Massif Capital

Lucara Diamond (OTC:LUCRF & TSE:LUC)

Current Price: $2.08   **Target Price: $3.25**

Investment Thesis: A scarce and pricey product, produced by a long-lived asset with limited reinvestment needs, throwing off cash significant cash.

- Lundin family backed diamond mine in Botswana.
- Debt free balance sheet, with $53 million in cash and significantly undervalued inventory of ready for sale rough diamonds on the balance sheet.
- Low cost mine with minimal maintenance capital expenditure needs, that has produced a unique number of large high quality gem stones and produced an average ROIC of 50.8% over the last four years with an average FCF Margin of 31.2%.
- Current Estimated Next Twelve Months dividend yield of 3.65% excluding any special dividend resulting from revenue generated by exceptional stone tenders.
- Favorable industry dynamic: high barriers to entry, foreseeable supply dynamics, significant producer bargaining power with consumers of rough diamonds.

The Kimberlite deposit that the Karowe mine is focused on was initially discovered, along with 29 other Kimberlite deposits, by De Beers in 1969. Due to the small size and low grade indicated by initial exploration work, De Beer's turned its attention to other Botswana based deposits. The company returned to the find in 1986 and 1997, but only in 2003 did De Beers focus on the deposit. Unfortunately for De Beers, this was also about the time the company began to lose its strangle hold over the diamond industry. Canadian and Australian mines were producing diamonds outside the firms control, price fixing and antitrust law suits in the US were on going and the loss of control of the Russian Diamond supply was on the horizon.

Lucara acquired the mine in 2009, by 2013 Lucara had invested about $250 million in the mine, and by the end of fiscal year 2016 had a producing mine, $53 million in cash, no debt and paid $188 million to shareholders in dividends. Management accomplished this feat by tapping into a unique geological asset, one that produces an outsized portion of the worlds large (10.8+ carat) diamonds and almost all of rare quality, and by selling them into a niche segment of an industry well suited to generating high returns with the right asset.

Business Overview

Lucara Diamonds is a diamond miner and prospector focused on the production of gem quality diamonds from the 100% owned Karowe mine in Botswana (which is just north of South Africa). The mine has been in operation since 2012, with its first full year of commercial production in 2013. The principal off-take from the mine is very high quality rough diamonds which the company sorts and values before selling several times a year via a competitive closed bidding process with minimum acceptable bids set by the company. In addition, the mine is known for producing a regular stream of unique diamonds which are sold via Exceptional Stone Tenders held two or three times a year. Exceptional Stones are defined as those the company believes will fetch $1 million or more and are generally greater than 10.8 carats.

Selected Financial and Operational Data

	Historical Data				
	FY2012	FY2013	FY2014	FY2015	FY2016
Carats Sold	303,000	438,717	412,136	377,136	358,806
Exceptional Stone Carats Sales	9.5	2,964	4,176	3,114	2,624
Exceptional Stone Avg. Price Per Carat	477,272	24,290	32,471	31,597	34,301
Revenue (In Thounds of USD)	41,830	180,507	265,504	223,846	295,466
EBIT	(6,112)	87,367	158,778	120,190	169,391
EBIT Margin		*48.4%*	*59.8%*	*53.7%*	*57.3%*
ROIC	-3.1%	46.3%	47.8%	56.6%	52.4%
Avgerage Price Per Carat Sold	$272	$411	$644	$593	$649
Operating Expenses Per Carat Sold	$92	$100	$115	$133	$156
FCF Per Carat Sold	($133)	$206	$203	$129	$178

The Special Tender from 2012 highlights the unique nature of diamond pricing which makes diamonds something other then a commodity. The color, shape, clarity, and character of a diamond are key to pricing. In 2012Lucara had a single Exceptional Stone Tender with a single 9.5 carat diamond, which is relativly small by the standards of the Karowe mine (produced 47 stones greater then 100 carats in 2015 and 31 in 2014) yet it is unlikley any stone sold by the firm will top the $477,272 per carat the single blue diamond sold via special tender in 2012 did.

The Diamond Mining Industry

An Attractive Industry for Long-Term Profitability: The Diamond mining industry is an extremely attractive industry in comparison to many other types of mining.

- The bargaining power of buyers is limited as prices are not set via an open market, the supply is controlled by a handful of companies and there are no close substitutes.
- The potential threat of new entrants is constrained due high mine development costs and low probability of finding a diamond baring kimberlite deposit. To date there are 6,400 known kimberlite deposits, only 900 of which have diamonds, and of those only 30 have sufficient quantity and quality to be economically mined.
- Competition among miners is constrained by a duopoly (De Beers and Alrosa) that controls 60% of global diamond production and have loosely coordinated supply management that has helped stabilize pricing in recent years at times of potential volatility.

In addition to the attractive industry dynamics within the general diamond industry there are niche markets for both colored stones (dominated by a Rio Tinto) and for exceptionally large high quality stones, a niche now dominated by Lucara. The large diamond segment is particularly interesting because the diamonds are unique, can be historically significant and often times act as veblen[1] goods, with higher prices begetting greater demand due to perception, status and exclusivity.

Attractive Position in an Attractive Industry: As already noted Lucara operates in an attractive industry, and within both the overall industry and a niche segment of that industry. The overall industry for Diamonds is attractive because the duopoly of De Beers and Alrosa appear to have no interest in prices declining[2], but that still leaves the average miner (of which there are only a few) at a disadvantage of being a price taker regardless of whether those prices are good or not. Lucara, because of its unique mine, derives only 50% of its revenue from common engagement ring diamonds. The rest of its revenue is derived from rare and unique diamonds.

There are quarters when the mines output is 6% "weight percent special", meaning 6% of the diamonds recovered are larger than 10.8 carats. In 2015 roughly 8% of the mines total carats produced were associated with diamonds larger than 36.7 carats. The value of size is derived from the margin that rough diamond cutters make on larger stones, which is significantly greater than on small stones, as a result Lucara has seen growing demand for their diamonds as cutters have come to know the stones and what they should expect them to yield once cut. Equally important, 25% of the diamonds produced by Lucara are Type IIa diamonds. Type IIa stones are the second highest ranking of diamond, they are nearly flawless. Lucara's run of mine production is 25% Type IIa, an extraordinarily large percentage, especially given that only 1.8% of all natural diamonds are Type IIa.

In short, Lucara sells a selection of very high quality rough diamonds into a market with managed pricing and a unique selection of rough diamonds into a niche market, in which it has a genuine competitive advantage because of their ownership of a unique geological asset.

Valuation – Value Driven by High ROIC and FCF Generation.

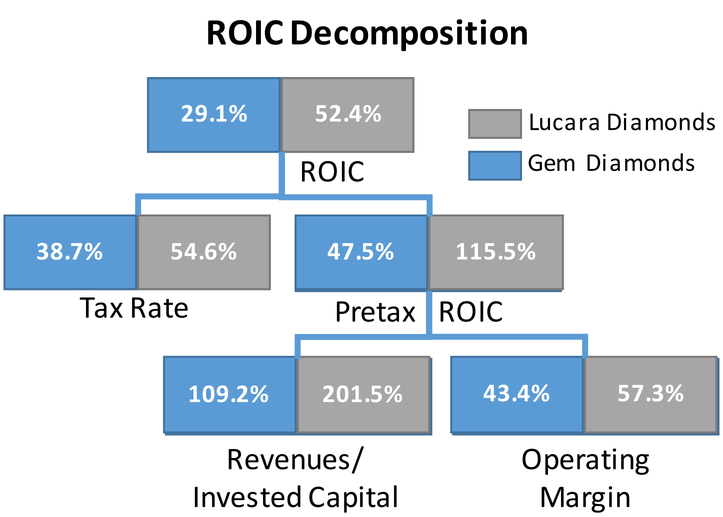
Companies create value for shareholders by investing capital to generate future cash flows at rates of return that exceed their cost of capital. By that measure Lucara has been a great success, in three years of full operation management has returned to investors, via dividends, $188 million or 26% of the company's enterprise value. The company has accomplished this impressive feat by sustaining high operating margins and impressive returns on invested capital.

[1] Veblen Good: A type of luxury good in which demand increases with price. A price increase results in the perception of exclusivity increasing, making the good even more desirable.

[2] This assumption may not hold. There was no reason to believe that Saudi Arabia (who in some respects has played a similar role in the oil industry to that now played by De Beers and Alrosa in the diamond industry) wanted the price of Oil to decline but they seemed accepting of the price decline between 2014-2016 as they believed it would allow them to drive US shale producers out of businesses.

	2013	2014	2015	2016
ROIC	46.29%	47.80%	56.64%	52.43%
Operating Margin	48.40%	59.80%	53.69%	57.33%

Although there are limited growth opportunities as the mine is producing at commercial levels, sustained margins and ROIC at the above levels creates significant value which can be sustained by the firm's position in the industry. Decomposing the ROIC (below) shows that the firms returns are driven by the per carat price received by the firm for its diamonds and by the firm's capital efficiency.



As the table to the below demonstrates Lucara receives a per carat price far in excess of most competitors, save for Gem Diamonds which is a similar mid-tier diamond miner with mines in Botswana and Lesotho.

If the per carat price is so important to the value generating ability of Lucara then why not invest in Gem Diamonds with its superior per carat price? The reason is to be found in a comparison of ROICs. While both firms earn comparable operating margins Gem Diamonds averages 1.09x revenue to invested capital (in 2016) compared with Lucara's 2.01x. The superior asset utilization by Lucara translates into superior ROIC and thus stronger cash flows.

Lucara's high free cash flow has enabled management to operate the mine debt free and regularly return cash to shareholders in the form of both a quarterly dividend and special dividends. As was the case this past year when the firm sold the 813 carat Constellation diamond for the highest value ever recorded at auction for a rough diamond, $63 million. The special dividend was $0.33 or a yield of 11.34% on the share price at the time paid resulting in total shareholder returns in 2016 of 70%.

Avg $ Per Carat	2016	2015	2014	2013
Dominion Diamond	89	199	260	172
ALROSA	120	120	120	120
Rio Tinto	34	40	65	54
Petra Diamond	116	132	152	147
Lucara	824	593	644	411
Gem Diamonds	1,444	1,245	2,277	2,242

Why do differences in price per carat like this exist?
The average carat size and quality of diamonds that different mines produce is dramatically different. For example Rio Tinto owns the largest colored diamond producing mine in the world (Argyle) but despite the high mine grade, most of the diamonds are smaller and of lower quality, but the mine produces a few very expensive, very high quality colored stones. Both Lucara and Gem Diamonds produce very large, very high quality white diamonds, and per carat price increases with size exponentially, especially with high quality. Rough stone pricing differences are very difficult to capture, but polished stone wholesale price differences can start to reveal the jumps that can occur. The difference between the lowest gem quality 1 carat round polished diamond and the highest quality is 15x, but when the carat size increases to 1.5 to 2 carats the price differnce is 23x, at 2 to 3 carats the differnce is 31x.

Since the special dividend the stock has fallen 30%, despite a quarterly dividend increase and strong 2016-year end results.

The Cash Return Ratio for fiscal year 2016, defined as FCF/Enterprise Value, was 8.8%, down from the average during all operating years of 10% but still impressive. Looking to the future, the firm intends to sell the 1,109 carat Lesendi La Rona during FY2017, the firm has already received offers for the stone in excess of $60 million and is forecasting revenue from run of mine diamonds and special tenders of $220 million, the same forecast was issued for each of the last three years, and beat by $40 million in two of the last three years. Capital expenditures for the year look to be higher than normal due to the introduction of new sorting equipment in the processing plant (that will improve the recovery of diamonds from ore), higher stripping costs (which will bring forward in the mine life access a rich area of the mines underlying kimberlite) and higher exploration costs.

The expected result is lower free cash flow this upcoming year but improvement in the long run of both operational performance and access to rich ore, which will bring future cash flows forward in time. A base case valuation range of $2.45 to 2.93 is conservatively derived from a DCF with a 10% discount rate, no terminal growth, a discount rate of 12% on the terminal value and modest 1% revenue growth during the explicitly forecasted 10 year period. The low end of the range assumes that the principal value driver, recovery high end unique diamonds, fades. The high end of the range assumes a continuation at current levels. (All DCF Scenarios can be found in the Excel Financials File and are calculating the low end of the range).

Several alternate DCF scenarios have also been considered, each range assumes a similar fading of the unique diamonds going forward for the low end, and a continuation for the high end.

- Inflation Scenario: During the late 1970s and early 1980s inflation resulted in a dramatic (but short lived) spike in the price of diamonds, a scenario based on that historical case yields a price range of: $2.59 to $2.64.[3]
- Revenue growth of 3%: $3.15 to $3.19
- Flat 2016 Level Revenues with 5 years of unexpectedly high capital expenditures ($56 million a year): $2.32 to $2.37
- No Terminal Value, 1% Revenue growth: $1.70 to $2.00
- A possible future, that is difficult to put a probability on, is a significant increase in the per carat price that Lucara receives for its diamonds, for example to a level in line with what Gem Diamonds receives per carat. The diamonds are of similar quality and size, the principal difference between the prices received by both firms is related to industry reputation and knowledge of the diamonds (there are only about 60 or so diamond cutters worldwide who buy the special diamonds both firms sell and experience with cutting the mine's diamonds is limited). Additionally, Gem Diamonds is vertically integrated and sells some of its own jewelry, which drives up the value of prices that

[3] Diamonds Aren't an Investors Best Friend – WSJ article that reviews the idea of investing in polished diamonds as an investment.

are reported for internal sale diamonds. But assuming some of the relationship development is possible and the average price of carats sold increases to $1,250 a per share price of $5.26 is possible, a margin of safety of 61%. See Appendix Slide 4 – Key Risks to Investment for discussion of the firm's relationships with large diamond buyers.

An earnings power valuation (see Lucara Financials Excel File) that assumes mine maintenance capital expenditures of $9 million a year (which is the high end of managements estimates for the last 3 years), the sale of the Lesendi La Rona for $60 million and an average normalized net income based on the results from the last three years' produces a range of valuations from a high of $2.76 to a low of $1.94 depending on the discount rate assumed (between 8% and 12%).

Furthermore, it is worth highlighting that the current balance sheet dramatically understates the value of rough diamonds held in inventory. In addition to the Lesendi La Rona, which alone is worth more than the stated inventory on the balance sheet, management also confirmed in the year end call that they had at least 7 or 8 exceptional tender stones, which means they have a value of at least $1 million per stone, in inventory. The result is a likely minimum value of $67 million that is not currently recognized on the balance sheet.

Finally, at the current share price, the company is trading at only 4.73x TTM EBIT, this is despite the fact the current mine configuration has a further nine-years of life and ignores a possible mine life extension. A mine life extension assessment is also currently ongoing, with the drilling for the extension of the mine below the current planned floor level of the open pit mine completed in February of this year. The drilling results will be used to update the current resource estimate, which could convert up to 3 million carats of inferred resource to indicated, a potential increase of inferred resource of 40%.[4] The economics of the extension cannot be evaluated until the results of the resource update are available but an extension may add as much as $1.2 billion in value to the reserve statement.[5] This a key variable to consider for this investment and could significantly impact the valuation, see Appendix slide 8 for further discussion.

At the current time, without an extension of the mines life, a situation roughly equivalent to our DCF scenario without a terminal value, the upside of ownership will depend entirely on the mine continuing to produce exceptional diamonds. In this situation, management's history, and

[4] An indicated resource is one whose size and grade has been estimated from sampling at places spaced closely enough together that its continuity can be reasonably assumed. An inferred resource is one whose size and grade has been estimated from limited sampling and based on the assumption of continuity rather then the indication of continuity.

[5] The difference between resource estimate and reserve estimate is worth reviewing at this point. A resource estimate is an estimation of the calculated amount of material in a mineral deposit, classified as measured, indicated or inferred, based on the density of drill hole information. A Reserve estimate is a measure of the part of a resource that can be mined profitably, in essence the application of economic constraints to the resource estimate. Constraints are generally based on the size and grade of the material to be mined. The Lucara reserve estimate does not include inferred resources, only indicated.

50% ownership of equity, suggests they are likely to return an increased percentage of the cash produced by the business to shareholders in the form of dividends. Furthermore, should no extension of the mines life occur the resulting/possible fall in share price may create an interesting opportunity to add to one's position at very favorable prices and earn a possibly very significant dividend. At this time, management has given no indication that the extension of the mines life is either unfeasible or unlikely. More information should be available after the first quarter.

A further area of concern is the likely lumpiness of results. Based on the geology, and current results, it is probable that further exceptional stones will be found. The unpredictable timing of diamond finds and when those exceptional stones are found, will create significant volatility in the bottom line. It will also create significant volatility in the share price. After the announcement of the Lesendi La Rona find, the market struggled to value it, and the stock traded volatilely while the market attempted to determine the value of the diamond to the company. Furthermore, the significant percentage of revenue attributable to exception stones exposes investors to geological risk that is difficult to quantify. At the current time the mine's results have gotten better and better as the company has dug deeper, there is no guarantee that will continue.

Currently, Lucara is a unique single asset mid-tier miner with a rock solid balance sheet, operating in a relatively price stable luxury goods market, with significant exposure to a high value niche and a history of returning significant value to shareholders.

Massif Capital

Karowe Mine, Botswana

1,111 Caret Lesendi La Rona

Lucara Diamond (OTC:LUCRF & TSE:LUC) Appendix

Investment Thesis

Cash Heavy, Debt Free Unique Asset with Strong FCF

Balance Sheet Strength

Debt free balance sheet with $53 million in cash and significantly undervalued inventory.

Cash & ROIC

Strong FCF since first full year of operations (2013). Mine's ROIC has averaged 45.9% for the last five years and generated an average Greenblatt style ROC of 68.5% over the same period.

Unique Assets

The mine produces a unique number of large gem quality stones, with more then 162 diamonds greater then 100ct recovered to date (about 40 a year) and 17% of all diamonds greater then 200 ct ever found, in just three years. Additionally, the run of mine production is 25% Type IIa diamonds, the 2nd highest quality of diamond from a chemical and structural perspective. Nearly flawless type IIa diamonds make up only 1.8% of all natural diamonds.

Good Management

Capable and experienced management with insider ownership in excess of 50%.

Cheap Relative to Intrinsic Value

Strong margin of safety across multiple valuation methods. Market price implies investor expectations that FCF will shrink at an average rate of 3.5% a year.

Behavioral Edge Needed

Opaque industry, with volatile qtr. to qtr. cash flows and a single mine in Africa.

Key Risks to Investment

Risk	Potential	Note
Botswana Political Risk	Low	See Slide 5
Power Availability	Low	Mines, particularly the processing plants, are power intensive. At the current time the mine has access to as much as 10kVA with a need for 8.6kVA. This leaves little margin of safety for expansion or processing plant reconfiguration.
Diamond Price	Low	Pricing is generally stable due to industry structure, but macro economic issues, US recession (largest diamond consumer) or hard landing in China (second largest global consumer) could reduce demand prompting lower prices on run of mine diamonds. Exceptional stone pricing has been very strong for the last few years and appears likely to continue. Exceptional stone pricing is more insulated from general economic issues then regular stones given the customer base.
Plant Investment	Medium	By the end of 2017 Lucara will have spent around $15 million installing a system that will allow them to recover diamonds up to 5,000 carats—the largest rough diamond ever found is 3,106 carats, the second is the Lesedi La Rona at 1,111 carats. Of the 63 diamonds over 200 carats discovered in the past three centuries, 11 or 17.5% have come from Lucara in the past three years, history suggests management has a good reason for the expenditure, but the ROIC of the investment could end up being limited if big stones don't continue.
Reduced Recovery of Exceptional Stones	Moderate	Analysis of geological continuity suggests that diamond size distribution is likely to continue. That being said diamonds are not iron ore, deposit analysis is indicated based on geological models and sampling, neither of which is a direct test for the presence or absence of diamonds.

See further risks on next page

Key Risks to Investment

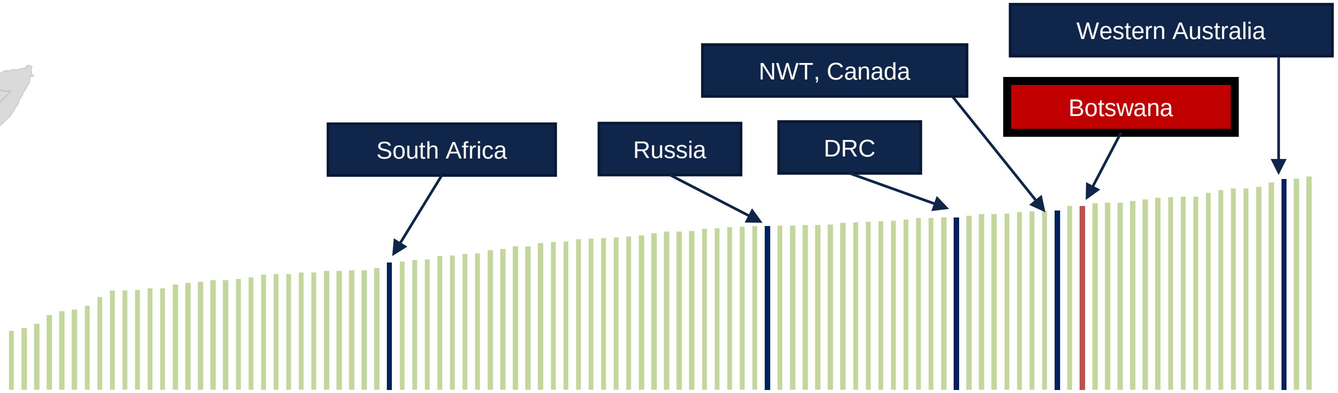
Risk	Potential	Note
Mine Life Extension Not Feasible	Unknown	At the current time extension of the mines life past 2026 is being evaluated. Further drilling below the mines expected floor was completed in February and results could convert up to 3 million carats of inferred resource to indicated. Results will determine the economic viability of extension. See slide 7.
Large Diamond Demand Slump	Unknown	A very interesting risk arises from the possibility of deeper portions of the South Lobe of the mine being a large diamond bonanza, resulting in Lucara needing to reexamine how it approaches sales so as not to over supply the market for such stones. This is unlikely to be a terrible issue should it occur but it might result in a growing inventory that has to be slowly doled out over time with unknown impact on the share price as the exact content of inventory is unknown.
Large Diamond Buyer Revolt	Unknown	The Lundin family is known for doing things their own way, the attempted sale of the Lesendi La Rona last year was no different. Big stones are typically sold via a sealed tender system but the company decided to try something different with the La Rona in order to try and capture more value. The price of run of the mine stones increases an average eightfold from when its found to when its sold as jewelry. The value of unique stones on the other hand can increase as much as 20,000 times depending on the qualities of the stone. Lucara wanted to capture as much of the potential price change as possible in its sale of the Lesendi so they decided to skip the middle man and auction off the rough diamond directly. The community of buyers that typically purchase stones such as the Lesendi for cutting rejected this approach. The most prominent figure in this group (Laurence Graff) said the following: “It’s not nice, we don’t like it, what they’re doing. It’s just not how it’s done. We don’t want to have to expose ourselves in public [at an auction]. To contend in the open arena, we find it undesirable.” The result of this groups rejection of the approach was a weak auction price and a failed sale. They could continue to shun Lucara. See Vanity Fair Article on the auction for further details.

Botswana Political Risk

A Stable Political Climate and Supportive Regulatory Environment

- Botswana is the most attractive mining environment in Africa, the country has a clear legal and regulatory framework and an attractive royalty and taxation system.
- The mining industry is concentrated on diamonds, insulating the country/government budgets from commodity price volatility.
- The government is interested in attracting further foreign investment in the mining industry and has focused mineral policy on ensuring the protection of private property rights as well as recognizing entitlement to make and repatriate profits.
- Infrastructure, particularly power infrastructure, remains a challenge in the country, as it does most of Africa.
- The Economist Intelligence Unit Ranks Botswana the most Democratic country in Africa and Transparency International ranks it the least corrupt, on par with Portugal.
- The country has held eleven elections since declaring independence from the British in 1966.
- The Botswana's GDP per Capita is estimated to be $16,900 in 2016, ahead of both China and Brazil, and the highest in Sub-Saharan Africa, followed by South Africa at $13,200.

Fraser Institute Annual Survey of Mining Companies



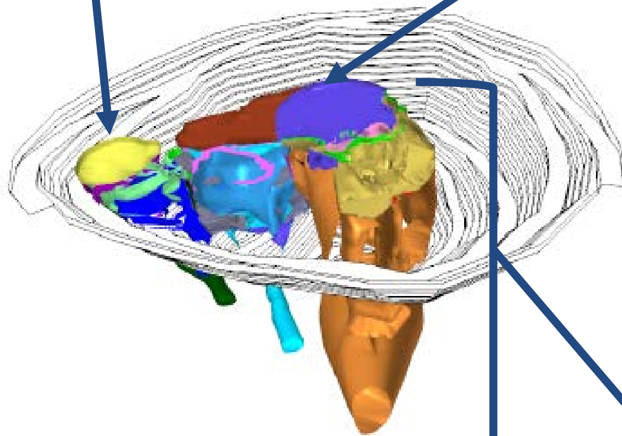
The Fraser Institute Annual Survey rates 104 mining jurisdictions around the world on their geologic attractiveness for minerals and metals and their policy attractiveness. Rankings are based on conversations with 2,700 mining industry insiders. In total 104 jurisdictions were assessed in 2016. Botswana ranked 19th overall. Ahead of all other diamond mining jurisdiction except Western Australia.

Karowe Mine

- 100% owned by Lucara
- Hard rock open pit mine with a planed max depth of 324m
  - Planned depth based on Reserves of 6.3 million carats to 324m
  - Indicated resource from 324m to 400m of 8.2 million carats
  - Inferred resource from 400 to 750m of 4 million carats
- Life of mine under current plan: 2026
- Royalty of 10% of actual diamond sales is levied by the Government of Botswana

North Lobe

Central Lobe

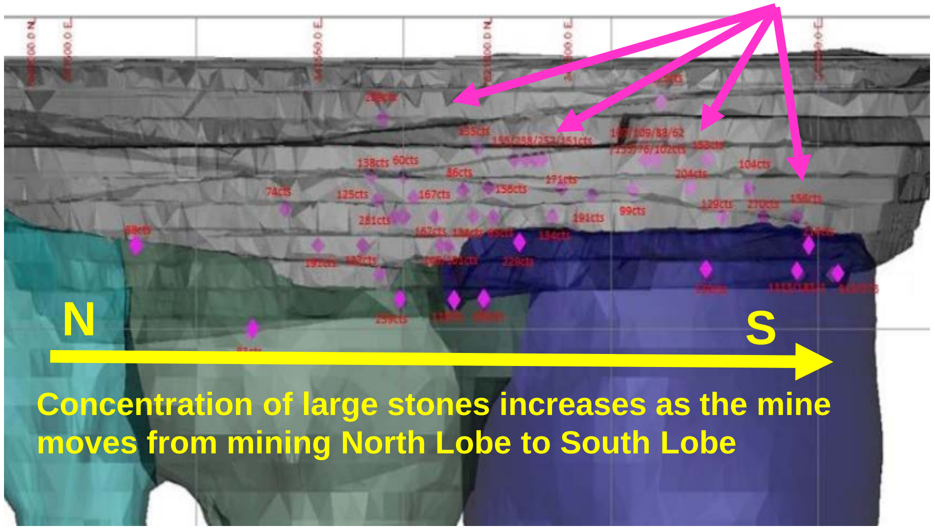


North Lobe

Central Lobe

South Lobe

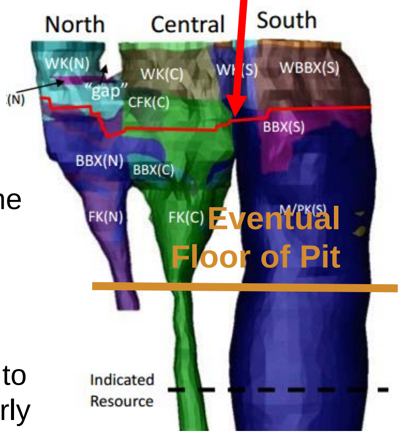
♦ Pink Diamonds are large stones found thus far



Thus far mining has focused on the North and Central Lobe, in 2017 it starts to shift towards the South Lobe where 75% of expected mine output resides.

The average expected carat value of the diamonds also increases as mining moves N to S as a result of quality improvement. Initial expectations were for the avg. per carat price to increase from $217 to $413 as mining moved N to S. Initial expectations have proven overly conservative.

Red Line is Current Pit Outline



Future Prospects Beyond Current Mine Life

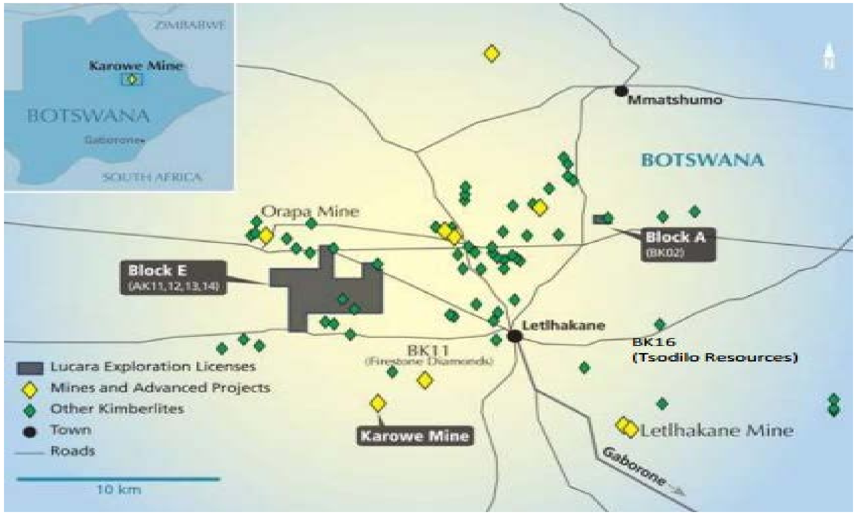
Karowe Mine Life Extension

(Please See Discussion of Reserves vs. Resources in Footnote 4 and 5 on page 6)

- The Mineral Reserve Statement has an estimated 3.8 million carat's of reserves in the South Lobe of the mine with a potential revenue per carat of $413.
- The Reserve Statement is based on economic assumptions that result in only 64% of the estimated resource being recoverable. The estimated resource in the south lobe is 5.89 million carats.
- The Mineral Resource Estimate suggests that an additional 3.04 million carats of resource resides below the current planned open pit mine floor.
- Should on going life of mine studies return favorable results, as much as 64% of this or 1.95 million carats of the inferred resource could be converted to indicated. This new resource would be worth approximately $803 million at the reserve estimate carat price of $413.
- If the avg. carat price earned by company over the last three years, $628, is used the additional 1.95 million carats is worth $1.2 billion, or 51% more then the terminal value of the mine at the low end of the valuation range for the base case DCF scenario.

Prospecting

- Lucara currently has prospecting licenses that cover 5 potential diamond baring kimberlites within the area of the existing mine.
- Block A (in the map below) represents a single kimberlite that has already been drilled with disappointing results.
- Block E includes 4 potential kimberlites, one of which will be the focus of exploratory work in 2017 and one of which has already had a 10 hole drill program the results of which the company is still waiting on.



Invest with the Lundin Family

- 50% of Lucara is owned by the Lundin Family.
- The Lundin Group of Companies was founded by Adolf Lundin and is now run by his sons Lukas and Ian Lundin.
- The group is focused exclusively on natural resources with interests in mining (both industrial and precious metals), oil/natural gas, uranium and various other commodities.
- The group has controlling ownership stakes in 12 companies with a combined market cap of $16.7 billion and operations in 25 countries.
- Lukas Lundin Quotes
  - On Lundin publically traded companies: *"How can I ask investors to invest and buy Lundin stocks unless I am willing to invest the most?"*
  - On companies that borrow money to fund dividends: *"That's crazy stuff."*
  - On shale oil: *"The shale oil producers were rewarded on production not on delivering profits for their shareholders."*
  - On recent acquisitions by Lundin Mining, specifically from FCX: *"All the assets we bought were assets people didn't want to sell but had to sell."*

Past Lundin Investments	Share Holder Return on Investment
EuroZinc -2004	850%
Red Back Mining – 2010	1,041%
Argentina Gold – 1999	1,091%
International Musto – 1995	1,757%
Tenke Mining – 2007	558%
Lundin Oil – 2001	139%
International Uranium – 2006	609%
Valkyries Patroleum – 2006	352%
Tanganyika Oil – 2008	961%

Current Lucara CEO – William Lamb

- Experience in coal, chrome and diamond mining.
- 13 years with De Beers in South Africa & Canada focused on mine development & operations.
- Joined Lucara in 2008 and played a key role in the acquisition of the Karowe mine from De Beers.
- Pay Formula: 20% weight given to corporate cash flow, 20% to ROE, 20% to mine performance, 15% to sales & 25% to various individual key performance indicators.

Overlooked and Underfollowed Industry

Diamond Miners benefit from opaque pricing, limited supply and high margins

- Diamonds do not share many characteristics with industrial commodities or precious metals
  - No two mines are the same: Mines have different grades and Diamond quality, and quality is more important then grade.
  - No two diamonds are the same: Rough stone value depends on clarity, color, character, carat and shape. Valuation is an art.

- Supply is limited: Diamonds are only found in geological deposits called Kimberlites. There are 6,400 known kimberlites globally, 900 are diamond bearing and approximately 30 have economically viable quantities of diamonds.

- The exploration and mining component of the diamond value chain has high barriers to entry and significant bargaining power.
  - Top 5 players control 70% of global production. Top two control 60% of production.
  - Mines take from 6 to 10 years to get up an running

- Mining and exploration for Diamonds has the highest margins and fewest players of any aspect of the industry value chain. (See next slide).

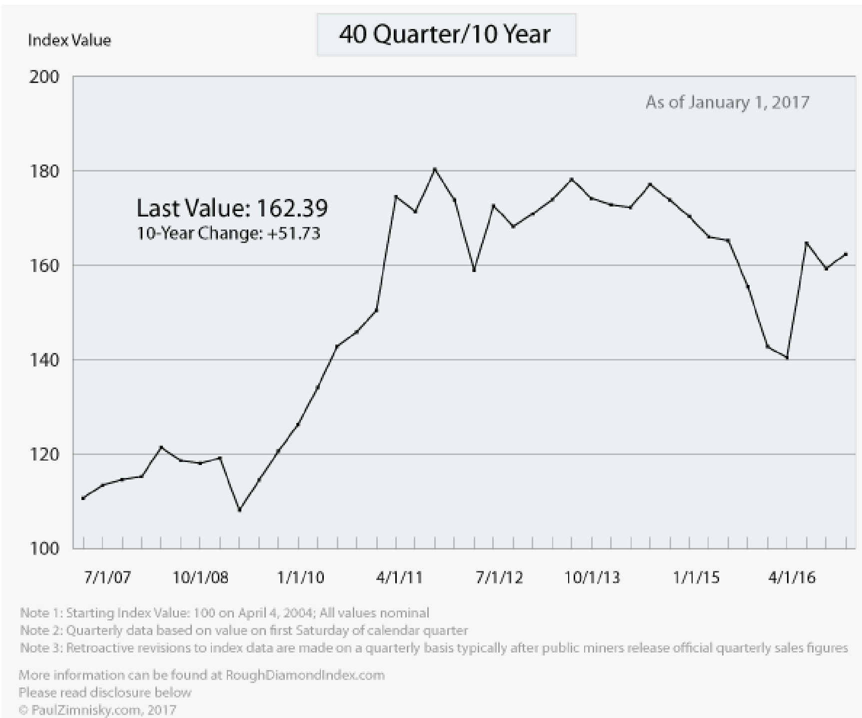
Diamond Value Chain

Rough Stone Production has the Highest Barriers to Entry, Greatest Bargaining Power and Best Avg. Margins

	Rough Diamonds		Polished Diamonds		Diamond Jewelry	
	Production	Sales	Cutting	Sales	Manufacturing	Retail
Barriers to Entry	High	High	Low	Low	Medium	Medium
Bargaining Power	High	Medium	Low	Low	Low	Medium
Margin	23%-25%	0% to 3%			3% to 5%	4% to 22%
Players	2 Players control 60% of the supply	~100 Players	~5,000 Players		>10,000 Players Large retailers control ~ 35% of the market: Tiffany, Signet, Blue Nile, Movado, Chow Tai Fook, Luk Fook, LVMH, etc.	
Notes	• Exploration by Junior Miners. • Mines developed by bigger miners.		• Historically conducted in Europe. • Antwerp is the historical home of diamond trading and cutting/polishing. • India has taken over as the primary cutting and polishing center for all but the highest quality stones.		• Global diamond jewelry sales increased 3% in 2015. • High margin dispersion by players, high end brands (for example Harry Winston) earn greater margins.	

Rough Diamond Price Trends

- Q1-2017 Rough stone demand has been strong according to DeBeer's.
- Miners reduced supply in 2015 to bring supply and demand into balance. Concentrated industry supply allows for more directed price rationalization then with commodities.
- DeBeer's cut production by 12% in 2015 in order to help boost pricing.



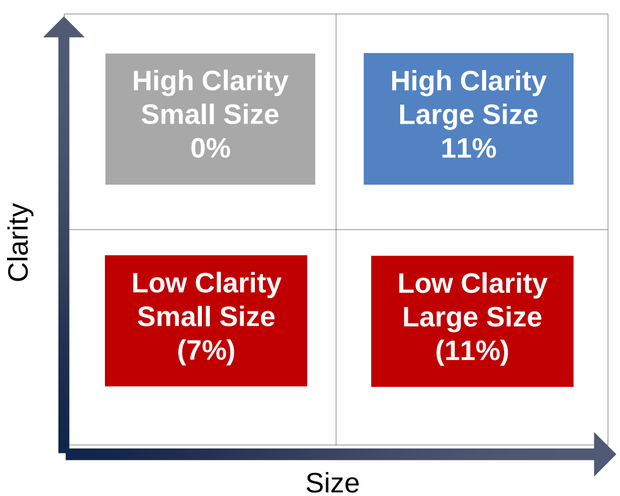
- In full year 2016 rough diamond prices were up 13.2%. Year to date rough diamond prices are up roughly 2%.

Diamond’s as a Brand

- De Beers has a long history of generic diamond marketing (“A Diamond is Forever”) which has created a durable brand like moat around diamonds tied to consumers emotional connection with the purchase and what it represents for the consumer.
- Starting in the late 2000’s a consumer focus on demand for Branded Jewelry started to pick up especially for traditional High End Jewelers (Tiffany, Cartier, Harry Winston, etc.) but also for high end producers of luxury goods (Hermes, Louis Vuitton) who now produce jewelry.
- The the combination of the general diamond moat, resulting from many years of generic marketing by De Beers (“A Diamond is Forever”), and the growth of Branded High End Jewelry are good for Lucara due to its combination of high quality run of mine diamonds and the firms regular production of rare and unique stones.

Growing Demand for Size and Quality

Change in Demand 2008-2014 CAGR



Source: De Beers 2015 Diamond Insight Report

Diamonds vs. Gold – Commodity or Luxury Good

	Feature	Gold	Diamonds
Valuation	Homogeneous Quality	Yes	No
	Value is preserved during division	Yes	No
	Objective and direct valuation	Yes	No
Financial Characteristics	Easy Transportation and Storage	Yes	Yes
	Volume Sufficient for Use as Currency	Yes	No
	Relatively High Liquidity	Yes	No
	Limited Reserves	Yes	Yes
	Spot price	Yes	No
Other	Feasibility of Mass Production	No	No
	Aesthetic Value	Yes	Yes

Source: Bain Global Diamond Industry Portrait of Growth

Pricing

Rough Stone Sort Criteria

	Weight	Shape	Clarity	Color
Rationale	Bigger Stones typically yield more and thus demand higher prices	Shape will significantly impact the polished diamonds weight.	Clear stones with minimum/no inclusions yield higher prices	White and Fancy colored stones have the highest value
Pricing Categories	• **Special Stones**: Those above 10.8 carats – rare stones that are sorted and sold differently from run of mine stones. • **Medium stones**: from 1 to 10.79 carats • **Small stones**: below 1 carat	• **High Yield**: Octahedral shapes have the highest yield (45% to 60%) • **Shapes**: octahedral shapes that produce one or more stones (yield 35% to 45%) • **Low Yield**: Flat, Chipped, Irregular Shape (yield 15% to 35%)	• Several categories based on internal flaws • Examples: Internally Flawless, Slightly Included, Included	• Over 10 categories span the color spectrum from White to Yellow: most diamonds have colors based on the degree of yellow in the stone. • Fancy Stones: Unusual colors (blue, pink, green) or deep yellows.

Source: Bain, The Global Diamond Report - 2013

Bigger and Better

Examples of the Return Earned on Bigger Better Stones

The Lesotho Promise (left) was a 603-carat rough diamond, that was bought by Laurence Graff for $12.4 million.

It yielded 26 multi-shaped polished diamonds (right) all of which were set in a necklace now on sale for $60 million. A potential return of 387%.

The Queen of Kalahari was a 342 carat rough diamond found at Karowe mine by Lucara and sold in 2015. It yielded 23 stones including a 50-carat round brilliant, a 26-carat heart shape, a 25-carat pear, a 21-carat emerald cut and a 20-carat cushion. The price of the jewelry set created from the diamond is undisclosed, but expected to be at least $60 million, the stone itself sold for north of $20 million.

Short Clip About the Diamond at bottom of page.

Massif Capital

“Climb if you will, but remember that courage and strength are nought without prudence, and that a momentary negligence may destroy the happiness of a lifetime. Do nothing in haste; look well to each step; and from the beginning think what may be the end.”

Scrambles Amongst the Alps by Edward Whymper