



Lucara Diamond  
Corp.

Management's Discussion & Analysis  
And  
Condensed Interim Consolidated Financial Statements  
For the Three Months Ended March 31, 2015  
(Unaudited)



**LUCARA DIAMOND CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MARCH 31, 2015**

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 unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2015, 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 May 12, 2015.

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](http://www.sedar.com).

## **HIGHLIGHTS**

**Exceptional Diamonds:** The Company recovered its largest gem quality diamond at 342 carats. The diamond will be offered for sale at the Company's first exceptional stone tender in 2015.

**Plant Optimization Project:** A primary focus for the Company in 2015 is to complete the plant optimization program so that it can commence mining the high value south lobe ore on a sustainable basis during the year. The project has advanced very well with construction largely complete within the \$55 million budget and with no disruption to current operations or production. The project is forecast to be complete within the \$55 million budget. Commissioning has commenced and operational ramp up is expected to be complete during the second quarter of the year. The Company plans to start treating stockpiled south lobe ore during the second half of this year.

**Cash flows and operating margins:** The Company achieved revenue of \$29.6 million or \$277 per carat yielding a 61% operating margin of \$169 per carat during the period. The Company's EBITDA (see page 8 Non-IFRS measures) at the end of March 2015 was \$11.9 million. Diamond revenue is lower compared to the previous year largely due to the processing of lower quality north lobe material during the quarter as south lobe material is stockpiled until the plant optimization project is complete.

**Net cash position:** The Company's quarter-end cash balance was \$87.5 million compared to a cash balance of \$56.8 million at March 31, 2014 and \$100.8 million of cash at the end of 2014. The decrease in cash during the period is due to the expenditures on the Company's plant optimization project and tax payments of \$20.3 million reflecting the final Q4 2014 payment and the Company's Q1 quarterly instalment. Company's Scotiabank \$50 million credit facility remains undrawn.

**Karowe operating performance:** Karowe's operating performance was in line with plan during the period in terms of ore and waste mined and carats recovered. Carats recovered were marginally below forecast. Diamond liberation is expected to improve once the tertiary crusher is commissioned. The operation performed well during the period meeting its operational targets while significant construction activity occurred on site as the Company advanced towards completion of the plant optimization project. The mine recovered 153 specials (+10.8 carats) with an average size of 27.7 carats.

**Adjusted Earnings per share:** Adjusted earnings per share (see pages 5 and 8 Non-IRFS measures) is \$0.02 per share for the three month period ended March 31, 2015 (2014: earnings per share \$0.02).

**Botswana Prospecting Licenses:** The Company was awarded two precious stone prospecting licenses located within a distance of 15 km and 30 km from Karowe in 2014. The Company is currently constructing a bulk sampling plant and will commence exploration work programs on the two prospecting licenses during 2015.

**Dividend announcement:** The Company is announcing a semi-annual dividend of Canadian \$0.02 on the issued common shares of Lucara which is payable on June 18, 2015 to the common shareholders on record of the Company on Friday June 05, 2015.

**Mothae Sale:** On May 1, 2015, the Company has entered into a binding memorandum of understanding ('MOU') for the sale of the Mothae Diamond project to Paragon Diamonds Limited. In consideration, the Company will receive \$8.5 million cash payment and 5% of profits earned from the sale of the polished stones and/or rough diamonds not selected for polishing from the first 6.75 million tonnes of ore processed at Mothae by Paragon. The completion of the MOU is subject to the approval of the Lesotho Government.

## FINANCIAL HIGHLIGHTS

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended	
	2015	March 31 2014
Revenues (*)	\$ 29.6	\$ 32.8
Average price per carat sold (\$/carat)	277	305
Operating expenses per carat sold (\$/carat)	108	118
Operating margin per carat sold (\$/carat)	169	187
Net income for the period	6.0	5.1
Earnings per share (basic and diluted)	0.02	0.01
Adjusted earnings per share (see pages 5 and 8 Non-IRFS measures)	0.02	0.02
Cash on hand	87.5	56.8

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

## OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2015. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

### **Karowe Mine, Botswana**

Karowe is in line with its forecast to process 2.3-2.5 million tonnes of ore and to sell 400,000 to 420,000 carats of diamond in 2015 and maintains its revenue forecast of between \$230 and \$240 million.

Ore mined is forecasted between 2.5-2.8 million tonnes and waste mined is expected to be between 12.0-12.5 million tonnes.

Karowe's operating cash costs (see page 9 Non-IRFS measures) are expected to be between \$33 and \$36 per tonne ore treated.

The Company has maintained its forecast for the plant optimization project at a total cost of \$55 million. In addition to the plant optimization project, the Company has forecast expenditures of \$5 million for the purchase and installation of a mill relining machine of which up to \$3 million is forecast to be spent in 2015. Sustaining capital expenditures are forecasted to be between \$4.5-\$5.5 million for the year.

The Company maintains its forecast to spend between \$7-\$8 million on exploration, including the purchase of a bulk sample plant for up to \$5 million.

## BUSINESS OVERVIEW

The Company is a diamond mining company focused in Africa. The business of the Company 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 OMX 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 Lesotho and Botswana.

The following summarizes the Company's current land holdings:

Country	Name	Interest Held	Area (km <sup>2</sup> )
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
Lesotho	Mothae Diamond Mining Lease	75%	20.0

## RESULTS OF OPERATIONS

### *Karowe Mine, Botswana*

	UNIT	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14
<b>Sales</b>						
Revenues	US\$m	29.6	70.5	91.2	71.0	32.8
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	29.6	70.5	66.5	95.0	33.5
Sales proceeds received during the quarter	US\$m	29.6	70.5	91.2	71.0	32.8
Q2 2014 tender proceeds received post Q2 2014	US\$m	-	-	(24.8)	24.8	-
Q1 2014 tender proceeds received post Q1 2014	US\$m	-	-	-	(0.8)	0.8
Carats sold for proceeds generated during the period	Carats	106,777	104,405	88,364	111,900	107,467
Carats sold for revenues recognized during the period	Carats	106,777	104,405	115,362	84,915	107,454
Average price per carat for proceeds generated during the period	US\$	277	675	753	849	312
<b>Production</b>						
Tonnes mined (ore)	Tonnes	561,287	757,672	1,003,312	677,882	888,888
Tonnes mined (waste)	Tonnes	3,243,372	2,477,687	2,624,067	3,166,644	2,002,322
Tonnes treated	Tonnes	603,969	566,681	509,283	664,812	680,730
Average grade processed	cpht <sup>(*)</sup>	14.9	20.1	20.8	14.9	16.3
Carats recovered	Carats	90,077	113,950	106,162	99,142	111,037
<b>Costs</b>						
Operating costs per carats sold (see page 8 Non-IRFS measures)	US\$	108	89	122	132	118
Capital expenditures (including capitalized waste)						
Plant Optimization	US\$m	9.4	16.6	12.8	4.5	1.6
Sustaining capital	US\$m	1.1	2.3	1.0	1.2	0.3
Bulk Sample Plant	US\$m	0.2	2.0	-	-	-
Capitalized waste	US\$m	5.1	1.8	0.4	4.0	-
Total	US\$m	15.8	22.7	14.2	9.7	1.9

(\*) carats per hundred tonnes

### *Karowe Mine, Botswana*

Karowe had one lost time injury reported in the Plant Optimization construction area in February resulting in a year to date LTIFR of 0.27.

The process plant performed well with tonnes and grade treated as forecast. Carats recovered were below forecast (7%) due to lower diamond liberation when processing the harder fragmental kimberlite reducing recovered grade. This will be mitigated as part of the plant optimization with the commissioning of the tertiary crusher in the second quarter of 2015 increasing fine diamond liberation.

The Company's new mining contractor has completed their site mobilization and ramped up the mining rate through the quarter. Volume mined from the pit for the period was in excess of forecast, with waste mined ahead of forecast. Ore tonnage mined from the pit for the quarter was below forecast but was at a higher grade and in line with operational requirements. Mining has concentrated in the south and centre lobes with most south lobe ore being stockpiled for future treatment.

## **REVIEW OF PROJECTS AND EXPLORATION**

### *Karowe, Plant Optimization Project*

The plant upgrade project to modify the process plant to treat harder, more dense ore at depth is well advanced. The Company has spent approximately \$45 million of the forecast \$55 million as at March 31, 2015.

As at March 31, 2015, construction work on site for the project was largely complete. Subsequent to the end of first quarter of 2015, most cold commissioning had been completed with hot commissioning under way for the XRT and recovery circuits. The XRT circuit has functioned well and the XRT machines have shown exceptional recovery throughout the testing period. Operational ramp up and full plant integration is expected to be complete during the second quarter.

### *Botswana Prospecting Licenses:*

The Company was awarded two precious stone prospecting licenses located within a distance of 15 km and 30 km from the Karowe Diamond mine in 2014. Ground geophysical surveys were conducted over known kimberlite occurrences within the prospecting licenses during Q4 2014 and Q1 2015. The geophysical results confirmed the kimberlite localities and have provided information that has been used to plan our core drilling and surface sampling in 2015. The Company is currently constructing a bulk sampling plant and will commence exploration work programs on the two prospecting licenses during 2015. Manufacturing of the modular plant is well advanced and final assembly of the modules is underway at steel fabricators in South Africa. Components are due on site at the Karowe Mine during the second quarter with commissioning being undertaken in the third quarter. Core drilling and bulk sampling activities are planned for the third and fourth quarter of 2015.

### *Mothae Diamond Project, Lesotho*

The Mothae project is located in northeast Lesotho. On May 1, 2015, the Company entered into a binding MOU for the sale of the Mothae Diamond project to Paragon Diamonds Limited. In consideration, the Company will receive \$8.5 million cash payment and 5% of profits earned from the sale of the polished stones and/or rough diamonds not selected for polishing from the first 6.75 million tonnes of ore processed at Mothae by Paragon. The completion of the MOU is subject to the approval of the Lesotho Government.

## SELECT FINANCIAL INFORMATION

	Three months ended	
	2015	March 31 2014
<i>In millions of U.S. dollars unless otherwise noted</i>		
Revenues	\$ 29.6	\$ 32.8
Operating expenses	(11.5)	(12.7)
Royalty expenses	(3.0)	(3.3)
<b>Operating earnings<sup>(1)</sup></b>	<b>15.1</b>	<b>16.8</b>
Administration	(2.4)	(2.1)
Care and maintenance	(0.1)	-
Sales and marketing	(0.7)	(0.9)
Exploration expenditures	-	(0.5)
<b>EBITDA<sup>(2)</sup></b>	<b>11.9</b>	<b>13.3</b>
Depletion, amortization and accretion	(3.9)	(3.7)
Finance income (expenses)	0.6	(0.1)
Foreign exchange gain (loss)	1.6	(2.0)
Current income tax expense	(0.7)	-
Deferred income tax expense	(3.5)	(2.4)
<b>Net income for the period</b>	<b>6.0</b>	<b>5.1</b>
Add back: Foreign exchange loss related to intercompany loan repayment <sup>(3)</sup>	-	2.5
Adjusted net income for the period <sup>(4)</sup>	6.0	7.6
<b>Change in cash during the period</b>	<b>(13.3)</b>	<b>7.5</b>
<b>Cash on hand</b>	<b>87.5</b>	<b>56.8</b>
<b>Earnings per share (basic and diluted)</b>	<b>0.02</b>	<b>0.01</b>
<b>Adjusted earnings per share (basic and diluted)<sup>(5)</sup></b>	<b>0.02</b>	<b>0.02</b>
<b>Per carats sold</b>		
<b>Sales price</b>	<b>\$ 277</b>	<b>\$ 305</b>
<b>Operating expenses</b>	<b>108</b>	<b>118</b>
<b>Average grade (carats per hundred tonnes)</b>	<b>14.9</b>	<b>16.3</b>

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

<sup>(2)</sup> EBITDA is a non-IFRS measure defined as earnings before interest, taxation, depreciation and amortization and foreign exchange loss.

<sup>(3)</sup> Foreign exchange loss related to an intercompany loan repayment between Corporate and Karowe (see page 6)

<sup>(4)</sup> Adjusted net income for the period is a non-IFRS measure defined as earnings before non-cash foreign exchange loss related to an intercompany loan repayment.

<sup>(5)</sup> Adjusted earnings per share for the period is a non-IFRS measure defined as adjusted net income<sup>(4)</sup> divided by the number of shares outstanding at the end of the period on both a basic and fully diluted basis.

### Adjusted earnings per share (basic and diluted):

Three months ended  
March 31,

	2015	2014
<i>In millions of U.S. dollars unless otherwise noted</i>		
<b>Net income for the quarter</b>	<b>6.0</b>	<b>5.1</b>
Add back: Foreign exchange loss related to intercompany loan repayment <sup>(1)</sup>	-	2.5
Adjusted net income for the quarter <sup>(2)</sup>	6.0	7.6
<b>Earnings per share (basic and diluted)</b>	<b>0.02</b>	<b>0.01</b>
<b>Adjusted earnings per share (basic and diluted)<sup>(3)</sup></b>	<b>0.02</b>	<b>0.02</b>

<sup>(1)</sup> Foreign exchange loss related to an intercompany loan repayment between Corporate and Karowe (see page 6)

<sup>(2)</sup> Adjusted net income for the year is a non-IFRS measure defined as earnings before non-cash foreign exchange loss related to an intercompany loan repayment.

<sup>(3)</sup> Adjusted earnings per share for the quarter is a non-IFRS measure defined as adjusted net income<sup>(2)</sup> divided by the weighted average number of shares outstanding during the quarter on both a basic and fully diluted basis.

## SELECT FINANCIAL INFORMATION (CONTINUED)

### Cash operating cost per tonne ore milled:

Three months ended  
March 31,  
2015 2014

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

Operating expenses	\$ 11.5	\$ 12.7
Capitalized production stripping costs <sup>(1)</sup>	5.1	-
Net change in working capital items: Inventories <sup>(2)</sup>	0.4	1.8
Total cash operating costs for ore milled	17.0	14.5
Tonnes milled	603,969	680,730
<b>Cash operating cost per tonne ore milled<sup>(3)</sup></b>	<b>28.15</b>	<b>21.30</b>

<sup>(1)</sup> Capitalized production stripping cost in investing activities in the Condensed interim consolidated statements of cash flows.

<sup>(2)</sup> Net change in working capital items: Inventories in operating activities in the Condensed interim consolidated statements of cash flows.

<sup>(3)</sup> Cash operating cost per tonne milled for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in working capital items: Inventories divided by the tonnes ore milled for the period.

### Revenues

During the three months ended March 31, 2015, the Company completed two diamond tenders totalling 106,777 carats. The tenders achieved gross proceeds totalling \$29.6 million for an average sales price of \$277 per carat compared to the prior year of \$305 per carat.

### Operating earnings

Operating earnings before royalty payments for the three months ended March 31, 2015 were \$18.1 million resulting in operating margin (before royalties and depletion, amortization and accretion) of 61% consistent with prior year's first quarter results. Operating expenses during the quarter were \$108 per carat, which resulted in an operating margin of \$169 per carat.

### Income Tax expense

Total income tax expense was \$4.2 million during the three month period ended March 31, 2015, which includes a current income tax charge of \$0.7 million and a deferred income tax charge of \$3.5 million. The current tax expense has been calculated at an annualized tax rate of approximately 33.4%, which reflects the forecast current year tax rate based on the Company's outlook revenue guidance. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases.

The Company commenced its quarterly tax instalments to the Botswana government in 2015. The tax instalments are based on projected annual revenue and reflect the Company's current level of profitability and are to be paid in four instalments of \$6.8 million. During the quarter, the Company has paid its final 2014 tax liability of \$13.5 million.

### Foreign exchange gain

The Company recorded a foreign exchange gain of \$1.6 million in the three months ended March 31, 2015. The gain was mostly a result of the appreciation of the US dollar holdings in the Company's Botswana subsidiary.

### Foreign exchange loss related to intercompany loan repayment:

A foreign exchange charge of \$2.5 million was recognized during the three months ended March 31, 2014 from an intercompany Pula denominated loan between Corporate and Boteti. Foreign exchange losses following the weakening of the Botswana Pula were previously calculated and reported in the Company's other comprehensive income as this loan was reported as a net investment in a foreign operation under IAS21. In 2014 the Company no longer reported this intercompany loan as a net investment in a foreign operation and as a result previous foreign exchange losses reported in other comprehensive income were charged against the statement of operations as the intercompany loan is repaid.



### **Earnings before interest, tax, depreciation and amortization (EBITDA)**

The three months ended March 31, 2015 EBITDA was \$11.9 million compared to \$13.3 million in the three month period ended March 31, 2014. The decrease in EBITDA as compared to the prior year was due to a decrease in carats sold and decreased prices received for the Karowe diamonds during the period.

EBITDA is a non-IFRS measure and is reconciled in the table on page 5.

### **Cash operating cost per tonne ore milled**

The three months ended March 31, 2015 cash operating cost per tonne milled was \$28.1 per tonne milled compared to \$21.3 per tonne milled in the three month period ended March 31, 2014. The higher cost compared to the same period in the prior year is largely due to higher waste mining in the current year as anticipated in the mine plan.

Cash operating cost per tonne milled is a non-IFRS measure and is reconciled in the table on page 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2015, the Company had cash of \$87.5 million compared to \$56.8 million at March 31, 2014 and \$100.8 million at December 31, 2014.

Cash decreased during the quarter by \$13.3 million. This decrease reflects cash earnings before waste stripping and before income tax of \$23.6 million being offset by waste stripping costs of \$5.1 million, the plant and equipment additions of \$10.6 million and payment of the Company's current year's first quarter tax instalment of \$6.8 million and its 2014 final tax liability of \$13.5 million and foreign exchange impact on cash of \$1.6 million.

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

<b>Three months ended</b>	<b>Mar-15</b>	<b>Dec-14</b>	<b>Sept-14</b>	<b>Jun-14</b>	<b>Mar-14</b>	<b>Dec-13</b>	<b>Sept-13</b>	<b>Jun-13</b>
A. Revenues	29,634	70,499	91,253	70,972	32,780	58,683	42,096	47,224
B. Administration expenses	(2,425)	(4,536)	(2,290)	(3,841)	(2,107)	(4,871)	(1,851)	(2,761)
C. Net income (loss) <sup>(1)</sup>	6,006	(16,819)	41,846	15,639	5,074	21,331	15,043	22,679
D. Earnings (loss) per share (basic and diluted)	0.02	(0.03)	0.11	0.04	0.01	0.05	0.04	0.06

(1) Net loss in Q4 2014 was mainly generated by the Mothae impairment and restoration charge: \$21.2 million in the period.

## **NON-IFRS FINANCIAL MEASURES**

This MD&A refers to certain financial measures, such as EBITDA, adjusted net income for the period and adjusted earnings per share for the period, 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 better 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.

Adjusted net income for the period (see "Select Financial Information") is the term the Company uses to describe net income before non-cash foreign exchange loss related to intercompany repayment.

Adjusted earnings per share for the period (see "Select Financial Information") is the term the Company uses to describe adjusted net income, as defined above, divided by the basic and fully diluted number of shares at the period end.

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.

Cash operating cost per tonne ore milled (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne milled on a cash basis. This is calculated as cash 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 treated, including waste capitalisation 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 on page 5.

## **RELATED PARTY TRANSACTIONS**

For the period ended March 31, 2015, the Company donated \$0.6 million for the period ended March 31, 2015 (2014 – nil) to Lundin Foundation, a charitable foundation directed by members 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 for identical assets. The fair value of the Company's long-term debt approximates their carrying amounts due to the fact that there have been no significant changes in the Company's own credit risk. 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.

## **OUTSTANDING SHARE DATA**

As at the date of this MD&A, the Company had 379,382,412 common shares outstanding and 2,018,670 stock options outstanding under its stock-based incentive plan. As at the same date, the Company had no stock purchase warrants outstanding.

## **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. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2014.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **FINANCIAL INFORMATION**

The report for the quarter ended June 30, 2015 is expected to be published on August 11, 2015

## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2015.

## **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, 2014, 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, 2014, 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.

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning January 1, 2015 and ending March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **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 reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct 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 Annual Information Form dated March 19, 2015 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 of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters)

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.

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

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	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 87,498	\$ 100,839
Investments	113	56
VAT receivables and other	3,652	5,017
Tax prepayments	6,012	-
Inventories (Note 3)	30,412	32,019
	127,687	137,931
Plant and equipment (Note 4)	125,493	122,016
Mineral properties (Note 5)	54,940	52,729
Other non-current assets	4,092	4,349
<b>TOTAL ASSETS</b>	<b>\$ 312,212</b>	<b>\$ 317,025</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade payables and accrued liabilities	\$ 22,405	\$ 12,384
Taxes payable	-	13,681
Current portion of restoration provisions	2,744	2,857
	25,149	28,922
Restoration provisions	15,672	15,902
Deferred income taxes (Note 8)	45,535	43,646
<b>TOTAL LIABILITIES</b>	<b>86,356</b>	<b>88,470</b>
<b>EQUITY</b>		
Share capital	286,149	286,138
Contributed surplus	4,762	4,713
Deficit	(19,118)	(25,128)
Accumulated other comprehensive loss	(45,946)	(37,182)
Total equity attributable to shareholders of the Company	225,847	228,541
Non-controlling interests	9	14
<b>TOTAL EQUITY</b>	<b>225,856</b>	<b>228,555</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 312,212</b>	<b>\$ 317,025</b>

Subsequent event (Note 13)

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"  
Director"William Lamb"  
Director

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**LUCARA DIAMOND CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

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

**(Unaudited)**

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	<b>Three months ended March 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues</b>	\$ 29,634	\$ 32,780
<b>Cost of goods sold</b>		
Operating expenses	11,567	12,656
Royalty expenses	2,963	3,278
Depletion, amortization and accretion	3,908	3,740
	18,438	19,674
<b>Income from mining operations</b>	11,196	13,106
<b>Other expenses</b>		
Administration (Note 7)	2,425	2,107
Care and maintenance	97	-
Exploration expenditures	-	459
Finance (income) expenses	(616)	82
Foreign exchange (gain) loss	(1,611)	2,005
Sales and marketing	680	908
	975	5,561
<b>Net income before tax</b>	10,221	7,545
<b>Income tax expense</b>		
Current income tax	713	-
Deferred income tax (Note 8)	3,502	2,471
	4,215	2,471
<b>Net income for the period</b>	\$ 6,006	\$ 5,074
<b>Attributable to:</b>		
Shareholders of the Company	\$ 6,021	\$ 5,131
Non-controlling interests	\$ (15)	\$ (57)
<b>Income per common share</b>		
Basic	\$ 0.02	\$ 0.01
Diluted	\$ 0.02	\$ 0.01
<b>Weighted average common shares outstanding</b>		
Basic	379,381,187	376,909,397
Diluted	380,451,107	379,029,087

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

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**LUCARA DIAMOND CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)****(Unaudited)**

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	<b>Three months ended March 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Net income for the period</b>	\$ 6,006	\$ 5,074
<b>Other comprehensive income (loss)</b>		
<b>Items that may be subsequently reclassified to net income</b>		
Change in fair value of available-for-sale securities	63	48
Currency translation adjustment	(8,828)	1,338
	(8,765)	1,386
<b>Comprehensive income (loss)</b>	\$ (2,759)	\$ 6,460
<b>Comprehensive income (loss) attributable to:</b>		
Shareholders of the Company	(2,745)	6,528
Non-controlling interests	(14)	(68)
	\$ (2,759)	\$ 6,460

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



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**LUCARA DIAMOND CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)****(Unaudited)**

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	<b>Three months ended March 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from (used in):</b>		
<b>Operating Activities</b>		
Net income for the period	\$ 6,006	\$ 5,074
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	3,969	3,834
Foreign exchange loss	-	1,534
Stock-based compensation	51	93
Deferred income taxes	3,502	2,471
Finance costs	96	66
	<hr/> 13,624	<hr/> 13,072
Net changes in working capital items:		
VAT receivables and other current assets	912	213
Tax prepayment	(6,012)	-
Inventories	(468)	(1,750)
Trade payables and other current liabilities	9,502	(2,302)
Taxes payable	(13,475)	-
	<hr/> 4,083	<hr/> 9,233
<b>Financing Activities</b>		
Proceeds from exercise of stock options	9	84
	<hr/> 9	<hr/> 84
<b>Investing Activities</b>		
Acquisition of plant and equipment	(10,615)	(1,872)
Capitalized production stripping costs	(5,143)	-
	<hr/> (15,758)	<hr/> (1,872)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(1,675)	8
<b>Increase (decrease) in cash and cash equivalents during the period</b>	(13,341)	7,453
<b>Cash and cash equivalents, beginning of period</b>	100,839	49,364
<b>Cash and cash equivalents, end of period</b>	\$ 87,498	\$ 56,817
<b>Supplemental Information</b>		
Interest received (paid)	656	30
Taxes paid	(20,325)	-
Changes in trade payable and accrued liabilities related to plant and equipment	(526)	(46)

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

**LUCARA DIAMOND CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

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

(Unaudited)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Cumulative deficit	Accumulated other comprehensive loss	Non- controlling interests	Total
<b>Balance, January 1, 2014</b>	376,899,415	\$ 283,609	\$ 5,108	\$ (45,516)	\$ (41,820)	\$ 1,543	\$ 202,924
Exercise of stock options	101,334	118	(34)	-	-	-	84
Stock-based compensation	-	-	93	-	-	-	93
Effect of foreign currency translation	-	-	-	-	1,349	(11)	1,338
Unrealized gain on investments	-	-	-	-	48	-	48
Free-carried non-controlling interests	-	-	-	(8)	-	8	-
Net income for the period	-	-	-	5,131	-	(57)	5,074
<b>Balance, March 31, 2014</b>	377,000,749	\$ 283,727	\$ 5,167	\$ (40,393)	\$ (40,423)	\$ 1,483	\$ 209,561
<b>Balance, January 1, 2015</b>	379,369,079	\$ 286,138	\$ 4,713	\$ (25,128)	\$ (37,182)	\$ 14	\$ 228,555
Exercise of stock options	13,333	11	(2)	-	-	-	9
Stock-based compensation	-	-	51	-	-	-	51
Effect of foreign currency translation	-	-	-	-	(8,827)	(1)	(8,828)
Unrealized loss on investments	-	-	-	-	63	-	63
Free-carried non-controlling interests	-	-	-	(11)	-	11	-
Net income for the period	-	-	-	6,021	-	(15)	6,006
<b>Balance, March 31, 2015</b>	379,382,412	\$ 286,149	\$ 4,762	\$ (19,118)	\$ (45,946)	\$ 9	\$ 225,856

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

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

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

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#### 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 (previously named AK6 Diamond Project) located in Botswana and a 75% interest in Mothae Diamond Project located in Lesotho.

The Company's common shares are listed on the TSX, NASDAQ OMX First North 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

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements, except as described in Note 3. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

These financial statements were approved by the Board of Directors for issue on May 12, 2015.

#### 3. INVENTORIES

		<b>March 31, 2015</b>		<b>December 31, 2014</b>
Rough diamonds	\$	7,040	\$	11,703
Ore stockpile		15,915		13,849
Parts and supplies		7,457		6,467
	\$	30,412	\$	32,019

Inventory expensed during the period ended March 31, 2015 totaled \$11.6 million (2014 – \$12.7 million).

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

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

#### 4. PLANT AND EQUIPMENT

<b>Cost</b>	<b>Construction in progress</b>	<b>Mine and plant facilities</b>	<b>Vehicles</b>	<b>Furniture and office equipment</b>	<b>Total</b>
<b>Balance, January 1, 2014</b>	\$ -	\$ 115,930	\$ 1,419	\$ 2,707	\$ 120,056
Additions	41,154	245	228	372	41,999
Disposals and other	-	-	(19)	-	(19)
Impairment	-	(5,171)	(111)	(106)	(5,388)
Translation differences	(2,473)	(9,277)	(123)	(238)	(12,111)
<b>Balance, December 31, 2014</b>	38,681	101,727	1,394	2,735	144,537
Additions	10,069	5	-	15	10,089
Translation differences	(1,571)	(3,772)	(51)	(110)	(5,504)
<b>Balance, March 31, 2015</b>	\$ 47,179	\$ 97,960	\$ 1,343	\$ 2,640	\$ 149,122
<b>Accumulated depreciation</b>					
<b>Balance, January 1, 2014</b>	\$ -	\$ 17,192	\$ 855	\$ 1,123	\$ 19,170
Depletion, amortization and accretion for the year	-	9,170	388	628	10,186
Disposals and other	-	-	(13)	-	(13)
Impairment	-	(4,746)	(75)	(74)	(4,895)
Translation differences	-	(1,713)	(89)	(125)	(1,927)
<b>Balance, December 31, 2014</b>	-	19,903	1,066	1,552	22,521
Depletion, amortization and accretion for the period	-	1,815	38	135	1,988
Translation differences	-	(776)	(39)	(65)	(880)
<b>Balance, March 31, 2015</b>	\$ -	\$ 20,942	\$ 1,065	\$ 1,622	\$ 23,629
<b>Net book value</b>					
<b>As at December 31, 2014</b>	\$ 38,681	\$ 81,824	\$ 328	\$ 1,183	\$ 122,016
<b>As at March 31, 2015</b>	\$ 47,179	\$ 77,018	\$ 278	\$ 1,018	\$ 125,493

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**5. MINERAL PROPERTIES**

<b>Cost</b>	<b>Capitalized production stripping asset</b>	<b>Karowe Mine</b>	<b>Mothae Diamond</b>	<b>Mothae mining license</b>	<b>Total</b>
<b>Balance, January 1, 2014</b>	\$ -	\$ 59,869	\$ 15,841	\$ 2,568	\$ 78,278
Additions	6,162	1,881	-	-	8,043
Impairment	-	-	(15,502)	(2,487)	(17,989)
Translation differences	(370)	(5,040)	(339)	(81)	(5,830)
<b>Balance, December 31, 2014</b>	5,792	56,710	-	-	62,502
Additions	5,143	-	-	-	5,143
Translation differences	(308)	(2,003)	-	-	(2,311)
<b>Balance, March 31, 2015</b>	\$ 10,627	\$ 54,707	\$ -	\$ -	\$ 65,334

**Accumulated depletion**

<b>Balance, January 1, 2014</b>	\$ -	\$ 6,217	\$ -	\$ -	\$ 6,217
Depletion for the year	213	4,116	-	-	4,329
Translation differences	(13)	(760)	-	-	(773)
<b>Balance, December 31, 2014</b>	200	9,573	-	-	9,773
Depletion for the period	134	851	-	-	985
Translation differences	(9)	(355)	-	-	(364)
<b>Balance, March 31, 2015</b>	\$ 325	\$ 10,069	\$ -	\$ -	\$ 10,394

**Net book value**

<b>As at December 31, 2014</b>	\$ 5,592	\$ 47,137	\$ -	\$ -	\$ 52,729
<b>As at March 31, 2015</b>	\$ 10,302	\$ 44,638	\$ -	\$ -	\$ 54,940

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**6. STOCK OPTIONS**

The Company has one rolling stock option plan (the "Plan") approved by the shareholders of the Company on May 13, 2011 which reserves an aggregate of 10% of the issued and outstanding shares of the Company for issuance upon the exercise of options granted. Vesting and terms of the option agreement are at the discretion of the Board of Directors.

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\$)
<b>Balance at December 31, 2013</b>	<b>4,208,334</b>	<b>\$ 0.76</b>
Granted	300,000	2.11
Exercised	(2,469,664)	0.80
<b>Balance at December 31, 2014</b>	<b>2,038,670</b>	<b>0.92</b>
Exercised <sup>(1)</sup>	(13,333)	0.70
Forfeited	(6,667)	0.70
<b>Balance at March 31, 2015</b>	<b>2,018,670</b>	<b>\$ 0.92</b>

(1) The weighted average share price on the exercise date for the 2015 stock option exercises was CA\$1.97.

Options to acquire common shares have been granted and are outstanding at March 31, 2015 as follows:

Range of exercise prices CA\$	Outstanding Options			Exercisable Options		
	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\$
\$0.70 - \$1.00	1,718,670	1.1671	\$ 0.72	800,310	1.1683	\$ 0.72
\$1.01 - \$2.00	100,000	2.0178	1.82	50,000	1.9826	1.78
\$2.01 - \$2.50	200,000	2.1945	2.25	66,666	2.1945	2.25
	2,018,670	1.3110	\$ 0.92	916,976	1.2873	\$ 0.89

During the period ended March 31, 2015, an amount of \$51 (2014 – \$93) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**7. ADMINISTRATION**

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Salaries and benefits	\$ 903	\$ 823
Professional fees	144	349
Stock exchange, transfer agent, shareholder communication	179	213
Travel	173	226
Office and general	212	196
Management fees	102	113
Depreciation	61	94
Donation	600	-
Stock based compensation	51	93
	<b>\$ 2,425</b>	<b>\$ 2,107</b>

**8. INCOME TAXES**

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
<b>Balance, beginning of period</b>	\$ 43,646	\$ 14,258
Deferred income tax expense	3,502	31,692
Foreign currency translation adjustment	(1,613)	(2,304)
<b>Balance, end of period</b>	<b>\$ 45,535</b>	<b>\$ 43,646</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**9. 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:

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Salaries and wages	\$ 1,647	\$ 1,338
Short term benefits	21	23
Stock based compensation	38	66
	<b>\$ 1,706</b>	<b>\$ 1,427</b>

*b) Other related parties*

For the period ended March 31, 2015, the Company donated \$0.6 million for the period ended March 31, 2015 (2014 – nil) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.



# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

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

#### 10. SEGMENT INFORMATION

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

##### Three months ended March 31, 2015

	Karowe Mine	Corporate and other	Total
Revenues	\$ 29,634	\$ -	\$ 29,634
Income (loss) from operations	11,248	(52)	11,196
Care and maintenance	-	(97)	(97)
Finance income (expenses)	750	(134)	616
Foreign exchange	1,436	175	1,611
Other expenses	(1,474)	(1,631)	(3,105)
Taxes	(4,215)	-	(4,215)
Net income (loss) for the period	7,745	(1,739)	6,006
Capital expenditures	(15,758)	-	(15,758)
Total assets	\$ 304,523	\$ 7,689	\$ 312,212

##### Three months ended March 31, 2014

	Karowe Mine	Corporate and other	Total
Revenues	\$ 32,780	\$ -	\$ 32,780
Income (loss) from operations	13,168	(62)	13,106
Exploration expenditures	-	(459)	(459)
Finance income (expenses)	20	(102)	(82)
Other expenses	(1,024)	(3,996)	(5,020)
Taxes	(2,471)	-	(2,471)
Net income (loss) for the period	9,693	(4,619)	5,074
Capital expenditures	(1,813)	(59)	(1,872)
Total assets	\$ 230,023	\$ 24,168	\$ 254,191

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

	Plant and equipment		Mineral properties		Other	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Canada	\$ 103	\$ 127	\$ -	\$ -	\$ 146	\$ 202
Lesotho	-	-	-	-	-	-
Botswana	125,390	121,889	54,940	52,729	3,946	4,147
	\$ 125,493	\$ 122,016	\$ 54,940	\$ 52,729	\$ 4,092	\$ 4,349

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**11. FINANCIAL INSTRUMENTS***a) Measurement categories and fair values*

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 for identical assets. The fair value of the Company's long-term debt approximates their carrying amounts due to the fact that there have been no significant changes in the Company's own credit risk. 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:

	<b>March 31, 2015</b>		<b>December 31, 2014</b>
<b>ASSETS</b>			
Loans and receivables			
Cash and cash equivalents	\$ 87,498	\$	100,839
Other receivables	359		445
	\$ 87,857	\$	101,284
Available for sale			
Investments	113		56
	\$ 113	\$	56
<b>LIABILITIES</b>			
Amortized cost			
Trade payables and accrued liabilities	\$ 22,405	\$	12,384
	\$ 22,405	\$	12,384

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**12. FINANCIAL INSTRUMENTS (continued)***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).

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Level 1		
Investments	\$ 113	\$ 56
Level 2 and Level 3 – N/A		

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**13. SUBSEQUENT EVENT**

On May 1, 2015, the Company has entered into a binding memorandum of understanding ('MOU') for the sale of the Mothae Diamond project to Paragon Diamonds Limited ('Paragon'). In consideration, the Company will receive \$8.5 million cash payment and 5% of profits earned from the sale of the polished stones and/or rough diamonds not selected for polishing from the first 6.75 million tonnes of ore processed at Mothae by Paragon. The completion of the MOU is subject to the approval of the Lesotho Government.



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