The AK6 kimberlite

Discovery through to production

Learning the lessons of history

James AH Campbell
Managing Director - Botswana Diamonds plc

Botswana Diamond Explorers Conference
Orapa Mine: 25-26 April 2017
Celebrating the 50th anniversary of the discovery of the Orapa Mine

We salute Jim Gibson, Gavin Lamont & Manfred Marx

Source: Dr MCJ de Wit et al, Prospecting in Africa, 2011
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The AK6 kimberlite
Introduction
The Karowe Mine to date has yielded 1.8 million carats generating revenue of $1.02 billion at an average price of $566 per carat.
Recovered in 2015, the *Lesedi la Rona* is 1,109-carat Type-IIa stone.

It is the second largest diamond discovered since the 3,106 carat Cullinan found in South Africa in 1905.

The name means “Our Light” in Setswana.

Source: Lucara Diamond
AK6 location: prime diamond real estate

85 kimberlites in the Orapa kimberlite province with 8 having been or are mines and with the largest Tier 1 diamond mine by area in the world Orapa (118 Ha)
Half a century of Botswana diamond history

Source: 11IKC website
The early diamond days of Botswana

“Diamonds were the obsession of this old prospector. He clapsed his glass of Cape brandy in his sunburnt and calloused hand, and told me of a mythical diamond field in the Kalahari that would make Kimberley seem an absurd little pothole...”

(W.J. Makin, Across the Kalahari Desert, 1929)
Botswana’s early diamond discoveries (1959-74)

1959
Alluvial diamonds recovered at Motloutse River by CAST

1966
Mochudi “para-kimberlites” discovered in Kgalagadi District by De Beers

1967
2125B/K1 (Damtshaa), B/K2 and A/K1 (Orapa) discovered by De Beers

1969
2125D/K1 (Letlhakane) and A/K6 (Karowe) discovered by De Beers

1972
2424D/K1 (Jwaneng) discovered by De Beers

1974
2125B/K1 discovered by De Beers

Map source: Brook, 2012 on 11IKC website
The AK6 kimberlite Discovery

Introduction  Discovery  Evaluation  Mining  Corporate  Lessons Learnt
The discovery of AK6

• Discovered in 1969
• Initial assessment by De Beers (1972-75)
  • Delineated with 44 percussion holes (60% into basalt breccia)
  • Grade estimated from 3 pits (2 in basalt breccia)
  • +/- 2 core holes and 2 large diameter holes
• Results of initial assessment
  • Small size (c. 3.3ha)
  • Poor mineral chemistry
  • Low diamond grade (3.5cpht)
• AK6 considered low interest
• Revisited prior to relinquishment (1998)
  • Ground geophysics and limited drilling
AK6 initial assessment in context

- Small dataset probed for garnet mineral chemistry: diamond potential downgraded due to apparent lack of sub-calcic garnets (diamondiferous kimberlite indicators)
- Extent of basalt breccia initially poorly understood
- Kimberlite under-sampled
- Excessive diamond breakage using cable tool (jumper) drilling

Source: JAH Campbell, Lucara Diamond
Economic context of the 1970-1980’s

• World economy
  • Developed world in economic “stagflation"
    • High inflation
    • Slow growth
    • High unemployment
  • Arab oil embargo
  • 1973-4 stock market crash
    • NYSE’s Dow Jones lost 45%
    • LSE’s FT30 lost 73%

• Botswana and De Beers
  • A decade of big mine opening
    • 1971: Orapa
    • 1977: Letlhakane
    • 1982: Jwaneng
  • De Beers share price closely correlated with the Dow Jones Industrial Index
  • Collapse of diamond prices
Early 2000s: the ‘rediscovery’ of AK6

• DeBot granted PL 13/2000, including AK6
• Many uneconomic kimberlites discovered in the 1960s-70s revisited in early 2000s
• AK6 re-assessed using new geophysical and drilling technologies
  • North and South lobes identified with percussion drilling
  • Surface area revised upwards to 9.5ha after high-resolution ground magnetics survey
• Phased approach to resource delivery and project development
  • Overlap of Phase 1 and 2 evaluation programmes to compress timeline
  • Hierarchy of approvals
  • Parallel techno-economic studies
The AK6 kimberlite Evaluation
**AK6 initial Evaluation (2003-2005)**

- **Aim:** preliminary size, grade, value assessments (Deposit level)
- **10-month lag** between drilling and sampling results
- Boteti JV with African Diamonds plc formed ahead of encouraging results
- Decision to progress to resource estimation

<table>
<thead>
<tr>
<th>Phase</th>
<th>Techniques</th>
<th>Objectives</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial evaluation</td>
<td>LDD 5x12⅛”</td>
<td>Macrodiamond potential, preliminary grade</td>
<td>97t (in situ) 22.46ct 25cpht (+1mm) 124US$/ct</td>
</tr>
<tr>
<td></td>
<td>High-resolution geophysics</td>
<td>Surface area, geological model</td>
<td>9.5ha</td>
</tr>
</tbody>
</table>

Source: Lucara Diamond, SAIMM, JAH Campbell
AK6 Evaluation Phase 1 (2005-2006)

- Aim: define Inferred Mineral Resource
- Positive sampling results released
- Decision to fast-track Evaluation
- Phase 1 and 2 overlap to accelerate assessment

<table>
<thead>
<tr>
<th>Phase</th>
<th>Techniques</th>
<th>Objectives</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation Phase 1</td>
<td>Percussion drilling 44x6.5” (14 in kimberlite)</td>
<td>Delineation, geological model, mineral chemistry, macrodiamonds</td>
<td>4,575m 28t (in situ) 8.41ct 29.6cpht (+1mm)</td>
</tr>
<tr>
<td></td>
<td>Core drilling 17xinclined 12xvertical</td>
<td>Internal geology, LDD pilots, microdiamonds</td>
<td>9,883m South Lobe increased</td>
</tr>
<tr>
<td>LDD Phase 1</td>
<td>LDD Phase 1 13x23” @70m</td>
<td>Grade and revenue Inferred Resource 500ct for valuation</td>
<td>2,747t (in situ) 689ct 25.1cpht (+1mm)</td>
</tr>
</tbody>
</table>

Source: Lucara Diamond, SAIMM, JAH Campbell
AK6 Evaluation Phase 2 (2006-2007)

- **Aim:** define Indicated Mineral Resource
- **Different diamond populations in S and C/N lobes**
- **(Inadequate) trenching to recover required carats**
- **1,754ct used for valuation (vs planned 3,500ct+)**
- **Modelled diamond value of $131/ct**

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<th>Objectives</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Evaluation Phase 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core drilling</td>
<td>11xvertical 29xinclined</td>
<td>Delineation, internal geology, LDD pilots</td>
<td>12,860m Kimberlite at 884m</td>
</tr>
<tr>
<td>LDD Phase 2</td>
<td>12x23” @50m</td>
<td>Grade and revenue Indicated Resource 3,000ct for valuation</td>
<td>3,298t (in situ) 485ct 17.8 cpht (+1mm)</td>
</tr>
<tr>
<td>Trenching (S</td>
<td>Grade and revenue (1,200ct)</td>
<td>7,393t (in situ)</td>
<td></td>
</tr>
<tr>
<td>Lobe)</td>
<td></td>
<td></td>
<td><strong>255.03ct</strong></td>
</tr>
<tr>
<td>Trenching (C</td>
<td>Grade and revenue (1,800ct)</td>
<td>12,074t (in situ)</td>
<td></td>
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<tr>
<td>Lobe)</td>
<td></td>
<td></td>
<td><strong>327.17ct</strong></td>
</tr>
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</table>

Source: Lucara Diamond, SAIMM, JAH Campbell
## AK6 Techno-Economic Studies (2007-2010)

<table>
<thead>
<tr>
<th>Study (Year)</th>
<th>Company</th>
<th>Hurdle Rate</th>
<th>IRR</th>
<th>NPV (US$)</th>
<th>Economics</th>
<th>Capital</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conceptual (2007)</td>
<td>De Beers</td>
<td>17%</td>
<td>19%</td>
<td>10M</td>
<td>Marginal</td>
<td>$380M</td>
<td></td>
</tr>
<tr>
<td>Pre-Feasibility (2007)</td>
<td>AFD</td>
<td>0%</td>
<td>53%</td>
<td>209M</td>
<td>Robust</td>
<td>Not disclosed</td>
<td>Boteti Mining Licence Application</td>
</tr>
<tr>
<td>Feasibility (2008)</td>
<td>Boteti</td>
<td>10%</td>
<td>4.3%</td>
<td>-70M</td>
<td>Marginal</td>
<td>$380M</td>
<td>Boteti Retention Licence Application Boteti issued Mining Licence</td>
</tr>
<tr>
<td>Conceptual VES (2009)</td>
<td>AFD</td>
<td>12%</td>
<td>30%</td>
<td>25.5M</td>
<td>Robust</td>
<td>$88M</td>
<td>Lucara buys DeBot’s share in Boteti</td>
</tr>
<tr>
<td>Feasibility (2010)</td>
<td>Boteti</td>
<td>10%</td>
<td>34.8</td>
<td>189M</td>
<td>Robust</td>
<td>$165M</td>
<td>Lucara buy-out of AFD</td>
</tr>
</tbody>
</table>

- Construction and commissioning cost: **USD120M** (Phase 1 only)
- Mining began in Q2 2012
- Anticipated LOM 15 years

Source: Lucara Diamond, SAIMM, JAH Campbell
AK6 Resource Statements (2007-10)

<table>
<thead>
<tr>
<th>Year</th>
<th>AK6 Mineral Resource</th>
<th>Tonnes (000,000’s)</th>
<th>Grade (cpht)</th>
<th>M Carats (+1 mm)</th>
<th>Value (US$/ct)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Indicated Resource (to -400m)</td>
<td>51.8</td>
<td>22</td>
<td>11.1</td>
<td>131</td>
</tr>
<tr>
<td>2009</td>
<td>Indicated Resource (to -372m)</td>
<td>40</td>
<td>22</td>
<td>8.9</td>
<td>153</td>
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<tr>
<td></td>
<td>Inferred Resource (372-758m)</td>
<td>31</td>
<td>19</td>
<td>6</td>
<td>139</td>
</tr>
<tr>
<td>2010</td>
<td>Indicated Resource (to -400m)</td>
<td>51.2</td>
<td>22</td>
<td>11</td>
<td>194</td>
</tr>
<tr>
<td></td>
<td>Inferred Resource (400-750m)</td>
<td>21</td>
<td>19</td>
<td>4</td>
<td>183</td>
</tr>
</tbody>
</table>

- 2007 grades regarded as conservative; improvement anticipated with further work. Considerable **upside expected in diamond values**.
- 2010 grades unchanged from 2009. **Value revised upwards**.
- Updated SFD (microdiamonds included) and diamond assortment model

Source: JAH Campbell, SAIMM, Lucara Diamond
The AK6 kimberlite
Mining
Karowe Resource/Reserve Statement (2013)

- Latest Karowe resource statement (2013) reflects a drop in grades and increase in values
- Higher bottom cut-off size (1.25mm) accounts for grade decrease
- Value increase chiefly due to incorporation of production and sales data into estimates
- 2013 value estimation qualified as conservative

<table>
<thead>
<tr>
<th>Karowe Mineral Resource / Reserve (2013)</th>
<th>Tonnes (000,000’s)</th>
<th>Grade (cpht)</th>
<th>M Carats (+1.25mm)</th>
<th>Value (USD/ct)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probable Reserve (to 324m)</td>
<td>33.1</td>
<td>15.5</td>
<td>5.1</td>
<td>394</td>
</tr>
<tr>
<td>Indicated Resource (to 400m)</td>
<td>48.07</td>
<td>16</td>
<td>7.61</td>
<td>393</td>
</tr>
<tr>
<td>Inferred Resource (400-750m)</td>
<td>21</td>
<td>14</td>
<td>3.04</td>
<td>412</td>
</tr>
</tbody>
</table>

Source: JAH Campbell, Lucara Diamond
Karowe production performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Tonnes mined (000,000’s)</th>
<th>Tonnes treated (000,000’s)</th>
<th>Carats recovered</th>
<th>Grade (cpht)</th>
<th>Ave $/ct sold</th>
<th>Stones &gt;10.8cts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.72</td>
<td>2.61</td>
<td>353,974</td>
<td>13.5</td>
<td>824</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>3.18</td>
<td>2.24</td>
<td>365,690</td>
<td>16.3</td>
<td>593</td>
<td>727</td>
</tr>
<tr>
<td>2014</td>
<td>3.32</td>
<td>2.42</td>
<td>430,292</td>
<td>17.7</td>
<td>644</td>
<td>815</td>
</tr>
<tr>
<td>2013</td>
<td>3.94</td>
<td>2.35</td>
<td>440,751</td>
<td>18.8</td>
<td>411</td>
<td>732</td>
</tr>
</tbody>
</table>

- **Consistent performance**
- **2017 forecast:** 290,000-310,000 carats
- **2016 operating costs:** USD26.5 per tonne treated

- **A proven large stone producer**
- **Three exceptional stones** recovered from South Lobe in November 2015, including world’s second largest diamond: 1,109cts Type Ila *Lesedi La Rona*

Source: Lucara Diamond
The AK6 kimberlite
Corporate

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Why the Boteti JV?

- New technology
- DeBot and AFD had contiguous ground holdings
- Logical to combine
- 51/49, DeBot operator
- 70/30 on release of BFS
Boteti JV chronology

• April 2004: DeBot (‘DB’) signs JV agreement (‘Boteti’) with African Diamonds plc (‘AFD’) on 51/49% split. Each party contributes their properties in the Orapa region. DB (operator) can earn up to 70% on delivery of a Bankable Feasibility Study (‘BFS’).

• September 2007: Boteti applies for Mining Licence over AK6. AFD disputes that bulk sampling was complete and diamond value did not meet Indicated Resource category and thus does not meet the minimum criteria for a BFS. DB overcomes this by being the bank. Project capital USD380M.

• July 2008: Boteti applies for Retention Licence over AK6 due to resource being sub-economic. AFD launches urgent high court action against DB/Boteti on basis that Retention Licence application is invalid as Mining Licence has already been applied for and project is economic (c.30% higher independent diamond valuation; lower capital). Boteti’s application for Retention Licence is rejected as Mining Licence has already been applied for. Boteti proceeds to conclude terms for Mining Licence.

• June 2009: DB unable to finance project due to marginal economics (in their view) and poor financial climate post-GFC. AFD’s Value Engineering Study suggested robust economics with initial capital of USD88M. Key was innovative approach to processing plant development and different view on the diamond value. DB reject study. AFD proposes to buy out DB’s share.

• July-November 2009: AFD scours the market to raise funds to buy DB out, or find alternative investor. Lucara (‘LUC’) acquires DB’s stake for USD49M (loan provided by an insider to the company) following introduction by JAHC and rapid negotiations.

• November 2010: LUC acquires AFD’s stake in Boteti for a c.30% premium. AFD listed at 7p in July 2004 and sold for equivalent 52p. AFD’s exploration assets spun off into Botswana Diamonds plc.
The AK6 kimberlite
Lessons learnt

Introduction
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Lessons Learnt
The Economic Context

- 2009: *Annus Horribilis*
- Global Financial Crisis (‘GFC’)
- De Beers’ situation (mid-2009)
  - 99% drop in net profits for H1 2009 to just $3m (against $316m in H1 2008)
  - Sales of rough diamonds down by 57% to $1.4bn; production slashed by 73% to 6.6m carats
  - Global workforce cut by 23% and production at mines in Africa and Canada temporarily halted
- Investors’ reluctance to fund a project deemed marginal
  - Mining boom ground to a halt in 2009
  - Investment activity in the mining sector dropped dramatically
  - Juniors (‘project generators’) hardest hit

Source: Debswana
Joint Venture Dynamics

<table>
<thead>
<tr>
<th>Some common traits of juniors</th>
<th>Some common traits of majors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Discoverers and developers of new economic deposits</td>
<td>• Owners of mining operations</td>
</tr>
<tr>
<td>• Typically small-cap companies</td>
<td>• Typically more than one mine</td>
</tr>
<tr>
<td>• Exploration spend is their lifeblood</td>
<td>• Publicly traded, well capitalised companies</td>
</tr>
<tr>
<td>• No/little production cashflow to fund exploration activities</td>
<td>• Exploration activities internally funded by production cashflow</td>
</tr>
<tr>
<td>• Funding derived from share issues &amp; management</td>
<td>• Exploration spend viewed as discretionary</td>
</tr>
<tr>
<td>• No dividends paid - shareholders rewarded by share price increase</td>
<td>• Steady, predictable cashflow</td>
</tr>
<tr>
<td>• Results attract high degree of public scrutiny and assurance</td>
<td>• Large corporate structures</td>
</tr>
<tr>
<td>• Subject to full extent of regulatory and reporting obligations</td>
<td>• Complex decision processes</td>
</tr>
<tr>
<td>• Technical management teams with deep practical experience</td>
<td>• Internal assurance processes</td>
</tr>
<tr>
<td>• Innovative, agile and fast</td>
<td>• Able to adjust production to changing market conditions</td>
</tr>
</tbody>
</table>

Boteti Joint Venture

• 10-month lag between sampling and results issued
• JV agreement signed ahead of first bulk sampling results
• Different perspectives & funding structures
• Substantial variance in:
  • Risk appetite
  • Plant design philosophy
  • Capital estimates
  • Project economics
  • Approach to financing
  • Hurdle rates
  • Decision processes
• AFD dual listed: London AIM & Botswana. Strong local shareholding.

Source: Investopedia; mineralsnorth.ca; undervaluedequity
Impact of Technology

- **Exploration**
  - Statistical representivity of indicator minerals critical
  - Better definition of anomaly through high-resolution ground geophysics

- **Evaluation**
  - Lowering of diamond breakage by advances in LDD technology
  - Impact of diamond breakage on diamond value estimations and modelled SFDs improved but still much to be done
  - Significant under-estimation of large diamond population

- **Mining**
  - Improved understanding of diamond SFDs from production data
  - Developments in technology warrant re-visiting past decisions

*Source: Lucara Diamond*
Geological model

Major change is greater granularity in internal geology (kimberlite and breccia domains).

The updates to the 3D geology model are considered to be minor and represent refinement of the previous model based on the availability of new mapping data (NI43-101 Technical Report on the Karowe Mine, February 2014).
Diamond Value

• Abundance of Type IIa and larger diamonds inadequately considered in initial valuations
• The impact of diamond breakage was (and is) poorly understood
• Diamond value underestimated in financial modelling
• Karowe consistently delivering large and exceptional stones

“The relatively high levels of diamond breakage not only cause challenges with the diamond valuation, but also with postulating a production diamond size frequency distribution from the sampling data. As a result of the high levels of diamond breakage in the sampling diamonds and the abundance of high value Type II diamonds (see Figure 5), Boteti believes that there is considerable upside in the diamond value, even at today’s diamond prices” (Campbell et al., SAIMM 2009)

Two end members in diamond valuation: fixed price book or open tender

Advantages of open tenders include:
• Market related price
• Competitive bidding
• Pricing transparency
• Clients get the goods they want
• Premium paid for valued goods

Disadvantages of open tenders include:
• Less predictable cash flows
• Higher risk of price volatility
• Speculative buying
Mineral Resource

Notes:

- Bottom cut-off size increased from 1.0mm to 1.25mm in 2013
- Indicated resource depleted by mining, inclusive of stockpile
- Probable reserve: 33.1Mt @ 394USD/ct

Source: SAIMM, JAH Campbell, Lucara Diamond
Economic Value

• AFD raised cash at 2p, listed at 7p in 2004. Acquired by Lucara for 0.8 of a LUC share for each AFD share in 2012. Current LUC value plus dividends £2.21 = £1.76 for 7p share = 25 times your money plus BOD.

• LUC acquired De Beers 70% share in the AK6 project for US$49M in 2009. LUC is now valued at CAD1.2BN. It had a market cap of c.CAD30M immediately prior to acquisition of DB’s stake in AK6 = 40 times increase in market cap.
Conclusions

Corporate

• Contrasting strategic, corporate and financial agendas between initial Joint Venture partners

• Cash is king (… especially at the bottom of the economic cycle)!

• Different diamond pricing methodologies

Technical

• Too small a bulk sample. 3,000 carat bulk sample not achieved possibly led to deficiencies in the SFD and value modelling

• Did not adequately take into account qualitative information gathered during the evaluation process

Note: James AH Campbell was General Manager Exploration at De Beers (May 2004 to Nov 2006), Managing Director of AFD (Dec 2006 to Dec 2010) and Vice President for LUC (Jan to May 2011) and was involved in the AK6 project from 2005 to May 2011
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