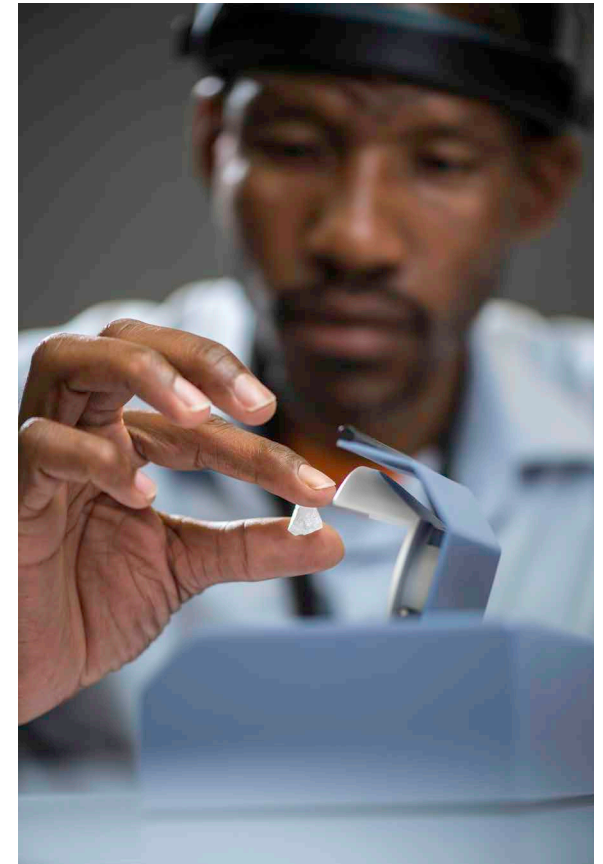
Diamond Producers Association (DPA)

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.



Extractive Sector Transparency Measures Act (ESTMA)

We also comply with Canada’s ESTMA and the EU Transparency and Accounting Directive, which are designed to increase transparency and deter corruption in the extractive sector.



Payment Transparency

In line with good international industry practice, we disclose our payments to governments in compliance with Canada’s Extractive Sector Transparency Measures Act (ESTMA) and the EU Transparency and Accounting Directive. Lucara’s ESTMA report can be accessed on our website: www.lucaradiamond.com (CSR/Sustainability).

Board of Directors

Lucara's Board of Directors is primarily responsible for supervising the management of our business and affairs. Its authority is determined by the provisions of the British Columbia Business Corporations Act and by Lucara's by-laws.

The Board regularly reviews its guidelines and policies and, not less than annually, considers how its corporate governance practices align with guidelines established by the Canadian regulatory authorities, and the Toronto Stock Exchange. Lucara is also guided by the rules and regulations of the NASDAQ OMX (Stockholm) Exchange. The Board's responsibilities include the approval of the quarterly and annual audited consolidated financial statements.

The Board has established committees to assist with fulfilling its responsibilities in accordance with the provisions of the Board Charter and recognises delegation to committees does not discharge the Board's responsibility for its fiduciary duties. The following Board committees are in place.

Audit Committee is comprised of three independent Board members with financial experience. The Audit Committee reviews and reports to the Board on the integrity of the consolidated company financial statements. The Audit Committee also has oversight responsibility for internal controls, accounting and auditing activities.

19

Corporate Governance and Nominating

Committee is comprised of three independent Board members. The Corporate Governance and Nominating Committee 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.

Safety, Health, Environment and

Community Relations Committee is comprised of three Board members, a majority of whom are non-executive. The SHECR Committee assists the Board in oversight of health, safety, environment, and community risks and compliance with related legal and regulatory requirements. Strategic environmental, social and governance (ESG) related key performance indicators are represented in the compensation or remuneration metrics of Lucara's executive management. The attendance record of the SHECR Committee in 2017 was 100 percent, the same as in 2016.

Compensation Committee is comprised of three independent members. The Compensation Committee is responsible for administering the corporation's executive compensation program and overseeing incentive plans.

Board Member Diversity

In 2014, the Board adopted a Gender Diversity Policy. It recognizes the importance of women having a greater representation at key decision making points in organizations particularly with regard to representation on Boards and Executive Officer positions. For 2017, women comprised 29 percent of Lucara's Board and 33 percent of Lucara's Executive Officers. In addition, women held 50 percent (2 out of 4) of Board Committee Chair positions. This information is tracked and presented to the Board on an annual basis.



Supply Chain Sustainability

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, with a workforce totalling 631 at the end of 2017. 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.

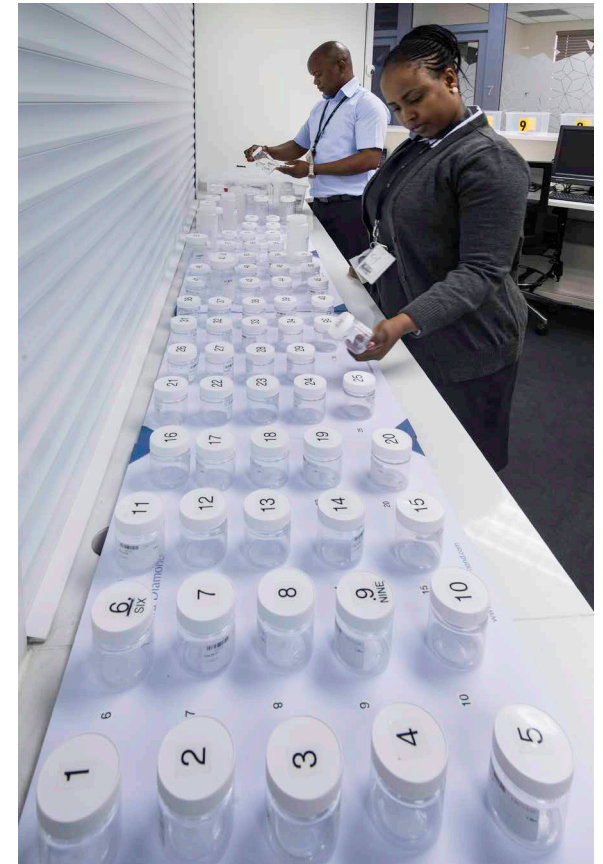
Boteti Mining's supply chain relies on national and international suppliers to provide materials and services for its operations, project development, exploration activity and diamond sales. Technical equipment may be sourced outside of Botswana; however, where practical, Boteti aims to source materials and services from within Botswana, thereby generating local and national socio-economic benefits.

In 2017, 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 now includes in all supplier contracts a requirement to comply with its Code of Conduct and human rights clauses. All contractors undertook corresponding training during 2017, and from 2018 visits will be conducted to ensure compliance.

Now in our sixth year of production, we continue to engage with our significant suppliers to promote sustainability performance. Contracts with suppliers are continuously updated to reflect appropriate compliance to sustainability performance.

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 and the Responsible Jewellery Council schemes ensures and demonstrates tracking, ethical trade and responsible mining practices associated with our produced diamonds.



Membership and Awards

During the reporting period, Mr. William Lamb, Lucara's CEO, received the 2017 Ernst & Young Entrepreneur of the Year Award (Pacific Region) in the mining and metals category.

Boteti is an active member of the Botswana Chamber of Mines, through which it is also affiliated to the International Council of Mining and Metals (ICMM).

Health & Safety

Cultivating a Health & Safety Culture

Health and safety are paramount to our responsibilities and working culture. In addition to rules and training, we apply a regular program of communication to ensure all employees and workers (including contractors) constantly keep health and safety top of their minds in every aspect of their daily activities, duties and planning.

Our approach is encompassed in our program of behaviour-based safety (BBS) initiated in 2016 and in 2017 was fully implemented. This program is headed by our list of "Cardinal Sins" posted in all work places and is intended to maintain constant awareness and responsible behaviours in all activities.

We have stepped up awareness raising by encouraging all employees to report all unsafe, as well as potentially unsafe, conditions and near misses, so we can reduce the likelihood of their repetition. This is encompassed in our 'Stop & Fix' policy to encourage immediate action to act on identified risks. We also require pre-task risk assessments to be undertaken. Road safety, on and off site, also remains an important focus.

Our "Clean Slate" campaign is an example of promoting ongoing awareness, which encourages employees to think afresh on how they work and manage their lives, specifically in the areas of health, safety and wellbeing under four main themes:

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

We display "Clean Slate" posters in the work environment, backed up by themed articles in our employee newsletters.

We reported two lost time injuries (LTI) in 2017, resulting in an LTIFR (lost time injury frequency rate) of 0.13, compared to zero in 2016. We introduced a requirement for all employees to report at least one "stop and fix" per week, however minor. This contributed to the increase in our reported "near misses", but which we see as a driver to further improving our health and safety performance. Additional health & safety statistics are included with the GRI Index.

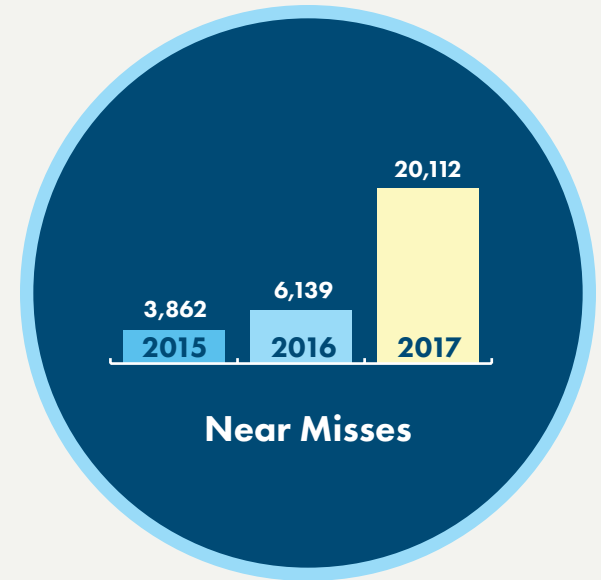
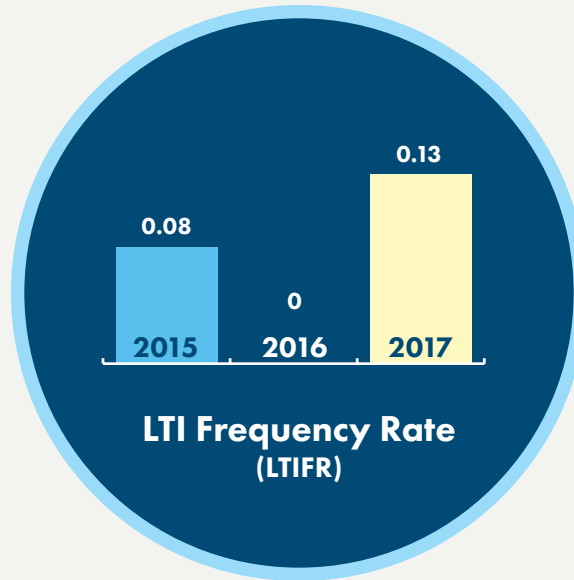
We recently launched a new pocket-sized safety handbook for all employees to be able to keep with them with concise reference to 25 separate health, safety and environmental areas, under the concept of "safety in your pocket".

Our principal contractors, for mining and milling, are fully integrated into our health and safety programmes and culture, but also have their own initiatives as independent companies.

We continue to improve our primary health care and occupational health services including Occupational Health Services, Primary Health Care and Emergency Response.



HEALTH & SAFETY STATISTICS



Occupational Health & 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. 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 the 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 that 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.

We have established a system of health and safety "pacts", whereby groups who work together regularly meet to review what they could do to reduce incidents.

We take individual and collective feedback seriously. For example, we installed a new pedestrian crossing at a location where workers requested it for improved safety.

In recognition of the impact of tiredness on safety risks, we developed a new Fatigue Management Plan with the support of an external agency. The Plan, which addresses such factors as working hours, shift management and fitness to work, also applies to our contractors. Managers were given training on how to recognise fatigue in workers, and how to act on it.

In December, we held a "Stand Down" day when regular work is paused and all workers come together to further promote the concept of health and safety awareness and vigilance. Our General Manager also spoke on the importance of care and responsibility during holiday periods when workers travel to visit friends and family, and when they may lose focus on the need for continuous safety vigilance at all times, especially with respect to driving safely and responsible alcohol consumption.

While recognising our culture of increased vigilance and reporting has resulted in an overall increase in reported incidents, we remain committed to ensuring this leads to ongoing improvement in health and safety performance.





Karowe Diamond Mine Cardinal Sins

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

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 relevant 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 safety, health, environment and 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 2017.

First Aid Competitions

Karowe diamond mine competes regularly in the Botswana Chamber Of Mines first aid competitions between mines.

Promoting the wellbeing of our workers and their families

We organise periodic events to promote sport and healthy activity amongst our workers, their families and communities. In June, we held the fifth annual Karowe Mine Cycling Challenge for which we encourage our employees and contractors to participate.



Economic Performance

Lucara's Karowe Mine in Botswana successfully completed its fifth full year of operations in 2017 continuing to recover high value diamonds.

During 2017, Karowe recovered a total of 521 special stones greater than 10.8 carats (652 in 2016) with an average stone size of 26.6 carats (unchanged from 2016). A total of 17 stones greater than 100 carats were recovered (18 in 2016) including 2 greater than 200 carats (3 in 2016).

During the year the Company had sales totalling 260,526 carats for gross proceeds of \$220.8 million at an average price of \$848 per carat. Excluding the sale of the 1109 carat Lesedi La Rona diamond for 53.0 million (\$47,777 per carat) the 2017 average price sold was \$647 per carat.

The Company recorded EBITDA for the year of \$113.3 million (\$185.4 million in 2016) and an operating margin of 72% (81% in 2016). The increase in operating expenses in 2017, which resulted in the lower operating margin, was anticipated as there were additional fully operational processing circuits in 2017 and deeper ore and waste mining occurred at depth, which increased mining costs.



Lucara's year-end net cash balance was up at \$61.1 million (\$53.3 million in 2016), reflecting our investments in improved technology primarily due to the sale of the Lesedi LaRona.

Lucara paid \$22.1 million in royalties and \$23.4 million in taxes to the Government of Botswana in 2017. The Company has a residual 2017 tax payable balance of \$0.5 million. Lucara's Scotiabank \$50 million credit facility remains undrawn.

ECONOMIC PERFORMANCE AND FINANCIAL DATA

ECONOMIC PERFORMANCE (US\$ million)	2015	2016	2017
Direct Economic Value Generated			
Revenues	223.8	295.5	220.8
Economic Value Distributed (see supplemental information below)			
Operating costs for ore processed	64.5	69.2	80.7
Capital procurement	23.6	25.3	35.4
Exploration expenditures	1.0	4.1	4.8
Sales and marketing and administrative costs	7.4	9.9	8.6
Community investments (Karowe) ¹	0.3	0.1	0.1
Royalties and Taxes to Government			
Payments to Government (Royalty)	22.4	29.5	22.1
Payments to Government (Tax)	44.7	85.6	23.4
ECONOMIC VALUE RETAINED	60.2	71.8	45.7

1. Lucara also contributed CAD \$400,000 to the Lundin Foundation and another CAD \$110,000 in charitable contributions.

SUPPLEMENTAL ECONOMIC INFORMATION (US\$ million)	2015	2016	2017
Employee Compensation	8.4	8.1	10.5
Local Procurement*	79.1	93.0	103.6
SUM	87.5	101.1	114.1

* 'Local' is defined as southern Africa

BOTSWANA AND DIAMONDS

Since independence in 1966, Botswana has evolved from one of the poorest African countries with a population of around 600,000, to become economically stable and successful with 2.25 million inhabitants.

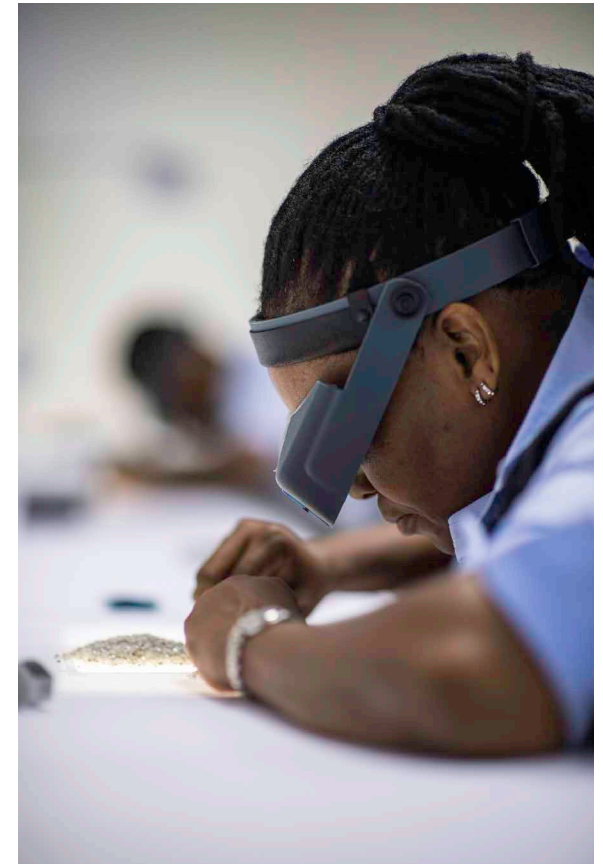
Since its first diamond mine opened over forty years ago, Botswana's economy has been fuelled primarily by mining. According to the World Bank, Botswana's good governance practices, combined with prudent macro-economic and fiscal management, led to its real rate of GDP rising an average of 4.6 percent annually between 1994 and 2011. Although growth recently slowed and slightly contracted, it returned to 4.3% growth in 2016 (most recent data available), driven by a rebound in the global diamond market, and supported by increased reliability of water and energy supplies. Similar GDP growth is projected for 2017 and 2018.

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 less than 19 percent.

More recently, the processing of rough diamonds, or diamond beneficiation, was successfully introduced by the government to help diversify Botswana's economy. Previously, all rough diamonds were exported for processing.

Botswana performs well among African countries in terms of business environment indicators, reflecting the government's commitment to fostering private sector development. The World Economic Forum, Global Competitiveness Report 2017-2018 has raised Botswana's ranking to 63 from 64 in 2016/17 and from 71 in 2015/16, out of 140 economies, corresponding to third position in sub-Saharan Africa.

Sources: The Global Competitiveness Report 2017-2018 of the World Economic Forum; World Bank, 2017; African Economic Outlook report 2017.



Environmental Performance

Overview

Lucara is committed to sustainable development and continuous improvement. This requires us to apply the precautionary principle by conducting environmental and social impact assessments for planned activities, develop appropriate management systems and plans to minimize and monitor the short and long term adverse impacts of our activities on the natural environment. Our Environmental Impact Assessment for operations and construction activities describes mitigation measures to be applied to prevent or reduce significant impacts under the following main themes: biophysical, ecological, land use, socio-economic, public health and safety, occupational health and waste management. Our commitments are set out in our Environmental Policy, which we review every two years and which was last updated in January 2017.

Environmental performance is managed at Karowe by a dedicated Environmental Officer reporting to the Safety, Health, Environment and Community Relations (SHECR) Manager. Significant incidents and performance are reported monthly to Lucara's senior management, and discussed quarterly during meetings of the Safety, Health, Environment and Community Relations Committee at board level.

During 2017, no major environmental incidents were recorded. Most incidents were 'insignificant' (L1, the lowest level under Botswana Chamber of Mines classification), such as small oil spills from machine breakdown or leaks from water or sewage pipes. These were immediately contained and cleaned. We received no fines or monetary sanctions for non-compliance with environmental laws and regulations during 2017. We experienced no reportable non-compliance incidents.

We promote environmental awareness, expecting all employees, contractors, other parties and visitors to conduct themselves in ways that respect and protect the natural environment, and avoid or 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, such as those described in the International Finance Corporation's performance standards and the Equator Principles;
- 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 was last updated in January 2016 and is developed in line with the requirements of Botswana's Environmental Impact Assessment Regulations (2012). Our Plan is aligned with ISO 14001 and subject to an annual gap analysis undertaken by an independent auditor. Our plan 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 primary objectives of the Plan are: that the mine does not become abandoned; that the site is returned as close as possible to its original state; and that the community and other stakeholders may make use of the old mining area for other economically and socially viable activities.

Energy & Carbon Emissions

Mining is an energy intensive activity dependent on a reliable power supply. Concerns raised in our previous sustainability reports with regard to energy security in Botswana reduced significantly in 2017

Karowe operations are powered by 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.

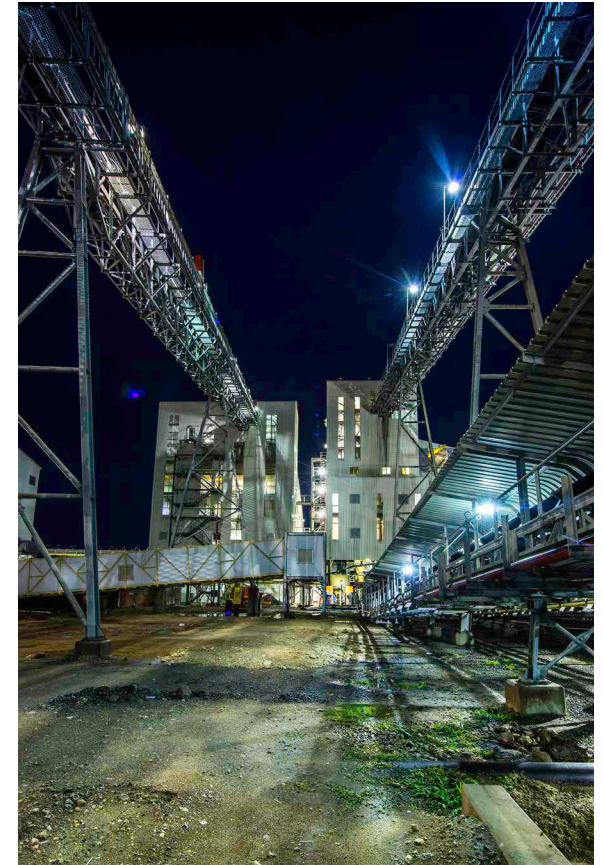
BPC operates two coal-fired power stations at Palapye, in eastern Botswana, supplying a portion of the power requirements for the whole country. Refurbishment of BPC's Morupule A power station was completed in 2017. The newer Morupule B station has overcome some initial challenges and is now a more reliable power generator. Botswana has greatly-reduced its dependency on power imports from South Africa.

Incidents of power shedding (selected suspension of supply) in parts of the country reduced significantly in 2017. The risk to power-supply related business interruption to Karowe is low because the mining industry is considered a priority user. Karowe experienced no major power interruptions during 2017. Power security is also improved through the installation of power dip-proofing technology and a power stabiliser on the mill wastewater system.

We maintain good relations and communication with BPC so as to be informed of planned power reductions or interruptions. This improves our operational planning and reduces power-supply related business impacts.

The electricity supply to the mill accounts for the bulk of our indirect energy use. Electricity use decreased slightly in 2017 compared to 2016, explained by a reduction in ore volume milled.

We continue our program to improve energy efficiency. We monitor our energy usage, and with a power factor correction unit have improved our power factor, a measure of efficiency in AC systems, from 0.86 to 0.98. Our target is 0.99. We intend to 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. This increased by 24 percent in 2017 compared to 2016, principally explained by a 27% increase in total rock mined.

We report our normalized 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 for direct energy use (fossil fuels), reflecting the decrease in recovered carats and the proportionately greater volume of waste rock removed. Energy intensity relative to tonnes of ore milled, also shows an increase for direct energy, reflecting the increase in rock movements. The indirect energy intensity (electricity) also shows an increase.

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 some imports.

The trends in our GHG emissions and intensity consequently reflect those of our direct (Scope 1) and indirect (Scope 2) energy use.

Climate Change

In Botswana, climate change 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.

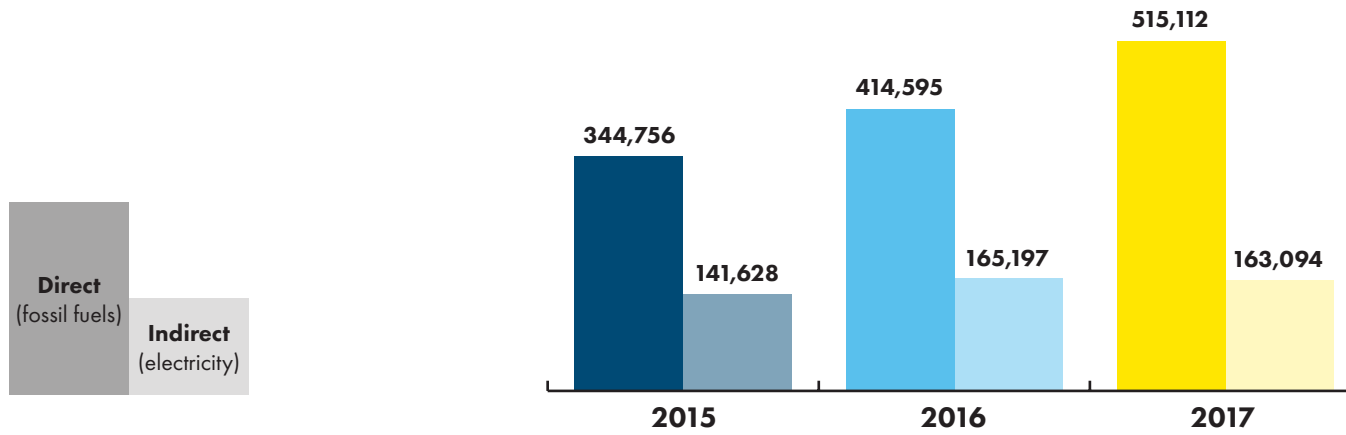
As part of the December 2015 Paris Agreement to combat Climate Change, Botswana communicated its intent to achieve an overall emissions reduction of 15 percent by 2030, using 2010 as the base year. Botswana also communicated it would be targeting mainly the energy and transport sectors for mitigation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

Projected effects of climate change in Botswana and its government's policy responses are not expected to materially impact our operations in the near to medium term. We will continue to monitor the emerging renewable energy landscape in Botswana as it may provide opportunities to reduce our carbon and GHG emission footprint.

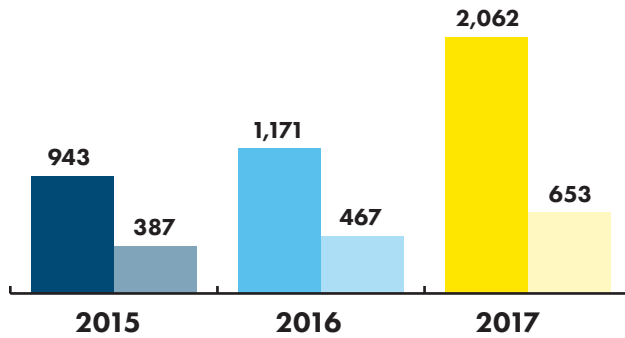


ENERGY USE

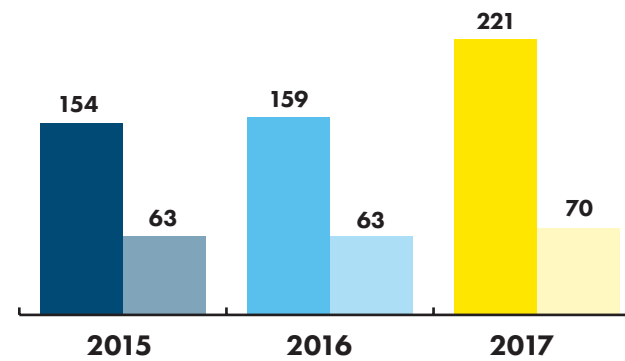
(GJ = gigajoule = 1,000 million joules)



Intensity
(GJ/1000 carats produced)

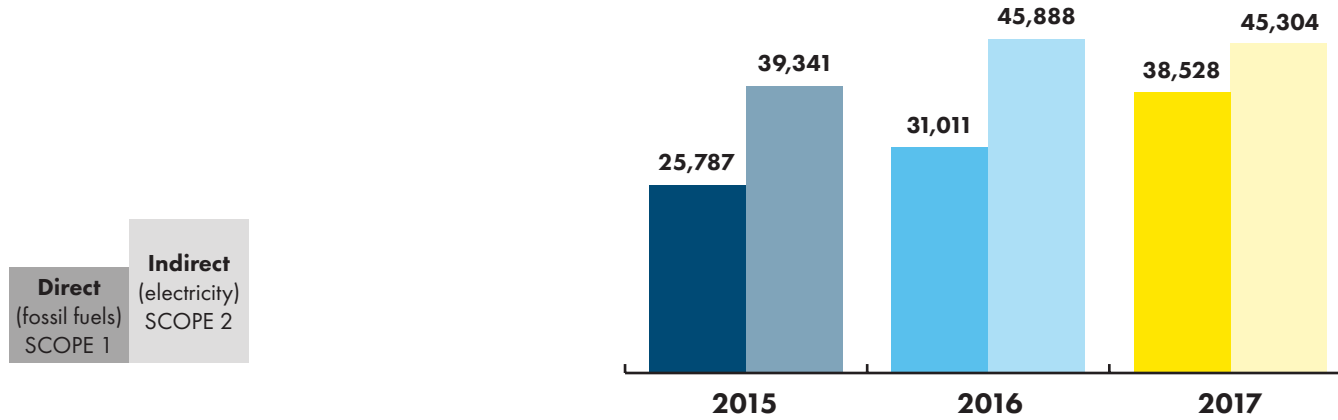


Intensity
(GJ/1000 tonnes ore milled)



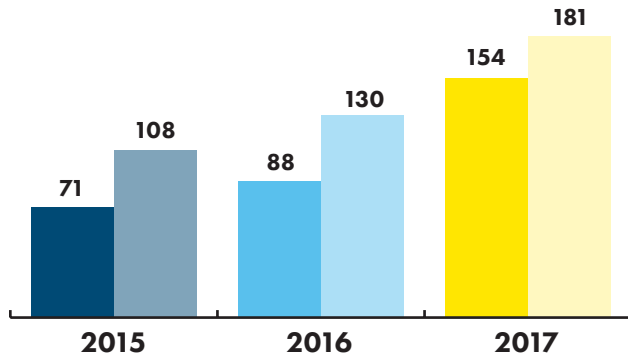
GREENHOUSE GAS EMISSIONS

(tCO₂e = tonnes of CO₂ equivalent)



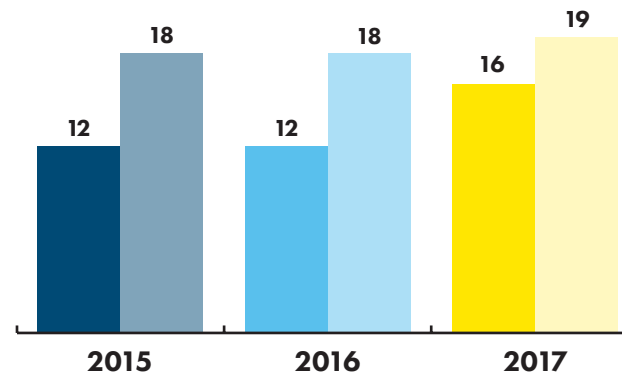
Intensity

(tCO₂e/1000 carats produced)



Intensity

(tCO₂e/1000 tonnes ore milled)



Water Use & Management

The local climate and absence of permanent surface fresh water bodies in the region mean water access is a critical issue for local communities, agricultural activity, for our operation and for other local mining operations. We employ a dedicated on-site hydrogeologist to carefully manage and monitor our water use and impacts. We issue a detailed annual groundwater monitoring report to the regulators.

We pump groundwater from fifteen boreholes located around the open mine pit to lower water levels and keep the mining excavation dry, stable and safe. This water, combined with a separate wellfield of six boreholes, provides all our water needs, for process water, dust suppression and drinking water. In 2017, dewatering represented approximately 70% of our water abstractions and the wellfield about 30%.

Our community relations office in Letlhakane and our offices in Gaborone and Vancouver, use small amounts of municipal water, but at volumes which are not material to our mining operation and, hence, not reflected in our water use data reported here.



The aquifers we pump from, at over 100 metres depth, are extensive across central Botswana, and also the water source for other mining operations and for Letlhakane municipal supply, the latter located at a minimum distance of approximately 10 km from the Karowe Mine. The capacity and depth of the aquifer means it is not impacted by low rainfall periods, such as the 2015/16 drought. Our water usage does not impact on farm wells, which all draw from a physically separate and shallow aquifer, as confirmed by our network of monitoring wells.

The natural groundwater quality is slightly brackish with total dissolved solids of approximately 2400 mg/l. For on-site drinking water and some recovery instruments, a reverse osmosis system treats the water prior to use.



The volume of water we abstract varies from year-to-year depending on a number of factors, including dewatering requirements, our water needs and hydrogeological conditions. Total abstraction decreased in 2017 by 24% compared to 2016. The water use intensity expressed as cubic metres per carat increased in 2017, a trend which reflects the reduction in recovered carats. The intensity expressed as cubic metres per tonne of ore milled is also lower. We recycle water back to the mill by decanting it from the slime dams, which in 2017 was equivalent to 13 percent of groundwater withdrawals. This is less than for 2016, but the potential to recycle varies from year-to-year with limited scope to influence it.

We do not expect our water requirements to exceed 2.5 million m³/year for the current operation compared to a permit limit of 8 million m³/year. We believe our water supply needs are secure for the long term.

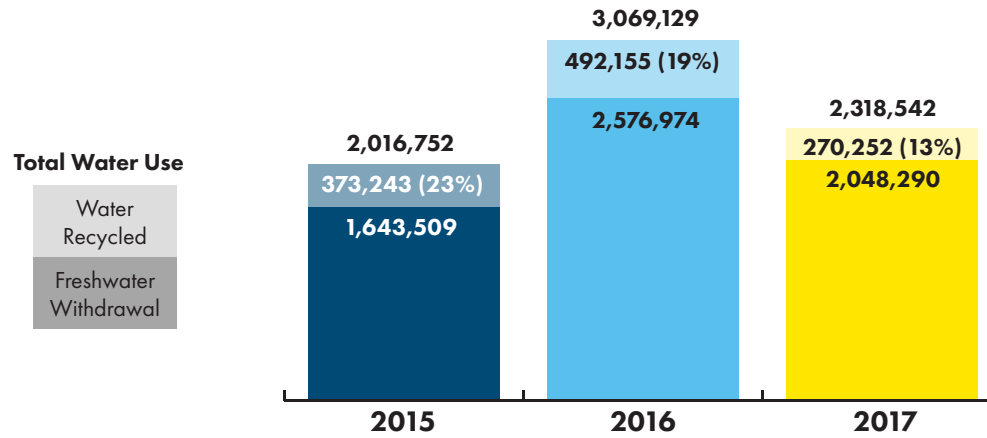
We received a single water-related complaint in 2017 from a farm located at a distance of 4 km from the mine. The farmer believed sand pumped from his well may have been due to our activities. On inspection, it was determined that the impact resulted from the farmer's own pump banging the sides of the well. This matter was amicably resolved.



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. 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.

We discharge no water or wastewater away from the site. Some losses occur as seepage and evaporation losses from the slime dams, and some is used for dust suppression on the access road.

WATER USE (m³/y)



Cubic metres extracted per carat produced



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

The landfill for non-hazardous non-recycled waste was completed in June 2014 in accordance with Botswana's guidelines, including installation of a protective membrane. A recent inspection informed us that minor improvements are required in order to fully close-off the licensing process, anticipated to be finalised in 2018.

Our wastewater 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, discharging no other effluent. Some solid waste from wastewater treatment is incinerated and some stored as fertiliser for future land restoration areas. A government inspection identified non-approved storage of wastewater effluent in an unlined pond. The regulator supports our intention to line the pond and use the treated effluent for irrigation of vegetation around the wastewater plant.

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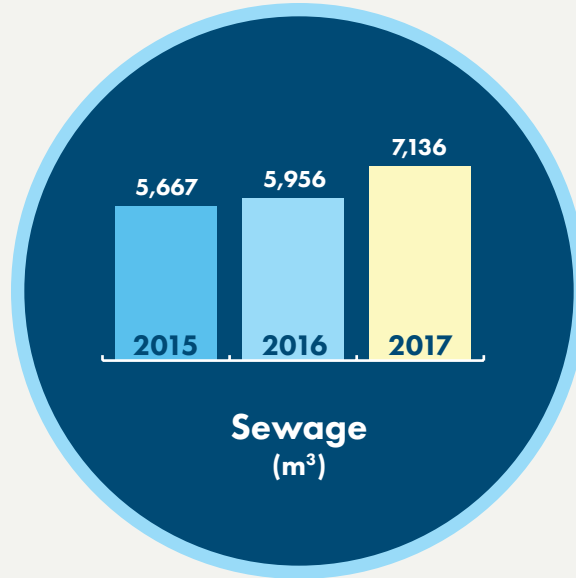
We have a small mobile waste incinerator, mainly for oil rags and for recovery area waste for security reasons, and a second incinerator outside of the recovery area. Our salvage yard is used to sort and store a range of waste materials, including scrap metal, light vehicle tyres, oil, grease and fluorescent 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.

We recorded 9,653 kg of incinerated hazardous waste, incinerated onsite, with the ashes disposed of at the onsite landfill. Our diamond cleaning facility in Gaborone used 219 litres of hazardous chemicals during 2017. Associated effluent is neutralised before discharge to the municipal industrial wastewater facility.

Disposal of large truck tyres from mining operations remains an unresolved issue for all mining operations in Botswana, including Karowe. The Botswana Chamber of Mines is exploring options with the government, which is likely to include some recycling. We will continue to store tyres onsite until a solution is agreed. Where feasible, tyres are re-treaded for extended life.

Our waste statistics show some increases and some decreases reflecting a greater variability of waste generation resulting from the changeover of the two main contractors and the readjustments of mobilisation. Waste oil volumes remain high compared to 2015, when the contractor at that time used waste oil as an additive in its blasting. Currently, waste oil is removed from site for recycling by an outsourced company. We also recorded 25,000 litres of water collected from washing equipment at a washbay, contaminated with traces of oil. It was removed from site by a licensed waste oil contractor. We did not measure this in previous years, but will continue to do so. Waste grease was not recorded in 2015 due to temporary on site storage (in bunded areas). General scrap metal waste remains relatively high, associated with a change of vehicles and machinery and some repairs, which we expect to reduce with new contractors fully mobilised.

WASTE DISPOSAL



Dust Fallout Management

Dust fallout concentrations observed during 2017 at 11 sites around Karowe and the access road were in compliance with the South African residential and non-residential area standards, the applicable benchmark for our operation. 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 and have dust filtering technology on our process machinery. No grievances concerning dust fallout were recorded during 2017.

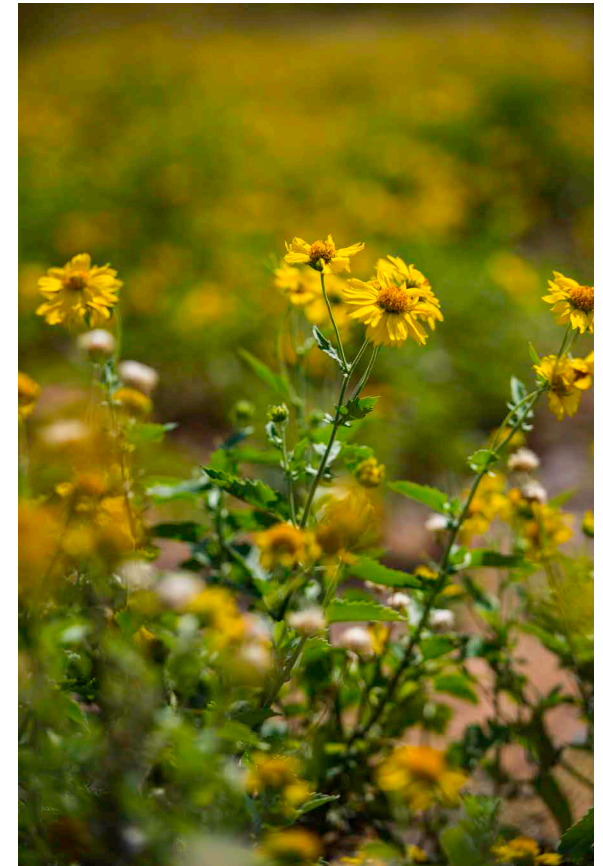


Biodiversity

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

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. Lions crossing the mine property were observed in 2017. Small animals include various snake species, lizards and tortoises. Bird life is not particularly diverse, but includes the protected cape vulture.

Mining operations result in vegetation and wildlife being disturbed and removed in the operational footprint areas. The environmental impact assessment concluded overall impact was low due to the absence of 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.



In accordance with our biodiversity action plan, we clear vegetation only when required, protect woody vegetation where practicable, and implement an invasive species eradication program. Our environmental management and mine closure plans state our intention to replace topsoil and re-vegetate disturbed areas using native plants.

Waste Rock & Tailings Management

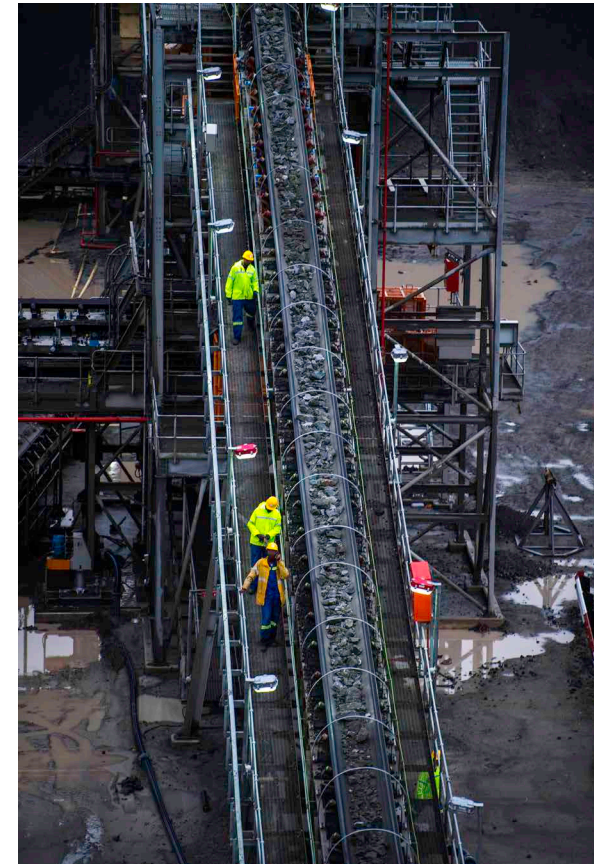
The open cast mining of our deposit requires the removal of overburden and waste rock to provide access to the diamond-bearing kimberlite ore. The volume of waste rock varies year-to-year depending on geology and progress of ore mining. We stripped 43 percent more overburden in 2017 compared to 2016, but mined 42 percent less ore (see Production Statistics graphs). This reflects the current evolution of the mine, which required greater removal of waste to access more ore at depth.

Rock remaining after ore processing comprises coarse and fine tailings materials, which we deposit in designated areas. Internal and external technical specialists routinely monitor the stability and safety of our fine tailings dams and tailings facilities, and we submit statutory reports to the government department of mines. No significant spillages of tailings were experienced during 2017. Minor spillages of oil from machinery, water leaks and sewage leaks are contained and cleaned up immediately after they are identified.

Business Continuity Management

We 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 using a tiered classification and reporting system. No major environmental incidents were recorded in 2017.



Land Management

The area of disturbed land continued to increase in 2017 due to ongoing execution of the mining plan, mainly due to planned growth of waste rock storage areas.

KAROWE LAND MANAGEMENT DATA (hectares)	2015	2016	2017
Total Amount of Land Owned (Licensed)	1,523	1,523	1,523
Total of Land Disturbed and Yet not Rehabilitated	422	465	486
Total Amount of Land Newly Disturbed Within the Reporting Period	34	43	21
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 were related to management and extension of our coarse rock tailings and fine tailings facilities, and activities associated with preparations for eventual mine closure and rehabilitation, including financial provisioning.

KEY ENVIRONMENTAL EXPENDITURES (US\$)	2015	2016	2017
Tailings and slimes management (capital)	1,505,397	2,275,052	1,435,998
Environmental Monitoring	43,206	69,460	51,687
Waste Management	82,926	107,979	132,233
Rehabilitation and mine closure	1,157,579	1,294,395	1,586,026
TOTAL	2,789,108	3,746,886	3,205,945

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 2017 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 \$24 million for a projected Life of Mine to 2026.

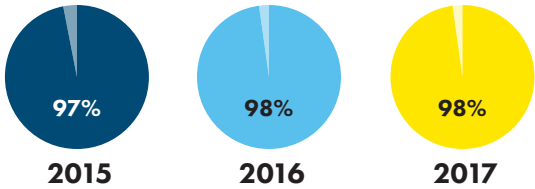
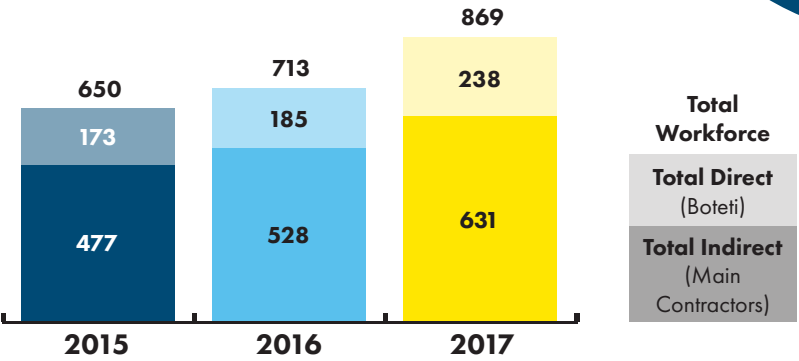
Our People

At the end of 2017, our workforce in Botswana – including mining and processing contractors – totalled 869 (peak in 2016: 713). Of the total workforce, 98 percent were Botswana nationals (unchanged from 2016).

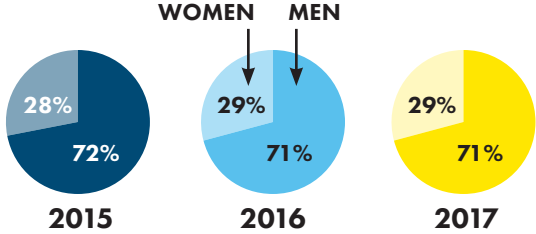
From late 2016 and into 2017, Karowe underwent a transition through the replacement of our two main contractors, for mining and processing. We offered voluntary compensation and incentive packages (totalling approximately US\$780,000) to the workers who were laid-off by our previous contractors. This contribution was designed to reduce hardship, and to retain good will and access to an experienced labour pool familiar with our operations. We are pleased our new mining and processing contractors were able to re-hire 54 and 72 percent respectively of previously employed workers.

We continue to transition our directly employed staff to permanent contracts, expecting to complete this process in 2018. The turnover rate of Boteti's employees during the reporting period was 5 percent (unchanged from 2016).

Although the proportion of women in the mining sector continues to be generally low, we apply an equal opportunities approach regarding gender. We provide conditions conducive for employment of women to succeed and develop on the same terms as men. The number of women employed directly by Boteti increased from 2015 to 2017 (49 in 2015, 54 in 2016 and 68 in 2017), although the percentage from 2016 to 2017 was stable at 29 percent.



Percentage of Botswana Nationals in Total Workforce



Percentage of Boteti Employees (Men to Women)



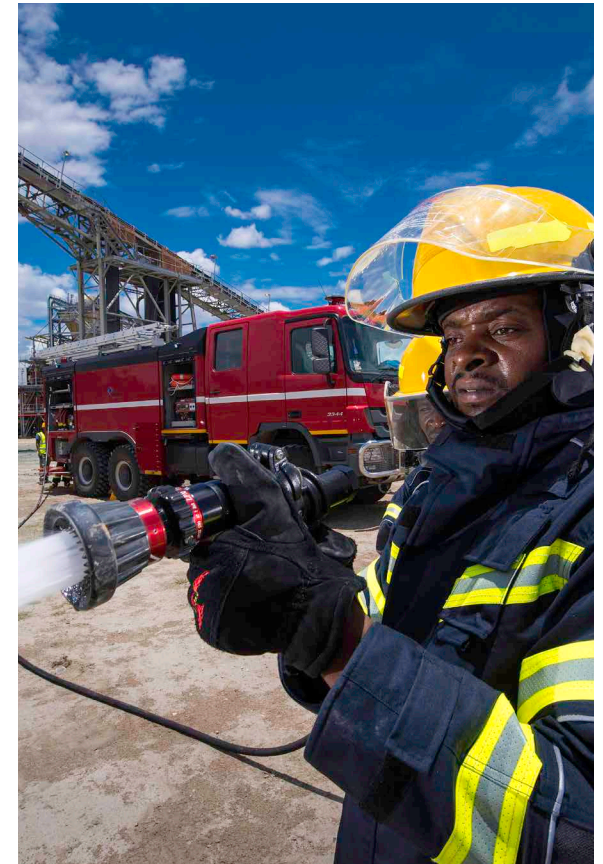
Our employee handbook provides guidance to employees and details of our expectations. The handbook covers issues such as disciplinary code, statutory labour requirements, labour case law, good labour practice, and our tiered grievance procedure.

We also offer training and development support to our employees, along with localisation and succession plans, when appropriate. All employees receive annual career development reviews as part of our performance management system. Exit interviews and occasional employee surveys support our efforts to better understand and improve employee satisfaction and staff retention.

Our permanent staff receive a housing allowance, medical aid subsidy, statutory required maternity leave, gratuity, and group life insurance. In place of a pension scheme, employees are paid a gratuity every three years. We also provide financial literacy training to employees. During the reporting period, we recorded two employee grievances, both resolved amicably.

Our employees were not unionized in 2017 and we place no restriction on freedom of association. We received a request to recognize a labour union at the Karowe Mine. Botswana labour legislation requires trade union recognition when at least one third of the workforce is eligible and members. Previously, we recognised the Botswana Mine Workers Union (BMWU) who represented about one third of the workforce of our previous mining contractor.

We maintain good workplace relationships and an open-door policy where employees are free to raise issues and discuss them with management. Our mining operations 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 2017.



Stakeholder & Community Engagement

We are committed to listening to our internal and external stakeholders, and endeavour to address their concerns and needs. Our structured Stakeholder Engagement Plan sets out our objectives, mechanisms, frequency and responsibilities for stakeholder engagement throughout the mining lifecycle at the Karowe Mine.

We also maintain a dedicated office in Letlhakane, the town nearest to our mining operation. Here, community members can receive information, present questions or concerns, or register their grievances.

On a rotating basis, we visit each year, six of the 18 villages across the surrounding district to participate in traditional Kgotla or community meetings. We conduct an annual workshop with the leadership of these villages to learn about their expectations and concerns, be accountable about our operations and social investments, and identify opportunities for improvement. Examples of such opportunities identified include a redirection of our micro-lending program from supporting private entrepreneurs towards community-trust owned beneficiaries, as detailed in the Community and Social Investment section later in this report. Selected stakeholder engagement activities conducted during the reporting period are highlighted below.



SELECTED ENGAGEMENTS AND OUTCOMES DURING 2017

ENGAGEMENT	PARTICIPANTS	OUTCOMES
Safety Stand Downs	Senior management, contractors and workforce	Raise awareness about critical importance of occupational safety and achieving zero harm
Ka Bokgoni Team Building	Aveng Moolman (mining contractor), senior management and workforce	Promote shared value, team-based learning and safety culture, and continuous improvement
'Take Wellness to Community' day in Khwee village	Boteti and District Health Management Team, over 800 attendees	Provided health screening services, such as dental, eye, HIV, diabetes and blood pressure testing
Fourth annual Karowe Mine Cycling Challenge (110 km road race)	Cycling clubs and association members from across Botswana	Promoting sports and wellness, volunteering, brand visibility
Standing against gender-based violence	Mr. Mchive, General Manager of Karowe Mine, was key note speaker at related Kgotla meeting in Letlhakane	Raising awareness and mobilizing donations
Farmers Day	Farmers surrounding the Karowe Mine lease area	Raise safety awareness, donated reflective tapes for donkey carts and vests for farmers, to improve visibility at night, reduce accident risk on mine access road
Road Safety Day	Local police, road safety volunteers, and Karowe General Manager, motorised and non-motorised road users	Awareness raising, screened vehicles for road safety, provided reflective tapes and vests for non-motorised vehicles
Disclosure under Canadian Extractive Sector Transparency Measures Act (ESTMA)	Governments, investors and transparency advocacy groups	Payment transparency in line with best industry practice

We also welcomed and provided mine site visits to elected and appointed government officials interested in learning more about our operations. We participated in welcoming to Letlhakane His Excellency, Lt. Gen. Dr. Seretse Khama Ian Khama, the President of Botswana.

In addition, our corporate communication policies and practices incorporate engagement and disclosure requirements associated with Lucara's public listings in Botswana, Canada and Sweden, as well as those related to the Canadian Extractive Sector Transparency Measures Act, also known as ESTMA. This act requires the public

disclosure of specified payments made to all governments. Our listing and ESTMA-related reporting are posted on Lucara's website.

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

OUR APPROACH TO STAKEHOLDER ENGAGEMENT

	HOW WE ENGAGE	KEY ISSUES	OUR RESPONSE
ADJACENT LAND USER	Ad hoc and structured in-person meetings, as required. Also part of structured community meetings	Access to groundwater, road safety and dust emissions	Installed monitoring wells, respond to concerns, road safety campaigns, road maintenance and dust suppression
LOCAL COMMUNITIES	Rotating and structured Kgotla community meetings annual evaluation workshops	Contribute to positive socio-economic development and impacts	Respectful engagement, support local hiring, assist with social investments and programmes
EMPLOYEES & UNIONS	Open door policy, formal engagement if unionised, grievance mechanism, events for employees & workforce, exit interviews & occasional survey	Remuneration, safety & wellness, training and development	Transition to contracting without term limits, strengthened safety programs, provide training opportunities
CONTRACTORS & SUPPLIERS	Arms-length negotiations, frequent management meetings with top tier contractors	Profitable & predictable business relationships and contracting, timely decisions and payments, safe working conditions	Follow good international practice, define performance and payment terms, support safety programs
DEVELOPMENT PARTNERS	Collaboratively developed partnerships and programs	Longer-term resourcing and support, realistic expectations	Adaptive and collaborative project and program management
CUSTOMERS & SOCIETY	Regular and exceptional tenders, membership or attendance of industry association and events, participate in certification schemes, publish sustainability reports	Responsible and reputable mining, product quality and provenance (no conflict diamonds), social license to operate	Adopt responsible and transparent mining practices, build & maintain good community relations, contribute to local socio-economic development, participate in Kimberly and RJC certification schemes, published assured sustainability and ESTMA reporting
SHAREHOLDERS & LENDERS	Investor relations program, analyst briefings, statutory disclosures, independent directors on the board	Good financial performance, good corporate governance, sustainable mining practice, reputable products, timely updates	Implement responsible and profitable mining, adopt good governance practices, participate in Kimberly and RJC certification, digital presence, technical and sustainability reporting
GOVERNMENTS & AGENCIES	Concessions, negotiations, permitting, monitoring, meetings, site visits	Ethical conduct and corporate governance, financial contributions, local socio-economic development, environmental stewardship	Ethical business conduct, audited financial statements, environmental & social impact assessments and management plans, disclosure of payments to governments, assured sustainability reporting

Grievance Mechanism

We maintain a formalised grievance mechanism to receive, log, acknowledge and address grievances which may be associated with our mining operations. Such grievances are assessed, and followed-up as appropriate.

In 2017, we recorded one grievance relating to sand problems in a shallow groundwater well at a farm near our mining operation. An inspection identified that the pump and its installation in the well was causing the impact. Once the pump was reinstalled, the groundwater well functioned normally and the grievance was considered amicably resolved.



YEAR	NUMBER	COMMENTS
2015	2	A soil pile dumped too close to a community was removed. Concerns about falling well-water levels investigated and determined to be unrelated to Karowe Mine. We assisted by supplementing water supply for livestock during investigation.
2016	0	No grievances recorded
2017	1	Sanding of a livestock farmer's shallow well was determined to be unrelated to the Karowe Mine. Resetting pump resolved sanding.

Community Investment & Support

Lucara's contributions to the development of our host community goes beyond creation of jobs, generating taxes and payment of royalties, described in the Economic Performance section. We also strengthen entrepreneurial and other important community infrastructure in collaboration with the Lundin Foundation and other development partners.

Lucara is a contributing partner to the Lundin Foundation, the community investment arm of the Lundin Group of Companies. We contributed CAN \$400,000 to the fund in 2017. Due to the planning and engagement processes involved, these funds are typically spent 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. We also made additional charitable donations of CAN \$110,000.

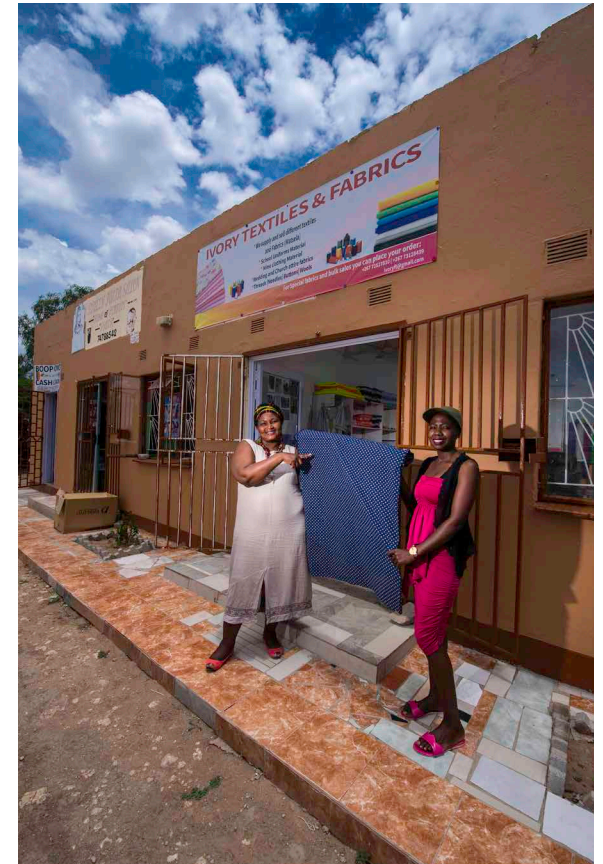
During the reporting period, we continued to support our flagship community investment projects, comprising the abattoir in Letlhakane and the Karowe Emerging Entrepreneur Fund (KEEF).

The upgraded Letlhakane Abattoir was built in partnership with the Central District Council and started operation in mid-2016. It forms a critical element in the locally important livestock value chain and associated livelihoods. We continued to assist the abattoir through technical assistance and training to improve its efficiency.

The KEEF program provided loans and advisory support to a series of micro-entrepreneurs. These ranged from goat farming, to brick manufacturing and various other trades, all creating new local job and business opportunities.

However, the Botswana government's plans to privatize abattoirs and insufficient loan repayments, which undermines KEEF's ability to support the next generation of beneficiaries will require us to adjust our strategy for 2018 and beyond.

A new initiative – the Karowe Village Initiatives (KVI) – will be implemented in 2018. KVI will comprise the development of three sustainable community-owned initiatives: a commercial goat farm in Khwee; a horticulture project in Mokubilo; and a hardware store in Mmadikola. It is envisioned these initiatives will be operated as community societies or trusts.



We are also contributing to the financing and development of the new Lesedi La Rona multi-purpose sports complex. The concept and feasibility studies were completed in 2017. The required land has been identified and detailed design and engineering are expected to commence in early 2018, with construction to commence in 2019.

In 2017, we continued to support best performing pupils in mathematics, science, English and extra curricula activities by donating approximately US\$1,800 in support of award ceremonies at seven junior secondary schools and one senior secondary school near our Karowe operation. Other donations in 2017 included a donation of a photocopying machine to the Boteti Sub-District education department, building a bus shelter, and various community events.



About the Lundin Foundation

The Lundin Foundation is a registered Canadian non-profit organization supported by the Lundin Group of Companies. The foundation works closely with contributing partners to create shared value, build more resilient communities, improve the management of, and revenue streams from, resource development. These initiatives are divided into four thematic areas:

- Strengthening resource governance
- Education and skills training
- Local procurement
- Economic diversification
- The Foundation is headquartered in Vancouver, Canada with regional offices in Chile, Ecuador, Ghana, Kenya and Botswana



Assurance Statement

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

Introduction

Ibis ESG Assurance (Pty) Ltd ("Ibis") was commissioned by Lucara Diamond Corporation ("Lucara") to conduct an independent third-party assurance engagement in relation to the sustainability information in Lucara's Sustainability Report (the Report) for the financial year that ended 31 December 2017.

Ibis is an independent licensed provider of sustainability assurance services. The assurance team was led by Petrus Gildenhuys with support from Adam Sutton-Pryce. Petrus is a Lead Certified Sustainability Assurance Practitioner (LCSAP) with 20 years' experience in sustainability performance measurement involving both advisory and assurance work.

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' Independence

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 with Lucara.

Ibis applies a strict independence policy and confirms its impartiality to Lucara in delivering the assurance engagement. This assurance engagement is the second consecutive assurance engagement conducted for 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 meets the following objectives:

- Adherence to the AA1000APS (2008) AccountAbility principles of inclusivity, materiality and responsiveness.
- Alignment to the GRI Standards in respect of the 'core' reporting requirements (<https://www.lucaradiamond.com/>)

- Fair reporting on a selection of operational Key Performance Indicators (KPIs) as related to the identified material issues listed below.
 - Total amount of water used and water use intensity (p 36)
 - Total direct and indirect energy used and energy use intensities (p 32)
 - Scope 1 and 2 GHG emissions and intensities (p 33)
 - Waste disposed in the different categories (p 38)
 - Lost Time Injury Frequency Rate (LTIFR) (p 21, 22)
 - Absenteeism rate (GRI index: https://www.lucaradiamond.com)
 - Percentage of Botswana nationals in workforce (p 42)
 - Directly employed staff turnover (p 42)
 - Community investments (p 26)

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
- 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
- A site visit to the Karowe operation, which involved testing, on a sample basis, the measurement, collection, aggregation and reporting of selected sustainability information
- Inspection and corroboration of supporting evidence to evaluate the data generation and reporting processes against the assurance criteria

- 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 procedures performed in a moderate assurance engagement vary in nature from, and are less in extent than for, a high assurance engagement. As a result, the level of assurance obtained for a moderate assurance engagement is lower than for high assurance as per AA1000AS (2008).

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
- 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. Evidence of community engagement observed points to inclusive community engagement that delivered tangible outcomes as presented in the Report.

In relation to the materiality principle

Lucara has maintained due process in mapping and disclosing its material sustainability issues in a transparent and balanced manner. The established materiality determination process was reperformed in 2017. The Report explains why the identified issues are material, where they are material and what the management approach and commitments related to them are.

In relation to the responsiveness principle

Lucara has engaged extensively with communities in key villages in the Boteti Sub-district during 2017 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.

In relation to GRI reporting

A review of the report against the GRI Standards indicated that Lucara effectively reports in accordance with the GRI Standards - "core" disclosure requirements

In relation to the selected KPIs

The general control environment for sustainability information has improved from the previous year and the formalisation of the reporting process has been initiated by management. Data inconsistencies that were identified during the audit were corrected. 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 (Pty) Ltd
Johannesburg, 6 June 2018



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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 Diamond Corporation.



Lucara Diamond

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