



Lucara Diamond Corp.

**Management Proxy Circular  
Annual and Special Meeting of Shareholders  
Friday, June 21, 2013**

*Dated May 9, 2013*

## TABLE OF CONTENTS

<b>SECTION 1 - VOTING INFORMATION</b> .....	<b>3</b>
GENERAL .....	3
MATTERS TO BE VOTED ON .....	4
HOW TO VOTE IF YOU ARE A REGISTERED SHAREHOLDER .....	4
HOW TO VOTE IF YOU ARE A NON-REGISTERED (OR BENEFICIAL) SHAREHOLDER .....	5
HOW TO VOTE IF YOU HOLD SHARES TRADING ON THE NASDAQ OMX FIRST NORTH EXCHANGE IN SWEDEN .....	6
HOW TO VOTE IF YOU HOLD BOTSWANA REGISTERED SHARES .....	6
WHO IS ENTITLED TO VOTE AND HOW THE VOTES ARE COUNTED .....	6
<b>SECTION 2 - BUSINESS OF THE MEETING</b> .....	<b>8</b>
FINANCIAL STATEMENTS .....	8
APPOINTMENT AND REMUNERATION OF AUDITORS .....	8
ELECTION OF DIRECTORS .....	8
CONFIRMATION AND APPROVAL OF ADVANCE NOTICE POLICY .....	12
AMENDMENTS TO STOCK OPTION PLAN .....	13
<b>SECTION 3 - CORPORATE GOVERNANCE</b> .....	<b>16</b>
STATEMENT OF CORPORATE GOVERNANCE PRACTICES .....	16
MANDATE OF THE BOARD OF DIRECTORS .....	16
INDEPENDENCE .....	16
SIZE OF BOARD .....	17
SERVING ON OTHER BOARDS .....	17
MEETING ATTENDANCE .....	18
POSITION DESCRIPTIONS .....	18
ASSESSMENT OF BOARD PERFORMANCE .....	19
ORIENTATION AND CONTINUING EDUCATION .....	19
NOMINATION OF DIRECTORS .....	20
DETERMINATION OF DIRECTORS COMPENSATION .....	20
DIRECTOR RETIREMENT POLICY .....	20
COMMITTEES OF THE BOARD .....	20
ETHICAL BUSINESS CONDUCT .....	22
SHAREHOLDER COMMUNICATIONS .....	23
<b>SECTION 4 - EXECUTIVE COMPENSATION</b> .....	<b>24</b>
2012 COMPENSATION DISCUSSION AND ANALYSIS .....	24
COMPENSATION OF NAMED EXECUTIVE OFFICERS .....	28
PERFORMANCE GRAPH .....	32
<b>SECTION 5 - COMPENSATION OF DIRECTORS</b> .....	<b>34</b>
<b>SECTION 6 - OTHER INFORMATION</b> .....	<b>36</b>
DIRECTORS' AND OFFICERS' LIABILITY INSURANCE .....	36
EQUITY COMPENSATION PLAN INFORMATION .....	36
INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS .....	38
MANAGEMENT CONTRACTS .....	38
INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS .....	38
ADDITIONAL INFORMATION .....	38
DIRECTORS APPROVAL .....	38
<b>APPENDIX A - ADVANCE NOTICE POLICY</b> .....	<b>I</b>
<b>APPENDIX B - STOCK OPTION PLAN</b> .....	<b>IV</b>
<b>APPENDIX C - BOARD OF DIRECTORS' MANDATE</b> .....	<b>X</b>

## **SECTION 1 - VOTING INFORMATION**

### **GENERAL**

You have received this Management Proxy Circular (the "Circular") because you owned shares of **Lucara Diamond Corp.** ("Lucara" or the "Corporation") on May 17, 2013, the record date. As a shareholder, you have the right to attend the annual and special meeting of shareholders on Friday, **June 21, 2013**, at the time and place in the accompanying notice (the "Meeting").

Unless otherwise stated, the information contained in this Circular is given as at May 9, 2013 and all dollar amounts are expressed as United States dollars.

The solicitation of proxies is being made primarily by mail, at Lucara's expense. Proxies may also be solicited personally or by telephone by directors, officers and employees of the Corporation.

**YOUR VOTE IS IMPORTANT – PLEASE READ THIS CIRCULAR CAREFULLY AND THEN VOTE YOUR COMMON SHARES, EITHER BY PROXY OR IN PERSON, AT THE MEETING.**

**The persons named on the proxy form are officers of Lucara. They will vote your Common Shares for you, unless you appoint someone else to be your proxyholder. You have the right to appoint another person to be your proxyholder. If you appoint someone else, he or she must be present at the Meeting to vote your Common Shares.**

If you plan on voting your Common Shares by proxy, our registrar and transfer agent, Computershare Trust Company of Canada ("**Computershare**"), **must receive your completed proxy form by 10:00 a.m. (PST) on June 19, 2013**, or, in the case of any adjournment or postponement of the Meeting, not less than 48 hours, (excluding Saturdays, Sundays and statutory holidays) prior to the time of the adjourned or postponed Meeting. Please follow the instructions below based on whether you are a Registered or Non-Registered (or Beneficial) Shareholder.

This circular is being sent to both Registered and Non-Registered (or Beneficial) Shareholders. The Corporation does not send proxy-related materials directly to Beneficial Shareholders and is not relying on the notice-and-access provisions of securities law for delivery to either Registered or Beneficial Shareholders. The Corporation will deliver proxy-related materials to nominees, custodians and fiduciaries and they will be asked to promptly forward them to Beneficial Shareholders. The Corporation has elected to pay for the delivery of the proxy-related materials to objecting Beneficial Shareholders.

#### ***Registered Shareholder***

You are a Registered Shareholder if your Common Shares are registered in your name and you have a share certificate.

#### ***Non-Registered (or Beneficial) Shareholder***

You are a Non-Registered (or Beneficial) Shareholder if your broker, investment dealer, bank, trust company, trustee, nominee or other intermediary holds your Common Shares for you. Most shareholders are Non-Registered (or Beneficial) Shareholders.

***If you are unsure if you are a Registered Shareholder or Non-Registered (or Beneficial) Shareholder, please contact Computershare at:***

Computershare Trust Company  
9th Floor, 100 University Avenue  
Toronto, Ontario M5J 2Y1.  
1-800-564-6253 (toll-free in Canada and U.S.)  
1-514-982-7555 (international)  
service@computershare.com

## **MATTERS TO BE VOTED ON**

At the Meeting, shareholders will be asked to vote on:

- the appointment of auditors and authorizing the directors to fix their remuneration;
- the election of six directors to the Board;
- the confirmation and approval of an advance notice policy;
- amendments to the Corporations' stock option plan; and
- such other matters as may properly come before the Meeting.

These matters are described further in SECTION 2- BUSINESS OF THE MEETING.

## **HOW TO VOTE IF YOU ARE A REGISTERED SHAREHOLDER**

### ***In Person***

You should identify yourself to the representative from Computershare before entering the Meeting to register your attendance at the Meeting.

### ***By Proxy***

1. By mail:

Complete, sign and date your proxy form and return it in the envelope provided. Please see below "***Completing the Proxy Form if you are a Registered Shareholder***" for more information.

2. By telephone:

Call 1-866-734-8683 (toll free in Canada and the United States) from a touch-tone telephone and follow the voting instructions. You will need your 15 digit control number which is noted on your proxy form. International holders wishing to vote by telephone can dial 312-588-4290 to place their vote. **If you vote by telephone, you cannot appoint anyone other than the appointees named on the proxy form as your proxyholder.**

3. On the internet:

Go to [www.investorvote.com](http://www.investorvote.com) and follow the instructions on the screen. You will need your 15 digit control number which is noted on your proxy form.

### ***Completing the Proxy Form if you are a Registered Shareholder***

Complete your voting instructions, sign and date your proxy form and return it in the envelope provided so that it is received before **10:00 a.m. (PST) on June 19, 2013** or, in the case of any adjournment or postponement of the Meeting, not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time set for the adjourned or postponed Meeting. **When you sign the proxy form (unless you appoint someone else, see below), you are authorizing the appointees, who are officers of Lucara, to vote your Common Shares for you at the Meeting. The Common Shares represented by a proxy form will be voted in favour or withheld from voting or voted against, as applicable, in accordance with your instructions on any ballot that may be called for at the Meeting. If you return your proxy form and do not indicate how you want to vote your Common Shares, your vote will be cast:**

- **FOR the election of each of the persons nominated for election as directors;**
- **FOR the appointment of Pricewaterhouse-Coopers LLP as auditors and authorizing the directors to fix their remuneration;**
- **FOR the confirmation and approval of the advance notice policy described below; and**
- **FOR the amendments to the Corporations' stock option plan described below.**

**Your proxyholder will also vote your Common Shares as he or she sees fit on any other matter, including amendments or variations of matters identified in this Circular or that may properly come before the Meeting**

**and in respect of which you are entitled to vote.** As at the date of this Circular, the Board and Management do not know of any amendments or variations to the proposed items of business or any additional matters which may be presented for consideration at the Meeting.

If you are appointing someone else to vote your Common Shares at the Meeting, insert the name of the person you are appointing as your proxyholder in the space provided. Your proxyholder does not have to be a shareholder. Make sure that the person you appoint is aware that he or she has been appointed and attends the Meeting. At the Meeting, the person you appoint should register with the Computershare representative at the registration table.

If you are an individual shareholder, you or your authorized attorney must sign the proxy form. If the shareholder is a corporation or other legal entity, an authorized officer or attorney must sign the proxy form.

If you need help completing your proxy form, please contact Computershare at the contact information listed above.

#### ***How to Change or Revoke your Vote – Registered Shareholders***

If you wish to change a vote you made by proxy:

- complete a proxy form that is dated later than the proxy form you are changing and deposit it with Computershare so that it is received before 10:00 a.m. (PST) on June 19, 2013 or, in the case of any adjournment or postponement of the Meeting, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time set for the adjourned or postponed Meeting; or
- vote again by telephone or on the internet before 10:00 a.m. (PST) on June 19, 2013 or, in the case of any adjournment or postponement of the Meeting, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time set for the adjourned or postponed Meeting.

You can revoke a vote you made by proxy by:

- voting in person at the Meeting;
- sending a notice of revocation in writing from you or your authorized attorney to the registered office of the Corporation, at Suite 2600, Three Bentall Centre, P.O. Box 49314, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, so that it is received by the close of business (PST time) on June 20, 2013 or, in the case of any adjournment or postponement of the Meeting, by the close of business on the last business day before the day of the adjourned or postponed Meeting;
- giving a notice of revocation in writing from you or your authorized attorney to the Chairman of the Meeting or the Corporate Secretary on the day of, but prior to the commencement of the Meeting; or
- in any other manner permitted by law.

#### **HOW TO VOTE IF YOU ARE A NON-REGISTERED (OR BENEFICIAL) SHAREHOLDER**

##### ***By Proxy***

Your intermediary (your broker, investment dealer, bank, trust company, trustee, nominee or other intermediary) is required to ask for your voting instructions before the Meeting. Please contact your intermediary if you did not receive a voting instruction form or proxy form together with this Circular.

##### ***In Person***

Lucara does not have access to the names or holdings of our Non-Registered (or Beneficial) shareholders. That

means you can only vote your Common Shares in person at the Meeting if you have previously appointed yourself as the proxyholder for your Common Shares by inserting your name in the space provided on the voting instruction form which you received from your intermediary and submitting it as directed on the form. Your voting instructions must be received in sufficient time to allow your voting instruction form to be received by Computershare by **10:00 a.m. (PST) on June 19, 2013** or, in the case of any adjournment or postponement of the Meeting, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time set for the adjourned or postponed Meeting. You should identify yourself to the representative from Computershare before entering the Meeting to register your attendance at the Meeting.

#### ***How to Change your Vote – Non-Registered (or Beneficial) Shareholders***

You may change your voting instructions given to an intermediary by notifying such intermediary in accordance with the intermediary's instructions.

#### **HOW TO VOTE IF YOU HOLD SHARES TRADING ON THE NASDAQ OMX FIRST NORTH EXCHANGE IN SWEDEN**

**The information in this section is of significance to shareholders who hold their securities (“Euroclear Registered Securities”) through Euroclear Sweden AB, which securities trade on the NASDAQ OMX First North Exchange.** Shareholders who hold Euroclear Registered Securities are not registered holders of voting securities for the purposes of voting at the Meeting. Instead, Euroclear Registered Securities are registered under CDS & Co., the registration name of the Canadian Depository for Securities. Holders of Euroclear Registered Securities will receive a voting instruction form (the “VIF”) by mail directly from Computershare AB (“Computershare Sweden”). Additional copies of the VIF, together with this Management Proxy Circular, can also be obtained from Computershare Sweden and are available on Lucara’s website ([www.lucaradiamond.com](http://www.lucaradiamond.com)). The VIF cannot be used to vote securities directly at the Meeting. Instead, the VIF must be completed and returned to Computershare Sweden, strictly in accordance with the instructions and deadlines that will be described in the instructions provided with the VIF.

#### **HOW TO VOTE IF YOU HOLD BOTSWANA REGISTERED SHARES**

**The information in this section is of significance to shareholders whose securities are listed on the Botswana Stock Exchange (“Botswana Registered Securities”).** The shareholder register is maintained by Corpserv Botswana. Shareholders who hold Botswana Registered Securities are not registered holders of voting securities for the purposes of voting at the Meeting. Instead, Botswana Registered Securities will receive a proxy form (the “Botswana Proxy”) by mail directly from Corpserv Botswana. Additional copies of the Botswana Proxy, together with this Management Proxy Circular, can also be obtained from Corpserv Botswana and are available on Lucara’s website ([www.lucaradiamond.com](http://www.lucaradiamond.com)). The Botswana Proxy cannot be used to vote securities directly at the Meeting. Instead, the Botswana Proxy must be completed and returned to Corpserv Botswana, strictly in accordance with the instructions and deadlines that will be described in the instructions provided with the Botswana Proxy.

#### **WHO IS ENTITLED TO VOTE AND HOW THE VOTES ARE COUNTED**

Each shareholder is entitled to one vote for each Common Share held as of the record date, May 17, 2013, on all matters at the Meeting. As of May 17, 2013, there are 376,292,749 issued and outstanding Common Shares.

Computershare counts and tabulates the votes. It does this independently of Lucara to make sure that the votes of individual shareholders are confidential. Computershare refers proxy forms to Lucara only when:

- it is clear that a shareholder wants to communicate with management;
- the validity of the proxy is in question; or
- the law requires it.

#### ***Principal Holders of Common Shares***

The following table lists persons who, to the knowledge of the directors and senior officers of Lucara, beneficially own or exercise control or direction over Common Shares carrying more than 10% of the voting rights attached to all Common Shares:

Name and Address	Number of Common Shares	Percentage
Lorito Holdings S.à.r.l. ("Lorito") <sup>(1)</sup> Luxembourg	32,700,000	8.7%
Zebra Holdings and Investments S.à.r.l. ("Zebra") <sup>(1)</sup> Luxembourg	27,300,000	7.2%

<sup>(1)</sup> Lorito and Zebra, who report their security holdings as joint actors, are private corporations owned by a trust whose settler is the Estate of Adolf H. Lundin. Together, Lorito and Zebra hold a total of 60,000,000 Common Shares, which represents approximately 15.9% of the current outstanding Common Shares.

## **SECTION 2 - BUSINESS OF THE MEETING**

### **FINANCIAL STATEMENTS**

The audited consolidated financial statements of the Corporation for the year ended December 31, 2012 have been provided to shareholders who requested them and are available on Lucara's website at [www.lucaradiamond.com](http://www.lucaradiamond.com) or at SEDAR at [www.sedar.com](http://www.sedar.com).

Management will discuss these consolidated financial results at the Meeting. No vote of shareholders is required with respect to this item of business.

### **APPOINTMENT AND REMUNERATION OF AUDITORS**

The Board of Directors recommend the re-appointment of PricewaterhouseCoopers LLP Chartered Accountants ("PwC"), Vancouver, British Columbia, as auditors of the Corporation to hold office until the termination of the next annual meeting of the shareholders.

As in past years, it is proposed that the remuneration to be paid to the auditors be determined by the Board of Directors. For further information on the external auditors including fees paid to the auditors in 2011 and 2012, please refer to page 21.

You may either vote for reappointing PwC as Lucara's auditor to hold office until the end of the next annual meeting and authorizing the directors to fix the auditors remuneration or you can withhold your vote. Unless otherwise instructed, the named proxyholders will vote **FOR** reappointing PwC and authorizing the directors to fix PwC's remuneration.

### **ELECTION OF DIRECTORS**

#### *Nominees and Number of Directors*

The term of office of each of the present directors expires at the Meeting. The nominees for directors include each of the existing directors of the Corporation other than Dr. John Gurney, who is not seeking re-election. The Board of Directors is recommending that six directors be elected at the Meeting. The Board has assessed the skills and experience that the six directors standing for election offer and is satisfied the nominees meet the Board's requirements. Each director elected at the Meeting will serve as a director until the next annual meeting unless he or she resigns or is otherwise removed from office earlier.

You may either vote for setting the number of directors at 6 or you can vote against. Unless otherwise instructed, the named proxyholders will vote **FOR** the number of directors at 6.

You may either vote for the election of each of the below nominees or you can withhold your vote. Unless otherwise instructed, the named proxyholders will vote **FOR** the election of the below named nominees. If any proposed nominee is unable to serve as a director or withdraws his or her name, the named proxyholders reserve the right to nominate and vote for another individual in their discretion.

The Board has adopted a policy on Majority Voting that provides that the Chair of the Board will ensure that the number of shares voted in favour or withheld from voting for each director nominee is recorded and promptly made public after the meeting. If any nominee for director receives, from the shares voted at the meeting in person or by proxy, a greater number of shares withheld than shares voted in favour of his or her election, the director will be expected to promptly tender his or her resignation to the Chair of the Board following the meeting, to take effect upon acceptance by the Board. The Corporate Governance and Nominating Committee will expeditiously consider the director's offer to resign and make a recommendation to the Board whether to accept the offer. In making this recommendation, the Corporate Governance and Nominating Committee may consider such extenuating circumstances as it deems appropriate including without limitation circumstances relating to the composition of the Board or the voting results. Within 90 days of the shareholders' meeting, the Board will make a final decision concerning the acceptance of the director's resignation and announce that decision by way of a news release. Any director who tenders his or her resignation will not participate in the deliberations of the Board or any

of its committees pertaining to the resignation. The policy applies only to uncontested elections, where the number of nominees as director is equal to the number of directors to be elected. If the director fails to tender his or her resignation as contemplated in the policy, the Board will not re-nominate the director. Subject to any corporate law restrictions, where the Board accepts the offer of resignation of a director and that director resigns, the Board may exercise its discretion with respect to the resulting vacancy and may, without limitation, leave the resultant vacancy unfilled until the next annual meeting of shareholders, fill the vacancy through the appointment of a new director whom the Board considers to merit the confidence of the shareholders, or call a special meeting of shareholders to elect a new nominee to fill the vacant position.

All six nominees were elected to their present term by a vote of shareholders at a meeting which was accompanied by a management proxy circular.

Information regarding each of the six proposed nominees, as at May 9, 2013, is set out below. For each nominee the information provided includes:

- a brief biography, age and country of residence
- date first appointed to the Board
- committee membership
- securities held

Further information on the proposed nominees is also found in this circular, please see page 18 for board attendance records, page 34 for director compensation received, page 17 for memberships on other public boards and page 16 for independence status.

Name and Jurisdiction of Residence	Current Occupation/Age/Biography	Served as director since	Number of voting securities owned (directly or indirectly) or controlled
<b>CLARK, Richard P.</b> British Columbia, Canada	<b>Occupation:</b> President & CEO, Sirocco Mining Inc. (resource company)  <b>Age:</b> 55  <b>Biography:</b> Mr. Clark is a lawyer, with a geological background, who practiced mining and securities law in British Columbia from 1987 to 1993. For the past 11 years Mr. Clark has been a senior executive with the Lundin Group of Companies. In 2004 he became President and CEO of Red Back and under his leadership Red Back grew into one of the top performing gold companies which ultimately resulted in the sale of the company to Kinross Gold in 2010.	February 19, 2010	NIL

<p><b>CONIBEAR, Paul K.</b> British Columbia, Canada</p>	<p><b>Occupation:</b> President &amp; CEO Lundin Mining Corp. (resource company)</p> <p><b>Age:</b> 55</p> <p><b>Biography:</b> Mr. Conibear has over 27 years of experience in mining projects in several African countries, North America, and a number of South American countries. His background includes 18 years of project and construction management across a diverse range of minerals projects encompassing base and precious metal, coal, uranium and potash investments. For the last 11 years he has held public company executive management and director's positions with the Lundin group of companies, most notably serving for several years as President and CEO of Tenke Mining Corp. where he was instrumental in progressing the world class Tenke Fungurume copper/cobalt project towards its current position as a major mining operation in central Africa.</p>	<p>April 5, 2007</p>	<p>566,000</p>
<p><b>EDGAR, Brian D.</b> British Columbia, Canada</p>	<p><b>Occupation:</b> Chairman of Silver Bull Resources Inc. (resource company)</p> <p><b>Age:</b> 63</p> <p><b>Biography:</b> Mr. Brian D. Edgar has been active in public markets for over 35 years. A graduate of the University of British Columbia law school, Mr. Edgar practiced corporate and securities law in Vancouver for 16 years before retiring in 1992 to establish Rand Edgar Investment Corp., a private investment company. Mr. Edgar serves on the Board of a number of public companies.</p>	<p>April 5, 2007</p>	<p>300,000</p>
<p><b>LAMB, William</b> British Columbia, Canada</p>	<p><b>Occupation:</b> President &amp; CEO of the Corporation</p> <p><b>Age:</b> 42</p> <p><b>Biography:</b> Mr. Lamb has over 21 years experience in the mining operations and project development industry. Having obtained a NHD in Extraction Metallurgy for the Technicon of the Witwatersrand, he worked for Rand Mines, gaining production experience in the gold, platinum, chrome and coal sectors. In 1994 Mr. Lamb joined De Beers working as a research officer in the Johannesburg based research laboratories. Three years later he joined Kvaerner Metals as their lead process design engineer, responsible for all metallurgical design aspects of the non-ferrous division. After focusing on heavy mineral concentration design, Mr. Lamb returned to De Beers as their Dense Medium Service Specialist. Mr. Lamb transferred to De Beers Canada Inc. in 2002 as their Metallurgical Superintendent, responsible for process design and certain project management aspects of the Canadian projects. In 2005 Mr. Lamb took up the role of Process Manager for the Victor mine in Northern Ontario. After completing an MBA through the Edinburgh Business School, Mr. Lamb joined the Lundin Group in May 2008 as the General Manager for Lucara.</p>	<p>February 19, 2010</p>	<p>450,000</p>

<p><b>LUNDIN, Lukas</b> Geneva, Switzerland</p>	<p><b>Occupation:</b> Chair of the Board of the Corporation and Chair of a number of resource companies.</p> <p><b>Age:</b> 54</p> <p><b>Biography:</b> Mr. Lundin is known for recognizing value and superior global investment opportunities in the natural resource sector. His pursuit of properties around the world has resulted in numerous resource discoveries, including the multi-million ounce Veladero gold discovery. Mr. Lundin has also led several companies through highly profitable business acquisitions and mergers such as Lundin Mining's \$3.3 billion merger with EuroZinc Mining, the \$2 billion sale of Tanganyika Oil Company Ltd. and the sale of Red Back Mining Inc. Mr. Lundin is a graduate of the New Mexico Institute of Mining and Technology. He currently sits on the Board of a number of publicly traded companies.</p>	<p>April 5, 2007</p>	<p>3,915,000</p>
<p><b>THOMAS, Eira</b> British Columbia, Canada</p>	<p><b>Occupation:</b> President &amp; Chief Executive Officer, Kaminak Gold Corporation</p> <p><b>Age:</b> 44</p> <p><b>Biography:</b> Eira Thomas is a Canadian geologist with over twenty years of experience in the Canadian diamond business, including her previous roles as vice president of Aber Resources, now Dominion Diamond Corp., and as founder and CEO of Stornoway Diamond Corp. Currently, Ms. Thomas is a director of Suncor Energy Inc., Dundee Precious Metals Inc. and Kaminak Gold Corporation. She also serves on the board of the Prospectors and Developers Association of Canada.</p>	<p>August 4, 2009</p>	<p>8,700,000</p>

The following table sets out the current membership of the proposed Director nominees on the Corporation's Committees:

Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Safety, Health, Environment and Community Relations Committee
Paul K. Conibear (Chair) Brian D. Edgar Eira Thomas	Paul K. Conibear (Chair) Brian D. Edgar Richard Clark	Brian D. Edgar (Chair) Eira Thomas Paul K. Conibear	Eira Thomas (Chair) Richard Clark William Lamb

Corporate Cease Trade Orders or Bankruptcies

Except as noted below, to the best of management's knowledge, no proposed director is, or has been within the last 10 years of the date hereof, a director or executive officer of any company that, while that person was acting in that capacity:

- a) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Edgar was a director of New West Energy Services Inc. (NEW-TSX-V) when, on September 5, 2006, a cease trade order was issued against that company by the British Columbia Securities Commission for failure to file its

financial statements within the prescribed time. The default was rectified and the order was rescinded on November 9, 2006.

#### Individual Bankruptcies

To the best of management's knowledge, no director of the Corporation has, within the ten years prior to the date of this Circular, become bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

#### Penalties or Sanctions

To the best of management's knowledge, no person proposed for election as a director of the Corporation has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has had any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for the proposed director.

### **CONFIRMATION AND APPROVAL OF ADVANCE NOTICE POLICY**

#### Background

On March 21, 2013, the Board of Directors adopted an advance notice policy (the "**Advance Notice Policy**") with immediate effect, a copy of which is attached to this Circular as Appendix A. In order for the Advance Notice Policy to remain in effect following termination of the Meeting, the Advance Notice Policy must be ratified, confirmed and approved at the Meeting, as set forth more fully below.

#### Purpose of the Advance Notice Policy

The directors of the Corporation are committed to: (i) facilitating an orderly and efficient annual general or, where the need arises, special meeting, process; (ii) ensuring that all shareholders receive adequate notice of the director nominations and sufficient information with respect to all nominees; and (iii) allowing shareholders to register an informed vote having been afforded reasonable time for appropriate deliberation. The purpose of an Advance Notice Policy is to provide shareholders, directors and management of the Corporation with a clear framework for nominating directors. The Advance Notice Policy fixes a deadline by which holders of record of common shares of the Corporation must submit director nominations to the Corporation prior to any annual or special meeting of shareholders and sets forth the information that a shareholder must include in the notice to the Corporation for the proposed director nominee to be eligible for election at any annual or special meeting of shareholders.

#### Terms of the Advance Notice Policy

The following information is a brief description of the Advance Notice Policy, the full text of the Advance Notice Policy is in Appendix A. Pursuant to the policy, advance notice is required to be given to the Corporation in circumstances where nominations of persons for election to the Board are made by shareholders of the Corporation. In the case of an annual meeting of shareholders, notice to the Corporation must be made not less than 30 days nor more than 65 days prior to the date of the annual meeting. However, in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement. In the case of a special meeting of shareholders (which is not also an annual meeting) notice to the Corporation must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

#### Confirmation and Approval of Advance Notice Policy by Shareholders

If the Advance Notice Policy is approved at the Meeting, the Advance Notice Policy will continue to be effective and in full force and effect in accordance with its terms and conditions beyond the termination of the Meeting. Thereafter, the Advance Notice Policy will be subject to an annual review by the board of directors of the Corporation, and will be updated to the extent needed to reflect changes required by securities regulatory agencies or stock exchanges, or so as to meet industry standards. If the Advance Notice Policy is not approved at

the Meeting, the Advance Notice Policy will terminate and be of no further force or effect from and after the termination of the Meeting.

At the Meeting, you will be asked to approve the following by ordinary resolution (the “**Advance Notice Policy Resolution**”):

*“BE IT RESOLVED, as an ordinary resolution of the Shareholders of the Corporation, that:*

- 1. The Corporation’s Advance Notice Policy (the “Advance Notice Policy”) as set forth in Appendix A to the Corporation’s Circular dated May 9, 2013 be and is hereby ratified, confirmed and approved;*
- 2. The board of directors of the Corporation be authorized in its discretion to administer the Advance Notice Policy and amend or modify the Advance Notice Policy in accordance with its terms and conditions to the extent needed to reflect changes required by securities regulatory agencies or stock exchanges or so as to meet industry standards; and*
- 3. Any one director or officer of the Corporation be and is hereby authorized and directed to do all such acts and things and to execute and deliver, under the corporate seal of the Corporation or otherwise, all such deeds, documents, instruments and assurances as in his or her opinion may be necessary or desirable to give effect to the foregoing resolutions.”*

You may either vote for approval of the Advance Notice Policy Resolution or you can vote against. Unless otherwise instructed, the named proxyholders will vote **FOR** the approval of the Advance Notice Policy Resolution.

#### **AMENDMENTS TO STOCK OPTION PLAN**

##### Background

The Corporation’s 10% Rolling Incentive Stock Option Plan (the “Stock Option Plan”) provides participants with an incentive to enhance shareholder values by providing a form of compensation that is tied to increases in the market value of the Corporation’s shares. As of May 9, 2013 there were:

- 2,365,000 options outstanding under the Stock Option Plan which represents 0.6% of the shares outstanding as at such date; and
- 35,264,275 options available for grant under the Stock Option Plan which represents 9.4% of shares outstanding as at such date.

Further details on the Stock Option Plan can be found on pages 36 and 37 of this Circular. On May 9, 2013, the Board of Directors approved amendments to the Stock Option Plan, subject to shareholder and TSX approval. More specifically these amendments are to:

- revise the Stock Option Plan to delete requirements that were applicable while the Corporation was listed on the TSX-V including deleting certain restrictions on options granted to consultants or persons providing IR services and deleting or amending certain terms
- extend the exercise period for option holders otherwise prevented from exercising options due to blackout periods as described more fully below
- adopt a new amendment provision

#### Delete TSX-V Requirements

Requirements and terms that were applicable while the Corporation was listed on the TSX-V that are no longer required include a 2% cap on options to consultants or persons providing IR services, specific option termination provisions applicable to IR providers, a limit of 5% instead of 10% on options to be granted to a participant in a one year period, the terms “Consultant Company”, Investor Relations Activities”, “Discounted Market Price” and “Management Company Employee” and provisions in the definition of “Consultant” and the “Effect of Change of Control” sections. The Board recommends the Stock Option Plan be updated to reflect such changes and deletions.

#### Changes to Terms of Options

As part of the Corporation’s corporate governance practices, the Corporation self-imposes trading restrictions from time to time (each such period referred to as a “Black-Out Period”), preventing officers, directors and employees from trading shares of the Corporation. The Board recommends amending the Plan such that, should the expiry date of an option fall on a date that is within a Black-Out Period or within 48 hours after, the expiry date will be extended to the tenth day following the end of a Black-Out Period.

#### Amendment Provision

The Board recommends adopting a revised amendment provision which clearly sets out when shareholder approval is required. The full Stock Option Plan as amended can be found in Appendix B, including Section 3.10 which is the revised amendment provision.

#### Approval by Shareholders

At the Meeting, the shareholders will be asked to approve the following by ordinary resolution (the “**Stock Option Plan Amendment Resolution**”):

WHEREAS the Board of Directors of the Corporation approved on May 9, 2013 certain amendments to the stock option plan of the Corporation (the “Stock Option Plan”) as described in this Circular; and

WHEREAS the rules of the TSX provide that all unallocated options, rights or other entitlements under a security based compensation arrangement which does not have a fixed number of maximum securities issuable, be approved every three years;

*“BE IT RESOLVED, as an ordinary resolution of the Shareholders of the Corporation, that:*

1. *The Stock Option Plan is hereby amended as set forth in Appendix B. Such amendments:*
  - (i) *delete requirements and terms that were applicable while the Corporation was listed on the TSX-V that are no longer required;*
  - (ii) *extend the exercise period by a further ten business days in the event an optionholder is prevented from exercising options due to a blackout period; and*
  - (iii) *adopt the amendment provision as set out in Section 3.10;*
2. *Unallocated options under the Stock Option Plan be and are hereby approved until June 21, 2016;*
3. *The Corporation has the ability to continue granting options under the Stock Option Plan until June 21, 2016, which is the date that is three (3) years from the date of the shareholder meeting at which shareholder approval is being sought; and*
4. *Any one director or officer of the Corporation be and is hereby authorized and directed to do all such acts and things and to execute and deliver, under the corporate seal of the Corporation or otherwise, all such deeds, documents, instruments and assurances as in his or her opinion may be necessary or desirable to give effect to the foregoing resolutions.”*

You may either vote for approval of the Amendments to Stock Option Resolution or you can vote against. Unless otherwise instructed, the named proxyholders will vote **FOR** the approval of the Amendments to Stock Option

Resolution. If the Resolution is not approved at the Meeting, allocated stock options will continue unaffected but the Corporation will not be able to make any further grants of options.

## **SECTION 3 - CORPORATE GOVERNANCE**

### **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

Lucara is committed to sound corporate governance. The directors believe it is important for the successful operation of the business. The following provides information about the Corporation's Board and sets out governance practices now in force.

### **MANDATE OF THE BOARD OF DIRECTORS**

The Board has a formal mandate (see Appendix C) that lists specific responsibilities including:

- Approve the strategic direction of the Corporation
- Identify principal risks of the Corporation's business and ensure implementation of appropriate risk management systems
- Ensure the corporation has management of the highest caliber
- Oversee Lucara's communication policy with its shareholders and the public generally

The Board discharges its responsibilities either directly or through its committees.

#### **Strategic Planning**

The board works with management to develop the Corporation's strategic direction. The strategic planning process involves the development of a long term (5 year) strategic plan, the establishment of annual budgets and two-year financial plans, and an annual review of the strategic plan. Management is responsible for preparing information in these areas and presenting it to the board for discussion and approval.

In addition, the board on an ongoing basis throughout the year discusses with management strategic issues including competitive developments and corporate opportunities.

#### **Risk Oversight**

The Board implemented a new risk management process in 2012. At each quarterly meeting of the Board, a risk report is reviewed and monitored by the Board which includes:

- identification and description of risks
- the impact of the identified risks
- classification of the risk as high/medium/low
- identification of the "owner" of the risk i.e. the employee who owns the risk and is responsible for implementing controls and developing ways to mitigate the risk

### **INDEPENDENCE**

The majority of Lucara's current directors and its director nominees are independent.

#### **Assessing Independence of Directors**

The board is responsible for determining whether a director is independent. It relies on the criteria set by the Canadian Securities Administrators in National Instrument 52-110 Audit Committees and National Policy 58-201-Corporate Governance Guidelines.

The board has reviewed the nominated directors and decided that Lukas Lundin and William Lamb are not independent for the following reasons:

- Mr. Lamb is Lucara's current President and CEO
- Mr. Lundin, is Lucara's Chairman and as Chairman is involved with the Corporation on corporate development opportunities which could be regarded as having an indirect material relationship.

### Structures and Processes to Facilitate Independence from Management

The Board believes that the following structures and processes facilitate the functioning of the Board independently of management:

- *Meetings of Independent Directors and Without Management*  
To facilitate open and candid discussion among directors, a practice of holding two “in camera” sessions or meetings is normally followed for board meetings. The first in camera session is without management present and the second is only with independent directors present. The in-camera meetings of independent directors are presided over by the Lead Director. In addition, the Audit Committee regularly holds sessions with the Corporation’s external auditors without management present to discuss the audit and cooperation from management.
- *Chair and Lead Director*  
The Chair of the Board, Mr. Lundin, is separate from the CEO. As noted above, it has been determined by the Board that he is not independent. On the recommendation of the Corporate Governance and Nominating Committee, the board has appointed a Lead Director, Mr. Conibear, to facilitate the independent function of the Board. In the position description for the Chair setting out the responsibilities of the Chair, it is specified that if the Chair is not independent that such responsibilities will be carried out by the Lead Director. In addition, the Lead Director provides leadership for the Board’s independent directors.
- *Committee Membership*  
All of the members of the following committees are composed entirely of independent directors: Audit Committee, Corporate Governance and Nominating Committee, and Compensation Committee.
- *Independent Advisor*  
Individual directors may, with the authorization of the Chairman or the Corporate Governance and Nominating Committee, engage independent advisors at the expense of the Corporation.

### **SIZE OF BOARD**

The Corporate Governance and Nominating Committee on an annual basis considers the size of the Board. If it believes changes are warranted it makes a recommendation to the Board. This year it has recommended to the Board, and the Board concurs, that the board be composed of 6 directors with 4 of these directors being independent. It was agreed by the Board that this size is small enough to facilitate open dialogue among directors and effective decision making but also has a sufficient number of directors to ensure the Board has directors with the appropriate experience and skills to fulfill its responsibilities.

### **SERVING ON OTHER BOARDS**

Lucara’s directors do not serve on the boards of its competitors. Many do serve on other mining public company boards which assists these directors in their performance of their duties to the Corporation as these other mining companies have similar business, regulatory and social issues as Lucara. The following table sets out the public company directorships held by the nominees for this year’s election of directors:

<b>Name of Director</b>	<b>Public Company Board Membership</b>
<b>Paul K. Conibear</b>	Lundin Mining Corporation. (TSX/OMX Nordic); Sirocco Mining Inc. (TSX); NGEx Resources Inc. (TSX)
<b>Brian D. Edgar</b>	ShaMaran Petroleum Ltd. (TSX-V/OMX First North); Denison Mines Corp. (TSX/NYSE MKT); Silver Bull Resources Inc. (TSX/NYSE MKT); Lundin Mining Corporation (TSX/OMX Nordic); Black Pearl Resources Inc. (TSX/OMX Nordic)
<b>Lukas H. Lundin</b>	Lundin Mining Corporation. (TSX/OMX Nordic); Sirocco Mining Inc. (TSX); NGEx Resources Inc. (TSX); Fortress Minerals Corp. (NEX); Denison Mines

	Corp. (TSX/NYSE MKT); Lundin Petroleum AB (OMX Nordic/TSX), Vostok Nafta Investment Ltd. (TSX/OMX-Nordic)
<b>Eira M. Thomas</b>	Suncor Energy Inc. (TSX); Kaminak Gold Corporation (TSX-V); Dundee Precious Metals Inc.(TSX)
<b>William Lamb</b>	Terraco Gold Corp. (TSX-V)
<b>Richard P. Clark</b>	Sirocco Mining Inc. (TSX);Mag Silver Corp. (TSX/ NYSE MKT); Orca Gold Inc. (TSX-V)

Legend:

TSX	=	Toronto Stock Exchange
TSX-V	=	TSX Venture Exchange
OMX First North	=	NASDAQ OMX First North Exchange
OMXNordic	=	NASDAQ OMX Nordic Stock Exchange (previously, the Stockholm Stock Exchange)
NYSE MKT	=	New York Stock Exchange MKT
NYSE	=	New York Stock Exchange
NEX	=	separate board of TSX Venture Exchange

### MEETING ATTENDANCE

The Board held six meetings in 2012. The Audit committee meets at least every quarter to review the Corporation's financial statements and MD&A. Other committees meet as necessary to ensure their mandates are performed. Committees of the Board held a total of thirteen meetings in 2012. The following is the attendance record for all Board and committee meetings held during 2012:

Directors	Board Meetings		Committee Meetings		Total Board/Committee Meetings	
	#	%	#	%	#	%
Lukas H. Lundin	6 of 6	100%			6 of 6	100%
Paul K. Conibear	5 of 6	83%	11 of 11	100%	16 of 17	94%
John J. Gurney	6 of 6	100%			6 of 6	100%
Eira Thomas	6 of 6	100%	9 of 9	100%	10 of 12	100%
Brian D. Edgar	5 of 6	83%	11 of 11	100%	16 of 17	94%
William Lamb	6 of 6	100%	2 of 2	100%	6 of 6	100%
Richard Clark	6 of 6	100%	2 of 2	100%	6 of 6	100%

### POSITION DESCRIPTIONS

The Board has developed and approved a written position description for the Chair of the Board. The Chair's primary responsibilities are to: act as the effective leader of the Board and ensure that the Board's agenda will enable it to successfully carry out its duties; provide leadership to the independent directors; organize the Board to function independently of management; preside as chair at Board meetings and communicate with all board members to co-ordinate their input; ensure the accountability of board members; provide for the effectiveness of the Board. The Chair acts as the primary liaison between the Board and management. As noted earlier, if the Chair is not independent, such responsibilities are carried out by the Lead Director.

A general position description for all chairs of the Board's committees has been approved by the Board. The mandates of each committee are also approved by the Board. These mandates provide the committee chairs with specific responsibilities relating to the committee that they chair.

The Board and the CEO have developed a written description for the CEO. The CEO has, subject to the authority of the Board, general supervision of the business and affairs of the Corporation. Responsibilities include making recommendations to the Board regarding the implementation, performance and monitoring, as the case may be, of each of the items referred in the Board Mandate. Generally, the Board has delegated to the CEO, the authority to transact business or approve matters that are in the ordinary course of business provided these matters do not exceed material levels of expenditures on the part of the Corporation. The board has also established clear limits of authority for the CEO, which are described in the Corporation's Policy of Authorizations.

## **ASSESSMENT OF BOARD PERFORMANCE**

At the beginning of the year, the Corporate Governance and Nominating Committee distributes a board effectiveness assessment to directors. This assessment questions members as to their level of satisfaction with the functioning of the Board, its interaction with management and the performance of the standing committees of the Board. Board members conduct peer reviews and a self assessment regarding their effectiveness as a Board member as part of this assessment process. To ensure the assessment process is candid, the individual assessments are returned on a confidential basis to the Chair of the Corporate Governance and Nominating Committee with a copy to the Corporate Secretary. The results are compiled for the Corporate Governance and Nominating Committee. The Committee reviews and discusses the results and makes recommendations to the Board regarding any action that may be deemed necessary or advisable to ensure the Board continues to function effectively and adequately perform its mandate. The Board aims for a 100% compliance rate for completion of the assessment by directors, which was achieved this year.

The peer reviews and self-assessments by Directors are considered as part of the director nomination process.

The effective performance of the Board is also monitored by the completion of its workplan outline and completion by the committees of their workplan outlines. Workplan outlines are created for the year which cover standard items to be dealt with at meetings and any additional items for that year. Performance against the workplans is monitored through the year.

## **ORIENTATION AND CONTINUING EDUCATION**

Included in the Corporate Governance and Nominating Committee's mandate is the requirement to develop, with the assistance of management, an orientation and education program for new recruits. As part of the orientation for all new members, opportunities will be provided for the directors to meet with other directors and members of Lucara's executive team to discuss the nature and operation of the Corporation's business. The CEO will also review with each new member: (i) information and materials regarding the Corporation, including the role of the Board and its committees; and (ii) the legal obligations of a director of the Corporation. Each new board member will also have access to a comprehensive package of material regarding Lucara through the Corporation's board portal service. A more specific orientation program has not been developed at this time as the Committee believes the orientation should be tailored to meet the specific needs of a new director. For example, if the new director is highly sophisticated with regard to diamond mining matters, orientation on that matter would not be necessary or if a director has a high level of financial expertise, finance orientation may not be included.

With regard to continuing education for board members, the Corporate Governance and Nominating Committee's mandate is to provide for such continuing education for all directors with the assistance of management. As part of the annual director assessment process, directors are canvassed for their input on what additional information would assist them in increasing their effectiveness as directors. The Corporate Governance and Nominating Committee considers directors' responses and makes recommendations.

Last year a site visit was organized for the Directors to tour the Corporation's new mine in Botswana, Africa. Site visits are viewed as a very important piece of the Director's education and understanding of the Corporation's business.

Directors are regularly informed by the CEO, either verbally or through a written quarterly director report, of strategic issues affecting Lucara, including the competitive environment, the Corporation's performance and developments that could materially impact the Corporation.

The Corporation organized corporate governance education for directors through invitations to attend a series of webinex seminars presented by a major law firm. In addition, Lucara pays for director education and membership in the Institute of Corporate Directors (ICD). All directors are members of ICD.

## **NOMINATION OF DIRECTORS**

The Corporate Governance and Nominating Committee, which is composed of all independent Board members, has the responsibility for proposing nominees for directors to the Board. To assist them in this exercise the Board has approved Guidelines for the Composition of Lucara's Board. These guidelines specify the below listed qualities for consideration when evaluating the composition of the Board of Directors and when nominating potential candidates. When tabling these Guidelines, the Board of Directors acknowledged that the qualities listed were not intended to be exhaustive and were not listed in terms of their importance. In addition, the Board encourages the Corporate Governance and Nominating Committee to seek diversity in perspectives, by considering qualified candidates with relevant education and experience of any age, gender and background.

- Financial accreditation and/or financial literacy
- Sound business experience and expertise
- Corporate governance experience
- Industry specific experience and knowledge
  - Mining
  - Environment
  - Safety and Occupational Health
- Experience in corporate operations
- Financing, M&A experience
- Strong board skills, such as:
  - Integrity
  - Networking abilities
  - Interpersonal skills
  - Ability to think strategically and act independently
- Independent, as such term is defined by the Canadian Securities Administrators
- Not previously bankrupt
- Prior personal history that is acceptable to regulators
- Willing to devote sufficient time and effort to board duties

To identify potential nominees that possess the desired skills and competencies, the Committee members may utilize their extensive knowledge of the industry and personal contacts. In addition, the board of directors and management may also propose candidates to the committee or the committee may, at the corporation's expense, retain external consultants to assist in the search for suitable director nominees.

## **DETERMINATION OF DIRECTORS COMPENSATION**

The Compensation Committee recommends the amount and form of the compensation of directors. In making recommendations to the Board, it considers the time commitment and responsibilities required to be met by directors. The Committee is also cognizant that the recommended compensation for directors must not compromise their independence. The Board after taking into account the Committee's recommendations determines the amount and form of compensation, which is disclosed in this Circular at page 34.

## **DIRECTOR RETIREMENT POLICY**

The Corporation has no retirement policy for its Directors.

## **COMMITTEES OF THE BOARD**

To assist the Board with its responsibilities, the Board has established four standing committees: the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee, and the Safety, Health, Environmental and Community Relations Committee. The Board may form other committees from time to time as appropriate to address matters the Corporation is faced with. Each Committee has a written mandate and it reviews its mandate annually. Also, as discussed above, each Committee has a work outline for the year which covers standard items to be dealt with at the committee meetings and any additional items for that year. Performance against the workplans is monitored through the year. The following is a brief summary of the key

functions, roles and responsibilities of the Board committees.

#### Audit Committee

The Audit Committee consists of three independent directors. The current members are Paul Conibear, Brian Edgar, and Eira Thomas, all of whom are financially literate as such term is defined in National Instrument 52-110 Audit Committees.

The Audit Committee assists the Board in matters relating to external auditors and the external audit process, financial reporting and public communication, risk management, security, and certain other key financial matters. In fulfilling its role, the Audit Committee monitors the effectiveness and integrity of the Corporation's financial reporting, management information and internal control systems.

The Audit Committee also oversees and annually reviews the Corporation's code of business conduct and ethics (see "Ethical Business Conduct" on page 22 of this Circular).

The Audit Committee reviews and approves, with management and external auditors, significant financial reporting issues, the conduct and results of the annual audit, and significant finance, accounting and disclosure policies and other financial matters. The Audit Committee also oversees the financial reporting processes of the Corporation, by reviewing the Corporation's core disclosure documents, being its annual and interim financial statements, MD&A and annual information form.

The Audit Committee plays a key role in relation to the Corporation's external auditors. It initiates and approves their engagement or termination, subject to shareholder approval, and monitors and reviews their independence, effectiveness, performance and quality control processes and procedures. PricewaterhouseCoopers ("PwC") have been Lucara's auditors since 2010. The Audit Committee pre-approves all services provided by PwC. The fees paid to PwC during 2011 and 2012 were as follows:

<b>Fiscal Year Ending</b>	<b>Audit Fees C\$<sup>(1)</sup></b>	<b>Audit-Related Fees C\$<sup>(2)</sup></b>	<b>Tax Fees<sup>(3)</sup></b>	<b>All other Fees<sup>(4)</sup></b>
December 31, 2012	157,185	54,600	18,185	Nil
December 31, 2011	129,467	60,150	Nil	3,675

<sup>(1)</sup> Audit fees represent the aggregate fees billed for audit services.

<sup>(2)</sup> Audit-related fees represent the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and not disclosed in the Audit Fees column.

<sup>(3)</sup> Tax fees represent the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning.

<sup>(4)</sup> All other fees represent the aggregate of fees billed for products and services provided other than services reported under clauses (1), (2) and (3) above.

The Audit Committee reviews the Corporation's policies and practices with respect to cash management, insurance and taxation. It also ensures that management has procedures in place that facilitate compliance with laws relating to insider trading and continuous disclosure. For additional information about the Audit Committee, including the Audit Committee Charter, see "Audit Committee Information" in Lucara's Annual Information Form dated March 21, 2013, which is available on the Corporation's website or on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee consists of three independent directors: Paul Conibear, Brian Edgar and Eira Thomas. The Committee is responsible for developing and monitoring the Corporation's approach to corporate governance issues.

The Committee oversees the effective functioning of the Board, ensures that the Board can function independently of management, identifies possible nominees for the Board, develops an orientation program for new recruits to the Board and provides, with the assistance of management, director education opportunities. It has also set up a

system for an annual review of the Corporation's material policies by applicable board committees.

In addition, the Corporate Governance and Nominating Committee annually reviews and makes recommendations to the Board with respect to: (i) the appointment of a lead director; (ii) the size and composition of the Board; (iii) the appropriateness of the committees of the Board; and (iv) committee appointments. The Committee delivers this annual statement on corporate governance to the Board for inclusion in the Circular.

#### Compensation Committee

The Compensation Committee consists of three independent directors: Paul Conibear, Brian Edgar and Richard Clark. For more information regarding the nature, scope, roles and responsibilities of the Compensation Committee, see pages 27 and 28 of this Circular.

#### Safety, Health, Environmental and Community Relations Committee ("SHECSR Committee")

The SHECSR Committee consists of three directors. Two are independent, Rick Clark and Eira Thomas. William Lamb, the third member of the Committee, is the Corporation's CEO and is not independent. It was determined that Mr. Lamb's knowledge of the operations of the Corporation and previous operational mining experience would assist the Committee in fulfilling its mandate.

The Committee assists the Board of Directors in its oversight of Lucara's operations (including the operations of its active subsidiaries) in the following areas:

- safety, health, environment and community risks
- compliance with applicable legal and regulatory requirements associated with safety, health, environmental and community matters
- performance in relation to safety, health, environmental and community matters
- performance and leadership of the safety, health, environment and community function
- external annual reporting in relation to safety, health, environmental and community matters

#### **ETHICAL BUSINESS CONDUCT**

The Corporation is committed to conducting its business in compliance with the law and the highest ethical standards. Accordingly, the Board has adopted a written Code of Business Conduct and Ethics (the "Code") for directors, officers and employees of the Corporation. The Code is available on the Corporation's website and has been filed on and is accessible through SEDAR at [www.sedar.com](http://www.sedar.com).

If directors, officers or employees observe or become aware of an actual or potential violation of the Code or of any law or regulation, whether committed by the Corporation's employees or by others associated with the Corporation they have the responsibility to report the violation and to cooperate with any investigation. Reports can be submitted on a confidential basis to the Chair of the Corporation's Audit Committee. Following receipt of any complaints, the Chair of the Audit Committee, will investigate each matter so reported and report to the Board. The Corporation will not tolerate any reprisals against employees, officers and directors for good faith reporting of compliance concerns or violations.

The Audit Committee has the primary authority and responsibility for the enforcement of the Code, subject to the supervision of the Board of Directors. It reviews the Code on an annual basis and makes recommendations regarding compliance monitoring.

With regard to conflicts, all directors have an obligation to act in the best interest of the Corporation. In accordance with the Code, any situation that presents an actual or potential conflict between a director's personal interests and the interests of the Corporation must be reported to the Chair of the Corporation's Audit Committee. In addition, the Corporation's articles contain disclosure and voting restrictions that must be followed when a director or officer has an interest in an agreement or transaction with the Corporation being considered by the Board. Also, the Audit Committee is mandated to review and monitor all related party contracts that may be entered into by the Corporation.

In addition to the Code, the Audit Committee has established a Policy and Procedures for the Receipt, Retention and Treatment of Complaints Regarding Accounting or Auditing Matters or “Whistleblower Policy” to encourage employees, officers and directors to raise concerns regarding accounting, internal controls or auditing matters, on a confidential basis free from discrimination, retaliation or harassment.

Another example of the Board’s commitment to the highest ethical standards is the Corporation’s Corporate Social Responsibility Charter. The Charter specifies among other things that Lucara will impact positively on the quality of life of members of the local community and conduct its activities to meet or exceed standards in the protection and promotion of human rights. As part of its commitment to meet the Charter, the Corporation is participating in a sustainability reporting process. This process is being monitored by the Safety, Health, Environmental and Community Relations Committee utilizing the Global Reporting Initiatives (GRI) guidelines. A reporting cycle has been set up which involves a program of data collection, communication and responses. A report is provided to shape company strategy and policy and improve performance. One of the areas that the report provides information on is social performance. Social performance includes for example, an evaluation of the corporation’s impact on human rights. This monitoring assists the Corporation in ensuring that its business is conducted to meet high ethical standards.

#### **SHAREHOLDER COMMUNICATIONS**

The Board has put structures in place to ensure effective communication between the Corporation, its shareholders and the public. The Corporation has established a Disclosure Policy which is available on its website or on SEDAR at [www.sedar.com](http://www.sedar.com). This Policy sets out the internal structure that Lucara has established to effectively manage the dissemination of material information. In addition, the Corporation’s investor relations group responds to shareholders concerns on an individual basis. Shareholders are informed of corporate developments by the issuance of timely press releases which are concurrently posted to the Corporations’ website and are available on SEDAR.

Shareholders or other interested parties may communicate directly with the Chairman of the Board, the Lead Director and other independent directors by writing to them at Lucara’s Vancouver office, at the following address (envelopes should be marked *Confidential* and addressed to the attention of the appropriate party):

*Lucara Diamond Corp., 885 West Georgia Street, Suite 2000, Vancouver, BC, V6C 3E8*

## **SECTION 4 - EXECUTIVE COMPENSATION**

### **2012 COMPENSATION DISCUSSION AND ANALYSIS**

#### *Objectives*

The objectives of Lucara's executive compensation program are:

- to structure remuneration packages that are sufficiently attractive to recruit, retain and motivate qualified, high caliber executives
- provide executives with compensation that is in accordance with existing market standards
- align the interests of Lucara's executive officers with those of its shareholders
- link individual executive compensation to the performance of both Lucara and the individual executive

#### *Elements of Compensation and Reward Structure*

Executive compensation is comprised of three elements:

**Base salaries.** This is the basic method of compensating executives. Base salaries are set using a comparator group (see Compensation Benchmarking described below), thereby enabling the Corporation to compete for and retain executives critical to the Corporation's long-term success. Lucara's executives have employment contracts which entitle them to receive a base salary provided they fulfill the job responsibilities associated with their position description. As payment of base salaries does not depend on the performance of any specific targets or goals it is not viewed as "at risk" compensation.

**Short Term Incentives.** Executives have no contractual right to bonuses or short term incentives and this form of compensation is clearly "at risk". Such payments are made solely in the discretion of the board. Short term incentives are considered by the Board on the recommendation of the Compensation Committee. The decision by the Compensation Committee to recommend payment of short term incentives is based on executives meeting certain criteria. In 2012, the Board approved a framework for short term incentive payments. (see the Short Term Incentive Program Framework described in Performance Goals below). The Board uses the payment of short term incentives to motivate executives to meet short term performance goals for the benefit of the Corporation.

**Stock Options.** The Corporation has established an incentive stock option plan which is administered by the Board. The Compensation Committee makes recommendations to the Board for grants of stock options under the plan. Normally, when hiring executives, Lucara commits to an initial stock option issuance. This assists the Corporation in recruiting high performing individuals and then incentivizes such executives to drive the longer term growth of the business. This form of compensation aligns the interests of executive officers with the longer term interests of shareholders as the exercise price of options is set at the market value of the Corporation's shares at the time of the grant. As options vest over time (three equal annual installments beginning on the grant date) they are an important executive retention strategy for Lucara. On an annual basis, the Compensation Committee considers, taking into account Lucara's long term goals and previous grants to executives, whether further stock option grants should be recommended to the Board. Stock options are another form of compensation paid by Lucara that is "at risk". The Corporation has no other long term incentive plans in place.

The Corporation recognizes that its compensation package has to be sufficient to attract and retain the right level of skill, expertise and talent in an increasingly competitive global market. The structure of the remuneration package must be well-balanced across the short, medium and longer term elements, so that it is both attractive to the individual and cost effective for the Corporation

In summary, Lucara uses base salary compensation to reward executives for effectively fulfilling their job responsibilities, short term incentives to reward executives for meeting short term performance goals and stock options as a retention strategy and to reward executives for long term business growth. By providing base salary at

a competitive level the Corporation is able to attract talented candidates. However, the short term incentive (discretionary bonuses) provides executives with the opportunity to achieve superior total annual reward through their own delivery of excellence at individual and business levels. Finally, the longer term reward element (stock option grants), provides the opportunity to build ownership and growth in the medium and longer term future in line with the opportunities for success afforded to the shareholders.

#### Compensation Benchmarking

To assess the market competitiveness of its compensation programs for executives, the Corporation periodically engages independent consultants. During 2012, Roger Gurr & Associates were engaged to assess the market competitiveness of the Corporation's executive salaries and short term incentives. The consultants' findings regarding the mining sector indicated that there is a lack of experienced middle managers capable of stepping up into the executive ranks which is resulting in serious competition to attract and retain executives in this sector. In addition, it was noted that as Lucara transitions to becoming a mining company with both operating facilities in Botswana and exploration development activities in Lesotho, retention of executive talent is vital as the company strives to increase shareholder value. Consequently, a comparator group was chosen of a similar size in terms of current market cap with a focus on precious metals with a combination of both operating and exploration activities to recognize the transition period of Lucara.

Using the above criteria, the following 16 mining and exploration companies were used as the comparator group:

Avion Gold Corp	Mountain Province Diamonds Inc
Banro Corp	Nevsun Resources Ltd
Denison Mines Corp	NGEx Resources Inc
Gem Diamonds Ltd	Orezone Gold Corp
Golden Star Resources Ltd	Platinum Group Metals LTD
Great Basin Gold Ltd	Stornoway Diamond Corp
Hana Mining Ltd	Teranga Gold Corp
Keegan Resources Inc	Volta Resources Inc

Two important aspects were recognized as part of the 2012 benchmarking process. First, as the Corporation was transitioning from development to operational, salary levels were targeted somewhat ahead of median of the comparator group (a mix of both operating and development companies). Second, the achievement of the start-up of the Karowe mine and plant within budget, substantially on time and with a positive safety and environmental record should result in total compensation (salary plus short term incentive) at least in the region of top quartile. Based upon this approach, the following was adopted when determining executive compensation in 2012 at Lucara:

- Base salary midpoints were based upon midway median (P50) and top quartile (P75) of the comparator group
- Annual short term incentives were based on performance such that total cash compensation (salary plus short term incentive) was at the top quartile

Another two considerations were important to the Compensation Committee when determining the appropriate benchmark for the short term incentive awards. First, market studies indicated an under provision of stock options to the executives of Lucara relative to typical market practices. This under provision made it extremely important to provide fully competitive cash compensation in order to enhance executive retention. Second, short term incentive payments were not made in 2011 as these were deferred until the start up of the Corporation's first mine, the Karowe mine.

### Performance Goals

As noted above the short term incentives paid in 2012 were directly linked to the Karowe mine start up. This was a clear objective and identifiable measure. The Board determined that prior to payment there needed to be confirmation that the capital costs for the mine were within budget and that the mine, plant and infrastructure facilities were running to design parameters with a positive safety, environmental and corporate social responsibility record.

For future short term incentive payments, the Compensation Committee felt that a performance measurement scheme should be implemented focusing on Key Performance Indicators (KPIs) that would include operational achievements. The Committee retained Roger Gurr & Associates to develop, in consultation with management, a proposal for short term incentives. In December 2012, on the recommendation of the Compensation Committee, the Board approved a Short Term Incentive Program Framework setting out the terms under which cash incentives may be made to senior executives. The Framework is subject to the overriding discretion of the Board to decide whether any short term incentives will be made regardless of the performance against targets. The minimum, target and maximum short term incentive are set out as a % of basic salary for executive positions as follows:

<u>Position</u>	<u>Minimum Award</u>	<u>Target Award</u>	<u>Maximum Award</u>
CEO	35%	100%	120%
COO	30%	70%	100%
CFO	30%	70%	100%
VPs	25%	50%	75%

Three factors are to be used when assessing short term incentives:

- corporate
- operational
- discretionary

KPIs will be determined for each of the three areas and a percentage weighting will be identified dependent on the executive position. The first two areas of performance, corporate and operational, will be based on quantitative performance measures, while the discretionary component will be a qualitative performance measure.

### Alignment Compensation Programs and Risk Management

Risk management is a primary consideration of the Board when implementing its compensation programme. It has structured its compensation programme to ensure that executive officers are not inappropriately motivated towards shorter-term results or excessive risk taking.

Payments of short term incentives, if any, are not made until performance goals have been met. A decision was made in 2012, by the Board, to delay the payment of short term incentives until confirmation that the criteria was met for the opening of Lucara's new Karowe Mine. This key performance goal, the opening of the new Karowe mine was also Lucara's key business enterprise risk. Clearly, alignment of risk to compensation is a critical component of the Board's compensation strategy. Managing risk in the areas of safety, environmental and corporate social responsibility is also extremely important to Lucara and hence the Corporation's record on safety, environmental and corporate social responsibility is an important factor when considering short term incentives.

With regard to stock options, the Board has approved a stock option plan for vesting provisions over time which reduces the risk of short term decision making. The Board sets standard vesting terms on stock option grants which align optionees' interests with longer term growth of the Company, using 24-month vesting provisions and 3 year option terms.

#### Director and Officer Hedging Prohibition

Lucara's Board of Directors and executive officers are not permitted to purchase financial instruments, including for greater certainty, prepaid variable forward contracts, equity swaps, collars or units of exchange funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the director or officer.

#### Share Ownership Guidelines for Directors

In December 2012, the Board established share ownership guidelines for non-employee directors to demonstrate their commitment to Lucara's long-term success and to align with shareholders. Non-employee directors must own or control shares with a cost equal to twice the value of their annual director retainers. These shares must be acquired within the later of two years of joining the board or December 5, 2014. All directors comply with the guidelines.

#### Consultant Work and Fees

In addition to the compensation benchmarking services and development of a proposal for a short term incentive program as described above, the Compensation Committee retained Roger Gurr & Associates to review and make recommendations regarding the termination and change of control provisions contained in the employment agreements of Lucara's executives. Roger Gurr & Associates was paid a fee of CAD\$ 29,232 for all of the services it provided in 2012. No other consulting services were provided by a compensation consultant to Lucara, the Board or a committee of the Board 2012.

#### Role of Management in Determining Compensation

The accountability for decisions on executive remuneration is within the mandate of the Board with recommendations from the Compensation Committee; however, management has a key role in helping support the Compensation Committee in fulfilling its obligations. For example, the CEO will make specific recommendations to the Compensation Committee with respect to compensation for the other executive officers of the Corporation that are based on the Committee's compensation philosophy and incentive programs approved by the Committee.

#### Composition of the Compensation Committee

The Compensation Committee, on behalf of the Board, monitors compensation for the executive officers of the Corporation. The Compensation Committee currently has three members: Messrs. Paul Conibear, Richard Clark and Brian Edgar. Since 2007, the Compensation Committee has maintained a mandate. It meets as frequently as necessary in order to fulfill its responsibilities. In 2012, the Committee met four times to address matters pertaining to its Mandate.

#### Skills and Experience of Compensation Committee Members

All members of the Committee have direct experience which is relevant to their responsibilities as Compensation Committee members. All members are or have acted as CEO for a public company, and therefore have a good understanding of how compensation works and how to motivate staff. They also have financial expertise which allows them to assess the costs versus benefits of compensation plans. The members combined experience in the resource sector provides them with the understanding of the company's success factors and risks which is very important when determining metrics for measuring success.

<b>Member Name</b>	<b>Independent <sup>(1)</sup></b>	<b>Education and Experience Relevant to Performance of Compensation Committee Duties</b>
Paul K. Conibear (Chair)	Yes	Mr. Conibear, an engineer, currently holds the position of President and Chief Executive Officer of a public resource company. He has been in a senior executive role in the resource sector for over 10 years and has significant experience in dealing with compensation matters through these roles.
Brian D. Edgar	Yes	Mr. Edgar is currently the Chair of a public resource based company. He has served on numerous public company

		boards over the past 35 years.
Richard Clark	Yes	Mr. Clark currently holds the position of Chief Executive Officer of a public resource company. He is a retired lawyer with a geological background who has held senior executive roles with the Lundin group of resource companies for over 10 years.

<sup>(1)</sup> A member is independent if he/she has no direct or indirect material relationship with the Company which could, in the view of the Board of Directors, reasonably interfere with the exercise of a member's independent judgment, or is otherwise deemed to have a material relationship under National Instrument 52-110.

*Mandate and Responsibilities of Compensation Committee*

The following is a summary description of the mandate and responsibilities of the Compensation Committee as it relates to executive compensation:

- to review and approve corporate goals and objectives relevant to executive compensation, including the evaluation and performance of the CEO in light of those corporate goals and objectives, and to make recommendations to the Board with respect to compensation levels (including the award of any cash short term incentives or share ownership opportunities);
- to consider the implementation of short and long-term incentive plans, including equity-based plans, proposed by management, to make recommendations to the Board with respect to these plans and to annually review such plans after their implementation; and
- to annually review any other benefit plans proposed by management and to make recommendations to the Board with respect to their implementation.

**COMPENSATION OF NAMED EXECUTIVE OFFICERS**

For the purposes of this Circular, "Named Executive Officer" means: (a) Chief Executive Officer, (b) Chief Financial Officer, (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of the most recently completed financial year whose total compensation was, individually, more than CAD\$150,000; and (d) each individual who would be a Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, as at December 31, 2012.

During the financial year ended December 31, 2012, the Corporation had five Named Executive Officers: William Lamb, Lawrence Ott, Anthony George, Glenn Kondo and Ribson Gabonowe.

Summary Compensation Table

The following table sets forth a summary of the total compensation paid to, or earned by the Corporation's Named Executive Officers during the three most recently completed fiscal periods.

Name and Principal Position	Year	Salary <sup>(1)</sup> (\$US)	Option-based Awards <sup>(1)(2)</sup> (\$US)	Non-equity Incentive Plan Compensation	All Other Compensation <sup>(1)(4)</sup> (\$US)	Total Compensation <sup>(1)</sup> (\$US)
				Annual Incentive Plan <sup>(1)(3)</sup> (\$US)		
<b>William Lamb</b> President and Chief Executive Officer	Dec 31/2012	420,000	Nil	400,000	29,429	849,429
	Dec 31/2011	311,567	85,930	Nil	13,062	410,559
	Dec 31/2010	262,062	Nil	242,650	11,579	516,291
<b>Glenn Kondo</b> Chief Financial Officer	Dec 31/2012	302,500	Nil	100,000	25,565	428,065
	Dec 31/2011	81,601	118,148	Nil	2,506	202,255
<b>Anthony George</b> Vice President, Development	Dec 31/2012	324,500	Nil	300,000	19,485	643,985
	Dec 31/2011	280,657	71,609	Nil	7,335	359,601
	Dec. 31/2010	242,650	228,396	121,325	18,439	610,809
<b>Lawrence E. Ott</b> <sup>(5)</sup> Vice President, Exploration	Dec 31/2012	Nil	Nil	80,000	180,000	260,000
	Dec 31/2011	Nil	21,483	Nil	157,139	178,622
	Dec 31/2010	Nil	74,712	60,000	162,219	296,931
<b>Ribson Gabonowe,</b> Managing Director, Boteti Mining (Pty) Limited	Dec 31, 2012	186,871	Nil	86,776	13,576	287,223
	Dec 31/2011	190,866	147,271	68,216	1,550	407,903
	Dec 31/2010	85,673	29,990	6,320	0	121,983

<sup>(1)</sup> Other than Dr. Ott who is paid in United States dollars, payments made to the Named Executive Officers are converted to United States dollars for reporting purposes in the Summary Compensation Table. Mr. Lamb, Mr. Kondo and Mr. George are paid in Canadian dollars and Mr. Gabonowe is paid in Botswana Pula. The following conversion rates, being the Bank of Canada average annual exchange rates, were used to convert payments:

- financial year ended December 31, 2012-average exchange rate of CAD\$1.00=US\$1.00, BWP 1=US\$0.1335
- financial year ended December 31, 2011-average exchange rate of CAD\$1.00=US\$0.9891, BWP 1=US\$0.1489
- financial year ended December 31, 2010-average exchange rate of CAD\$1.00=US\$0.9706, BWP 1=US\$0.1519

<sup>(2)</sup> This amount represents the fair value, on the date of grant, of awards made under the Lucara's stock option plan. The value has been determined using the Black-Scholes models and is consistent with the determinations used for financial statement purposes. The amount presented in the table represents the fair value of the vested and unvested portion of the options granted for the period. For accounting purposes, the fair value is amortized over the applicable vesting periods. Options fair values were calculated in Canadian dollars and translated into United States dollars using an exchange rate of CAD\$1.00=US\$0.9490 for January 4, 2010 options grant, CAD\$1.00=US\$0.9470 for July 1, 2010 options grant, CAD\$1.00=US\$0.9918 for December 14, 2010 options grants, CAD\$1.00=US\$0.9860 for December 20, 2010 options grant, CAD\$1.00=US\$1.0083 for September 19, 2011 option grant and CAD\$1.00=US\$0.9551 for November 27, 2011 option grants awarded to these individuals. It should be recognized that the actual future value will be based on the difference between the market value at time of exercise and the exercise price. Therefore, the value attributed to the stock options under the Black-Scholes model does not necessarily correspond to the actual future value that will be realized. The Black-Scholes option pricing model incorporates key assumptions dealing with risk free interest rate, expected stock price volatility, expected life and expected dividend yield.

<sup>(3)</sup> There are no cash based long term incentive plans in place. This column represents short term incentive plan payments. No short term incentives were paid in 2011 to the Named Executive Officers except to Ribson Gabonowe who is an employee

of the Corporation's subsidiary Boteti Mining (Pty) Limited. The short term incentive payments made in 2012 for William Lamb, Glenn Kondo, Anthony George and Lawrence Ott (the "Lucara Named Executive Officers") were for 2011 and the first quarter of 2012. This period covered the construction of the Karowe mine and payments were based on successful achievement of the project's key performance indicators which included completion of the mine and plant construction on time, within budget, with a positive safety and environmental record, and successful ramp up to full production. Short term payment incentives for the Lucara Named Executive Officers are still being considered for period of Q2 to Q4 in 2012.

<sup>(4)</sup> Except for the consulting payments to Dr. Ott as described below in footnote 5, amounts in this column typically consist of benefits such as life insurance premiums, parking benefits and medical/dental plans.

<sup>(5)</sup> Dr. Ott provides geological and consulting services to the Corporation at a current consulting rate of USD\$15,000 per month. Before April 1, 2011, Dr. Ott's rate was USD\$12,500 per month.

#### Pension Plan Benefits

The Corporation does not have any defined benefit or actuarial plans.

#### Termination and Change of Control Benefits

All of the Named Executive Officers have written agreements.

a) Pursuant to the employment agreement with Mr. Lamb:

- if Mr. Lamb's employment is terminated without cause; or
- upon a change of control of the Corporation to a non-affiliated entity, his employment is terminated or he elects to terminate his employment,

he will be entitled to receive a payment equal to his salary for 24 months, a payment equal to the bonus he received in the year prior to his termination (providing it is not greater than his annual base salary) and benefits for a 12 month period. Also, in the circumstance of a change of control termination, Mr. Lamb's options will become fully vested. If such a termination of his employment had occurred on December 31, 2012, it is estimated Mr. Lamb's total severance payment would have been US\$840,000. Payment has been converted from Canadian to United States dollars using the following average annual conversion rate CAD\$1.00=US\$1.00.

b) Pursuant to the employment agreement with Mr. George:

- if Mr. George's employment is terminated without cause; or
- upon a change of control of the Corporation to a non-affiliated entity, his employment is terminated or he elects to terminate his employment,

he will be entitled to receive a payment equal to his salary for 18 months, a payment equal to the bonus he received in the year prior to his termination (providing it is not greater than his annual base salary) and benefits for a 12 month period. Also, in the circumstance of a change of control termination, Mr. George's options will become fully vested. If such a termination of his employment had occurred on December 31, 2012, it is estimated Mr. George's total severance payment would have been US\$453,750. Payment has been converted from Canadian to United States dollars using the following average annual conversion rate CAD\$1.00=US\$1.00.

c) Pursuant to the employment agreement with Mr. Kondo:

- if Mr. Kondo's employment is terminated without cause; or
- upon a change of control of the Corporation to a non-affiliated entity, his employment is terminated or he elects to terminate his employment,

he will be entitled to receive a payment equal to his salary for 18 months, a payment equal to the bonus

he received in the year prior to his termination (providing it is not greater than his annual base salary) and benefits for a 12 month period. Also, in the circumstance of a change of control termination, Mr. Kondo's options will become fully vested . If such a termination of his employment had occurred on December 31, 2012, it is estimated Mr. Kondo's total severance payment would have been US\$486,750. Payment has been converted from Canadian to United States dollars using the following average annual conversion rate CAD\$1.00=US\$1.00.

d) Pursuant to the consulting agreement with Dr. Ott, in the event:

- of termination of his agreement without cause, he will be entitled to receive a payment of US\$200,000; or
- his agreement is terminated upon a change of control, he will be entitled to receive a payment of US\$400,000

If such a termination of his agreement had occurred on December 31, 2012, Dr.Ott's total severance payment would have been US\$200,000 in the event of a termination without cause and US\$400,000 in the event of a change of control.

e) Pursuant to the employment agreement with Mr. Gabonowe, in the event his agreement is terminated without cause he shall be entitled to receive a payment of 15% of his basic annual salary for each completed year of continuous service up to an anniversary period of three years plus a pro-rata portion for each part year. If such a termination of his employment had occurred on December 31, 2012, it is estimated Mr.Gabonowe's total severance payment would have been US\$70,076.62. Payment has been converted from Botswana Pula using the following average annual conversion rate BWP 1=US\$0.1335.

Outstanding Option-based Awards

During fiscal year 2012, the Corporation did not grant any options to Named Executive Officers under the Corporation's Stock Option Plan. The following table sets forth the outstanding option-based awards held by the Named Executive Officers of the Corporation at the end of the most recently completed financial year:

Option-based Awards				
Name	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (CAD\$)	Option Expiration Date	Value of Unexercised In-the-money Options (CAD\$) <sup>(1)</sup>
William Lamb	300,000	0.80	Nov 27, 2014	-
Glenn Kondo	250,000	0.98	Sept 19, 2014	-
Lawrence E. Ott	150,000 75,000	0.95 0.80	Dec 14, 2013 Nov 27, 2014	- -
Anthony George	200,000 250,000	0.95 0.80	Dec 14, 2013 Nov 27, 2014	- -
Ribson Gabonowe	75,000 25,000 100,000	0.82 0.95 0.80	July 1, 2013 Dec 14,2013 Nov 27,2014	- - -

<sup>(1)</sup> Calculated using the closing price of the common shares on the TSX December 31, 2012 of CAD\$0.66 and subtracting the exercise price of in-the-money stock options. If the closing price of the common shares on December 31, 2012 was below the exercise price the value of the stock options is shown as “-”

***Incentive Plan Awards – Value Vested or Earned During the Year***

The following table sets forth details of the value vested or earned for all incentive plan awards during the most recently completed financial year by each Named Executive Officer:

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (CAD\$)	Non-equity incentive plan compensation-Value earned during the year (US\$) <sup>(2)</sup>
William Lamb	5,667	400,000
Glenn Kondo	-	100,000
Anthony George	-	300,000
Lawrence E. Ott	-	180,000
Ribson Gabonowe	-	86,667

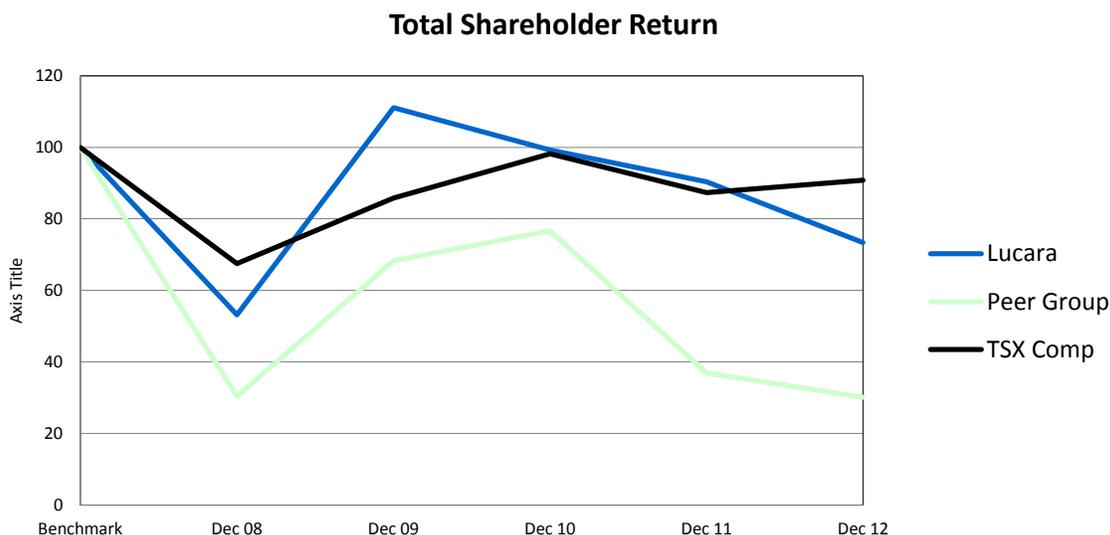
<sup>(1)</sup> Calculated using the closing price of the common shares on the TSX on the dates on which stock options vested during the financial year ended December 31, 2012, and subtracting the exercise price of in-the-money stock options. If the closing price of the common shares on the vesting date was below the exercise price the value of the stock options is shown as “-”

<sup>(2)</sup> This column represents short term incentive plan payments. For Messrs. Lamb, Kondo and George, compensation was paid in CAD\$ and converted to US using an average annual exchange rate of CAD\$1.00=US\$1.00 and for Mr. Gabonowe, compensation was paid in Botswana Pula and converted to US using an average annual exchange rate of BWP 1=US\$0.1335.

**PERFORMANCE GRAPH**

The following graph shows the total cumulative return on a CAD\$100 investment on July 21, 2008 (date of Lucara’s listing on the TSXV) in Common Shares compared to the cumulative total return of the TSX Composite Index and a diamond sector index comparator group over the period ending December 31, 2012, assuming reinvestment of all dividends.

The Share performance as set out in the graph does not necessarily indicate future price performance. Amounts below are stated in Canadian dollars. The Shares trade on the TSX under the symbol “LUC”.



Following the trend in the Corporation's stock price performance as noted in the graph, average total Named Executive Officer compensation decreased in 2011 from 2010. Lucara's share price in 2012 was impacted by an industry weakening in the rough diamond market. Total Named Executive Officer compensation increased in 2012 to acknowledge exceptional performance during a year of significant corporate achievement with the successful opening of the Corporation's Karowe mine.

## **SECTION 5 – COMPENSATION OF DIRECTORS**

Each non-executive director receives CAD\$30,000 per annum. The Chairman of the Board, the Lead Director and the Chair of the Audit Committee each receive an additional CAD\$5,000 per annum. No fees are paid for attendance at meetings.

The following table sets forth the details of compensation provided to directors, other than William Lamb, who is a Named Executive Officer, during the Corporation's most recently completed financial year:

<b>Name</b>	<b>Fees Earned (\$US)<sup>(1)</sup></b>	<b>Option-based Awards (\$)</b>	<b>Total (\$US)<sup>(1)</sup></b>
Paul K. Conibear	40,000	Nil	40,000
Lukas Lundin	35,000	Nil	35,000
John J. Gurney	30,000	Nil	30,000
Brian E. Edgar	30,000	Nil	30,000
Eira Thomas	30,000	Nil	30,000
Richard P. Clark	30,000	Nil	30,000

(1) Payments have been converted from Canadian to United States dollars using the following average annual conversion rate CAD\$1.00=US\$1.00.

Mr. Lamb, the CEO, does not receive any compensation for services as a director.

Namdo Management Services Ltd. ("Namdo") and Mile High Holdings Ltd. ("Mile High") are private corporations owned by Mr. Lundin, chairman and a director of the Corporation. Namdo was paid or accrued the amount of US\$504,202 for services rendered during 2012, plus reimbursement of out-of-pocket expenses at cost. Namdo has approximately 15 employees and provides administrative, investor and public relations and, in some cases, financial services to a number of public companies. Mile High was paid or accrued the amount of US\$381,897 for services rendered during 2012. Mile High provides air flight charter services. There is no basis for allocating the amounts paid to Namdo or Mile High to Mr. Lundin as this compensation was not paid in respect of Mr. Lundin's personal services provided to the Corporation.

During 2012, an amount of \$1,915,835 was paid or accrued to the Mineral Services Group for professional geological services and laboratory related expenditures. Dr. Gurney, a director of the Corporation is chairman and a director of Mineral Services Group. There is no basis for allocating the amounts paid to the Mineral Services Group to Dr. Gurney as this compensation was not paid in respect of Dr. Gurney's personal services provided to the Corporation.

No other director was compensated directly or indirectly by the Corporation and its subsidiaries during 2012 for services as consultants or experts.

Lucara also reimburses directors for any reasonable travel and out-of-pocket expenses relating to their duties as directors.

### **Outstanding Option-Based Awards**

The following table sets forth the outstanding option-based awards held by the directors, other than William Lamb, who is a Named Executive Officer, of the Corporation at the end of the most recently completed financial year:

Name	Option-based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (CAD\$)	Option expiration date	Value of unexercised in-the-money options (CAD\$) <sup>(1)</sup>
Paul K. Conibear	Nil			Nil
Lukas Lundin	Nil			Nil
Brian D. Edgar	Nil			Nil
John J. Gurney	Nil			Nil
Eira Thomas	Nil			Nil
Richard P. Clark	200,000	0.83	Jun 8, 2013	-

<sup>(1)</sup> Calculated using the closing price of the common shares on the TSX December 31, 2012 of CAD\$0.66 and subtracting the exercise price of in-the-money stock options. If the closing price of the common shares on December 31, 2012 was below the exercise price the value of the stock options is shown as “-”

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth details of the value vested or earned for all incentive plan awards during the most recently completed fiscal year by each director, other than William Lamb who is a Named Executive Officer:

Name	Option-based awards – Value vested during the year (CAD\$) <sup>(1)</sup>
Paul K. Conibear	22,667
Lukas Lundin	11,333
Brian D. Edgar	11,333
John J. Gurney	5,667
Eira Thomas	5,667
Richard Clark	-

<sup>(1)</sup> The value of the option-based awards is computed by determining the difference between the market price of the underlying securities on vesting date and the exercise price of the options. If the closing price of the common shares on the vesting date was below the exercise price the value of the stock options is shown as “-”

## **SECTION 6 – OTHER INFORMATION**

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Corporation has purchased and maintains liability insurance for its directors and officers acting in their respective capacities in an aggregate amount of CAD\$20 million, against liabilities incurred by such persons as directors and officers of the Corporation and its subsidiaries, except where the liability relates to such person's failure to act honestly and in good faith with a view to the best interests of the Corporation. The annual premium paid by the Corporation for this insurance in respect of the directors and officers as a group is CAD\$54,500.00 and coverage extends to May 15, 2013. No premium for this insurance is paid by the individual directors and officers. The insurance contract underlying this insurance does not expose the Corporation to any liability in addition to the payment of the required premium.

### **EQUITY COMPENSATION PLAN INFORMATION**

The Corporation's Stock Option Plan, described below, is the only compensation plan under which equity securities of the Corporation are authorized for issuance.

#### **Equity Compensation Plan Information (as at fiscal year ended December 31, 2012)**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options (a)</b>	<b>Weighted-average exercise price of outstanding options (CAD\$)</b>	<b>Number of securities remaining available for future issuance under the Plan (excluding securities reflected in column (a))<sup>(1)</sup></b>
Equity Compensation Plans approved by securityholders	2,665,000	\$0.88	34,964,275
Equity Compensation Plans not approved by securityholders	N/A	N/A	N/A

(1) Based on 10% of the issued and outstanding share capital of the Corporation as at December 31, 2012.

The material terms of the Stock Option Plan can be summarized as follows:

1. The number of common shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding share capital of the Corporation on a non-diluted basis at any time and such aggregate number of common shares shall automatically increase or decrease as the number of issued and outstanding shares change.
2. Options that have been exercised, cancelled or that have expired or terminated for any reason in accordance with the terms of the Plan, shall again be available for grant under the Plan.
3. Options may be granted to employees, directors, officers of the Corporation or of any of its subsidiaries and also to certain consultants of the Corporation or its affiliates.
4. The aggregate number of common shares reserved for issuance, pursuant to the Plan, to:
  - a. any one participant within a one-year period shall not exceed 5% of the common shares outstanding at the time of the grant unless the Corporation has obtained the requisite disinterested shareholder approval;
  - b. any one consultant within a one-year period shall not exceed 2% of the common shares outstanding at the time of the grant;
  - c. all eligible persons conducting investor relations activities within a one-year period shall not exceed 2% of the common shares outstanding at the time of the grant;
  - d. insiders shall not exceed 10% of the common shares outstanding at the time of the grant unless

- the Corporation has obtained the requisite disinterested shareholder approval;
- e. insiders within a one-year period shall not exceed 10% of the common shares outstanding unless the Corporation has obtained the requisite disinterested shareholder approval.
5. The exercise price of the options shall be determined by the Board but in any event shall not be lower than the market price (as defined by the policies of the TSX Exchange) on date of grant.
  6. The options may be exercisable for up to 10 years.
  7. Subject to the Board of Directors' discretion, Options will have a minimum vesting period of two years: 1/3 of the Options vesting upon the date of grant; 1/3 of the Options vesting on the first anniversary of the grant; and the remaining 1/3 vesting on the second anniversary of the grant. Notwithstanding the foregoing, all Options granted to Eligible Persons will have, at a minimum, a vesting period over a minimum of 18 months and will not have vesting schedules which permit a majority of the shares to be released early in the vesting period rather than equally on a quarterly basis. Options granted to Consultants providing Investor Relations Services shall vest in stages over a 12 month period with a maximum of one-quarter of the Options vesting in any three month period.
  8. If there is a 'change of control' of the Corporation all unvested options, subject to obtaining any required approval from the Exchange, shall vest immediately.
  9. The options can only be exercised by the Optionee (to the extent they have already vested) for so long as the Optionee is a director, officer or employee of, or consultant to, the Corporation or any subsidiary or is an employee of the Corporation's management corporation and within a period thereafter not exceeding the earlier of:
    - a. the original expiry date;
    - b. 30 days after ceasing to be an Optionee, other than for cause;
    - c. 30 days after ceasing to be an engaged in Investor Relations Activities; and
    - d. if the Optionee dies, within one year from the Optionee's death.
  10. If the Optionee is terminated 'for cause' the option will terminate concurrently.
  11. The options are not assignable other than by will or by the applicable laws of descent.
  12. No financial assistance is available to Optionees under the Plan.
  13. Disinterested shareholder approval must be obtained prior to the reduction of the exercise price of options granted to insiders of the Corporation.
  14. Subject to applicable law and to the prior approval, if required, of the Exchange or another regulatory body with authority, or if required by the rules or policies of the Exchange or the shareholders, the Board may suspend, terminate or discontinue the Plan or amend or revise the terms of the Plan or of any Option granted under the Plan provided that such amendment, revision, suspension, termination or discontinuance shall not adversely affect any Option granted to an Optionee under the Plan without the consent of that Optionee.

At the Meeting, shareholders will be asked to approve an ordinary resolution to amend the terms of the Stock Option Plan, see SECTION 2 BUSINESS OF THE MEETING page 13 for details of the proposed amended terms and APPENDIX B for a copy of the full Stock Option Plan with the proposed amended terms.

#### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of the directors or executive officers of the Corporation, proposed nominees for directors, or associates or affiliates of said persons, have been indebted to the Corporation at any time since the beginning of the last completed financial year of the Corporation.

#### **MANAGEMENT CONTRACTS**

Management functions of the Corporation and its subsidiaries are performed by directors, executive officers or senior officers of the Corporation and not, to any substantial degree, by any other person with whom the Corporation has contracted.

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

During the fiscal year ended December 31, 2012, none of the insiders of the Corporation nor any proposed nominee for election as director, nor any associate or affiliate of said persons has had any material interest, direct or indirect, in any transaction, which has materially affected or will materially affect the Corporation or any of its subsidiaries.

#### **ADDITIONAL INFORMATION**

The Corporation's Annual Information Form, annual financial statements and management's discussion and analysis ("MD&A") and interim financial statements are available on Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.lucaradiamond.com](http://www.lucaradiamond.com). The Corporation will provide, without charge to a shareholder, a copy of its latest Annual Information Form, its annual financial statements and MD&A for the period ended December 31, 2012, interim financial statements for subsequent periods, and this Circular upon request by contacting:

- (i) e-mail: [lucara@namdo.com](mailto:lucara@namdo.com)
- (ii) telephone: 604-689-7842
- (iii) mail: Lucara Diamond Corp.  
Suite 2000 - 885 West Georgia Street  
Vancouver, BC V6C 3E8  
Attn: Investor Relations

#### **DIRECTORS APPROVAL**

The contents and the distribution of this Circular have been approved by the Board.

DATED the 9<sup>th</sup> day of May, 2013.

#### **BY ORDER OF THE BOARD**

(Signed) William Lamb  
*President and Chief Executive Officer*

## **APPENDIX A -ADVANCE NOTICE POLICY**

*(As adopted by the Corporation's Board of Directors on March 21, 2013 (the "Effective Date") and approved by the Company's shareholders on \_\_\_\_\_.)*

### **INTRODUCTION**

The Corporation is committed to: (i) facilitating an orderly and efficient annual general or, where the need arises, special meeting, process; (ii) ensuring that all shareholders receive adequate notice of the director nominations and sufficient information with respect to all nominees; and (iii) allowing shareholders to register an informed vote.

The purpose of this Advance Notice Policy (the "Policy") is to provide shareholders, directors and management of the Corporation with direction on the nomination of directors. This Policy is the framework by which the Corporation seeks to fix a deadline by which holders of record of common shares of the Corporation must submit director nominations to the Corporation prior to any annual or special meeting of shareholders and sets forth the information that a shareholder must include in the notice to the Corporation for the notice to be in proper written form.

It is the position of the Corporation that this Policy is beneficial to shareholders and other stakeholders. This Policy will be subject to an annual review, and will reflect changes as required by securities regulatory agencies or stock exchanges, or so as to meet industry standards.

### **NOMINATIONS OF DIRECTORS**

1. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the board of directors of the Corporation (the "Board") may be made at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors:
  - a. by or at the direction of the Board, including pursuant to a notice of meeting;
  - b. by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the British Columbia Business Corporations Act (the "Act"), or a requisition of the shareholders made in accordance with the provisions of the Act; or
  - c. by any person (a "Nominating Shareholder"): (A) who, at the close of business on the Notice Date (as defined below) and on the record date for notice at such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and (B) who complies with the notice procedures set forth below in this Policy.
2. In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the Corporate Secretary of the Corporation at the registered offices of the Corporation with a copy delivered to the Corporation's principal executive offices in accordance with the provisions of this Policy.
3. To be timely, a Nominating Shareholder's notice to the Corporate Secretary of the Corporation must be made:
  - a. in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the

annual meeting of shareholders is to be held on a date that is less than 50 days after the date (the "Notice Date") on which the first public announcement (as defined below) of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10th) day following the later of: (i) the date of the public announcement (as defined below) of this Policy; and (ii) the Notice Date in respect of such meeting ; or

- b. in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement (as defined below) of the date of the special meeting of shareholders was made. In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.
4. To be in proper written form, a Nominating Shareholder's notice to the Corporate Secretary of the Corporation must set forth:
    - a. as to each person whom the Nominating Shareholder proposes to nominate for election as a director: (A) the name, age, business address and residential address of the person; (B) the principal occupation or employment of the person; (C) the class or series and number of shares in the capital of the Corporation which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (D) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below); and
    - b. as to the Nominating Shareholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Corporation and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below).

The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.

5. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Policy; provided, however, that nothing in this Policy shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the Act. The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

6. For purposes of this Policy:

"public announcement" shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Corporation under its profile on the System of Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).

"Applicable Securities Laws" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada.

7. Notwithstanding any other provision of this Policy, notice given to the Corporate Secretary of the Corporation pursuant to this Policy may only be given by personal delivery or facsimile transmission and shall be deemed to have been given and made only at the time it is served by personal delivery, or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received), to the attention of the Corporation's Corporate Secretary at the **registered offices of the Corporation**, Suite 2600, Three Bentall Centre, P.O. Box 49314, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, facsimile number 604.631.3309 **with a copy to the Corporation's** principal executive offices at Suite 2000, 885 West Georgia, Vancouver, BC Canada V6C 3E8, facsimile number 604.689.4250, provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Vancouver time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

8. Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in this Policy.

EFFECTIVE DATE

This Policy was approved and adopted by the Board on the date first set out above (the "**Effective Date**") and is and shall be effective and in full force and effect in accordance with its terms and conditions from and after such date. Notwithstanding the foregoing, if the Policy is not approved by ordinary resolution of shareholders of the Corporation present in person or voting by proxy at the next meeting of those shareholders validly held following the Effective Date, then this Policy shall terminate and be void and of no further force and effect following the termination of such meeting of shareholders.

## APPENDIX B – STOCK OPTION PLAN

*(As amended by the Company's Board of Directors on May 9, 2013 and approved by the Company's shareholders on \_\_\_\_\_.)*

### **ARTICLE I INTRODUCTION**

#### **1.1 Purpose of Plan**

The purpose of the Plan is to secure for the Company and its shareholders the benefits of incentive inherent in the share ownership by the Directors, Officers and Employees of the Company and its Subsidiaries who, in the judgment of the Board, will be largely responsible for its future growth and success. It is generally recognized that a stock option plan of the nature provided for herein aids in retaining and encouraging Directors, Officers and Employees of exceptional ability because of the opportunity offered them to acquire a proprietary interest in the Company.

#### **1.2 Definitions**

- (a) "Affiliate" has the meaning ascribed thereto by the policies of the Exchange.
- (b) "Associate" has the meaning ascribed thereto in the Securities Act.
- (c) "Certificate" means a physical share certificate representing Share(s) or a non-transferable written acknowledgement of the right to obtain a physical share certificate representing Share(s).
- (d) "Change of Control" includes situations where after giving effect to the contemplated transaction and as a result of such transaction:
  - (i) any one person holds a sufficient number of voting shares of the Company or resulting company to affect materially the control of the Company or resulting company, or
  - (ii) any combination of persons, acting in concert by virtue of an agreement, arrangement, commitment or understanding, hold in total a sufficient number of voting shares of the Company or resulting company to affect materially the control of the Company or resulting company,where such person or combination of persons did not previously hold a sufficient number of voting shares to affect materially control of the Company or resulting company. In the absence of evidence to the contrary, any person or combination of persons acting in concert by virtue of an agreement, arrangement, commitment or understanding, holding more than 20% of the voting shares of the Company or resulting company is deemed to materially affect control of the Company or resulting company.
- (e) "Board" means the board of directors of the Company, or any committee of the board of directors to which the duties of the board of directors hereunder are delegated.
- (f) "Company" means Lucara Diamond Corp., a company duly continued under the laws of British Columbia.
- (g) "Consultant" means, in relation to the Company, any individual, corporation or, other person engaged to provide ongoing valuable services to the Company or any Affiliate.
- (h) "Director" means a director of the Company or any of its Subsidiaries.
- (i) "Disinterested Shareholder Approval" means approval by a majority of the votes cast by all the Company's shareholders at a duly constituted shareholders' meeting, excluding votes attached to shares of the Company beneficially owned by Insiders or their Associates.
- (j) "Eligible Person" means an Employee, Director or Officer of the Company or any of its Subsidiaries and, except in relation to a Consultant Company, includes a company that is wholly-owned by such persons.
- (k) "Employee" means an individual who is a bona fide employee of the Company or of any Subsidiary of the Company and includes:
  - (i) an individual who is considered an employee of the Company or its Subsidiary under the Income Tax Act (Canada) (i.e. for whom income tax, employment insurance and CPP deductions must be made at source),
  - (ii) an individual who works full-time for the Company or its Subsidiary providing services normally provided by an employee and who is subject to the same control and direction by

- the Company over the details and methods of work, as an employee of the Company, but for whom income tax deductions are not made at source,
- (iii) an individual who works for the Company or its subsidiary on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source, and
  - (iv) a bona fide Consultant of the Company or of a Subsidiary of the Company who is approved for participation in this Plan by the Board and in respect of whom the Company has qualified by way of an exemption, or has obtained an order from any securities commission or other regulatory authority having jurisdiction over the granting of options to consultants, permitting granting of the Option.
- (l) "Exercise Notice" means a written notice of exercise of an Option delivered by the Optionee hereunder to the Company and shall be substantially in the form of Exhibit "I" attached to Schedule "A" hereto
  - (m) "Exchange" means the Toronto Stock Exchange or any other stock exchange on which the Shares are listed.
  - (n) "Insider" of the Company shall mean a Participant who is an "insider" of the Company as defined in the Securities Act.
  - (o) "Officer" has the meaning ascribed thereto in the Securities Act.
  - (p) "Market Price" has the meaning ascribed thereto by the policies of the Exchange.
  - (q) "Option" shall mean an incentive stock option granted under the terms of the Plan.
  - (r) "Option Commitment" means a notice of grant of an Option delivered by the Company hereunder to an Optionee and shall be substantially in the form of Schedule "A" attached hereto.
  - (s) "Option Period" shall mean the period during which an Option may be exercised.
  - (t) "Optionee" shall mean a Participant to whom an Option has been granted under the terms of the Plan.
  - (u) "Participant" means, in respect of the Plan, an Eligible Person who elects to participate in the Plan.
  - (v) "Plan" means the 10% Rolling Incentive Stock Option Plan established and operated pursuant to Article II hereof.
  - (w) "Personal Representative" means:
    - (i) In the case of a deceased Optionee, the executor or administrator of the deceased Optionee duly appointed by a court or public authority having jurisdiction to do so, and
    - (ii) In the case of an Optionee who for any reason is unable to manage his or her affairs, the person entitled by law to act on behalf of such Optionee.
  - (x) "Securities Act" means the *Securities Act*, R.S.B.C., 1996 c.418, as amended from time to time.
  - (y) "Share Compensation Arrangement" means the Plan described herein and any other stock option, stock option plan, employee stock purchase plan, share distribution plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Shares to one or more Eligible Persons.
  - (z) "Shares" shall mean the common shares of the Company.
  - (aa) "Subsidiary" has the meaning ascribed thereto in the Securities Act.

### 1.3 Agreement

The Company and every person to whom an option is awarded hereunder shall be bound by and subject to the terms of this Plan.

### 1.4 Interpretation

The Plan will be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

### 1.5 Headings

The headings used herein are for convenience only and are not to affect the interpretation of the Plan.

**ARTICLE II**  
**STOCK OPTION PLAN**

**2.1 Participation**

Options to purchase Shares may be granted hereunder to Eligible Persons.

**2.2 Determination of Option Recipients**

The Board shall make all necessary or desirable determinations regarding the granting of Options to Eligible Persons and may take into consideration the present and potential contributions of a particular Eligible Person to the success of the Company and any other factors which it may deem proper and relevant.

**2.3 Exercise Price**

The exercise price per Share shall be determined by the Board but, in any event, shall not be lower than the Market Price on the date of grant. . Any reduction in the exercise price of an Option held by an Optionee who is an Insider of the Company at the time of the proposed reduction will require Disinterested Shareholder Approval.

**2.4 Grant of Options**

The Board may at any time authorize the granting of Options to such Eligible Persons as it may select for the number of Shares that it shall designate, subject to the provisions of the Plan. A Director of the Company to whom an Option may be granted shall not participate in the decision of the Board to grant such Option. The date of each grant of Options shall be determined by the Board when the grant is authorized.

**2.5 Option Commitment**

Each Option granted to an Optionee shall be evidenced by an Option Commitment detailing the terms of the Option and upon delivery of the Option Commitment to the Optionee by the Company the Optionee shall have the right to purchase the Shares underlying the Option at the exercise price set out therein, subject to any provisions as to the vesting of the Option, which the Board may determine.

**2.6 Terms of Options**

Subject to the early expiry provisions contained elsewhere in this Plan, the Expiry Date of an Option shall be the date so fixed by the Board at the time the particular Options is awarded, provided, however, that the Option Period shall not be longer than 10 years. Notwithstanding the foregoing, in the event that any Option expires during, or within 48 hours after, a self imposed blackout period on trading due to the applicable policies of the Company in respect of insider trading, such expiry date will become the tenth day following the end of the blackout period. Any Option or any part thereof not exercised within the Option Period shall terminate and become null, void and of no effect as of 5:00 p.m. local time in Vancouver, British Columbia on the Expiry Date.

**2.7 Exercise of Option**

Subject to the provisions of the Plan, an Option may be exercised from time to time prior to the Expiry Date by delivery to the Company of a completed Exercise Notice accompanied by payment in full by certified cheque, money order or such other manner of payment as may be acceptable to the Company of the exercise price of the Shares to be purchased plus such amount as may be required by applicable legislation for statutory withholdings. Certificates for such Shares shall be issued and delivered to the Optionee within a reasonable time following the receipt of such notice and payment.

**2.8 Vesting**

Options granted pursuant to the Plan shall vest and become exercisable by an Optionee at such time or times as may be determined by the Board at the date of the Option grant and as indicated in the Option Commitment related thereto.

Subject to the Board of Directors' discretion, Options may have a vesting period of up to two years, with 1/3 of the Options vesting upon the date of grant; 1/3 of the Options vesting 12 months from the date of grant; and the remaining 1/3 vesting 24 months from the date of grant.

**2.9 Death of Optionee**

If an Optionee ceases to be an Eligible Person due to its death, any Option held by such Optionee at the date of death shall be exercisable by the Optionee's legal heirs or Personal Representatives. All such Options shall be exercisable only to the extent that such Options were vested and exercisable by the Optionee at the date of death and then, only for 12 months after the date of death or the original Expiry Date in respect thereof, whichever is sooner.

**2.10 Termination of Employment**

If an Optionee ceases to be an Eligible Person, other than as a result of termination with cause, any Option held by such Optionee at the effective date thereof shall be exercisable only to the extent that such Options were

vested and exercisable by the Optionee and then, only for up to 30 days thereafter (or such longer period as may be prescribed by law) or the original Expiry Date in respect thereof, whichever is sooner. In the case of an Optionee ceases to be an Eligible Person, as a result of termination with cause, the Option shall immediately terminate and shall no longer be exercisable as of the date of such termination.

#### 2.11 Effect of Take-Over Bid

If a bona fide offer (the "Offer") for Shares is made to the Optionee or to shareholders generally or to a class of shareholders which includes the Optionee, which Offer, if accepted in whole or in part, would result in the offeror exercising control over the Company within the meaning of the Securities Act, then the Company shall, immediately upon receipt of notice of the Offer, notify each Optionee of the full particulars of the Offer. The Board will have the sole discretion to amend, abridge or otherwise eliminate any vesting schedule so that notwithstanding the other terms of this Plan, such Option may be exercised in whole or in part by the Optionee so as to permit the Optionee to tender the Shares received upon such exercise (the "Optioned Shares") pursuant to the Offer. If:

- (a) the Offer is not complied with within the time specified therein;
- (b) the Optionee does not tender the Optioned Shares pursuant to the Offer; or
- (c) all of the Optioned Shares tendered by the Optionee pursuant to the Offer are not taken up and paid for by the offeror in respect thereof;

then at the discretion of the Board, the Optioned Shares or, in the case of clause (c) above, the Optioned Shares that are not taken up and paid for, shall be returned by the Optionee to the Company and reinstated as authorized but unissued Shares and the terms of the Option as set forth in this Plan and the Option Commitment shall again apply to the Option. If any Optioned Shares are returned to the Company under this Section, the Company shall refund the exercise price to the Optionee for such Optioned Shares.

#### 2.12 Effect of Reorganization, Amalgamation or Merger

If the Company is reorganized, amalgamated or merges with or into another company, at the discretion of the Board, any Shares issuable on the exercise of an Option shall be converted into the securities or property which the Optionee would have received upon such reorganization, amalgamation or merger as if the Optionee had exercised his Option immediately prior to the record date applicable to such reorganization, amalgamation or merger, and the exercise price shall be adjusted appropriately by the Board, subject to any applicable Exchange or other regulatory approvals, and such adjustment shall be binding for all purposes of the Plan.

#### 2.13 Effect of Change of Control

If a Change of Control occurs, all Shares subject to each outstanding Option will become fully vested, whereupon such Option may be exercised in whole or in part by the Optionee

#### 2.14. Adjustment in Shares Subject to the Plan

If prior to the exercise of any Option, the Shares are consolidated, subdivided, converted, exchanged or reclassified or are in any way substituted for (collectively, the "Event"), an Option, to the extent it has or has not been exercised shall be adjusted by the Board in accordance with such Event in the manner the Board determines appropriate. The Company will not be required to issue fractional shares in satisfaction of its obligations hereunder. Any fractional interest in a Share that would, except for this provision, be deliverable upon the exercise of an Option will be cancelled. If any questions arise at any time with respect to the exercise price or number of Shares deliverable upon exercise of an Option as a result of an Event, such questions will be conclusively determined by the Company's auditors, or, if they decline to so act, any other firm of Chartered Accountants that the Company may designate and who will have access to all appropriate records and such determination will be binding upon the Company and all Optionees.

**ARTICLE III  
GENERAL**

3.1 Maximum Number of Shares

- (a) Subject to Section 2.14 hereof, the aggregate number of Shares issuable upon the exercise of all Options granted under the Plan shall not exceed 10% of the issued and outstanding share capital of the Company on a non-diluted basis at any time and such aggregate number of Shares shall automatically increase or decrease as the number of issued and outstanding Shares changes.
- (b) Options that have been exercised, cancelled or that have expired or terminated for any reason in accordance with the terms of the Plan, shall again be available for grant under the Plan.
- (c) The aggregate number of Shares reserved for issuance pursuant to this Plan or any other Share Compensation Arrangement (pre-existing or otherwise) to any one Participant within a one-year period shall not exceed 10% of the Shares outstanding at the time of the grant unless the Company has obtained the requisite Disinterested Shareholder Approval.
- (d) The aggregate number of Shares reserved for issuance pursuant to this Plan or any other Share Compensation Arrangement (pre-existing or otherwise) to Insiders shall not exceed 10% of the Shares outstanding from time to time unless the Company has obtained the requisite Disinterested Shareholder Approval.
- (e) The aggregate number of Shares which may be issued pursuant to this Plan or any other Share Compensation Arrangement (pre-existing or otherwise) to Insiders within a one-year period shall not exceed 10% of the Shares outstanding from time to time unless the Company has obtained the requisite Disinterested Shareholder Approval.

3.2 Transferability

Options are not assignable or transferable other than by will or by the applicable laws of descent. During the lifetime of an Optionee, all Options may only be exercised by the Optionee.

3.3 Employment

Nothing contained in the Plan shall confer upon any Optionee any right with respect to employment or continuance of employment with the Company or any Subsidiary, or interfere in any way with the right of the Company or any Subsidiary, to terminate the Optionee's employment at any time. Participation in the Plan by an Optionee is voluntary.

3.4 No Shareholder Rights

An Optionee shall not have any rights as a shareholder of the Company with respect to any of the Shares covered by an Option until the Optionee exercises such Option in accordance with the terms of the Plan and the Shares are issued by the Company.

3.5 Optionee Status

For Options granted to Employees or Consultants, the Company represents that each such Optionee will be a bona fide Employee or Consultant, as the case may be.

3.6 Record Keeping

The Company shall maintain a register in which shall be recorded the name and address of each Optionee, the number of Options granted to an Optionee, the details thereof and the number of Options outstanding.

3.7 Necessary Approvals

The Plan shall be effective only upon the approval of the Board, the shareholders of the Company by ordinary resolution or Disinterested Shareholder Approval, as applicable, and acceptance by the Exchange. The obligation of the Company to sell and deliver Shares in accordance with the Plan is subject to the approval of any governmental authority having jurisdiction or any stock exchanges on which the Shares are listed for trading which may be required in connection with the authorization, issuance or sale of such Shares by the Company. If any Shares cannot be issued to any Optionee for any reason including, without limitation, the failure to obtain such approval, then the obligation of the Company to issue such Shares shall terminate and any exercise price paid by an Optionee to the Company shall be returned to the Optionee.

3.8 Administration of the Plan

The Board is authorized to interpret the Plan from time to time and to adopt, amend and rescind rules and regulations for carrying out the Plan. The interpretation and construction of any provision of the Plan by the Board

shall be final and conclusive. Administration of the Plan shall be the responsibility of the appropriate officers of the Company and all costs in respect thereof shall be paid by the Company.

### 3.9 Statutory Withholdings

As a condition of participation in the Plan, a Participant shall authorize the Company in written form to collect and withhold from the Participant or its agent, as the case may be, any amounts required by applicable legislation to be withheld for any taxes or otherwise as a consequence of such participation in the Plan.

### 3.10 Amendments to the Plan

The Board shall have the power to, without shareholder approval, at any time and from time to time, either prospectively or retrospectively amend, suspend, or terminate this Plan or any Option granted under this Plan:

- (a) for the purposes of making minor or technical modifications to any of the provisions of this Plan;
- (b) to correct any ambiguity, defective provisions, error or omission in the provisions of this Plan;
- (c) to change any vesting provisions of Options;
- (d) to extend the expiration date of any Option provided that the period during which an Option is exercisable does not exceed 10 years from the date the Option is granted;
- (e) to add or change provisions relating to any form of financial assistance provided by the Company to Eligible Persons that would facilitate the purchase of securities under the Plan;
- (f) to add a cashless exercise feature to any Option or to the Plan, providing for the payment in cash or securities upon the exercise of Options; and
- (g) to reduce the exercise price of any Option previously granted in accordance with the Plan.  
provided however that:
- (h) such amendment, suspension or termination is in accordance with applicable laws and the rules of any stock exchange on which the Shares are listed;
- (i) no such amendment, suspension or termination shall be made at any time to the extent such action would materially adversely affect the existing rights of an optionee with respect to any then outstanding Option, as determined by the Board acting in good faith, without his or her consent in writing; and
- (j) the Board shall obtain shareholder approval of the following:
  - (i) any amendment to increase the maximum number of Shares issuable upon the exercise of all Options granted under the Plan specified in Section 3.1 (a) (other than pursuant to Section 2.14);
  - (ii) any amendment that would reduce the exercise price of an outstanding Option granted to an insider (other than pursuant to Section 2.14);
  - (iii) any amendment that would extend the term of any Option granted to an insider;
  - (iv) any amendment that would remove or exceed the inside participation limit set out in Section 3.1(d) and Section 3.1(e); and
  - (v) a change to this Section 3.10 of this Plan.

### 3.11 No Representation or Warranty

The Company makes no representation or warranty as to the future market value of any Shares issued in accordance with the provisions of the Plan.

### 3.12 Compliance with Applicable Law

If any provision of the Plan or any agreement entered into pursuant to the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body or stock exchange having authority over the Company or the Plan then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

## **APPENDIX C – BOARD OF DIRECTORS’ MANDATE**

*(As amended and restated by the Board of Directors on March 22, 2012)*

The following is a description of the mandate and responsibilities of the Board of Directors (the “Board”) of Lucara Diamond Corp. (the “Company”):

- a. The principal responsibilities of the Board are to supervise and evaluate management, to oversee the conduct of the Company’s business, to set policies appropriate for the business of the Company and to approve corporate strategies and goals. The Board is to carry out its mandate in a manner consistent with the fundamental objective of enhancing shareholder value.
- b. In discharging its duty of stewardship over the Company the Board expressly undertakes the following specific duties and responsibilities:
  - i. adopting, supervising and providing guidance on the Company’s strategic planning process including, reviewing on at least an annual basis, a strategic plan which takes into account the opportunities and risks of the Company’s business;
  - ii. identifying the principal risks of the Company’s business and ensuring the implementation of appropriate risk management systems;
  - iii. ensuring that the Company has management of the highest calibre and maintaining adequate and effective succession planning for senior management
  - iv. placing limits on management’s authority;
  - v. overseeing the integrity of the Company’s internal control and management information systems; and
  - vi. overseeing the Company’s communication policy with its shareholders and with the public generally.
- c. The Board’s independent directors shall meet without management and non-independent directors present on a quarterly basis. If a Lead Director has been appointed, such meetings of the independent directors will be presided over by the Lead Director.

### **Outside Advisors and Fulfilling Responsibilities**

A director may, with the prior approval of the Chairman of the Board, engage an outside advisor at the reasonable expense of the Company, where such director and the Chairman of the Board determine that it is appropriate in order for such director to fulfil his or her responsibilities, provided that the advice sought cannot properly be provided through the Company’s management or through the Company’s advisors in the normal course. If the Chairman of the Board is not available in the circumstances, or determines that it is not appropriate for such director to so engage outside counsel, the director may appeal the matter to the Corporate Governance and Nominating Committee, whose determination shall be final.