Lucara Diamond Corp.

Management's Discussion and Analysis
And
Consolidated Financial Statements
Year Ended December 31, 2016

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is February 16, 2017.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein. Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

FINANCIAL UPDATE

Net Cash Position: The Company's year-end cash balance was $53.3 million (2015: $134.8 million). The decrease in cash during the year is primarily due to the Company's special and regular dividend payments of $149.7 million to its shareholders. The Company's $50 million credit facility remains undrawn.

Cash flows and Operating Cost Per Tonne of Ore Processed: During the year, the Company sold 358,806 carats for total revenues of $295.5 million (2015: $223.8 million) at an average sales price of $824 per carat (2015: $593 per carat). Excluding the sale of the 813 carat Constellation diamond, the 2016 average sales price was $649 per carat. The Company's focus on cost control resulted in a cost per tonne processed of $26.5 (Revised guidance $25.0-$28.0 per tonne - see table 5 and page 9 Non-IFRS measures).

Earnings and Earnings Per Share: Earnings for 2016 were $70.7 million (2015: $77.8 million) and earnings per share were $0.19 for the year ended December 31, 2016 (2015: $0.21) and $0.03 per share for the quarter ended December 31, 2016 (2015: $0.05). The Company's earnings per share were negatively impacted by $0.03 per share due to a foreign exchange loss of $11 million as compared to 2015's foreign exchange gain of $15 million which contributed $0.04 to 2015 earnings per share. Withholding taxes of $7.4 million on funds remitted from Botswana for the payment of the special dividend in 2016 reduced earnings per share by a further $0.02.

Earnings Before Interest, Tax, Depreciation and Amortization "EBITDA" and Operating Margin: The Company recorded EBITDA for the year of $185.4 million (2015: $133.9 million) and an operating margin of 81% (2015: 78%) (see table 4 and page 9 Non-IRFS measures). The increase in EBITDA and operating margin was largely due to the sale of the Constellation, an 813 carat Type IIA diamond sold for a world record rough diamond price of US$63.1 million or US$77,649 per carat.

Dividends: The Company paid its quarterly dividend of CA$0.015 per share on December 15, 2016 for a cumulative dividend of CA$0.51 per share in 2016. The $149.7 million cash dividend paid in 2016 resulted in a milestone achievement for the Company as the cumulative dividends paid since 2014 exceed the total amount of share capital ever raised by the Company.

In 2017, the Company is increasing its regular annual dividend to CA$0.10 per share to be paid in four equal payments on a quarterly basis. The Company has declared a first quarter dividend of CA$ 2.5 cents per share which will be paid on March 30, 2017 to holders of securities on the record of the Company's common shares at the close of business on March 17, 2017. The Company anticipates that it will declare a further three payments of CA$0.025 per share in 2017 by the end of each quarter for a total yearly dividend of CA$0.10 per share. However the declaration of all future quarterly dividends remains at the discretion of the Board of Directors and is subject to the requirements of the Company's dividend policy.

OPERATIONAL UPDATE

Karowe Operating Performance: Karowe's performance was better than forecast for the year in terms of ore processed and carats recovered. In February 2017, the Company's new mining contractor, Moolman Mining Botswana (Pty) Ltd a subsidiary of Aveng Mining ("Aveng Moolmans") commenced mobilization to the Karowe mine. Ore and waste mined for the year was lower than forecast as the Company transition to its new mining contractor. Since December 2016, during the period of transition to Aveng Mining, Karowe processed ore from stockpile. Forecast 2017 operating outlook remains in line with market guidance (see press release dated November 30, 2016).

Botswana Prospecting Licenses: In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host the kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe Diamond mine. During the fourth quarter of 2016, the Company completed processing an additional 5000 tonnes of kimberlite from the BK02 kimberlite. Processing of audit material and diamond sorting will be complete in Q1 2017. Drilling will progress at the AK13 and AK14 kimberlites during Q1 2017.

Diamond Market: Supply and demand fundamentals in the diamond market remain unbalanced, resulting in a very cautious market. The large volume of rough diamonds sold into the market in 2016 has not translated into increased sales of polished diamonds. Polished diamond price indices remain at very low levels, restricting the ability for rough diamond prices to see short term and sustainable growth.

Demonetisation in India towards the end of 2016 resulted in low to almost no liquidity for polishers to pay their employees. Although this is a short term concern for the sector, additional supply being brought into the market by three new diamond producers may continue to have an impact on prices for the smaller and lower quality rough diamonds.

The market for large high value rough diamonds remains resilient and there remains strong demand for these goods. Lucara continues to receive a high number of bids for its high value single stones as polishers look to move into the higher margin areas of the industry.

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars unless otherwise noted		**Three months ended December 31** **2016**		2015		**Year ended December 31** **2016**		2015
Revenues*	$	66.0	$	65.2	$	295.5	$	223.8
Net income for the period		11.2		19.0		70.7		77.8
Earnings per share (basic)		0.03		0.05		0.19		0.21
Earnings per share (diluted)		0.03		0.05		0.18		0.20
Cash on hand	$	53.3	$	134.8	$	53.3	$	134.8
Average price per carat sold ($/carat)**		743		693		824		593
Operating expenses per carat sold ($/carat)**		197		137		156		133
Operating margin per carat sold ($/carat)**		546		556		668		460

(*) Revenue is presented based on cash receipts received during the period and excludes any tender proceeds received after quarter end. See table 3: results of operations for a reconciliation of revenue and total proceeds for tenders proceeds received after quarter end.

(**) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 3: results of operations for reconciliations and page 9 for Non-IFRS measures.

2017 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2017. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

Karowe Mine, Botswana

Karowe is forecast to process 2.2-2.5 million tonnes of ore, producing between 290,000 and 310,000 carats of diamonds in 2017. Revenue is forecast between $200 and $220 million. This excludes the anticipated sale of the Lesedi La Rona held in inventory at December 31, 2016.

Ore mined is forecast between 2.4-2.7 million tonnes and waste mined is expected to be between 17.0-20.0 million tonnes.

Karowe's operating cash costs (see page 9 Non-IRFS measures) are expected to be between $36.00 and $40.00 per tonne processed following a planned increase in waste mining as the Company advances toward early completion of a major push back by the end of 2018. This will create further optionality for accessing the high value south lobe ore.

Capital expenditure in 2017 is forecast at between $33-$35 million. This capital investment is largely for the completion of the Mega Diamond Recovery (MDR) and -8+4mm sub-middles XRT projects, which commenced in 2016 and are to be completed in 2017. Both projects are forecast to be completed within budgeted costs between $15-$18 million and up to $30 million respectively. Sustaining capital is forecast to be between $7-$9 million in 2017.

A budget of up to $10.0 million is allocated to advance exploration work and the completion of a pre-feasibility level underground study. The Company continues its advanced bulk sampling and drilling work at BK02, AK11 and AK13. Deep drilling on the Karowe AK06 kimberlite south lobe is to be completed in 2017 with the aim of converting inferred resources below 400 metres depth to an indicated resource and to determine the economic viability of underground mining with a view to potentially extending the life of the mine.

The USD/Pula budgeted foreign exchange rate for 2017 is 10.3.

BUSINESS OVERVIEW

The Company is a diamond mining company focused in Africa. The Company's business consists of the acquisition, exploration, development and operation of diamond properties. The Company's head office is in Vancouver, BC, Canada and its common shares trade on the Toronto Stock Exchange, the Nasdaq Stockholm Exchange in Sweden and the Botswana Stock Exchange under the symbol "LUC".

The principal assets of the Company and the focus of the Company's operations, development and exploration activities reside in Botswana.

Table 2: Company's current land holdings:

Country	Name	Interest Held	Area (km^2)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014	100%	55.4
Botswana	Prospecting License No. 367/2014	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Year 2016	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Sales							
Revenues	US$m	295.5	66.0	38.1	140.8	50.6	65.2
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$m	295.5	66.0	29.8	149.1	50.6	65.2
Sales proceeds received during the quarter	US$m	295.5	66.0	38.1	140.8	50.6	65.2
Q2 2016 tender proceeds received in Q3 2016	US$m	-	-	(8.3)	8.3	-	-
Carats sold for proceeds generated during the period	Carats	358,806	88,957	84,059	107,801	77,990	94,026
Carats sold for revenues recognized during the period	Carats	358,806	88,957	114,659	77,200	77,990	94,026
Average price per carat for proceeds generated during the period**	US$	824	743	355	1,383	649	693
Average price per carat for proceeds received during the period***	US$	824	743	332	1,824	649	693
Production							
Tonnes mined (ore) (****)	Tonnes	2,722,375	582,169	650,290	884,212	605,705	672,110
Tonnes mined (waste) (****)	Tonnes	11,058,041	2,728,915	3,092,110	2,868,798	2,368,218	2,631,224
Tonnes processed	Tonnes	2,613,217	630,471	650,646	680,190	651,909	567,966
Average grade processed	cpht (*)	13.5	13.0	12.5	14.6	13.9	15.6
Carats recovered	Carats	353,974	82,272	81,423	99,582	90,697	89,247
Costs							
Operating costs per carats sold (see page 9 Non-IRFS measures)	US$	156	197	149	141	136	137
Capital project expenditures							
Plant Optimization	US$m	-	-	-	-	-	1.6
-8+4mm sub-middles XRT project	US$m	7.2	7.2	-	-	-	-
LDR and MDR circuit	US$m	6.0	0.8	2.3	2.9	-	-
Sustaining capital	US$m	10.0	2.0	5.8	1.7	0.5	0.6
Bulk Sample Plant	US$m	0.1	-	-	-	0.1	0.7
Total	US$m	23.3	10.0	8.1	4.6	0.6	2.9

(*) carats per hundred tonnes
(**) Average price per carat for proceeds generated during the period includes all sales tendered during the period including proceeds received post the quarter end
(***) Average price per carat for proceeds received during the period includes all sales proceeds collected during the period including proceeds received during the quarter
(****) restated following Q3 2016 survey

OPERATIONS: KAROWE MINE

Safety performance was excellent for the year with a Safety and Health Lost Time Injury Frequency rates for 2016 of zero (measured per 1,000,000 hours) (2015: less than 0.4). All safety, health, environmental and corporate responsibility indices were within target. The Company has achieved five million man hours without a lost time injury.

Ore mined in Q4 2016 was 0.6 million tonnes and waste was 2.7 million tonnes. Tonnes of ore and waste mined were lower than forecast as Karowe's previous mine contractor commenced demobilization from site and ore was processed from stockpile. The process plant has performed well during Q4 with tonnes processed being 14% ahead of forecast for the quarter and 6% ahead of forecast for the year resulting in Karowe achieving its carats recovered forecast in excess of 350,000 carats.

As greater volumes of south lobe ore are processed the recovered grade has decreased in line with the resource model. The south lobe contains high value diamonds resulting in higher revenue per tonne ore processed compared to the centre and north lobes.

The project to increase the top size of diamonds recoverable by the existing Large Diamond Recovery was successfully implemented on schedule and within budget. The MDR circuit project is on schedule at 45% complete. The related civil work has commenced at site and fabrication is on schedule and forecast to be completed in Q2 2017.

The sub-middles XRT project (targeting the recovery of diamonds between 4mm and 8mm using XRT technology) is 25% complete. Excavation in preparation of civil work has commenced. The project is on schedule for completion in Q3 2017. This project will further address processing of the very dense high quality South lobe ore at depth and is anticipated to result in a highly efficient and cost effective processing methodology for processing this ore.

In January 2017, the Company announced the appointment of Aveng Moolmans as the new mining contractor for the Karowe mine. Aveng Moolmans is contracted for a six year period to provide full mining services including all drill, blast, load and haul functions for both ore and waste. In February 2017, Aveng Moolmans has commenced mobilization of its mining equipment fleet into the Karowe mine.

EXPLORATION AND MOTHAE

Karowe Resource Upgrade Drilling

Drilling commenced on the planned 10,000 metre deep drill programme designed to test the Karowe AK06 kimberlite at depths below 400m with the objective of converting inferred mineral resources into the indicated category in support of underground mining studies. The drilling component of the program is expected to be completed in February 2017.

Botswana Prospecting Licenses:

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe mine. Ground geophysical surveys were conducted over the known kimberlite occurrences within the prospecting licenses during Q4 2014, Q1 2015 and Q2 2016. The geophysical results confirmed the kimberlite localities and have provided information that has been used to plan our core drilling and surface sampling programs.

BK02
In Q2 2016, the company completed processing a bulk sample with a total of 274.33 carats being recovered from the processing of 5,916 tonnes, for a sample grade of 4.6 cpht. The largest diamond recovered was a 5.48 carat brownish octahedron. In addition, a total of 24 stones were recovered greater than 1 carat in weight, including 3 diamonds in excess of 2 carats in weight. In Q3 2016, the Company completed sampling of an additional 5,000 tonnes of kimberlite in order to recover a parcel of diamonds sufficient for basic valuation purposes. Processing of the second BK02 sample was completed in Q4 2016 with audit samples and diamond sorting forecast be complete in Q1 2017.

During Q4 2016, 14 drill holes totaling 1670 metres were drilled into the BK02 kimberlite. An additional three drill holes (320m) were completed in early Q1 2017. Drill core logging is underway and will be sampled for microdiamond analysis and is forecast to be complete in Q3 2017.

AK 11
During Q3 a drill program was initiated and completed at AK11 with a total of ten core holes (1570 metres of drilling). This program constituted the first ever drilling on AK11. Nine holes were drilled at AK11 and all intersected kimberlite, the tenth hole which did not intersect kimberlite tested a geophysical anomaly to the west of AK11. Preliminary core logging indicates that AK11 has two distinct pipe infill sequences, a well preserved crater infill (graded bedding, re-sediment kimberlite) and a more magmatic/pyroclastic kimberlite phase. Drilling confirmed the size of AK11 at approximately 2.5 hectares. Logging and sampling of the drill core is underway, microdiamond samples are currently being processed and is forecast to be completed by Q2 2017.

Drilling will progress to AK13 and AK14 during Q1 2017.

Mothae Diamond Project, Lesotho

On March 31, 2016, the Company completed the transfer of its shares of Mothae Diamonds Pty Ltd and the Mothae site bulk sample plant to the Government of Lesotho. As consideration, the Government of Lesotho has released the Company from all liabilities relating to the rehabilitation of the Mothae Diamond Project. Lucara has no remaining ownership in this project.

INVESTMENT

In Q4 2016, the Company acquired 4,476,773 Units of Tsodilo Resources Limited for $2.5 million in a private placement financing. Each Unit is comprised of one common share and one common share purchase warrant, each such warrant entitling the holder to purchase one common share of Tsodilo for a period until the close of business on December 12, 2018 at an exercise price of USD$0.75. Lucara was granted a pre-emptive right to maintain its percentage ownership in Tsodilo as well as a right of first refusal to purchase all or any portion of Tsodilo's or its subsidiaries' rights, title or interest in or to Tsodilo's BK16 project pursuant to a right of first refusal agreement. The funds received by Tsodilo from Lucara are specifically designated and ring fenced for work on BK16. The BK16 property covers an area of 1.02 square kilometers and is located 28 km northeast from the Karowe mine and is 14 km from BK02.

SELECT FINANCIAL INFORMATION

Table 4:

In millions of U.S. dollars unless otherwise noted

	Year ended December 31, 2016	2015	2014
Revenues	$ 295.5	$ 223.8	$ 265.5
Operating expenses	(56.1)	(50.1)	(47.2)
Operating earnings (1)	**239.4**	**173.7**	**218.3**
Royalty expenses	(29.5)	(22.4)	(26.6)
Exploration expenditures	(4.1)	(1.0)	-
Care and maintenance	(0.1)	(0.6)	(1.2)
Administration	(14.8)	(13.0)	(12.8)
Sales and marketing	(5.5)	(2.8)	(4.3)
EBITDA (2)	**185.4**	**133.9**	**173.4**
Depletion, amortization and accretion	(15.9)	(13.7)	(14.6)
Finance income (expenses)	(1.5)	(0.3)	0.8
Foreign exchange gain (loss)	(11.0)	15.5	(19.4)
Loss on disposition - Mothae	(1.2)	-	-
Restoration and impairment charge - Mothae	-	-	(21.2)
Current income tax expense	(85.6)	(44.7)	(41.6)
Deferred income tax expense	0.5	(12.9)	(31.7)
Net income for the year	**70.7**	**77.8**	**45.7**
Change in cash during the year	**(81.4)**	**33.9**	**51.5**
Cash on hand	**53.3**	**134.8**	**100.8**
Earnings per share (basic)	**0.19**	**0.21**	**0.13**
Earnings per share (diluted)	**0.18**	**0.20**	**0.13**
Per carats sold			
Sales price	**$ 824**	**$ 593**	**$ 644**
Operating expenses	**156**	**133**	**115**
Average grade (carats per hundred tonnes)	**13.5**	**16.3**	**17.7**

(1) Operating earnings is a non-IFRS measure defined as sales less operating expenses and royalty expenses.

(2) EBITDA is a non-IFRS measure defined as earnings before interest, taxation, depreciation and amortization.

Table 5: Operating cost per tonne ore processed reconciliation:

In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed

	Year ended December 31, 2016	2015
Operating expenses	$ 56.1	$ 50.1
Capitalized production stripping costs(1)	9.4	12.6
Net change rough diamond inventory(2)	3.6	(1.2)
Net change ore stockpile inventory(3)	0.1	3.1
Total operating costs for ore processed	69.2	64.5
Tonnes processed	2,613,217	2,238,975
Operating cost per tonne ore processed(4)	**26.50**	**28.85**

(1) Capitalized production stripping cost in investing activities in the audited consolidated statements of cash flows.

(2) Net change in rough diamond inventory for the year ended December 31, 2016 and December 31, 2015.

(3) Net change in ore stockpile inventory for the year ended December 31, 2016 and December 31, 2015.

(4) Operating cost per tonne processed for the year is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in rough diamond inventory and ore stockpile divided by the tonnes ore processed for the period.

Revenues

During the year the Company had sales totalling 358,806 carats for gross proceeds of $295.5 million at an average price of $824 per carat. Excluding the sale of the 813 carat Constellation diamond, the 2016 average price sold was $649 per carat. The exceptional stone sales resulted in an average price of $34,301 per carat from the sale of 2,624 carats in 2016 (2015: $31,597 per carat from the sale of 3,114 carats), with the regular tenders achieving $400 per carat (2015: $335 per carat).

Operating Earnings

Operating earnings for 2016 were $239.4 million and operating expenses during the year totalled $56.1 million, or $156 per carat, which resulted in an operating margin (before royalties and depletion and amortization) of $668 per carat or 81% compared to prior year of 78%.

Income Tax Expense

The Company's 2016 income tax expense was $85.0 million, which consisted of a current income tax charge of $85.5 million and a deferred income tax recovery of $0.5 million for the year. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income was equal to revenue. At the Company's 2016 performance, its tax rate for 2016 was 44% (2015: 40%). The Company has paid $76.3 million of its current year tax expense and the remaining current tax accrual of $9.2 million is due by April 30, 2017.

Foreign Exchange

The Company recorded a foreign exchange loss of $11.0 in 2016 compared to a gain of $15.5 million in 2015. This non-cash foreign exchange loss of $11.0 million has been recorded due to the Company's Botswana subsidiary's functional currency being Pula. The functional currency is the currency used in the primary economic environment where an entity operates. Under international accounting standards the Company's US dollar cash balance is translated to Pula in its Botswana operating entity and then reconverted to US dollar for reporting purposes. The strengthening of the Pula compared to the year-end December 2015 rate resulted in a foreign exchange loss during the year.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

Full year EBITDA was $185.4 million compared to $133.9 million in 2015. The EBITDA is higher than the prior year largely due to the increase in revenue compared to the prior year.

EBITDA is a non-IFRS measure and is reconciled in table 4.

Operating Cost Per Tonne Ore Processed

The year ended December 31, 2016 operating cost per tonne processed was $26.5 per tonne processed (2015: $28.85 per tonne processed) and was within the revised 2016 guidance of $25.0-$28.0 per tonne processed. The lower cost compared to 2015 is largely due to an increase in processed volumes of ore general costs savings and a devaluation of the average pula exchange rate to the US dollar during 2015. Operating cost per tonne processed is a non-IFRS measure and is reconciled in the table on table 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

Liquidity and Capital Resources

As at December 31, 2016, the Company had cash of $53.3 million (2015: $134.8 million).

Cash decreased during the year by $81.4 million. This decrease is mainly due to the Company's special dividend and regular quarter dividend payments to its shareholders of $149.7 million. Also during the year, the Company incurred capital expenditure of $23.3 million, largely for the LDR and MDR circuits of $6 million and -8+4mm sub middles project of $7.2 million and $9.4 million of capitalized production stripping costs.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data). The Company's financial statements are reported under IFRS issued by the IASB.

Table 6: The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters (unaudited):

Three months ended	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15	Sept-15	Jun-15	Mar-15
A. Revenues	66,017	38,098	140,785	50,566	65,212	90,878	38,122	29,634
B. Administration expenses	(6,429)	(3,226)	(2,678)	(2,448)	(5,214)	(3,005)	(2,353)	(2,425)
C. Net income (loss)	11,204	(3,804)	46,116	17,141	18,958	44,181	8,625	6,006
D. Earnings (loss) per share (basic and diluted)	0.03	(0.01)	0.12	0.05	0.05	0.12	0.02	0.02

Revenues

During the three months ended December 31, 2016, the Company completed two diamond tenders, one of which was an exceptional diamond tender. The exceptional diamond tender generated gross proceeds of $38.7 million and the regular tender in the fourth quarter achieved $27.3 million.

Administration Expenses

During the three months ended December 31, 2016, administration expenses increased to $6.4 million with full year costs in line with the previous year.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as EBITDA, Operating costs per carats sold, and Operating cost per tonne ore processed, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

EBITDA (see "Select Financial Information") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to measure performance and evaluate trends of individual assets. EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization and net loss attributable to non-controlling interests.

Operating costs per carats sold (see "Karowe Mine, Botswana") is the term the Company uses to describe the mining, processing and site administration costs to produce a single carat of diamond. This is calculated as operating costs per carat of diamond sold.

Operating cost per tonne ore processed (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as Operating cost divided by tonnes of ore processed for the period. This ratio provides the user with the total cash costs incurred by the mine during the period per tonne of ore processed, including waste capitalisation costs, mobilization costs and working capital movements. The most directly comparable measure calculated in accordance with IFRS is operating expenses. A table reconciling the two measures is presented in table 5.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2016, the Company paid $0.3 million (2015 $0.6 million) to a charitable foundation directed by certain of the Company's directors to carry out social programs on behalf of the Company.

FINANCIAL INSTRUMENTS

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost.

The fair value of the Company's available for sale financial instruments is derived from quoted prices in active markets. The fair value of all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these instruments.

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. For a discussion of certain risks and assumptions that relate commodity price risk, currency risk, liquidity risk and credit risk, refer to Note 18 in the Company's consolidated financial statements. For a discussion of the methods used to value financial instruments, as well as any significant assumptions, refer also to Note 18 of the Company's consolidated financial statements.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 382,246,001 common shares outstanding, 1,067,493 share units and 3,346,670 stock options outstanding under its stock-based incentive plan.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. The material risk factors and uncertainties, should be taken into account in assessing the Company's activities are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at http://www.sedar.com (the "AIF"). Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the quarter ended March 31, 2017 is expected to be published on May 3, 2017. In addition, the Company's annual general meeting of shareholders will be held on May 11, 2017 in Vancouver, British Columbia.

NEW ACCOUNTING PRONOUNCEMENTS

The Company prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Note 3 of the audited consolidated financial statements for the year ended December 31, 2016 provides details of significant accounting policies and accounting policy decisions for significant or potentially significant areas that have had an impact on our financial statements or may have an impact in future periods.

The following are new IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standards or interpretations in the annual period for which it is first required.

IFRS 2 - Share-based payments

The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The completed version of IFRS 2 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

IFRS 15 - Revenue from Contracts with Customers

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

IFRS 16 - Leases

The new Leases standard requires lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

IAS 12 – Income taxes – Deferred tax

This amendment is to clarify the requirements for recognising deferred tax assets on unrealised losses and the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. This amendment also clarifies certain aspects of accounting for deferred tax assets.

IAS 12 is effective on January 1, 2017. This policy amendment does not affect the Company's financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 3 to the audited consolidated financial statements for the year ended December 31, 2016 includes a summary of the significant accounting policies adopted by the Company. The following policies are considered to be critical accounting policies since they involve the use of significant estimates.

Estimated Recoverable Reserves and Resources

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at the operating mine site, in accounting for deferred stripping costs and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depreciation and impairment charges recorded in the income statement.

Depreciation, Depletion and Accretion

Mineral properties and plant and equipment comprise a large component of the Company's assets and as such, depreciation and depletion of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company amortizes mineral property and mining equipment and other assets over the life of the mine based on the depletion of the mine's proven and probable reserves. In the case of mining equipment and other assets, if the useful life of the asset is shorter than the life of the mine, the asset is amortized over its expected useful life.

Proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Mineral Properties

The Company carries its mineral properties at cost less any provision for impairment. The costs of each property will be amortized over the economic life of the property on a unit of production basis. Costs are charged to operations when a property is abandoned or when impairment in value, other than temporary, has been determined. Exploration costs are charged to operations as incurred.

The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying value may exceed their fair value. In undertaking this review, management of the Company is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Income Taxes

Deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary difference"), and losses carried forward. Deferred income tax assets and liabilities are measured using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by year end. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized.

Management of the Company is required to exercise judgments and make assumptions about the future performance of the Company in determining its ability to utilize loss carry-forwards and realize the benefits of deferred income tax assets.

Decommissioning and Site Restoration

The Company has obligations for site restoration and decommissioning related to its diamond properties. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording decommissioning and site restoration provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of the mine through a charge to finance costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements and those differences may be material.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made and contained herein in the MD&A and elsewhere constitute forward-looking statements as defined in applicable securities laws. 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 be achieved.

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs for capital expenditures related to the Karowe Mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at http://www.sedar.com (the "AIF").

Forward-looking statements are based on the opinions, assumptions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors 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. Such assumptions include: the Company's ability to obtain necessary financing; the Company's expectations regarding the economy generally, results of operations and the extent of future growth and performance; and assumptions that the Company's activities will not be adversely disrupted or impeded by development, operating or regulatory risk. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

There can be no assurance that such statements will prove to be accurate, as the Company's results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading "Risks and Uncertainties" in the Company's AIF, as well as changes in 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 and availability 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) and 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).

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which 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.

Lucara Diamond Corp.

Consolidated Financial Statements
Year Ended December 31, 2016
(Audited)

February 16, 2017

Independent Auditor's Report

To the Shareholders of Lucara Diamond Corp.

We have audited the accompanying consolidated financial statements of Lucara Diamond Corp., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations, comprehensive income, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

LUCARA DIAMOND CORP.
CONSOLIDATED BALANCE SHEETS
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

		December 31, 2016		December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	$	53,345	$	134,776
VAT receivables and other (Note 5)		7,967		3,188
Inventories (Note 6)		40,852		35,245
		102,164		173,209
Investments		3,153		-
Plant and equipment (Note 7)		131,505		115,690
Mineral properties (Note 8)		62,158		51,678
Other non-current assets		3,020		3,593
TOTAL ASSETS	$	302,000	$	344,170
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	26,617	$	12,987
Taxes payable (Note 14)		9,198		9,507
Current portion of restoration provisions (Note 9)		-		2,134
		35,815		24,628
Restoration provisions (Note 9)		15,679		14,024
Deferred income taxes (Note 14)		50,516		48,834
TOTAL LIABILITIES		102,010		87,486
EQUITY				
Share capital (Note 10)		289,969		286,658
Contributed surplus (Note 11)		6,488		5,270
Retained earnings/(deficit)		(38,640)		40,847
Accumulated other comprehensive loss		(57,827)		(76,103)
Total equity attributable to shareholders of the Company		199,990		256,672
Non-controlling interests		-		12
TOTAL EQUITY		199,990		256,684
TOTAL LIABILITIES AND EQUITY	$	302,000	$	344,170

The accompanying notes are an integral part of these consolidated financial statements.

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"William Lamb"
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

		2016		2015
Revenues	$	295,466	$	223,846
Cost of goods sold				
Operating expenses		56,080		50,100
Royalty expenses (Note 8)		29,547		22,385
Depletion and amortization		15,931		13,696
		101,558		86,181
Income from mining operations		193,908		137,665
Other expenses				
Administration (Note 13)		14,781		12,997
Care and maintenance		87		636
Exploration expenditures		4,136		1,046
Finance expenses		1,549		285
Foreign exchange loss (gain)		10,969		(15,475)
Sales and marketing		5,513		2,796
Loss on disposition of Mothae		1,196		-
		38,231		2,285
Net income before tax		155,677		135,380
Income tax expense (Note 14)				
Current income tax expense		85,558		44,732
Deferred income tax expense (recovery)		(538)		12,878
		85,020		57,610
Net income for the year	$	70,657	$	77,770
Attributable to:				
Shareholders of the Company	$	70,657	$	77,849
Non-controlling interests	$	-	$	(79)
Income per common share (Note 15)				
Basic	$	0.19	$	0.21
Diluted	$	0.18	$	0.20
Weighted average common shares outstanding (Note 15)				
Basic		381,285,066		379,516,883
Diluted		383,159,736		380,832,368

The accompanying notes are an integral part of these consolidated financial statements.

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

		2016		**2015**
Net income for the year	$	70,657	$	77,770
Other comprehensive income (loss)				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities		651		36
Currency translation adjustment		14,315		(38,955)
Item that was reclassified to net income				
Currency translation adjustment – Mothae disposition		3,310		-
		18,276		(38,919)
Comprehensive income	$	88,933	$	38,851
Comprehensive income attributable to:				
Shareholders of the Company		88,933		38,928
Non-controlling interests		-		(77)
	$	88,933	$	38,851

The accompanying notes are an integral part of these consolidated financial statements.

LUCARA DIAMOND CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

	2016	2015
Cash flows from (used in):		
Operating Activities		
Net income for the year	$ 70,657	$ 77,770
Items not involving cash and cash equivalents:		
Depletion and amortization	16,322	14,106
Unrealized foreign exchange loss (gain)	9,182	(14,476)
Stock-based compensation	2,027	703
Deferred income taxes expense (recovery)	(538)	12,878
Finance costs	1,464	1,388
Loss on disposition of Mothae	1,196	-
	100,310	92,369
Net changes in working capital items:		
VAT receivables and other current assets	(4,858)	1,134
Inventories	(6,480)	(8,756)
Trade payables and other current liabilities	14,362	2,871
Taxes payable	(396)	(2,309)
	102,938	85,309
Financing Activities		
Dividends paid	(149,681)	(11,783)
Proceeds from exercise of stock options	2,039	358
	(147,642)	(11,425)
Investing Activities		
Acquisition of plant and equipment	(23,327)	(23,612)
Capitalized mineral property expenditure	(1,972)	-
Capitalized production stripping costs	(9,407)	(12,587)
Acquisition of marketable securities	(2,500)	-
	(37,206)	(36,199)
Effect of exchange rate change on cash and cash equivalents	479	(3,748)
Increase (decrease) in cash and cash equivalents during the year	(81,431)	33,937
Cash and cash equivalents, beginning of year	134,776	100,839
Cash and cash equivalents, end of year	$ 53,345	$ 134,776
Supplemental Information		
Interest received	476	1,831
Taxes paid	(85,533)	(46,731)
Changes in trade payable and accrued liabilities related to plant and equipment	(983)	(104)

The accompanying notes are an integral part of these consolidated financial statements.

LUCARA DIAMOND CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Cumulative deficit	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, January 1, 2015	379,369,079	$ 286,138	$ 4,713	$ (25,128)	$ (37,182)	$ 14	$ 228,555
Exercise of stock options	610,334	520	(162)	-	-	-	358
Stock-based compensation	-	-	703	-	-	-	703
Effect of foreign currency translation	-	-	-	-	(38,957)	2	(38,955)
Change in fair value of available-for-sale securities	-	-	-	-	36	-	36
Free-carried non-controlling interests	-	-	-	(75)	-	75	-
Dividends paid[1]	-	-	16	(11,799)	-	-	(11,783)
Net income (loss) for the year	-	-	-	77,849	-	(79)	77,770
Balance, December 31, 2015	379,979,413	$ 286,658	$ 5,270	$ 40,847	$ (76,103)	$ 12	$ 256,684
Balance, January 1, 2016	379,979,413	$ 286,658	$ 5,270	$ 40,847	$ (76,103)	$ 12	$ 256,684
Exercise of stock options and share units	2,266,588	3,311	(1,272)	-	-	-	2,039
Stock-based compensation	-	-	2,027	-	-	-	2,027
Effect of foreign currency translation	-	-	-	-	17,625	-	17,625
Change in fair value of available-for-sale securities	-	-	-	-	651	-	651
Free-carried non-controlling interests	-	-	-	-	-	(12)	(12)
Dividends paid[2]	-	-	463	(150,144)	-	-	(149,681)
Net income for the year	-	-	-	70,657	-	-	70,657
Balance, December 31, 2016	382,246,001	$ 289,969	$ 6,488	$ (38,640)	$ (57,827)	$ -	$ 199,990

(1) On June 18, 2015, the Company paid a cash dividend of CA$ 0.02 per share. On December 17, 2015, the Company paid a cash dividend of CA$ 0.02 per share.

(2) On March 31, 2016, the Company paid a cash dividend of CA$ 0.015 per share. On June 18, 2016, the Company paid a dividend of CA$0.015 per share. On September 15, 2016, the Company paid a Special dividend of CA$0.45 per share and a regular dividend of CA$0.015 per share. On December 15, 2016, the Company paid a dividend of CA$0.015 per share.

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company") is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine and three prospecting licenses located in Botswana.

The Company's common shares are listed on the TSX, NASDAQ Stockholm and Botswana Stock Exchanges. The Company was continued into the Province of British Columbia under the Business Corporations Act (British Columbia) in August 2004 and its registered office is located at Suite 2000 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

2. BASIS OF PRESENTATION

The Company prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The same accounting policies have been consistently applied in all periods presented.

These financial statements were approved by the Board of Directors for issue on February 16, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for investments in equity securities, which are measured at fair value.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. (See Note 12 Principal subsidiaries)

Subsidiaries are entities controlled by the Company. An entity is controlled by the Company when as a group; it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest is less than 100%, the Company recognized non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the Company and is presented separately within equity in the consolidated balance sheet, separately from equity attributable to the shareholders of the Company. Losses within a subsidiary continue to be attributed to the non-controlling interests even if that results in a deficit balance. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements:

Estimated recoverable reserves and resources – Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at the operating mine site, in accounting for deferred stripping costs and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depreciation and impairment charges recorded in the income statement.

Valuation of mineral properties – The Company carries its mineral properties at cost less any provision for impairment. The Company undertakes a periodic review of the carrying values of mineral properties as well as whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Company is required to make significant judgments. These judgments are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Current and Deferred Taxes - The current and deferred tax provisions are determined by the Company's calculation whilst the actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future production and sales volumes, commodity prices, reserves and resources, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Decommissioning and site restoration – The Company has obligations for site restoration and decommissioning related to its diamond property. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the country in which the mine operates, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording decommissioning and site restoration provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of the mine through a charge to finance costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person that makes strategic decisions. The CEO is deemed the chief operating decision-maker of the Company.

The Company's primary reporting segments are based on individual diamond properties, being the Karowe Mine and Corporate. The Corporate office provides support to Karowe Mine with respect to sales, treasury and finance, technical support, regulatory reporting and corporate administration.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in U.S. dollars. The functional currency of the parent company, Lucara Diamond Corp., is the Canadian dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of operations.

Group companies

The functional currency of the significant subsidiary of the Company, Boteti Mining (PTY) Ltd., is the Botswana Pula. The results and financial position of the group companies, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
(iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(g) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses" in the period in which they arise.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in "other gains and losses". Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and trade receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

(i) significant financial difficulty of the obligor;
(ii) delinquencies in interest or principal payments; and
(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations. This amount represents the loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(h) Inventories

Inventories, which include rough diamonds, ore stockpile and parts and supplies, are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value is recognized in the period the write-down occurs. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs.

Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

(i) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation of each asset is calculated using the straight line or unit of production method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of plant and equipment are as follows:

Machinery	5 to 10 years
Mineral property & plant facilities	based on recoverable reserves on a unit of production basis
Furniture and office equipment	2 to 3 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains and losses" in the statement of operations.

(j) Exploration and evaluation expenditures and mineral properties

Exploration and evaluation expenditures relate to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activities include:

- Researching and analyzing historical exploration data;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling;
- Determining and examining the volume and grade of the resource; and
- Surveying, transportation and infrastructure requirement

Exploration and development expenditures are expensed as incurred on mineral properties not sufficiently advanced as to identify their development potential. When it has been established that a mineral property is considered to be sufficiently advanced and an economic analysis has been completed, all further expenditures for the current year and subsequent years are capitalized as incurred. Costs associated with acquiring a mineral property are capitalized as incurred.

(l) Capitalized production stripping asset

During the production phase, mining expenditures (exploration or development costs) incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. However, stripping costs are capitalized and recorded on the statement of financial position as deferred stripping, a component of mineral properties, when the stripping activity provides access to sources of reserves or resources that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The deferred stripping costs are depleted on a unit-of-production basis over the reserves or resources that directly benefited from the stripping activity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of non-financial assets

Long lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) Provisions

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations over the life of the related asset.

Environmental expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated.

Other provisions

Provisions are recognized when:

- the Company has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income taxes

Income taxes are recognized in the statement of income, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity.

Current taxes receivable or payable are based on estimated taxable income for the current year at the statutory tax rates enacted or substantively enacted less amounts paid or received on account.

Deferred taxes is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the sliding tax rate that is expected at the time of reversal and the laws that have been enacted or substantively enacted by the year end.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where there is a legal right to do so, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each year end and are reduced to extent that is no longer probable that the related tax benefit will be realized.

Uncertain tax positions and interest and penalties related to uncertain tax positions are accounted for under IAS 12, the Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit or liability to recognize in the financial statements. The tax position is measured as the amount of benefit or liability that is likely to be realized upon ultimate settlement. The Company assesses the validity of conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause the Company to change their judgment regarding the likelihood of a tax position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Revenue recognition

Revenues from diamond sales are recognized when the risks and rewards of ownership pass to the customer, which is when proceeds are received and title is transferred to the purchaser.

(r) Stock-based compensation

The Company has a stock-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the Company.

Stock options and share units granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options and share units granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

(s) Income per share

Income per share is calculated by dividing the income attributable to the shareholders of the Company by the weighted average number of common shares issued and outstanding during the year. Diluted income per share is calculated using the treasury stock method.

(t) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the period of the lease.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

4. ADOPTION OF IFRS PRONOUNCEMENTS

The IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standards or interpretations in the annual period for which it is first required.

IFRS 2 - Share-based payments

The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The completed version of IFRS 2 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

IFRS 15 - Revenue from Contracts with Customers

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

4. ADOPTION OF NEW IFRS PRONOUNCEMENTS (continued)

IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

IFRS 16 - Leases

The new Leases standard requires lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

IAS 12 – Income taxes – Deferred tax

This amendment is to clarify the requirements for recognising deferred tax assets on unrealised losses and the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. This amendment also clarifies certain aspects of accounting for deferred tax assets.

IAS 12 is effective on January 1, 2017. This policy amendment does not affect the Company's financial statements.

5. VAT RECEIVABLES AND OTHER

	2016	2015
VAT	$ 5,882	$ 1,416
Other	119	915
Prepayments	1,966	857
	$ 7,967	$ 3,188

6. INVENTORIES

	2016	2015
Rough diamonds	$ 14,116	$ 10,497
Ore stockpile	17,089	16,977
Parts and supplies	9,647	7,771
	$ 40,852	$ 35,245

Inventory expensed during the year ended December 31, 2016 totaled $56.1 million (2015 – $50.1 million).

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

7. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2015	$ 38,681	$ 101,727	$ 1,394	$ 2,735	$ 144,537
Additions	23,440	11	-	57	23,508
Disposals and other	-	-	(28)	(6)	(34)
Reclassification	(56,725)	55,741	6	978	-
Translation differences	(2,466)	(20,864)	(207)	(515)	(24,052)
Balance, December 31, 2015	2,930	136,615	1,165	3,249	143,959
Additions	22,037	59	2	260	22,358
Disposals and other	-	-	-	(29)	(29)
Reclassification	(10,527)	9,627	125	775	-
Translation differences	326	6,550	56	166	7,098
Balance, December 31, 2016	$ 14,766	$ 152,851	$ 1,348	$ 4,421	$ 173,386
Accumulated depreciation					
Balance, January 1, 2015	$ -	$ 19,903	$ 1,066	$ 1,552	$ 22,521
Depletion and amortization for the year	-	9,507	118	530	10,155
Disposals and other	-	-	(8)	(5)	(13)
Translation differences	-	(3,937)	(171)	(286)	(4,394)
Balance, December 31, 2015	-	25,473	1,005	1,791	28,269
Depletion and amortization for the year	-	11,564	78	480	12,122
Disposals and other	-	-	-	(16)	(16)
Translation differences	-	1,370	48	88	1,506
Balance, December 31, 2016	$ -	$ 38,407	$ 1,131	$ 2,343	$ 41,881
Net book value					
As at December 31, 2015	$ 2,930	$ 111,142	$ 160	$ 1,458	$ 115,690
As at December 31, 2016	$ 14,766	$ 114,444	$ 217	$ 2,078	$ 131,505

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

8. MINERAL PROPERTIES

Cost		Capitalized production stripping asset		Karowe Mine		Total
Balance, January 1, 2015	$	5,792	$	56,710	$	62,502
Additions		12,587		-		12,587
Revision in estimate of restoration provision		-		(718)		(718)
Translation differences		(2,125)		(8,423)		(10,548)
Balance, December 31, 2015		16,254		47,569		63,823
Additions		10,983		1,940		12,923
Revision in estimate of restoration provision		-		(295)		(295)
Translation differences		946		2,270		3,216
Balance, December 31, 2016	$	28,183	$	51,484	$	79,667
Accumulated depletion						
Balance, January 1, 2015	$	200	$	9,573	$	9,773
Depletion for the year		947		3,313		4,260
Translation differences		(122)		(1,766)		(1,888)
Balance, December 31, 2015		1,025		11,120		12,145
Depletion for the year		1,724		2,990		4,714
Translation differences		76		574		650
Balance, December 31, 2016	$	2,825	$	14,684	$	17,509
Net book value						
As at December 31, 2015	$	15,229	$	36,449	$	51,678
As at December 31, 2016	$	25,358	$	36,800	$	62,158

Karowe Mine

A royalty of 10% of the sales value of diamonds produced from Karowe is payable to the government of Botswana. During the year, the Company had a royalty expense of $29.5 million. (2015: $22.4 million).

Mothae Diamond Project

On March 31, 2016, the Company completed the sale of its shares of Mothae Diamonds Pty Ltd and the Mothae site bulk sample plant to the Government of Lesotho. As consideration, the Government of Lesotho has released the Company from all liabilities relating to the rehabilitation of the Mothae Diamond Project. Lucara has no remaining ownership in this project.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

9. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of its diamond property. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. The Company has applied a pre-tax discount rate of 8.3% at December 31, 2016 (8.2% at December 31, 2015) and an inflation rate of 4.5% at December 31, 2016 (4.4% at December 31, 2015) at the Karowe Mine project. The Karowe rehabilitation costs are expected to commence in the year 2022. The estimated Karowe liability for reclamation and remediation costs on an undiscounted basis is approximately $19.4 million (December 31, 2015 - $18.0 million).

		2016		2015
Balance, beginning of year	$	16,157	$	18,759
Disposal of Mothae project		(2,161)		-
Changes due to discount rate changes		(295)		(718)
Accretion of liability component of obligation		1,274		1,277
Foreign currency translation adjustment		704		(3,160)
Balance, end of year		15,679		16,158
Less: Current portion		-		2,134
Long-term portion of restoration provisions	$	15,679	$	14,024

10. SHARE CAPITAL

The authorized share capital consists of an unlimited number of common shares, with no par value.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

11. SHARE BASED COMPENSATION

a. Stock options

The Company has a new stock option plan (the 'New Plan') approved by the shareholders of the Company on May 13, 2016 which reserves 20,000,000 as the aggregate number of shares issuable upon the exercise of all Options granted under the New Plan. The New Plan supersedes the Company's old stock option plan (the 'Old Plan') which was a rolling stock option plan approved by the shareholders of the Company on May 31, 2011, which reserved 10% of the issued and outstanding shares of the Company for issuance. No further awards shall be granted under the Old Plan. However, any outstanding awards granted under the Old Plan shall remain outstanding and shall continue to be governed by the provisions of such plan. With regard to the New Plan, subject to the Board of Directors discretion, options granted may have a vesting period of up to three years, with 1/3 of the options vesting 12 months from the date of grant; 1/3 of the options vesting 24 months from the date of grant; and the remaining 1/3 vesting 36 months from the date of grant.

Movements in the number of stock options outstanding and their related weighted average exercise prices are as follows:

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA$)	
Balance at December 31, 2014	**2,038,670**	**$**	**0.92**
Granted	1,770,000		2.14
Cancelled	(6,667)		0.70
Exercised[1]	(610,334)		0.77
Balance at December 31, 2015	**3,191,669**		**1.63**
Granted	2,160,000		2.53
Exercised[1]	(2,004,999)		1.33
Balance at December 31, 2016	**3,346,670**	**$**	**2.39**

(1) The weighted average share price on the exercise dates for the 2016 stock option exercises was CA$3.35 (2015: CA$2.13).

Options to acquire common shares have been granted and are outstanding at December 31, 2016 as follows:

	Outstanding Options				**Exercisable Options**			
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price CA$	Number of options exercisable	Weighted average remaining contractual life (years)		Weighted average exercise price CA$
$1.00 - $2.00	33,334	1.6356	$	1.80	-	-	$	-
$2.01 - $3.00	3,193,336	3.3349		2.34	240,005	0.7599		2.23
$3.01 - $4.00	120,000	3.3644		3.94	-	-		-
	3,346,670	3.3190	$	2.39	240,005	0.7599	$	2.23

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

11. SHARE BASED COMPENSATION (continued)

During the year ended December 31, 2016, an amount of $1.1 million (2015 – $0.7 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	2016	2015
Assumptions:		
Risk-free interest rate *(%)*	0.80	0.80
Term *(years)*	4.00	4.00
Expected life *(years)*	3.68	3.63
Expected volatility *(%)*	47.46	47.48
Expected dividend	CA$0.015/share quarterly	CA$0.02/share semi annually
Results:		
Weighted average fair value of options granted *(per option)*	$ 0.78	$ 0.74

b. Share units

The Company has a share unit ("SU") plan that provides for the issuance of SUs. The value of a SU at the issuance date is equal to the closing value of one Lucara common share. The SU vests in three years and each SU entitles the recipient to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period.

For the year ended December 31, 2016, the Company recognized a share-based payment charge against income of $0.9 million (2015: $0.2 million) for the SUs granted during the year.

	Number of shares issuable pursuant to share units	Weighted average price per share (CA$)
Balance at December 31, 2014	**-**	**$ -**
May 14, 2015 grant	520,000	2.07
June 18, 2015 dividend	5,304	1.96
December 17, 2015 dividend	4,585	2.29
Balance at December 31, 2015	**529,889**	**2.07**
February 26, 2016 grant	645,000	2.43
March 31, 2016 dividend	6,380	2.76
June 16, 2016 dividend	4,550	3.89
September 15, 2016 dividend	137,847	4.00
Employee termination vesting	(261,589)	2.44
December 15, 2016 dividend	5,416	2.94
Balance at December 31, 2016	**1,067,493**	**$ 2.46**

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

12. PRINCIPAL SUBSIDIARIES

The Company had the following subsidiaries at December 31, 2016:

Name	Country of incorporation and place of business	Nature of business	Proportion of shares directly held by the Company (%)	Proportion of shares held by the group (%)
African Diamonds Ltd.	UK	Intermediate holding company	100	-
Lucara Management Services Ltd.	UK	Intermediate services company	100	-
Lucara Diamond Holdings (I) Inc.	Mauritius	Intermediate holding company	100	-
Mothae Diamond Holdings Inc.	Mauritius	Intermediate holding company	-	100
Boteti Diamond Holdings Inc.	Mauritius	Intermediate holding company	-	100
Lucara Diamond South Africa (Pty) Ltd.	South Africa	Intermediate holding company	-	100
Wati Ventures (Pty) Ltd.	Botswana	Intermediate holding company	-	100
Debwat Exploration (Pty) Ltd.	Botswana	Intermediate holding company	-	100
Boteti Mining (Pty) Ltd.	Botswana	Mining of diamonds	-	100

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

13. ADMINISTRATION

	2016	2015
Salaries and benefits	$ 5,716	$ 6,213
Professional fees	1,473	1,122
Office and general	2,216	1,610
Marketing	1,052	951
Stock exchange, transfer agent, shareholder communication	330	294
Travel	688	730
Stock based compensation	2,027	703
Management fees	467	342
Depreciation	391	410
Donations	421	622
	$ 14,781	$ 12,997

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

14. INCOME TAXES

		2016		2015
Current	$	85,558	$	44,732
Deferred		(538)		12,878
Income tax expense	$	85,020	$	57,610

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to net income before tax. These differences result from the following items:

		2016		2015
Statutory tax rate		26.00%		26.00%
Net income before tax		155,677		135,380
Computed income tax expense		40,476		35,199
Differences between Canadian and foreign tax rates		(6,657)		(5,712)
Non-deductible expenses and other permanent differences		885		909
Benefits from previously unrecognized tax benefits		-		(334)
Current tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		38,663		19,574
Deferred tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		(431)		4,142
Change in deferred benefits not recognized		2,519		1,268
Exchange rate differences		(1)		600
Withholding taxes		9,566		1,964
	$	85,020	$	57,610

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income were equal to revenue. The Company has estimated the variable tax rate to be at 34.38% for the deferred income taxes following the updated Karowe 43-101 technical report and current financial performance.

The Company has not recognized deferred tax liabilities in respect of historical unremitted earnings from foreign subsidiaries for which the Company is able to control the timing of the remittance and which are considered by the Company to be reinvested for the foreseeable future. At December 31, 2016, these earnings amount to $98.8 million (2015: $177.3 million). All of these earnings would be subject to withholding taxes if they were remitted by the foreign subsidiaries.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

14. INCOME TAXES (continued)

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

		2016		2015
Balance, beginning of year	$	48,834	$	43,646
Deferred income tax (recovery) expense		(538)		12,878
Foreign currency translation adjustment		2,220		(7,690)
Balance, end of year	$	50,516	$	48,834

Deferred income tax assets and liabilities recognized		2016		2015
Deferred income tax assets				
Non-capital losses	$	363	$	421
Unrealized foreign exchange loss		2,798		-
Restoration provisions		5,390		4,821
Total deferred income tax assets		8,551		5,242
Deferred income tax liabilities				
Mineral properties, plant and equipment		57,064		47,432
Future withholding taxes		1,984		1,368
Unrealized foreign exchange gains		-		4,646
Other		19		630
Deferred income tax liabilities		59,067		54,076
Deferred income tax liabilities, net	$	50,516	$	48,834

Deferred income tax assets not recognized		2016		2015
Tax losses	$	16,605	$	19,711
Mineral property, plant and equipment		39		38
Other deductible temporary differences		82		88
	$	16,726	$	19,837

As at December 31, 2016, the Company has non-capital losses for income tax purposes which expire as follows:

		2016		2017		2018		Subsequent to 2019		No expiry date		Total
Canada	$	-	$	-	$	-	$	55,436	$	-	$	55,436
United Kingdom		-		-		-		-		4,619		4,619
	$	-	$	-	$	-	$	55,436	$	4,619	$	60,055

No tax benefit has been recorded for the Canadian and United Kingdom non-capital losses.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

15. INCOME PER COMMON SHARE

a) Basic

Basic earnings per common share are calculated by dividing the net income attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the year:

	2016	2015
Income for the year – attributable to Shareholders of the Company	$ 70,657	$ 77,849
Weighted average number of common shares outstanding	381,285,066	379,516,883
	$ 0.19	$ 0.21

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of stock options.

	2016	2015
Income for the year – attributable to Shareholders of the Company	$ 70,657	$ 77,849
Weighted average number of common shares outstanding	381,285,066	379,516,883
Adjustment for stock options	788,085	983,365
Adjustment for share units	1,086,585	332,120
Weighted average number of common shares for diluted earnings per share	383,159,736	380,832,368
	$ 0.18	$ 0.20

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

16. RELATED PARTY TRANSACTIONS

a) Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers, vice-presidents and members of its Board of Directors.

The remuneration of key management personnel were as follows:

	2016	2015
Salaries and wages	$ 3,984	$ 3,098
Short term benefits	144	65
Stock based compensation	1,647	473
	$ 5,775	$ 3,636

b) Other related parties

For the year ended December 31, 2016, the Company paid $0.3 million (2015 $0.6 million) to a charitable foundation directed by certain of the Company's directors to carry out social programs on behalf of the Company.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

17. SEGMENT INFORMATION

The Company's primary business activity is the development and operation of diamond properties in Botswana. The Company has two operating segments: Karowe Mine and Corporate and other.

2016

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 295,466	$ -	$ 295,466
Income from mining operations	194,071	(163)	193,908
Exploration expenditures	(4,136)	-	(4,136)
Finance income (expenses)	(1,059)	(490)	(1,549)
Foreign exchange gain	(8,434)	(2,535)	(10,969)
Other expenses	(9,868)	(11,709)	(21,577)
Taxes	(75,454)	(9,566)	(85,020)
Net income (loss) for the year	95,120	(24,463)	70,657
Capital expenditures	(34,706)	-	(34,706)
Total assets	289,646	12,354	302,000

2015

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 223,846	$ -	$ 223,846
Income from mining operations	137,615	50	137,665
Exploration expenditures	(1,046)	-	(1,046)
Finance income (expenses)	256	(541)	(285)
Foreign exchange gain	14,704	771	15,475
Other expenses	(7,430)	(8,999)	(16,429)
Taxes	(55,744)	(1,866)	(57,610)
Net income (loss) for the year	88,355	(10,585)	77,770
Capital expenditures	(36,199)	-	(36,199)
Total assets	337,920	6,250	344,170

[1] During the year ended December 31, 2016, two customers (2015: two customers) generated more than 10% of the Company's total revenue, representing 29% and 11% of the Company's 2016 revenue (2015: 12% and 13% of the Company's 2015 revenue) .

The geographic distribution of non-current assets is as follows:

	Plant and equipment		Mineral properties		Other	
	2016	2015	2016	2015	2016	2015
Canada	$ 20	$ 56	$ -	$ -	$ -	$ 26
Botswana	131,485	115,634	62,158	51,678	3,020	3,567
	$ 131,505	$ 115,690	$ 62,158	$ 51,678	$ 3,020	$ 3,593

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

18. FINANCIAL INSTRUMENTS

a) *Measurement categories and fair values*

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit and loss; loans and receivables; available for sale assets; and, for liabilities, other liabilities.

The fair value of the Company's available for sale financial instruments is derived from quoted prices in active markets for identical assets. The fair value of all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these instruments.

The Company's financial assets and liabilities are categorized as follows:

	December 31, 2016	December 31, 2015
ASSETS		
Loans and receivables		
Cash and cash equivalents	$ 53,345	$ 134,776
Other receivables	-	4
	$ 53,345	$ 134,780
Available for sale – Investments	2,298	-
Fair value through profit and loss – Investments	855	-
	$ 3,153	$ -
LIABILITIES		
Amortized cost		
Trade payables and accrued liabilities	$ 26,617	$ 12,987
	$ 26,617	$ 12,987

b) *Fair value hierarchy*

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

18. FINANCIAL INSTRUMENTS (continued)

		December 31, 2016		December 31, 2015
Level 1: Available for sale – Investments	$	2,298	$	-
Level 2: Fair value through profit and loss – Investments	$	855	$	-
Level 3: N/A				

c) *Financial risk management*

The Company's financial instruments are exposed to certain financial risks, including commodity price, currency, credit, liquidity and price risks.

Commodity price risk

The Company is subject to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in U.S. dollars and long term U.S. dollar per carat prices are based on external market consensus forecasts. The Company does not have any financial instruments that may fluctuate as a result of commodity price movements.

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At December 31, 2016, the Company is exposed to currency risk relating to U.S. dollar cash held within the Company. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $5.3 million in net income for the year.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash and cash equivalents is held through a large Canadian financial institution with a high investment grade rating. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered into with such customers, the Company believes that credit risk is limited as goods are paid on receipt.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans.

18. FINANCIAL INSTRUMENTS (continued)

Guarantee

As part of the Company's environmental obligation related to the Karowe Mine, the Government of Botswana required a reclamation bond for the Mine. On July 1, 2015, Standard Chartered Bank Botswana Limited has provided the Government of Botswana with a reclamation bond of Botswana Pula 100.0 million ($9.3 million) for Boteti Mining (Pty) Ltd, a wholly owned subsidiary with respect to the Karowe Mine. Consequently, the Company has provided a guarantee for a maximum amount of Botswana Pula 80.0 million ($7.5 million) with Standard Chartered Bank Botswana Limited. In addition, the Company has deposited Botswana Pula 20.0 million ($1.8 million) with Standard Chartered Bank Botswana Limited, accounted for in non-current other assets.

Revolving credit facility

In May 2014, the Company renewed its credit facility with the Bank of Nova Scotia. The credit facility was increased to a $50 million revolving term credit facility with a maturity date of May 5, 2017, which may be extended if both parties agree. Funds drawn under the revolving credit facility are due in full at maturity. The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at December 31, 2016, the Company is in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company’s leverage ratio.

The Company has provided security on the three year facility by way of a charge over the Company’s Karowe assets and a guarantee by the Company’s subsidiaries, which hold the Karowe assets.

The Bank of Nova Scotia has first ranking security over the Karowe assets.

As at December 31, 2016, the full amount under this facility was available and undrawn.

19. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes costs of capital at an acceptable risk.

In the management of capital, the Company considers items included in equity attributable to shareholders and its debt facility to be capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company’s assets. In order to maintain or adjust the capital structure, the Company may attempt to issue new shares or debt instruments, acquire or dispose of assets, or to bring in joint venture partners.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditures budgets and life-of-mine plans which are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets and life-of-mine plan are approved by the Board of Directors.

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