

Lucara Diamond

121 Mining Investment  
Cape Town  
February 2018

# Cautionary Statement

## Forward-looking information

- This investor presentation contains forward-looking statements and information as defined in applicable securities laws including: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes, revenue for the Karowe Mine; exploration and development plans and objectives, production costs, exploration and development expenditures. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or achieved. Forward-looking statements are based on the assumptions, opinions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks and uncertainties which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. In particular, such risks include general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations), cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters and other risks and uncertainties describe under Risks and Uncertainties disclosed under the heading "Risk Factors" in the Company's most recent Annual Information Form available at <http://www.sedar.com>. More specifically with regard to the Karowe Underground Project, risks and uncertainties include as well as the above noted risks, estimated costs to construct the proposed Karowe Underground Project, expected start-up, exploration and development plans and mine designs at the Karowe Underground Project, and the timelines associated therewith, and objectives, expected production costs, expected exploration and development expenditures and expected reclamation costs at the Karowe Underground Project, including such plans, objectives and economic estimates, including cost and expenditure estimates, used in or arising from the PEA or in relation to the proposed Karowe Underground Project; the expected completion date of open-pit operations at the Karowe Mine; the expected completion of an updated mineral resource estimate and a PFS at the Karowe Underground Project; expected Karowe Underground Project enhancement opportunities resulting from the Karowe Underground PEA; expectations regarding diamond prices and changes to foreign currency exchange rates and expectations regarding the need to raise capital.
- Forward-looking statements and information speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law. Readers are cautioned not to place undue reliance on forward-looking statements and information. This presentation does not constitute an offer or invitation to purchase or subscribe for any securities and no part of it shall form the basis of or be relied upon in connection with any investment decision in relation thereto.

## Technical information

- The technical information in this document for the AK6 diamond project (Karowe Mine) in Botswana is based on the following technical reports, respectively: NI 43-101 Technical Report on the Feasibility Study for the AK6 Kimberlite Project, Botswana Prepared by MSA Geoservices (Pty) Ltd on behalf of Lucara Diamond Corp., dated December 31, 2010. Updated NI43-101 report released on February 4, 2014, based on update Mineral Resource Estimate released by Lucara Diamond Corp., dated December 19, 2013.
- The authors of these technical reports are independent of the Company and are qualified persons for the purposes of National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"). The technical reports are available for review on SEDAR at [www.sedar.com](http://www.sedar.com).
- All currencies mentioned in this presentation are in United States Dollars ("US\$") unless otherwise mentioned.

# Content

Introduction 4	Highlights & Key Performance Data 8	Karowe Mine 14	Underground PEA 18
Exploration 26	2018 Guidance 28	The Diamond Market 30	Notes 34



# Introduction

**Lucara is an established diamond producer. Its principal asset is the Karowe Mine in Botswana. The 100 percent owned Karowe Mine is a state-of-the-art mine which has consistently delivered large, high value Type IIA stones. The Company has an experienced board and management team with extensive diamond development and operations expertise. The Company operates transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment and community relations.**

# The Investment Case

- 100% owned Karowe Mine in Botswana
  - one of Africa's most stable mining jurisdictions and the Continent's longest continuous multi-party democracy
- One of the foremost producers of large Type IIa diamonds
  - Production yields average of 5.3% weight percentage specials (+10.8 ct)
  - Recovery of approximately 20% of all historically recorded +300 carat stones
  - 25 highest value Karowe diamonds have sold for > US\$319M
  - 148 diamonds have sold for > US\$1 million each (Total value in excess of US\$579 M)
- Progressive Annual Dividend of CDN\$0.10 for 2017. US\$217 million paid since implementation of dividend policy in 2014
- Organic growth potential through expansion of resource (positive PEA results), exploration of surrounding prospecting licenses and through M&A

# Capital Structure

Lucara is a publicly listed company trading under the symbol “LUC”

TSX  
NASDAQ Sweden  
BSE (Botswana)

Issued shares	382,619,334
Fully diluted shares	387,759,261
Insider Holdings	21% on a fully diluted basis
Debt	<u>Nil</u>
Cash on hand	US\$ 91.4 million (Q3 2017) \$50 million Credit Facility remains undrawn

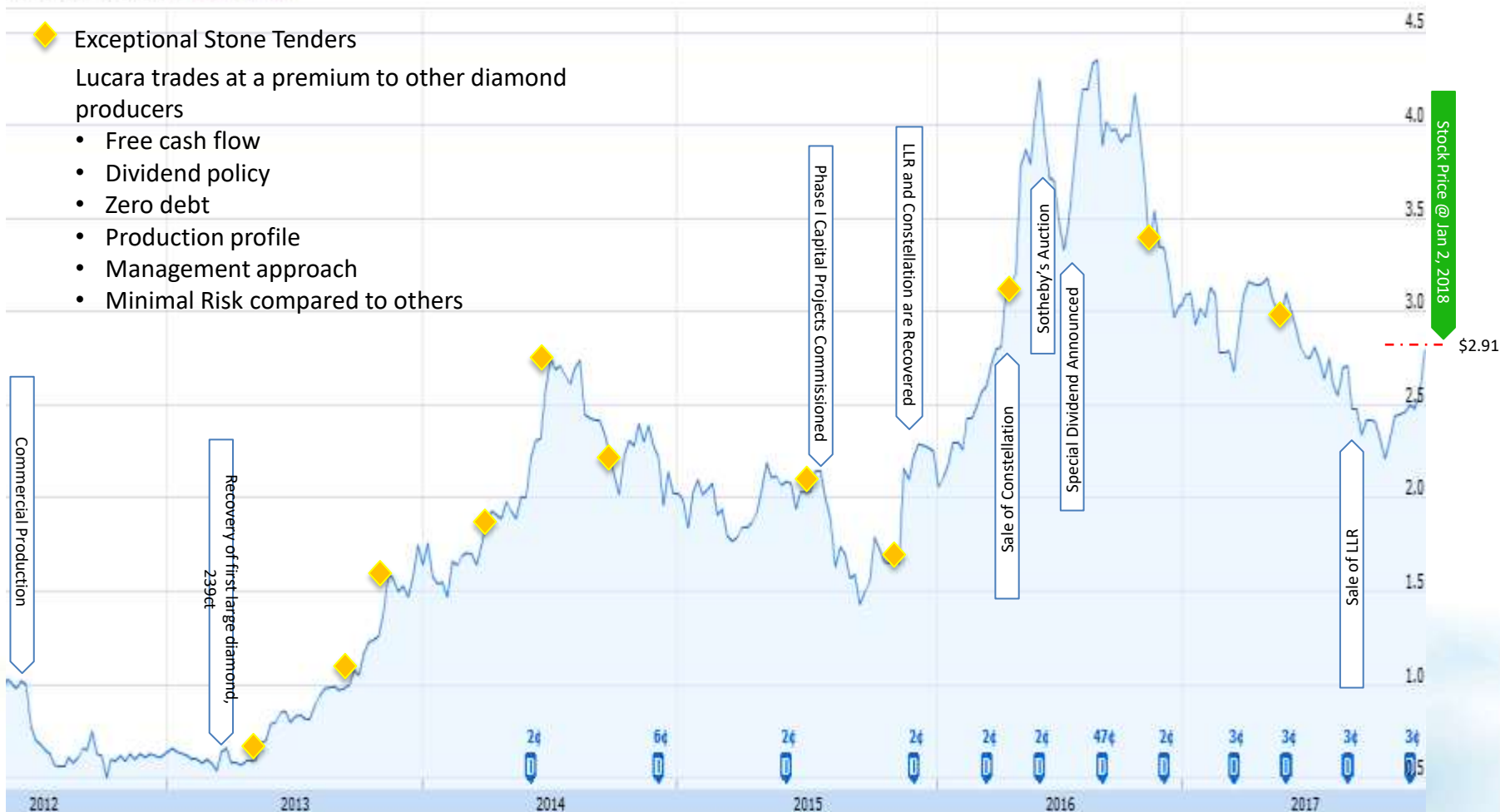
# Company Performance Since First Production

Jun 29, 2012 - Jan 02, 2018 +2.21 (315.71%)

## ◆ Exceptional Stone Tenders

Lucara trades at a premium to other diamond producers

- Free cash flow
- Dividend policy
- Zero debt
- Production profile
- Management approach
- Minimal Risk compared to others





# Highlights & Key Performance Data



## Q3 2017 Results

### **Revenue for Q3 was \$77.9 million or \$1,161 per carat**

Year to date sales price \$687 per carat excluding the sale of the Lesedi La Rona, 11% higher than Q3 2016

### **Recoveries of high value south lobe diamonds continue**

108 specials equating to a 4.1% weight percentage of recovered carats (Q3 2017)

Year to date specials at 5%

### **Q3 EBITDA of \$49.8 million and year to date of \$106.4 million**

Following increases in prices, the sale of the Lesedi La Rona and strong cost control

### **Capital Projects for enhanced diamond recovery completed on time and on budget**

### **Outlook 2017**

Due to contractor issues resulting in the processing of lower grade material from stockpiles revenue guidance is reduced to between \$165 million and \$175 million

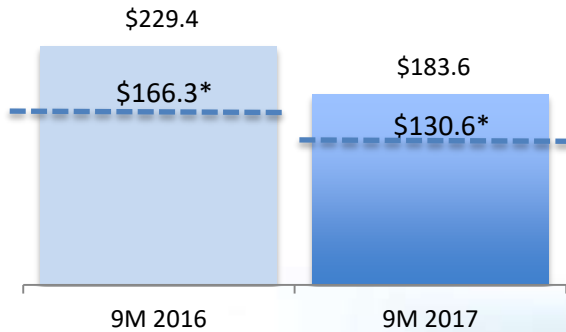
### **Karowe Underground Study - Preliminary Economic Assessment**

Demonstrates the potential for an underground mine and significant economic returns and life of mine extension

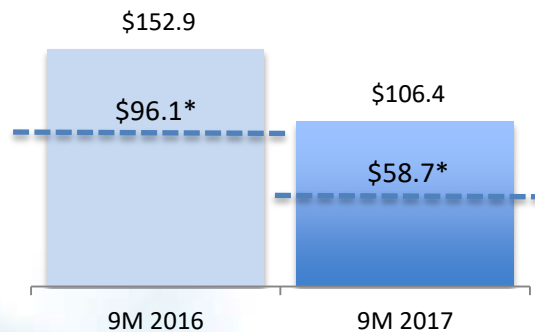


# Key Performance Indicators (9 months)

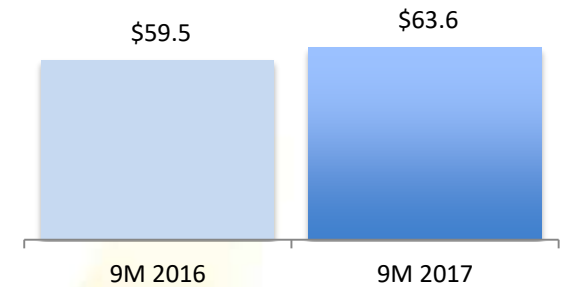
**Revenue  
(millions)**



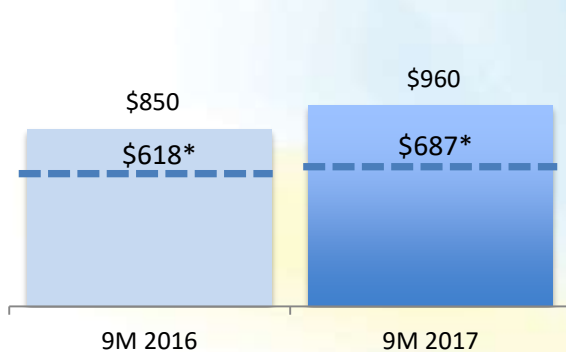
**EBITDA  
(millions)**



**Net Income  
(millions)**



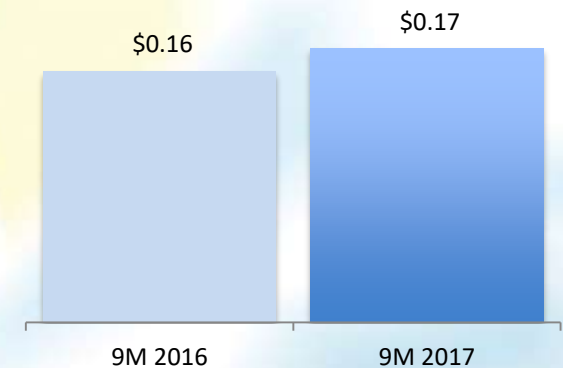
**Total Sales  
(average dollar per carat)**



**US\$ per tonne processed**



**Earnings per share**



\*excluding sale of Lesedi La Rona in 2017 and the 813 carat Constellation diamond in 2016

# Sales Price History and Specials



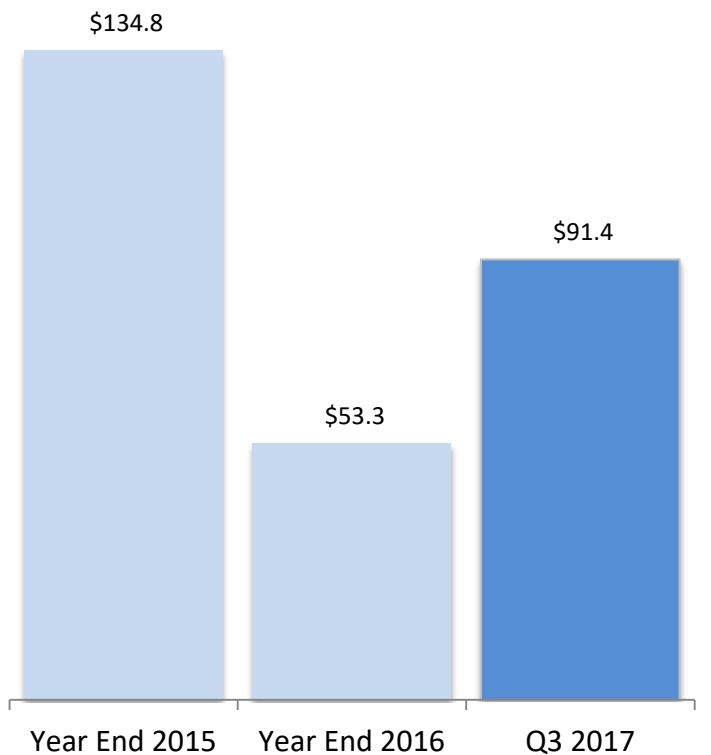
\*sales price excludes the sale of the Lesedi La Rona in 2017 and the 813 carat Constellation diamond in 2016

- Sales price increase due to high value south lobe - generating operating margins of over 80%
- Specials (+10.8 carats) weight percentage of carats recovered consistently strong and firm since full year production in 2013\*\*
- 2013 - Q3 2017 average weight percentage of specials weight is 5.3%
- 75% of Karowe revenue generation from production sold to high end market resilient to price pressure in mid to smaller sized diamonds

\*\*2015 recoveries influenced by recovery of seven +300 carat diamonds

# Strong Financial Position

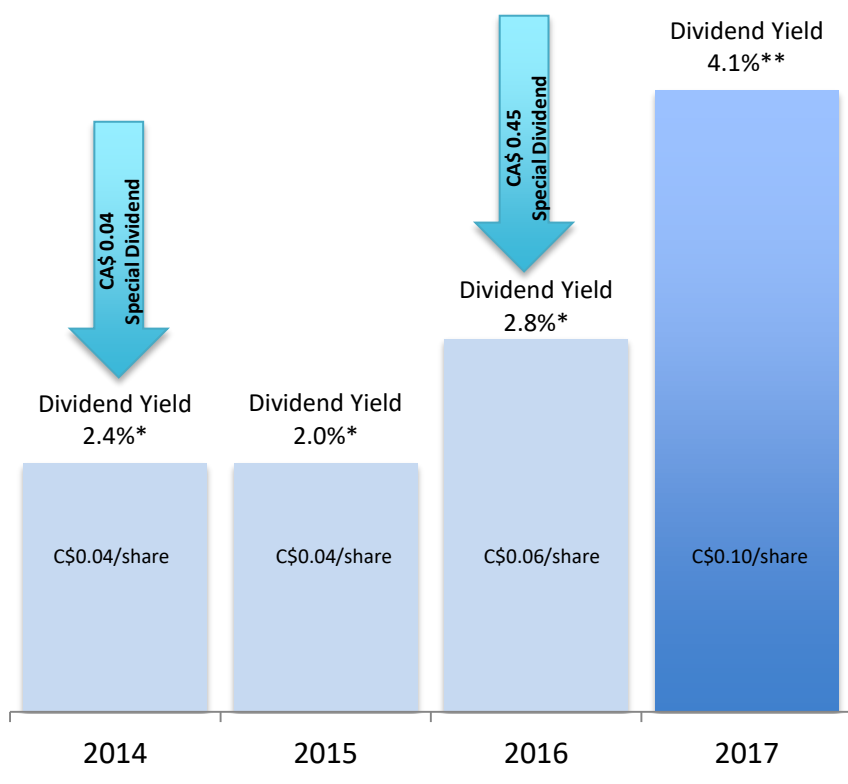
## Cash-on-hand (millions)



- Net cash balance of \$91.4 million
- Total dividends paid to date: \$217 million
- Strong cash flow generation due to:
  - ✓ Increasing diamond prices for Karowe diamonds
  - ✓ Major capital projects on time and on budget. These projects complete the optimization projects at the Karowe mine.
  - ✓ Costs well controlled:
    - Total operating costs: Year to date \$32.00 per tonne processed (guidance \$36.00-\$40.00 per tonne processed)
    - Mining costs: Year to date \$2.45 per tonne (guidance \$2.70-\$2.90 per tonne)
    - Processing costs: Year to date \$11.50 per tonne (guidance \$11.00-\$12.00 per tonne)
  - ✓ Sale of the Lesedi La Rona for \$53 million
- Credit facility of \$50 million remains undrawn

# Shareholder Returns

## Dividend Per Share Payments



\*Share price beginning of year

\*\* Share price Sept 30, 2017

- Strong cash flows result in robust dividend cover: 2017 dividend is 2.5x 2016 net income cover
- 2017 CDN 10 cent dividend is yield of 4.1% based on 30 September 2017 share price
- Year on year regular dividend growth by 67% and 50% in 2017 and 2016 respectively



**Karowe Mine**

# Karowe Operating Performance

<b>Production Information</b>	<b>YTD (Sept) 2017</b>	<b>YTD (Sept) 2016</b>
Ore processed (tonnes)	1,703,773	1,982,745
Ore mined (tonnes)	950,303	2,140,206
Carats recovered (carats)	185,290	271,702
Plant feed grade (carats per hundred tonnes)	10.9	13.7
Waste mined (tonnes)	11,119,512	8,329,126
<b>Revenues and Operating Margins</b>	<b>YTD (Sept) 2017</b>	<b>YTD (Sept) 2016</b>
Revenue (\$ millions)	183.6	229.4
Carats sold	191,167	269,849
Revenue (\$ per carat)	960	850
Operating margin (\$ per carat)	729	707

# Value Recovery

- MDR allows for the recovery of diamonds >200 carats upfront (+50mm – 120mm)
- Sub-Middles XRT provides for the most efficient and cost effective processing of the dense high-yielding South Lobe ore (+4mm – 8mm)





# CSR and Health & Safety

- Karowe had no lost time injury during the quarter resulting in a twelve month rolling Lost Time Injuries Frequency Rate (“LTIFR”) of 0.68
- Working with Lethlhakane District Council to advance local community projects including a community centre
- Active community engagement
  - Bus shelter donation
  - Village clean-up campaigns
  - Sport event sponsorship



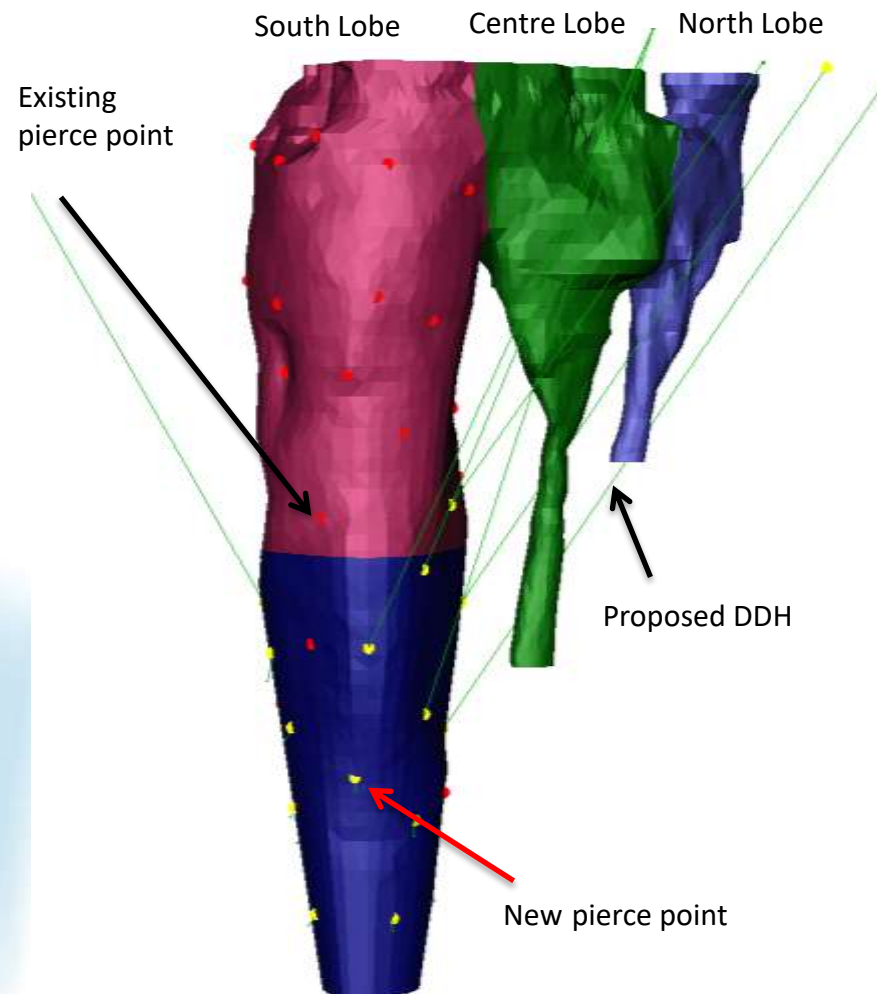
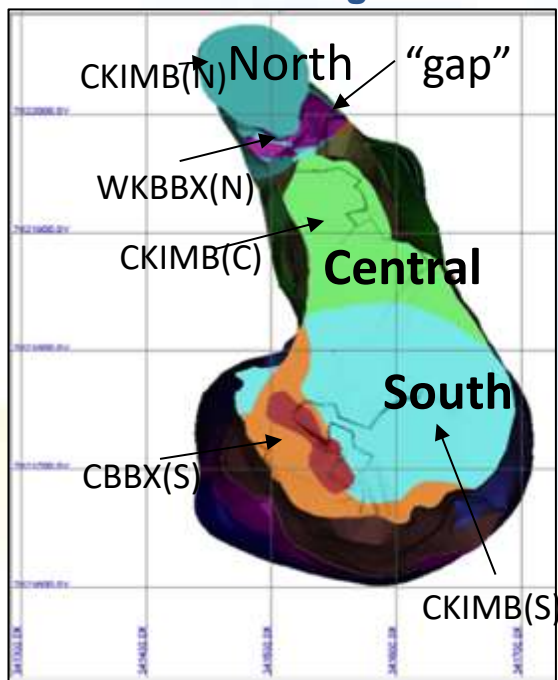


Underground Study – PEA

# AK06 Resource Expansion

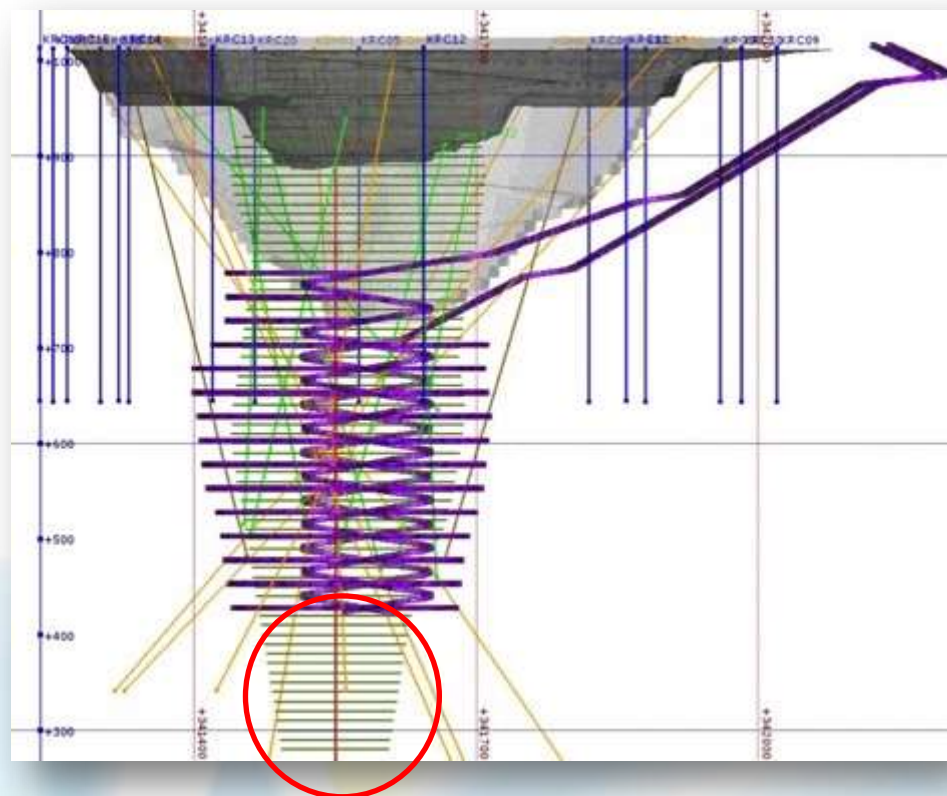
- 10,000 metre drill program with target to bring inferred mineral resources into the indicated category
- Drilling program completed in February 2017
- Mineral Services Canada completing Resource Update – expected Q4 2017

## Plan View of Geological Model



# Key Underground Data

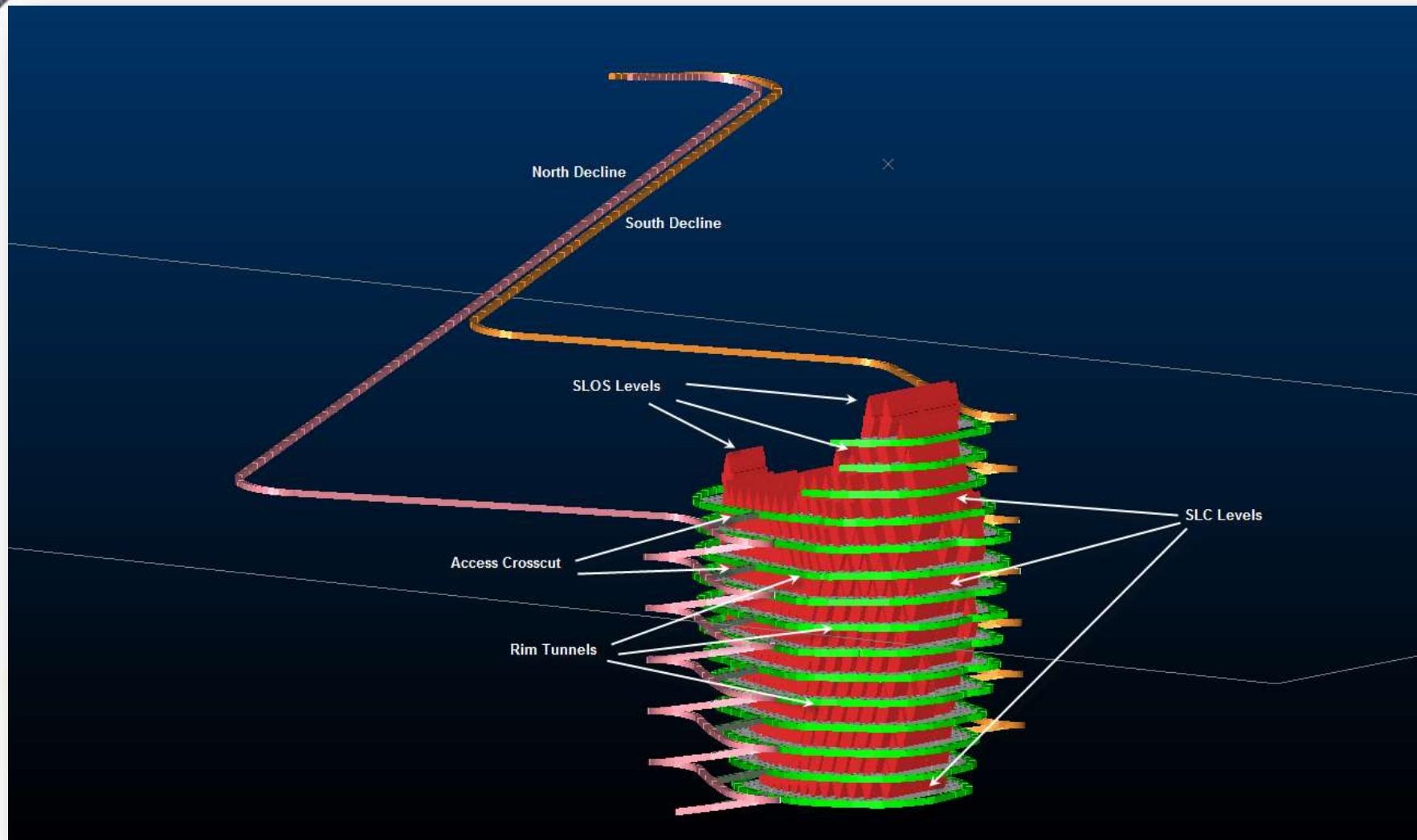
Parameter	Output
Life of Mine	Extension of LoM from 2026 to beyond 2036, mining an additional 24.7 million tonnes to a depth of 600m below surface (400m mamsl)
Mining Method	Twin declines, 125m apart to 300m level, followed by ring tunnels at 25m spacing, first three years sub-level open stoping followed by sub-level caving with tram of ore to surface
Grade and Diamond Volume	Average grade of 12-13 cpht producing on average 272,000 carats per annum
Process Plant	Minimal changes to the process plant have been included as the ore will be very similar to that being treated at present. Power allowances for additional comminution have been considered
Production Rate	Maintained at the current level of 2.5Mtpa although Royal HaskoningDHV have commented that 10,000tpd would be optimal from a mining perspective. Will be assessed in PFS
First UG Ore	2023



Kimberlite Remains open at depth to at least 750m below surface

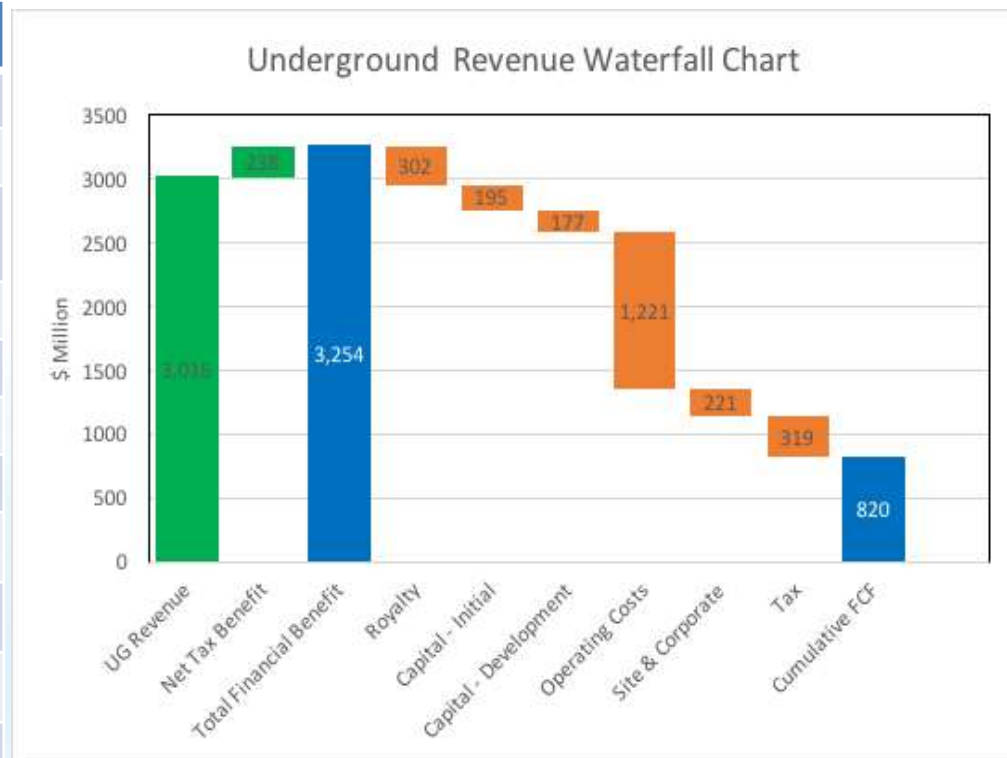
Inferred down to 750m below surface

# Underground Development



# Underground Study – PEA

Parameter	Output
NPV <sub>5</sub> (USD)	~ \$451 million
NPV <sub>8</sub> (USD)	~ \$318 million
Undiscounted Free Cash Flow (after tax)	~ \$820 million
Life of Mine	10 years (2026 to 2036)
IRR	38.9% (UG only)
Discount Rate	5 & 8%
Capital Cost (USD)	~ \$195 million
Capital Contingency	25%
Operating Cost (USD/t)	~ \$49.4/t (ave)
Revenue (USD/t)	~ \$112.2/t (ave)
Diamond Value Escalator	2.5% per annum
USD : Rand Exchange Rate	R13.00
Average Tax Rate (during full scale operations)	32.5% (straight ave)
Net Tax Benefit (OC)	\$237 million



# Considerations

- **Risks**

- Safety aspects of the underground design
- Variable hydrology and geotechnical characteristics:
  - Timeline to dewater sufficiently to enable access to the underground workings
  - Geotechnical conditions when mining through the sandstones and mudstones

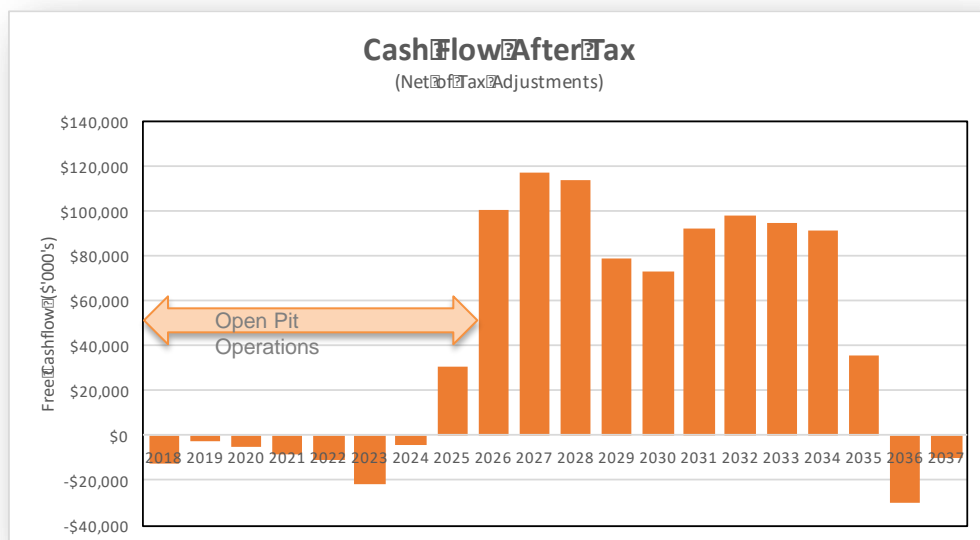
- **Opportunities**

- Develop box-cut from within the current pit shell - schedule
- Review existing SLC design structure once geotechnical results are available (rim tunnels spacing, decline/shaft option, etc.)
- Investigate block cave option
- Sub-level caving operations efficiency improvements at 10,000tpd
  - Opportunity to increase throughput but will require modifications to the plant



# Underground Study – PEA

## Free Cash Flow



- Underground capital costs positively affect the financials of the current open pit operations as the capital spent off-sets the variable tax rate
- Underground only NPV is significantly affected as revenues are only generated in 10 years time
- In order to fully evaluate the UG projects economics, net tax benefits are considered as integral to the evaluation of the underground free cash flow
- Negative cash flow in 2036 and 2037 account for current reclamation expenditure but resource remains open at depth



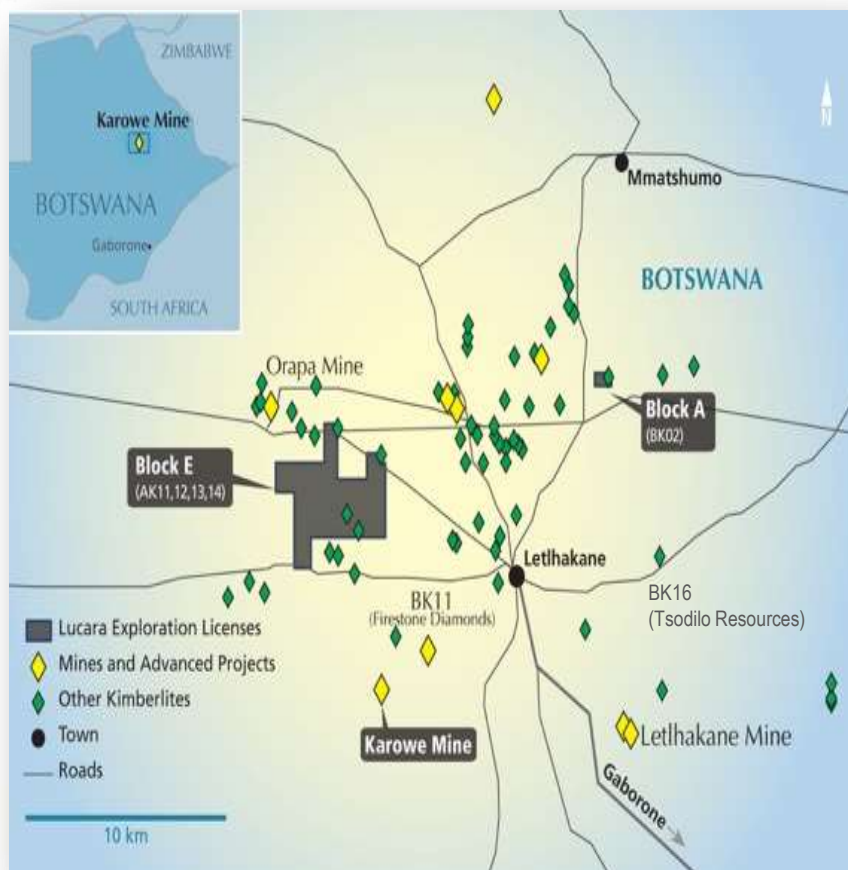
# Underground Study – PEA

- **Project is already significantly de-risked**
  - Financial – diamond sales in place, known revenue from SFD
  - Process plant in place
  - Site operational (site establishment and unknowns removed)
- **Next Steps**
  - PEA logged on Sedar within 45 days
  - Resource Update – expected Q4, 2017
  - Geotechnical and hydrology modeling
  - Trade-off studies and review of mining options
  - Pre-Feasibility Study – Q2, 2018



# Exploration

# Prospecting Licences



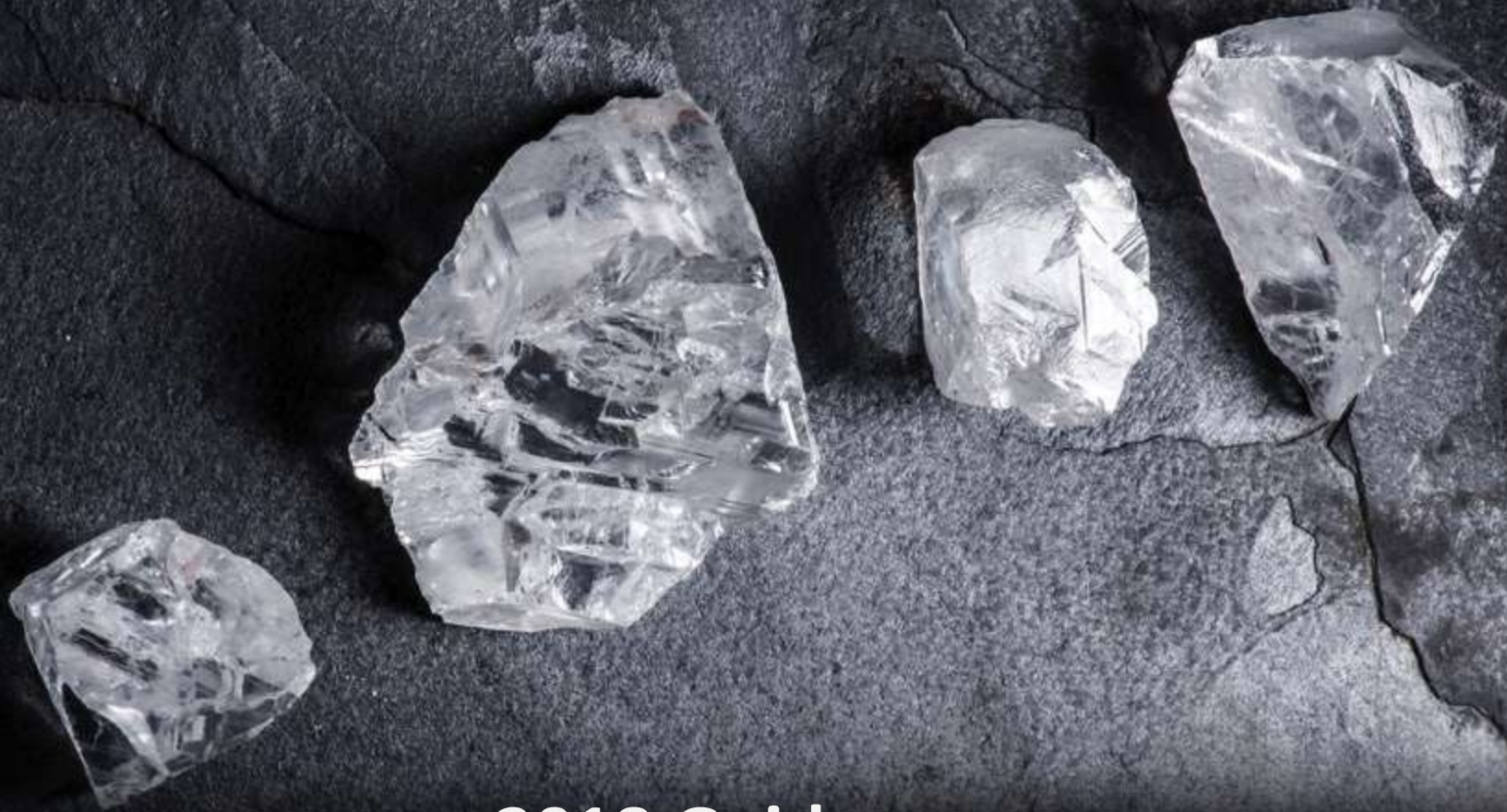
## AK11

- All pilot holes completed and three of the eight large diameter drilling holes
- Material from the LDD samples commenced processing at the Company's Bulk Sample Plant in Q4 2017
- Material will be processed by lithology

## AK13

- Logging and sampling was completed and microdiamond samples shipped for analysis

*Approval for the extension applications were received for each of the PL's (PL367/2014 and PL371/2014) from the Ministry of Mines in Q4 2017*



# 2018 Guidance

# 2018 Outlook

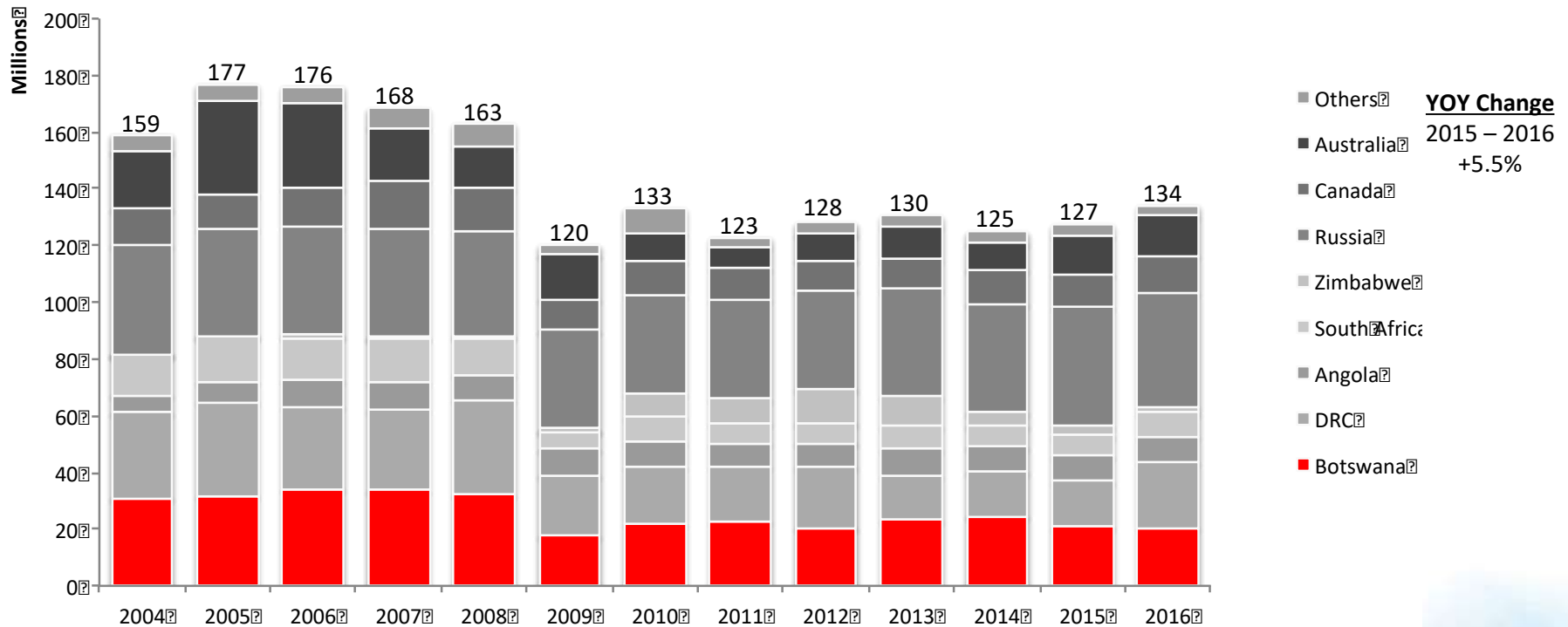
Revenue (US\$ million)	170 - 200
Sales (thousand carats)	270 – 290
Carats recovered (thousand carats)	270 – 290
Tonnes of ore processed (million tonnes)	2.4 – 2.7
Ore mined (million tonnes)	2.4 – 2.7
Waste mined (million tonnes)	13.0 – 16.0
Operating cash costs per tonne ore processed, including waste mined (dollars)	38.00 – 42.00
Sustaining capital expenditure (US\$ million)	11.0
Exploration costs (US\$ million)	6.0
Underground Development - PFS; geotechnical, hydrogeology drilling, & other studies (US\$ million)	29.0



## **The Diamond Market**

# Global Rough Diamond Production

Annual production, millions of carats



Note: Only diamond tracked by Kimberley Process are included

Sources: Company data; Kimberley Process; expert interviews; Bain analysis

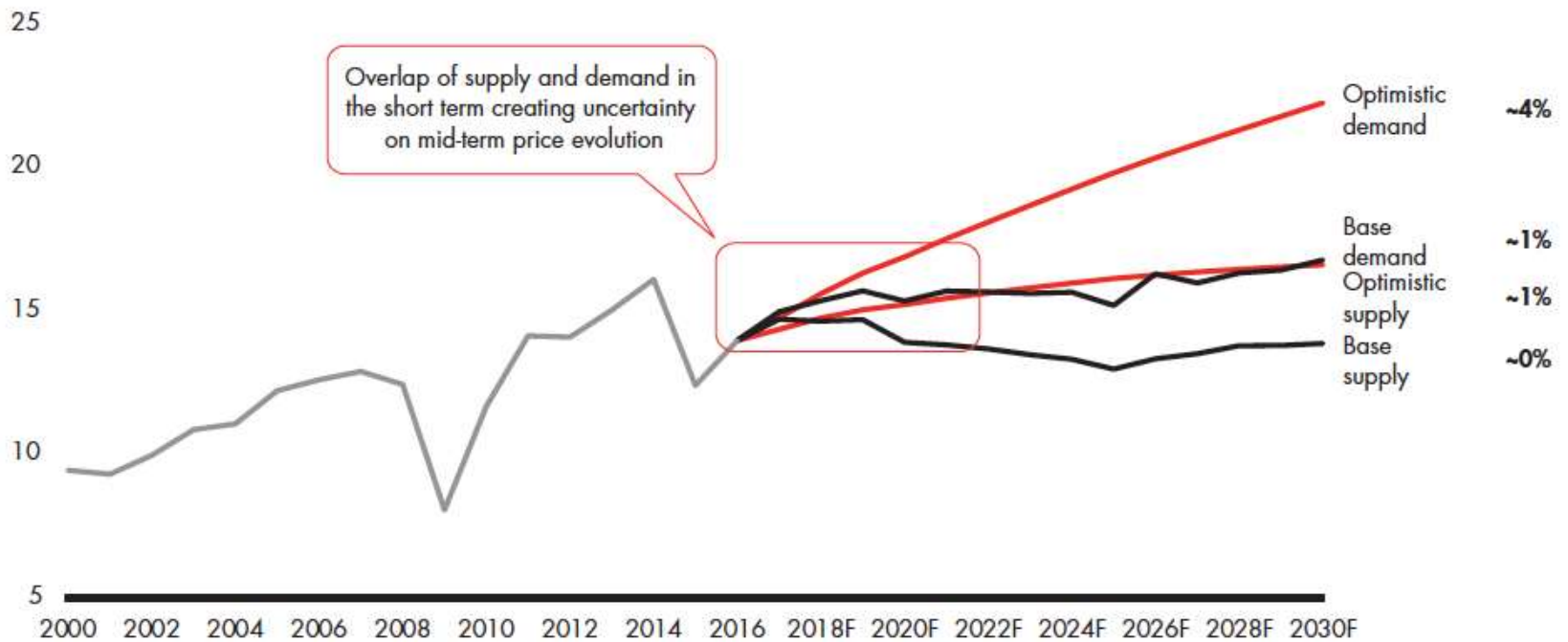


# Diamond Sector: Supply vs. Demand

The gap between supply and demand is expected to remain tight in the medium term

Rough-diamond supply and demand, \$ billions, 2000–2030, 2016 prices, constant exchange rates, optimistic and base scenarios

**CAGR**  
(2016–2030)



Note: Rough-diamond demand has been converted from polished-diamond demand using a historical ratio of rough to polished diamond values

Source: Bain & Company - Global Diamond Report 2017



# Diamond Market

- Market is cautious – supply and demand fundamentals remain unbalanced
- Increasing demand weakness in smaller and poorer quality stones, including low colour brown diamonds
- Average diamond prices are estimated to have decreased by 8% compared to the prior year in certain size and quality fractions\*
- High value diamond market remains robust due to lower than historical large stone recoveries by other producers
  - Demand for Karowe large diamonds remained strong
- Strong customer base and brand
- Outlook is positive although cautious

\*as reported by other diamond producers

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## Contact Information

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