



Lucara Diamond
Corp.

Management's Discussion Analysis
And
Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2016
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 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 unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is August 4, 2016.

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

Cash flows and operating margins: The Company achieved revenue of \$191.4 million (H1 2015: \$67.8 million) or \$1,233 per carat yielding an 89% operating margin or \$1,094 per carat for H1 2016 (see page 8 Non-IFRS measures). This revenue excludes \$8.3 million of proceeds received post Q2 for the Company's June tender. H1 2016 EBITDA (see page 8 Non-IFRS measures) was \$140.5 million (H1 2015: \$28.4 million). Revenue is higher compared to the previous year due to the sale of the 813 carat Constellation diamond which sold for \$63.1 million (\$77,649 per carat) and an exceptional stone tender which was held during Q2 compared to Q3 in 2015. The Company's first 2016 exceptional stone tender achieved \$51.3 million in proceeds or \$33,632 per carat.

Karowe's operating cash cost update: Karowe's operating year to date cash costs actual is \$26 per tonne processed. Cost guidance has been decreased for the year (see pages 8 Non-IFRS measures) from between \$33.50 to \$36.50 per tonne of ore processed to \$29.0 to \$31.0 per tonne ore processed.

Net cash position: The Company's Q2 cash balance was \$210.8 million (Q2 2015: \$74.0 million and FY 2015 \$134.8 million). The increase in cash during the period is primarily due to operating cash inflows of \$92.7 million, which was partially offset by the Company's final 2015 tax payment of \$9.5 million, capital expenditures of \$9.5 million and dividend payments of \$8.8 million. The Company's \$50 million credit facility remains undrawn.

Earnings per share: Earnings per share were \$0.17 for H1 2016 (H2 2015: \$0.04 earnings per share).

Dividend: In July 2016, the Company declared and announced a special dividend (see announcement dated July 19, 2016) of CA\$0.45 per share in addition to its quarterly dividend of CA\$0.015 per share for a total payment of CA\$177.5 million to be paid on September 15, 2016. The special dividend along with the forecast full year quarterly dividend payments is expected to total CA\$0.51 per share in 2016 which equates to a dividend yield of 12% based on the share price of CA\$4.18 on August 4, 2016.

OPERATIONAL UPDATE

Karowe operating performance: Operational performance at Karowe was better than budget during the first half of the year. Mining has performed well with overall volume mined, ore tonnage mined, and ore grade mined ahead of budget. Waste stripping to access the ore body at depth is progressing in line with forecast. Ore mining remains concentrated in the south lobe.

Botswana Prospecting Licenses: Bulk sampling activities at BK02 were completed in Q1 and processing of the surface sample was completed during Q2 2016, with results announced on June 13, 2016. Based on the results further sampling at BK02 will be conducted during Q3. Bulk sampling activities at AK12 commenced in Q1 and processing was completed during Q3 2016. Based on the results no further work is planned at AK12. In addition further drilling will be conducted at BK02, AK11, AK13, and AK14 during H2 2016.

FINANCIAL HIGHLIGHTS

Table 1:	Three months ended June 30		Six months ended June 30	
<i>In millions of U.S. dollars unless otherwise noted</i>	2016	2015	2016	2015
Revenues *	\$ 140.8	\$ 38.1	\$ 191.4	\$ 67.8
Average price per carat sold (\$/carat)**	1,824	412	1,233	340
Operating expenses per carat sold (\$/carat)**	141	160	139	132
Operating margin per carat sold (\$/carat)**	1,683	252	1,094	208
Net income for the period	46.1	8.6	63.3	14.6
Earnings per share (basic and diluted)	0.12	0.02	0.17	0.04
Cash on hand	210.8	74.0	210.8	74.0

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

(**) 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 8 for Non-IFRS measures.

OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2016. These are "forward-looking statements" and are subject to the cautionary note regarding the risks associated with forward-looking statements.

Karowe Mine, Botswana

Operating guidance:

The Company continues to forecast revenue between \$200 million and \$220 million for the year ending December 31, 2016, excluding the sale of the Constellation, which sold for \$63.1 million. The Company continues to hold the Lesedi La Rona in inventory as at June 30, 2016 and is currently considering options for its sale.

Karowe's operating cash costs guidance has been decreased for the year (see pages 5 and 7 Non-IFRS measures) from between \$33.50 to \$36.50 per tonne of ore processed to \$29.0 to \$31.0 per tonne ore processed. The reduction in cost guidance is due to the depreciation of the Pula compared to the US dollar, power and general cost savings. The mine continues to forecast between 2.2 to 2.4 million tonnes of ore processed, producing over 350,000 carats of diamonds in 2016.

Ore mined for the quarter is in line with previous guidance of between 3.0 and 3.5 million tonnes and waste mined is expected to be between 13.0 and 14.0 million tonnes.

Capital and exploration guidance:

The Company continues to forecast between \$15 million and \$18 million for the modifications to the existing Large Diamond Recovery ("LDR") circuit and the installation of a Mega Diamond recovery ("MDR") circuit. The Company's \$11 million guidance for 2016's sustaining capital expenditure, which includes a mill re-liner at a cost of \$1.5 million and an investment of \$1.5 million for a combined sales and administrative office in Gaborone, remains unchanged.

The Company maintains its forecast to spend approximately \$3.7 million for deep drilling in the south lobe of the AK6 kimberlite, with the goal of converting inferred resources below 400 metres depth to an indicated resource. An exploration budget of up to \$7.0 million is maintained for advanced bulk sampling and drilling work at the Company's two Botswana prospecting licenses.

The USD/Pula guidance foreign exchange rate is 10. The USD/Pula foreign exchange rate for H1 was 11.1.

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 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 (km²)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014 (AK11,12,13,14)	100%	55.4
Botswana	Prospecting License No. 367/2014 (BK02)	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15
Sales						
Revenues	US\$m	140.8	50.6	65.2	90.8	38.1
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	149.1	50.6	65.2	89.2	39.7
Sales proceeds received during the quarter	US\$m	140.8	50.6	65.2	90.8	38.1
Q2 2016 tender proceeds received post Q2 2016	US\$m	8.3	-	-	-	-
Q2 2015 tender proceeds received post Q2 2015	US\$m	-	-	-	(1.6)	1.6
Carats sold for proceeds generated during the period	Carats	107,801	77,990	94,026	76,156	100,177
Carats sold for revenues recognized during the period	Carats	77,200	77,990	94,026	83,960	92,373
Average price per carat for proceeds generated during the period**	US\$	1,383	649	693	1,171	396
Average price per carat for proceeds received during the period***	US\$	1,824	649	693	1,081	412
Production						
Tonnes mined (ore)	Tonnes	1,124,743	677,766	1,038,901	864,180	722,855
Tonnes mined (waste)	Tonnes	3,482,741	3,328,365	3,143,168	3,224,971	4,278,605
Tonnes processed	Tonnes	680,190	651,909	567,966	560,501	506,538
Average grade processed	cpht ^(*)	14.6	13.9	15.6	18.0	16.9
Carats recovered	Carats	99,582	90,697	89,247	100,651	85,714
Costs						
Operating costs per carats sold (see page 8 Non-IRFS measures)	US\$	141	136	137	130	160
Capital expenditures (including capitalized waste)						
Plant Optimization	US\$m	-	-	1.6	2.9	2.2
LDR and MDR circuit	US\$m	2.9	-	-	-	-
Sustaining capital	US\$m	1.7	0.5	0.6	1.2	2.1
Bulk Sample Plant	US\$m	-	0.1	0.7	1.4	0.2
Capitalized waste	US\$m	1.3	3.0	1.0	2.3	4.2
Total	US\$m	5.9	3.6	3.9	7.8	8.7

(*) 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

OPERATIONS: KAROWE MINE

Operational performance at the Karowe Mine was better than forecast for H1 2016.

Safety performance was excellent with zero LTIs reported, and all other SHECR indices within target.

Both ore and waste tonnage mined was ahead of forecast for both Q2 and H1. Ore mining remains concentrated in the South lobe. The process plant has performed well during Q2 and H1 with tonnes processed ahead of forecast and carats recovered in line with expectation. For H1 2016, Karowe has recovered 340 special stones (+10.8 carats) including 12 stones over 100 carats.

The project to increase the top size of diamonds recoverable by the existing Large Diamond Recovery is well advanced with specialized equipment in fabrication and commissioning on track for end of the third quarter 2016. The Mega Diamond Recovery project is on schedule and currently in detailed design stage with procurement of long lead items complete.

EXPLORATION AND MOTHAE

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 Diamond 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. A drill programme will be initiated during Q3 2016 at BK02, AK11, AK13, and AK14

In Q2 2016, the Company completed processing of the BK02 sample (see announcement dated June 13, 2016). The results of the BK02 bulk sample were press released on June 13, 2016. A total of 274.33 carats were recovered from the processing of 5,916 tonnes of BK02 material, for a sample grade of 4.6 cpht (carats per hundred tonne). 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. Additional sampling will take place at BK02 and processing of the additional material from BK02 will start in mid Q3 2016.

Surface sampling of AK12 was completed and processing was initiated during Q2. Subsequent to the end of Q2 2016, processing of 2,550 tonnes of the AK12 sample had been completed with diamond recoveries of less than 0.5 cpht recovered. The AK12 sample showed no possibility of economic return and the sample processing was terminated after 43% of stockpile sample had been processed. Environmental approvals for drilling campaigns on the Prospecting Licenses were received from Republic of Botswana Department of Environment Affairs ("DEA").

Karowe Resource Upgrade Drilling

Drilling commenced on a planned 10,000 metre deep drill programme designed to test the AK06 kimberlite at depths below 400m with the a target to bring inferred mineral resources into the indicated category in support of underground mining studies. Drilling commenced in the latter stages of Q2 2016 and is ongoing with three core drilling rigs active.

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.

SELECT FINANCIAL INFORMATION

Table 4:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>In millions of U.S. dollars unless otherwise noted</i>				
Revenues	\$ 140.8	\$ 38.1	\$ 191.4	\$ 67.8
Operating expenses	(10.9)	(14.8)	(21.5)	(26.3)
Royalty expenses	(14.1)	(3.8)	(19.1)	(6.8)
Operating earnings⁽¹⁾	115.8	19.5	150.8	34.7
Administration	(2.7)	(2.4)	(5.1)	(4.8)
Care and maintenance	-	(0.1)	(0.1)	(0.2)
Sales and marketing	(2.5)	(0.5)	(3.3)	(1.2)
Exploration expenditures	(0.9)	(0.1)	(1.8)	(0.1)
EBITDA⁽²⁾	109.7	16.4	140.5	28.4
Depletion, amortization and accretion	(3.7)	(3.4)	(7.1)	(7.4)
Finance income	0.1	0.4	-	1.0
Foreign exchange gain (loss)	(0.1)	0.7	(3.1)	2.3
Loss on disposal of Mothae	-	-	(1.2)	-
Current income tax expense	(52.1)	(3.3)	(63.6)	(4.0)
Deferred income tax expense	(7.8)	(2.2)	(2.2)	(5.7)
Net income for the period	46.1	8.6	63.3	14.6
Change in cash during the period	66.5	(13.5)	76.1	(26.8)
Cash on hand	210.8	74.0	210.8	74.0
Earnings per share (basic and diluted)	0.12	0.02	0.17	0.04
Per carats sold				
Sales price	\$ 1,824	\$ 412	\$ 1,233	\$ 340
Operating expenses	141	160	139	132
Average grade (carats per hundred tonnes)	14.6	16.9	14.3	15.8

⁽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: Cash operating cost per tonne ore processed reconciliation:

	Six months ended June 30,	
	2016	2015
<i>In millions of U.S. dollars with the exception of tonnes processed and cash operating cost per tonne processed</i>		
Operating expenses	\$ 21.5	\$ 26.3
Capitalized production stripping costs ⁽¹⁾	4.3	9.3
Net change rough diamond inventory ⁽²⁾	7.2	(2.2)
Net change ore stockpile inventory ⁽³⁾	1.5	(0.6)
Total cash operating costs for ore processed	34.5	32.8
Tonnes processed	1,332,099	1,110,507
Cash operating cost per tonne ore processed⁽⁴⁾	25.90	29.54

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

⁽²⁾ Net change in rough diamond inventory for the 6 month period ended June 30, 2016 and June 30, 2015.

⁽³⁾ Net change in ore stockpile inventory for the 6 month period ended June 30, 2016 and June 30, 2015.

⁽⁴⁾ Cash operating cost per tonne processed 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 for diamond inventories divided by the tonnes ore processed for the period.

Revenues

During Q2, the Company completed one exceptional stone tender totalling 1,525 carats, one regular diamond tender totalling 105,463 carats and the sale of the 813 carat Constellation diamond. The sales achieved gross proceeds of \$140.8 million excluding proceeds of \$8.3 million from the June 2016 regular diamond tender, which were received post end of Q2. Overall, during Q2, the Company recognized an average sales price of \$1,824 per carat compared to the prior year of \$412 per carat.

Operating earnings

Operating earnings before royalty payments for Q2 were \$129.9 million resulting in operating margin (before royalties and depletion, amortization and accretion) of 92%. The margin increase compared to Q2 2015 margins of 61% is due to the timing of the Company's exceptional stone tender which was held one quarter earlier than previous year and also due to the sale of the Constellation diamond during Q2 2016. Operating expenses during Q2 were \$141 per carat, which resulted in an operating margin of \$1,683 per carat.

Income tax expense

Total income tax expense was \$59.9 million during Q2 2016, which includes a current income tax charge of \$52.1 million and a deferred income tax charge of \$7.8 million. The current tax expense has been calculated at an annualized tax rate of approximately 42%, which reflects the current year forecast tax rate based on the Company's revenue guidance including the sale of the Constellation. The deferred income tax charge during the quarter is largely due to the Botswana withholding taxes provision for the repatriation of funds to be used for the special dividend payment in the third quarter of 2016. 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%.

During the quarter, the Company has revised its 2016 tax instalment estimates after the completion of the Constellation diamond sale and accordingly, the Company has paid its second 2016 tax instalment of \$24.2 million.

Sales and marketing expense

The Company recorded a sales and marketing charge of \$2.5 million in Q2 2016 compared with \$0.5 million charge in Q2 2015. The increase in the sales and marketing expense primarily relates to the additional costs incurred for the exceptional stone tender and costs related to the Constellation and Lesedi La Rona diamonds incurred in Q2 2016.

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

Q2 2016 EBITDA was \$109.7 million compared to \$16.4 million in Q2 2015. The increase in EBITDA as compared to the prior year was due to the earlier exceptional stone tender and the sale of the Constellation diamond in Q2 2016.

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

Cash operating cost per tonne ore processed

H1 2016 cash operating cost per tonne processed was \$25.90 per tonne processed compared to \$29.54 per tonne processed in H1, 2015. The lower cost compared to the guidance is largely due to the increase volume of ore processed and general savings including power during the period compared to 2015.

Cash 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 June 30, 2016, the Company had cash of \$210.8 million compared to \$74.0 million at June 30, 2015 and \$134.8 million at December 31, 2015.

Cash increased by \$66.5 million during Q2. This increase reflects cash operating earnings during the period, partially offset by the Company's quarterly dividend to its shareholders of \$4.4 million, capital expenditure of \$5.9 million and payment of the Company's second quarter tax instalment of \$24.2 million.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data).

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	Jun-16	Mar-16	Dec-15	Sept-15	Jun-15	Mar-15	Dec-14	Sept-14
A. Revenues	140,785	50,566	65,212	90,878	38,122	29,634	70,499	91,253
B. Administration expenses	(2,678)	(2,448)	(5,214)	(3,005)	(2,353)	(2,425)	(4,536)	(2,290)
C. Net income (loss) ⁽¹⁾	46,116	17,141	18,958	44,181	8,625	6,006	(16,819)	41,846
D. Earnings (loss) per share (basic and diluted)	0.12	0.05	0.05	0.12	0.02	0.02	(0.03)	0.11

(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 Average price per carat sold, Operating costs per carat sold, Operating margin per carat sold, EBITDA, and Cash 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.

Average price per carat sold is the term the Company uses to describe the revenue generated by a single carat of diamond sold and it is calculated by the dividing revenue over number of carats sold in the same period. Operating costs per carat sold 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 margin is the term the Company uses to describe the net revenue generated after mining, processing and site administration costs generated by a single carat of diamond sold and it is calculated by subtracting the average price per carat sold by operating costs per carat sold.

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.

Cash 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 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 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 4.

RELATED PARTY TRANSACTIONS

For the six months ended June 30, 2016, the Company donated \$0.2 million (2015 – \$0.6 million) to 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 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.

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 381,714,412 common shares outstanding and 3,616,670 stock options outstanding and 1,185,819 share units 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. 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, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the quarter ended September 30, 2016 is expected to be published on November 8, 2016.

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 June 30, 2016.

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, 2015, 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, 2015, 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 April 1, 2016 and ending June 30, 2016, 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 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.**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)****(Unaudited)**

	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 210,834	\$ 134,776
VAT receivables and other	4,070	3,188
Inventories (Note 3)	45,097	35,245
	260,001	173,209
Plant and equipment (Note 4)	117,929	115,690
Mineral properties (Note 5)	55,105	51,678
Other non-current assets	3,469	3,593
TOTAL ASSETS	\$ 436,504	\$ 344,170
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 14,088	\$ 12,987
Taxes payable	32,594	9,507
Current portion of restoration provisions	-	2,134
	46,682	24,628
Restoration provisions	14,988	14,024
Deferred income taxes	52,222	48,834
TOTAL LIABILITIES	113,892	87,486
EQUITY		
Share capital	288,852	286,658
Contributed surplus	5,529	5,270
Retained earnings	95,258	40,847
Accumulated other comprehensive loss	(67,027)	(76,103)
Total equity attributable to shareholders of the Company	322,612	256,672
Non-controlling interests	-	12
TOTAL EQUITY	322,612	256,684
TOTAL LIABILITIES AND EQUITY	\$ 436,504	\$ 344,170

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 140,785	\$ 38,122	\$ 191,351	\$ 67,756
Cost of goods sold				
Operating expenses	10,911	14,789	21,463	26,356
Royalty expenses	14,078	3,813	19,135	6,776
Depletion, amortization and accretion	3,652	3,425	7,086	7,333
	28,641	22,027	47,684	40,465
Income from mining operations	112,144	16,095	143,667	27,291
Other expenses				
Administration (Note 7)	2,678	2,353	5,126	4,778
Care and maintenance	-	143	87	240
Exploration expenditures	890	48	1,764	48
Finance (income) expenses	(100)	(442)	46	(1,058)
Foreign exchange (gain) loss	72	(692)	3,055	(2,303)
Sales and marketing	2,544	534	3,336	1,214
Loss on disposition of Mothae	-	-	1,196	-
	6,084	1,944	14,610	2,919
Net income before tax	106,060	14,151	129,057	24,372
Income tax expense				
Current income tax	52,097	3,280	63,597	3,993
Deferred income tax	7,847	2,246	2,203	5,748
	59,944	5,526	65,800	9,741
Net income for the period	\$ 46,116	\$ 8,625	\$ 63,257	\$ 14,631
Attributable to:				
Shareholders of the Company	\$ 46,116	8,640	\$ 63,257	\$ 14,661
Non-controlling interests	\$ -	(15)	\$ -	\$ (30)
Earnings per common share				
Basic	\$ 0.12	\$ 0.02	\$ 0.17	\$ 0.04
Diluted	\$ 0.12	\$ 0.02	\$ 0.17	\$ 0.04
Weighted average common shares outstanding				
Basic	381,203,771	379,438,588	380,697,616	379,437,101
Diluted	383,373,850	380,506,093	382,433,068	380,476,872

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income for the period	\$ 46,116	\$ 8,625	\$ 63,257	\$ 14,631
Other comprehensive income				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities	-	(19)	-	44
Currency translation adjustment	(591)	(1,911)	5,766	(10,739)
Item that was reclassified to net income				
Currency translation adjustment – Mothae disposition	-	-	3,310	-
	(591)	(1,930)	9,076	(10,695)
Comprehensive income	\$ 45,525	\$ 6,695	\$ 72,333	\$ 3,936
Comprehensive income attributable to:				
Shareholders of the Company	45,525	6,713	72,333	3,968
Non-controlling interests	-	(18)	-	(32)
	\$ 45,525	\$ 6,695	\$ 72,333	\$ 3,936

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash flows from (used in):				
Operating Activities				
Net income for the period	\$ 46,116	\$ 8,625	\$ 63,257	\$ 14,631
Items not involving cash and cash equivalents:				
Depletion, amortization and accretion	3,747	3,579	7,270	7,548
Foreign exchange (gain) loss	317	(1,070)	2,615	(3,216)
Stock-based compensation	467	180	854	231
Deferred income taxes	7,847	2,246	2,203	5,748
Finance costs	91	(20)	218	76
Loss on disposition of Mothae	-	-	1,196	-
	58,585	13,540	77,613	25,018
Net changes in working capital items:				
VAT receivables and other current assets	(2,017)	(404)	(764)	566
Tax prepayment	-	(3,575)	-	(9,587)
Inventories	(5,615)	(235)	(7,103)	(405)
Trade payables and other current liabilities	(2,018)	(8,558)	732	2,734
Taxes payable	27,175	365	22,255	(13,110)
	76,110	1,133	92,733	5,216
Financing Activities				
Proceeds from exercise of stock options	1,110	80	1,572	89
Dividends paid	(4,423)	(6,102)	(8,819)	(6,102)
	(3,313)	(6,022)	(7,247)	(6,013)
Investing Activities				
Acquisition of plant and equipment	(4,572)	(4,538)	(5,175)	(15,153)
Capitalized production stripping costs	(1,332)	(4,202)	(4,344)	(9,345)
	(5,904)	(8,740)	(9,519)	(24,498)
Effect of exchange rate change on cash and cash equivalents	(406)	144	91	(1,531)
Increase (decrease) in cash and cash equivalents during the period	66,487	(13,485)	76,058	(26,826)
Cash and cash equivalents, beginning of period	144,347	87,498	134,776	100,839
Cash and cash equivalents, end of period	\$ 210,834	\$ 74,013	\$ 210,834	\$ 74,013
Supplemental Information				
Interest received (paid)	126	635	210	1,291
Taxes paid	(24,189)	(6,730)	(40,397)	(27,055)
Changes in accounts payable and accrued liabilities related to plant and equipment	(1)	13	(69)	(513)

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	Surplus (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	155,333	127	(38)	-	-	-	89
Stock-based compensation	-	-	231	-	-	-	231
Unrealized loss on investments	-	-	-	-	44	-	44
Effect of foreign currency translation	-	-	-	-	(10,737)	(2)	(10,739)
Free-carried non-controlling interests	-	-	-	(20)	-	20	-
Dividends paid ⁽¹⁾	-	-	8	(6,110)	-	-	(6,102)
Net income for the period	-	-	-	14,661	-	(30)	14,631
Balance, June 30, 2015	379,524,412	\$ 286,265	\$ 4,914	\$ (16,597)	\$ (47,875)	\$ 2	\$ 226,709
Balance, January 1, 2016	379,979,413	\$ 286,658	\$ 5,270	\$ 40,847	\$ (76,103)	\$ 12	\$ 256,684
Exercise of stock options	1,734,999	2,194	(622)	-	-	-	1,572
Stock-based compensation	-	-	854	-	-	-	854
Effect of foreign currency translation	-	-	-	-	9,076	-	9,076
Free-carried non-controlling interests	-	-	-	-	-	(12)	(12)
Dividends paid ⁽²⁾	-	-	27	(8,846)	-	-	(8,819)
Net income for the period	-	-	-	63,257	-	-	63,257
Balance, June 30, 2016	381,714,412	\$ 288,852	\$ 5,529	\$ 95,258	\$ (67,027)	\$ -	\$ 322,612

⁽¹⁾ On June 18, 2015, the Company paid a 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.

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

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

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.

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 and should be read in conjunction with the most recent annual audited financial statements of the Company. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements.

The following accounting estimate and judgment has been utilized for the preparation of this interim consolidated financial statement:

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. We also evaluate the deferred tax liability based on repatriation of retained earnings dependent 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. Judgment is also required on the application of income tax legislation. 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.

These financial statements were approved by the Board of Directors for issue on August 11, 2016.

3. INVENTORIES

	June 30, 2016	December 31, 2015
Rough diamonds	\$ 17,725	\$ 10,497
Ore stockpile	18,521	16,977
Parts and supplies	8,851	7,771
	\$ 45,097	\$ 35,245

Inventory expensed during the six months ended June 30, 2016 totaled \$21.5 million (2015 – \$26.4 million).

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

4. 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	5,016	-	-	103	5,119
Disposals and other	-	-	-	(6)	(6)
Reclassification	(372)	741	-	(369)	-
Translation differences	161	3,832	33	93	4,119
Balance, June 30, 2016	\$ 7,735	\$ 141,188	\$ 1,198	\$ 3,070	\$ 153,191
Accumulated depreciation					
Balance, January 1, 2015	\$ -	\$ 19,903	\$ 1,066	\$ 1,552	\$ 22,521
Depletion, amortization and accretion for the period	-	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, amortization and accretion	-	5,824	43	214	6,081
Disposals and other	-	-	-	(6)	(6)
Translation differences	-	827	29	62	918
Balance, June 30, 2016	\$ -	\$ 32,124	\$ 1,077	\$ 2,061	\$ 35,262
Net book value					
As at December 31, 2015	\$ 2,930	\$ 111,142	\$ 160	\$ 1,458	\$ 115,690
As at June 30, 2016	\$ 7,735	\$ 109,064	\$ 121	\$ 1,009	\$ 117,929

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

5. 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
Change in restoration asset	-	(718)	(718)
Translation differences	(2,125)	(8,423)	(10,548)
Balance, December 31, 2015	16,254	47,569	63,823
Addition	4,344	-	4,344
Translation differences	513	1,278	1,791
Balance, June 30, 2016	\$ 21,111	\$ 48,847	\$ 69,958
Accumulated depletion			
Balance, January 1, 2015	\$ 200	\$ 9,573	\$ 9,773
Depletion	947	3,313	4,260
Translation differences	(122)	(1,766)	(1,888)
Balance, December 31, 2015	1,025	11,120	12,145
Depletion	772	1,568	2,340
Translation differences	41	327	368
Balance, June 30, 2016	\$ 1,838	\$ 13,015	\$ 14,853
Net book value			
As at December 31, 2015	\$ 15,229	\$ 36,449	\$ 51,678
As at June 30, 2016	\$ 19,273	\$ 35,832	\$ 55,105

Karowe Mine

A royalty of 10% of the sales value of diamonds sold from Karowe is payable to the government of Botswana.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

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

6. SHARE BASED COMPENSATION

(i) Stock options

The Company has a new stock option plan (the 'New Plan') approved by the shareholders of the Company on May 13, 2015 which reserves 20,000,000 as the aggregate number of shares issuable upon the exercise of all Options granted under the New Plan. This 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 upon the exercise of options granted. 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
Exercised ⁽¹⁾	(610,334)	0.77
Forfeited	(6,667)	0.70
Balance at December 31, 2015	3,191,669	\$ 1.63
Granted	2,160,000	2.53
Exercised ⁽²⁾	(1,734,999)	1.19
Balance at June 30, 2016	3,616,670	\$ 2.38

(1) The weighted average share price on the exercise date for the 2015 stock option exercises was CA\$2.10

(2) The weighted average share price on the exercise date for the 2016 stock option exercises was CA\$3.30

Options to acquire common shares have been granted and are outstanding at June 30, 2016 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\$
\$1.00 - \$2.00	50,000	2.14	\$ 1.80	-	-	\$ -
\$2.01 - \$3.00	3,446,670	3.82	2.33	260,000	1.39	2.23
\$3.01 - \$4.00	120,000	4.87	3.94	-	-	-
	3,616,670	3.83	\$ 2.38	260,000	1.39	\$ 2.23

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

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

6. SHARE BASED COMPENSATION (continued)

During the six months ended June 30, 2016, an amount of \$0.6 million (2015 – \$0.2 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:

	June 30, 2016	December 31, 2015
Assumptions:		
Risk-free interest rate (%)	0.80	0.80
Expected life (years)	3.68	3.63
Expected volatility (%)	47.46	47.48
Expected dividend	CA\$0.02/share – semiannually	CA\$0.02/share – semiannually
Results:		
Weighted average fair value of options granted (per option)	\$ 0.78	\$ 0.68

(ii) 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 period ended June 30, 2016, the Company recognized a share-based payment charge against income of \$0.17 million (2015: \$0.05 million) for the SUs granted during the period.

	Number of shares issuable pursuant to share units	Weighted average exercise price per share (CA\$)
Balance at January 1, 2015	-	\$ -
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
Balance at June 30, 2016	1,185,819	\$ 2.27

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. ADMINISTRATION

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries and benefits	\$ 1,093	\$ 941	\$ 1,757	\$ 1,844
Office and general	124	331	536	543
Stock-based compensation (Note 6)	467	180	854	231
Stock exchange, transfer agent, shareholder communication	382	210	648	389
Travel	134	256	265	429
Depreciation	95	154	184	215
Donation (Note 8b)	117	43	355	643
Professional fees	112	144	303	288
Management fees	154	94	224	196
	\$ 2,678	\$ 2,353	\$ 5,126	\$ 4,778

8. 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:

	Six months ended June 30,	
	2016	2015
Salaries and wages	\$ 1,904	\$ 2,202
Short term benefits	58	46
Stock-based compensation	651	114
	\$ 2,613	\$ 2,362

b) Other related parties

For the six months ended June 30, 2016, the Company donated \$0.2 million (2015 – 0.6 million) 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 AND SIX MONTHS ENDED JUNE 30, 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

9. 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 June 30, 2016

	Karowe Mine	Corporate and other	Total
Revenues	\$ 140,785	\$ -	\$ 140,785
Income from mining operations	112,180	(36)	112,144
Exploration expenditures	(890)	-	(890)
Finance income (expenses)	227	(127)	100
Foreign exchange	95	(167)	(72)
Other expenses	(2,499)	(2,723)	(5,222)
Tax expenses	(52,218)	(7,726)	(59,944)
Net income (loss) for the period	56,895	(10,779)	46,116
Capital expenditures	\$ 5,904	\$ -	\$ 5,904

Three months ended June 30, 2015

	Karowe Mine	Corporate and other	Total
Revenues	\$ 38,122	\$ -	\$ 38,122
Income from mining operations	16,141	(46)	16,095
Exploration expenditures	(48)	-	(48)
Finance income (expenses)	575	(133)	442
Foreign exchange	378	314	692
Other expenses	(1,300)	(1,730)	(3,030)
Tax expenses	(5,526)	-	(5,526)
Net income (loss) for the period	10,220	(1,595)	8,625
Capital expenditures	\$ 8,740	\$ -	\$ 8,740

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

9. SEGMENT INFORMATION (continued)

Six months ended June 30, 2016			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 191,351	\$ -	\$ 191,351
Income from mining operations	143,737	(70)	143,667
Exploration expenditures	(1,764)	-	(1,764)
Finance income (expenses)	209	(255)	(46)
Foreign exchange	(2,765)	(290)	(3,055)
Other expenses	(3,915)	(5,830)	(9,745)
Tax expenses	(57,637)	(8,163)	(65,800)
Net income (loss) for the period	77,865	(14,608)	63,257
Capital expenditures	9,519	-	9,519
Total assets	\$ 427,864	\$ 8,640	\$ 436,504

Six months ended June 30, 2015			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 67,756	\$ -	\$ 67,756
Income from mining operations	27,388	(97)	27,291
Exploration expenditures	(48)	-	(48)
Finance income (expenses)	1,326	(268)	1,058
Foreign exchange	1,849	454	2,303
Other expenses	(2,772)	(3,460)	(6,232)
Tax expenses	(9,741)	-	(9,741)
Net income (loss) for the period	18,002	(3,371)	14,631
Capital expenditures	24,498	-	24,498
Total assets	\$ 298,810	\$ 7,856	\$ 306,666

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

10. FINANCIAL INSTRUMENTS*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 income (loss). Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, other 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 all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these instruments.

11. SUBSEQUENT EVENT

On July 19, 2016, the Company has announced a special dividend of CA\$0.45 per share to be paid on September 15, 2016 along with its quarterly dividend of CA\$0.015 per share. The total dividend to be paid by the Company on September 15, 2016 will be CA\$ 0.465 per share.



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