



Lucara Diamond  
Corp.

Management's Discussion Analysis  
And  
Condensed Interim Consolidated Financial Statements  
For the Three Months Ended March 31, 2017  
(Unaudited)

**LUCARA DIAMOND CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MARCH 31, 2017**

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, 2017, 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 May 2, 2017.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**FINANCIAL UPDATE**

**Revenues:** The Company achieved revenues of \$26.1 million (2016: \$50.6 million) or \$405 per carat (2016: \$649 per carat) for its first regular tender, yielding an operating margin of \$188 per carat during the period. The decrease in revenues in Q1 2017 compared to Q1 2016 was due to a lower volume of carats being sold and a decrease in the carat weight of specials sold. A larger volume of +10.8ct specials were sold in Q1 2016 (6,936 carats) compared to Q1 2017 (2,379 carats), which reflected the above average recoveries of specials during Q4 2015. The average prices in the Q1 2017 tender are amongst the top three in terms of \$/carat achieved over the 30 Lucara regular tenders held to date. The decrease in overall carats sold in Q1 2017 compared to the prior year reflects the processing of lower grade stockpiles during a transition of mining contractors at Karowe.

Revenue, EBITDA and earnings per share performance were as expected and reflect the overall timing of the Company's sales tenders, with a single tender held during the first quarter. The Company maintains its 2017 revenue forecast of \$200-\$220 million, with 80% of its revenue forecast from the Company's exceptional stone tenders and the sale of specials (>10.8 carats) in its regular tenders. The Company has consistently recovered these specials (>10.8 carats) and there remains strong demand for these diamonds.

The Company announced its 11<sup>th</sup> Exceptional Stone Tender ('EST') to close on May 11<sup>th</sup>. The tender includes 15 diamonds weighing 1,765 carats for an average of 117 carats per stone with six of the offered diamonds weighing in excess of 100 carats.

**Net cash position:** The Company's quarter-end cash balance was \$43.5 million (\$144.3 million at March 31, 2016 and FY 2016 \$53.3 million). The decrease in cash position from year end 2016 closing balance of \$53.3 million was primarily due to investment of capital projects of \$5.0 million and a dividend payment of \$7.2 million, partially offset by Q1 sales. The final 2016 tax installment of \$9.5 million will be paid in Q2 2017. The Company's \$50 million credit facility remains undrawn.

**Earnings per share:** The Company recorded a \$nil earnings per share during the quarter (Q1 2016: \$0.05 earnings per share). The earnings per share during the period is largely due to the timing of the Company's sales. The Company had one sale during Q1 which will be followed by two sales in Q2 including the Company's first exceptional stone sale in 2017.

**Dividend Paid:** In Q1 2017, the Company paid \$7.2 million in dividends as it increased its quarterly dividend from CDN 1.5 cents per share to CDN 2.5 cents per share.

## OPERATIONAL UPDATE

**Karowe Operating Performance:** Karowe's performance was in line with forecast for the quarter with the exception of ore mined which was below forecast due to extraordinarily heavy rains during Q1 2017. Ore mined has increased in Q2 and is expected to be within forecast in 2017. The Company's new mining contractor, Moolman Mining Botswana (Pty) Ltd a subsidiary of Aveng Mining ("Aveng Moolmans") commenced mining during Q1 and is on target to achieve full mining production during Q2 2017. Carats recovered were in line with forecast as the Company processed ore from stockpile during Moolmans' ramp up to full mining capacity.

**Botswana Prospecting Licenses:** During the first quarter of 2017, the Company completed processing its DMS tailings and final diamond sizing was completed on the second 5000 tonne BK02 sample. The BK02 exploration samples were valued during Q1 with a modelled value of US\$56.76 per carat. Based on the grade and value data for the BK02 kimberlite, no further work is planned at this time. Drilling was completed at the AK13 and AK14 kimberlites during Q1 2017 and based on results at AK14 no further work is planned at this site. Microdiamond work is being conducted at AK11 and AK13 which may lead to a further drilling program based on the overall results.

## FINANCIAL HIGHLIGHTS

Table 1:

	Three months ended March 31	
<i>In millions of U.S. dollars unless otherwise noted</i>	2017	2016
Revenues (*)	\$ 26.1	\$ 50.6
Average price per carat sold(**) (\$/carat)	405	649
Operating expenses per carat sold(**) (\$/carat)	217	136
Operating margin per carat sold(**) (\$/carat)	188	513
Net income (loss) for the period	(1.5)	17.1
Earnings (loss) per share (basic and diluted)	(-)	0.05
Cash on hand	43.5	144.3

(\*) 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.

(\*\*) Non-IFRS measures, see page 7 for definitions.

## OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2017. 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, 2017. This excludes the sale of Lesedi La Rona which is held in inventory at March 31, 2017. The Company continues to review opportunities for the sale of the Lesedi La Rona to achieve maximum value including the potential to partner on the stone to gain access to downstream value.

Ore mined for the year is in line with previous guidance of between 2.4 and 2.7 million tonnes and waste mined is expected to be between 17.0 and 20.0 million tonnes.

Karowe's operating cash costs (see pages 5 and 7 Non-IRFS measures) are expected to be between \$36.00 and \$40.00 per tonne processed following a planned increase in waste mining as the Company advances toward early completion of a major push back by the end of 2018. This pushback is expected to provide further optionality for the Company to access high value south lobe ore in the future.

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

A budget of up to \$10.0 million is to advance exploration work and the completion of a pre-feasibility level underground study. The Company continues its advanced bulk sampling and drilling work at AK11 and AK13. Deep drilling on the Karowe Mine to test the AK06 kimberlite South Lobe was completed in Q1 2017 with the aim of converting inferred resources below 400 metres depth to an indicated resource and to determine the economic viability of the Karowe mine resource extension.

The USD/Pula outlook foreign exchange rate is 10.3.

## 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 (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

## RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
<b>Sales</b>						
Revenues	US\$m	26.1	66.0	38.1	140.8	50.6
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	26.1	66.0	29.8	149.1	50.6
Sales proceeds received during the quarter	US\$m	26.1	66.0	38.1	140.8	50.6
Q2 2016 tender proceeds received post Q2 2016	US\$m	-	-	(8.3)	8.3	-
Carats sold for proceeds generated during the period	Carats	64,444	88,957	84,059	107,801	77,990
Carats sold for revenues recognized during the period	Carats	64,444	88,957	114,659	77,200	77,990
Average price per carat for proceeds generated during the period**	US\$	405	743	355	1,383	649
Average price per carat for proceeds received during the period***	US\$	405	743	332	1,824	649
<b>Production</b>						
Tonnes mined (ore)(****)	Tonnes	131,380	582,169	650,290	884,212	605,705
Tonnes mined (waste)(****)	Tonnes	587,177	2,728,915	3,092,110	2,868,798	2,368,218
Tonnes processed	Tonnes	598,934	630,471	650,646	680,190	651,909
Average grade processed	cpht <sup>(*)</sup>	10.9	13.0	12.5	14.6	13.9
Carats recovered	Carats	65,241	82,272	81,423	99,582	90,697
<b>Costs</b>						
Operating costs per carats sold (see page 7 Non-IRFS measures)	US\$	217	197	149	141	136
Capital expenditures						
-8+4mm sub-middles XRT project	US\$m	2.8	7.2	-	-	-
LDR and MDR circuit	US\$m	1.6	0.8	2.3	2.9	-
Sustaining capital	US\$m	0.5	2.0	5.8	1.7	0.5
Bulk Sample Plant	US\$m	-	-	-	-	0.1
<b>Total</b>	US\$m	5.0	10.0	8.1	4.6	0.6

(\*) carats per hundred tonnes

(\*\*) Average price per carat for proceeds generated during the period includes all sales tendered during the period including proceeds received post the quarter end

(\*\*\*) Average price per carat for proceeds received during the period includes all sales proceeds collected during the period including proceeds received during the quarter

(\*\*\*\*) restated following Q3 2016 survey

## **OPERATIONS: KAROWE MINE**

In January 2017, Karowe achieved 5 million Loss Time Injury (LTI) free hours, a total of more than 2 years of LTI free operation. Karowe had one lost time injury during the quarter resulting in a twelve month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.08.

Ore mined for the period was below forecast mainly due to an extraordinary heavy rain season experienced, with double the average rainfall recorded during February and March 2017. Ore mined has increased in Q2 and is expected to be within forecast in 2017. Waste stripping to access the ore body at depth progressed in accordance with forecast. In February 2017, Aveng Moolmans had commenced mobilization of its mining equipment fleet to the Karowe mine followed by a successful ramp-up in March towards full production in Q2 2017. The process plant's performance was in line with forecast during the quarter.

Recovered grade during the quarter was lower than Q1 2016 as Karowe processed ore from stockpile.

The MDR project is on schedule and forecast to be complete during Q3 2017, with commissioning and ramp up in the same period. The related civil work has been completed and construction progressed during the quarter.

The -8+4mm sub-middles XRT project's civil work has been completed while construction progressed during the quarter. The project is on schedule for completion in Q3 2017. This project will further address processing of the very dense high quality South Lobe ore at depth and is anticipated to result in a highly efficient and cost effective processing methodology for processing this ore.

## **EXPLORATION AND RESOURCE UPGRADE**

### *Karowe Resource Upgrade*

During Q1 2017 the final drilling was completed on a planned 10,000 metre program at the Karowe Mine to test the AK06 kimberlite. A total of 12 drill holes (9,750 metres) were completed with approximately 2,770 linear metres within the South Lobe of the AK6 kimberlite being drilled. The program is designed to increase confidence in the geological model for the South Lobe of the AK06 kimberlite and provide sufficient data and material for an updated resource to be utilised in an underground option study for the Karowe mine. Core logging is complete and a program of core sampling for density, petrography, and microdiamond analysis is underway. Mineral Services Canada has been contracted to assist in the development of the sampling program and internal geology updates that will be utilised for an updated resource estimate for the current inferred portion of the Karowe Mine and is expected to be completed in Q4 2017.

### *Botswana Prospecting Licenses:*

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe mine.

### *BK02*

A total of 17 drill holes totaling 1,990 metres were drilled during Q4 2016 and Q1 2017, with microdiamond sampling completed in Q2, 2017. In Q2 2017, an independent valuation of the combined diamond parcel was undertaken in Antwerp. The observed average price per carat for the combined parcel of US\$56.76 per carat combined with the recovered sample grade, preclude additional drilling and sampling of the BK02 kimberlite. Based on the valuation and grade information no further work is planned at this time.

### *AK11*

During Q3 2016 a drill program was initiated and completed at AK11 with a total of ten core holes (1,570 metres of drilling), with nine of the holes intersecting kimberlite and the tenth hole which did not intersect kimberlite tested a geophysical anomaly to the west of AK11. Drilling confirmed the size

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of AK11 at approximately 2.5 hectares. Logging and sampling of the drill core is complete and microdiamond samples are currently being processed and are forecast to be complete during Q2 2017. Pending results a large diameter drilling program may be conducted at AK11.

#### AK13

During Q1 2017, a drill program was completed at AK13. A total of six holes (756 metres drilling) were tested with a 150 metre strike length of a vertical kimberlite dyke system, five holes intersected kimberlite and within the five holes, three holes intersected wider intercepts of kimberlite. An additional three holes tested geophysical anomalies adjacent to AK13 with no kimberlite being intersected. Microdiamond samples will be submitted during Q2 2017.

#### AK14

During Q1 2017, a three hole, 327 metres drill program was conducted at AK14. Based on the drilling information, no further work is planned at AK14.

### SELECT FINANCIAL INFORMATION

Table 4:

	Three months ended March 31	
	2017	2016
<i>In millions of U.S. dollars unless otherwise noted</i>		
Revenues	\$ 26.1	\$ 50.6
Operating expenses	(14.0)	(10.6)
<b>Operating earnings <sup>(1)</sup></b>	<b>12.1</b>	<b>40.0</b>
Royalty expenses	(2.6)	(5.1)
Administration	(3.0)	(2.5)
Sales and marketing	(0.5)	(0.8)
Exploration expenditures	(1.0)	(0.9)
<b>EBITDA <sup>(2)</sup></b>	<b>4.9</b>	<b>30.7</b>
Depletion, amortization and accretion	(3.5)	(3.4)
Finance income (expense)	(0.2)	(0.1)
Foreign exchange gain (loss)	(1.8)	(3.0)
Loss from disposition of Mothae	-	(1.2)
Current income tax expense	(0.6)	(11.5)
Deferred income tax recovery (expense)	(0.3)	5.6
<b>Net income (loss) for the period</b>	<b>(1.5)</b>	<b>17.1</b>
<b>Change in cash during the period</b>	<b>(9.9)</b>	<b>9.6</b>
<b>Cash on hand</b>	<b>43.5</b>	<b>144.3</b>
<b>Earnings (loss) per share (basic and diluted)</b>	<b>(-)</b>	<b>0.05</b>
<b>Per carats sold</b>		
<b>Sales price</b>	<b>\$ 405</b>	<b>\$ 649</b>
<b>Operating expenses</b>	<b>217</b>	<b>136</b>
<b>Average grade (carats per hundred tonnes)</b>	<b>10.9</b>	<b>13.9</b>

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

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

### Table 5: Operating cost per tonne ore processed reconciliation:

	Three months ended	
	2017	March 31 2016
<i>In millions of U.S. dollars with the exception of tonnes processed and cash operating cost per tonne processed</i>		
Operating expenses	\$ 14.0	\$ 10.6
Capitalized production stripping costs <sup>(1)</sup>	0.6	3.0
Net change rough diamond inventory <sup>(2)</sup>	0.4	3.0
Net change ore stockpile inventory <sup>(3)</sup>	(3.1)	(0.1)
Total cash operating costs for ore processed	12.4	16.5
Tonnes processed	598,934	651,909
<b>Cash operating cost per tonne ore processed<sup>(4)</sup></b>	<b>19.86</b>	<b>25.31</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 rough diamond inventory for the periods ended March 31, 2017 and March 31, 2016.

<sup>(3)</sup> Net change in ore stockpile inventory for the periods ended March 31, 2017 and March 31, 2016.

<sup>(4)</sup> 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 the three months ended March 31, 2017, the Company completed one regular diamond tender totalling 64,444 carats. The tender achieved gross proceeds of \$26.1 million compared to revenues of \$50.6 million during Q1 2016. The decrease in Q1 2017 revenues compared to Q1 2016 is due to a lower volume of carats sold and a decrease in the carat volume of individual single stones sold. A larger volume of +10.8ct specials were sold in Q1 2016 (6,936 carats) compared to Q1 2017 (2,379 carats), which reflected the above average recoveries of specials during Q4 2015. The decrease in overall carats sold reflects the expected processing of lower grade stockpile material during the transition of mining contractors at Karowe.

### **Operating earnings**

Operating earnings before royalty payments for the three months ended March 31, 2017 were \$12.1 million resulting in an operating margin (before royalties and depletion, amortization and accretion) of 46%. Operating margin for Q1 2017 was impacted by lower revenues and higher per carat operating expenses. Operating expenses during the quarter were \$217 per carat (Q1 2016: \$136 per carat), which resulted in an operating margin of \$188 per carat. The increase in operating expense per carat recovered during the quarter is due to a reduction in the number of carats recovered due to the average grade processed in Q1 2017 of 10.9 cpht compared with Q1 2016 at 13.9 cpht. The material processed during this period was from stockpile and carats recovered and cost per carat were in line with forecast.

### **Income tax expense**

Total income tax expense was \$0.9 million during the three month period ended March 31, 2017, which includes a current income tax charge of \$0.6 million and a deferred income tax expense of \$0.3 million. The current tax expense is composed of Botswana withholding tax for the repatriation of funds for the Company's Q1 dividend distribution.

### **Net loss**

For the three months ended March 31, 2017, the Company had a net loss of \$1.5 million compared to \$17.1 million of net income in the three month period ended March 31, 2016. The loss during the period is largely due to the timing of the Company's sales. The Company had one sale during Q1 which will be followed by two sales in Q2 including the Company's first exceptional stone sale in 2017.

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

The three months ended March 31, 2017 EBITDA was \$4.9 million compared to \$30.7 million in the three month period ended March 31, 2016. The decrease in EBITDA as compared to the prior year was due to the decreased revenues received for the Karowe regular diamond tender during the period.

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

### **Operating cost per tonne ore processed**

The three months ended March 31, 2017 cash operating cost per tonne processed was \$19.86 per tonne processed compared to \$25.31 per tonne processed in the three month period ended March 31, 2016. The lower cost compared to the prior year is largely due to reduced mining costs during the quarter as the new mining contractor ramps up their operation.

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 March 31, 2017, the Company had cash of \$43.5 million compared to \$144.3 million at March 31, 2016 and \$53.3 million at December 31, 2016.

Cash decreased by \$9.8 million during the quarter. This decrease reflects cash operating earnings during the period, which partially offset the Company's first quarterly dividend to its shareholders of

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\$7.2 million and its capital projects of \$5.0 million. At the end of March, the Company had a tax payable of \$9.5 million for its Q4 2016 final tax installment.

### **Dividends**

The Company paid its quarterly dividend of CDN 2.5 cents per share on March 30, 2017. Effective today's date, May 2, 2017, the Company is declaring its second quarter dividend of CDN 2.5 cents per share. The dividend is expected to be paid on June 15, 2017 to holders of securities on the record of the Company's common shares at the close of business on June 2, 2017. The Company anticipates that it will declare two further payments of CDN 2.5 cents per share in 2017 at the end of each quarter for a total yearly dividend of CDN 10 cents per share however the declaration of all dividends remains in the discretion of the Board at Directors and is subject to the requirements of the Company's dividend policy.

### **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):

<b>Three months ended</b>	<b>Mar-17</b>	<b>Dec-16</b>	<b>Sept-16</b>	<b>Jun-16</b>	<b>Mar-16</b>	<b>Dec-15</b>	<b>Sept-15</b>	<b>Jun-15</b>
A. Revenues	26,094	66,017	38,098	140,785	50,566	65,212	90,878	38,122
B. Administration expenses	(3,025)	(6,429)	(3,226)	(2,678)	(2,448)	(5,214)	(3,005)	(2,353)
C. Net income (loss)	(1,531)	11,204	(3,804)	46,116	17,141	18,958	44,181	8,625
D. Earnings (loss) per share (basic and diluted)	(-)	0.03	(0.01)	0.12	0.05	0.05	0.12	0.02

### **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.

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, and depreciation and amortization.

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

Operating cost per tonne ore processed (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as operating cost divided by tonnes of ore processed for the period. This ratio provides the user with the total 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 on page 5.

### **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 382,446,001 common shares outstanding, 1,361,917 share units and 4,006,670 stock options outstanding under its stock-based incentive plan.

#### **RISKS AND UNCERTAINTIES**

The operations of the Company are speculative due to the high-risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. 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, 2016.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

#### **FINANCIAL INFORMATION**

The report for the quarter ended June 30, 2017 is expected to be published on August 3, 2017.

#### **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, 2017.

#### **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

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

#### *Internal controls over financial reporting*

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

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

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

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

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, 2017 and ending March 31, 2017, 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").

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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, regulatory or environmental changes resulting from global climate change 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, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 43,461	\$ 53,345
VAT receivables and other	8,811	7,967
Inventories (Note 3)	37,539	40,852
	89,811	102,164
Investments	4,208	3,153
Plant and equipment (Note 4)	137,615	131,505
Mineral properties (Note 5)	64,013	62,158
Other non-current assets	4,078	3,020
<b>TOTAL ASSETS</b>	<b>\$ 299,725</b>	<b>\$ 302,000</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade payables and accrued liabilities	\$ 22,994	\$ 26,617
Taxes payable	9,466	9,198
	32,460	35,815
Restoration provisions	16,446	15,679
Deferred income taxes	52,401	50,516
<b>TOTAL LIABILITIES</b>	<b>101,307</b>	<b>102,010</b>
<b>EQUITY</b>		
Share capital	290,450	289,969
Contributed surplus	6,736	6,488
Deficit	(47,365)	(38,640)
Accumulated other comprehensive loss	(51,403)	(57,827)
<b>TOTAL EQUITY</b>	<b>198,418</b>	<b>199,990</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 299,725</b>	<b>\$ 302,000</b>

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>2017</b>	<b>2016</b>
<b>Revenues</b>	\$ 26,094	\$ 50,566
<b>Cost of goods sold</b>		
Operating expenses	14,047	10,552
Royalty expenses	2,609	5,057
Depletion, amortization and accretion	3,529	3,434
	20,185	19,043
<b>Income from mining operations</b>	5,909	31,523
<b>Other expenses</b>		
Administration (Note 7)	3,025	2,448
Care and maintenance	-	87
Exploration expenditures	989	874
Finance expense	156	146
Foreign exchange loss	1,887	2,983
Sales and marketing	532	792
Loss on disposal of Mothae project	-	1,196
	6,589	8,526
<b>Net income (loss) before tax</b>	(680)	22,997
<b>Income tax expense</b>		
Current income tax	568	11,500
Deferred income tax	283	(5,644)
	851	5,856
<b>Net income (loss) for the period</b>	\$ (1,531)	\$ 17,141
<b>Income (loss) per common share</b>		
Basic	\$ (-)	\$ 0.05
Diluted	\$ (-)	\$ 0.05
<b>Weighted average common shares outstanding</b>		
Basic	382,252,628	380,191,461
Diluted	382,252,628	382,049,596

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 COMPREHENSIVE INCOME****(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>2017</b>	<b>2016</b>
<b>Net income (loss) for the period</b>	\$ (1,531)	\$ 17,141
<b>Other comprehensive income</b>		
<b>Items that may be subsequently reclassified to net income</b>		
Change in fair value of available-for-sale securities	590	-
Currency translation adjustment	5,833	6,357
<b>Item that was reclassified to net income</b>		
Currency translation adjustment - Mothae disposition	-	3,310
	<hr/> 6,423	<hr/> 9,667
<b>Comprehensive Income</b>	<hr/> \$ 4,892	<hr/> \$ 26,808

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>2017</b>	<b>2016</b>
<b>Cash flows from (used in):</b>		
<b>Operating Activities</b>		
Net income (loss) for the period	\$ (1,531)	\$ 17,141
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	3,732	3,523
Unrealized foreign exchange loss	1,887	2,298
Stock-based compensation	369	387
Deferred income taxes expense (recovery)	283	(5,644)
Finance expenses (income)	(224)	127
Loss on disposal of Mothae project	-	1,196
	4,516	19,028
Net changes in working capital items:		
VAT receivables and other current assets	(628)	1,253
Inventories	4,648	(1,488)
Trade payables and other current liabilities	(4,711)	2,750
Taxes payable	-	(4,920)
	3,825	16,623
<b>Financing Activities</b>		
Dividends paid	(7,170)	(4,396)
Proceeds from exercise of stock options	336	462
	(6,834)	(3,934)
<b>Investing Activities</b>		
Acquisition of plant and equipment	(4,996)	(603)
Capitalized mineral property expenditure	(467)	-
Capitalized production stripping costs	(593)	(3,012)
Acquisition of other assets	(967)	-
	(7,023)	(3,615)
<b>Effect of exchange rate change on cash and cash equivalents</b>	148	497
<b>Increase (decrease) in cash and cash equivalents during the period</b>	(9,884)	9,571
<b>Cash and cash equivalents, beginning of period</b>	53,345	134,776
<b>Cash and cash equivalents, end of period</b>	\$ 43,461	\$ 144,347
<b>Supplemental Information</b>		
Interest received	38	84
Taxes paid	(1,165)	(16,208)
Changes in trade payable and accrued liabilities related to plant and equipment	171	(68)

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 retained earnings/ (deficit)	Accumulated other comprehensive loss	Non- controlling interests	Total
<b>Balance, January 1, 2016</b>	379,979,413	\$ 286,658	\$ 5,270	\$ 40,847	\$ (76,103)	\$ 12	\$ 256,684
Exercise of stock options	855,002	676	(214)	-	-	-	462
Stock-based compensation	-	-	387	-	-	-	387
Effect of foreign currency translation	-	-	-	-	9,667	-	9,667
Windup of non-controlling interests: Mothae disposition	-	-	-	-	-	(12)	(12)
Dividends paid	-	-	14	(4,410)	-	-	(4,396)
Net income for the period	-	-	-	17,141	-	-	17,141
<b>Balance, March 31, 2016</b>	<b>380,834,415</b>	<b>\$ 287,334</b>	<b>\$ 5,457</b>	<b>\$ 53,578</b>	<b>\$ (66,436)</b>	<b>\$ -</b>	<b>\$ 279,933</b>
<b>Balance, January 1, 2017</b>	382,246,001	\$ 289,969	\$ 6,488	\$ (38,640)	\$ (57,827)	\$ -	\$ 199,990
Exercise of stock options	200,000	481	(145)	-	-	-	336
Stock-based compensation	-	-	369	-	-	-	369
Unrealized gain on investment	-	-	-	-	590	-	590
Effect of foreign currency translation	-	-	-	-	5,833	-	5,833
Dividends paid <sup>(1)</sup>	-	-	24	(7,194)	-	-	(7,170)
Net income for the period	-	-	-	(1,531)	-	-	(1,531)
<b>Balance, March 31, 2017</b>	<b>382,446,001</b>	<b>\$ 290,450</b>	<b>\$ 6,736</b>	<b>\$ (47,365)</b>	<b>\$ (51,403)</b>	<b>\$ -</b>	<b>\$ 198,418</b>

<sup>(1)</sup> On March 31, 2017, the Company paid a cash dividend of CA\$ 0.025 per share.

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, 2017 AND 2016

(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 and three prospecting licenses located in Botswana.

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

#### 2. BASIS OF PRESENTATION

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. 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 2, 2017.

#### 3. INVENTORIES

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Rough diamonds	\$ 14,541	\$ 14,116
Ore stockpile	13,960	17,089
Parts and supplies	9,038	9,647
	<u>\$ 37,539</u>	<u>\$ 40,852</u>

Inventory expensed during the period ended March 31, 2017 totaled \$14.0 million (2016 – \$10.6 million).

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**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, 2016</b>	\$ 2,930	\$ 136,615	\$ 1,165	\$ 3,249	\$ 143,959
Additions	22,037	59	2	260	22,358
Disposals and other	-	-	-	(29)	(29)
Reclassification	(10,527)	9,627	125	775	-
Translation differences	326	6,550	56	166	7,098
<b>Balance, December 31, 2016</b>	14,766	152,851	1,348	4,421	173,386
Additions	5,152	-	-	15	5,167
Translation differences	451	4,382	41	123	4,997
<b>Balance, March 31, 2017</b>	\$ 20,369	\$ 157,233	\$ 1,389	\$ 4,559	\$ 183,550
<b>Accumulated depreciation</b>					
<b>Balance, January 1, 2016</b>	\$ -	\$ 25,473	\$ 1,005	\$ 1,791	\$ 28,269
Depletion, amortization and accretion for the period	-	11,564	78	480	12,122
Disposals and other	-	-	-	(16)	(16)
Translation differences	-	1,370	48	88	1,506
<b>Balance, December 31, 2016</b>	-	38,407	1,131	2,343	41,881
Depletion, amortization and accretion for the period	-	2,626	20	206	2,852
Translation differences	-	1,106	32	64	1,202
<b>Balance, March 31, 2017</b>	\$ -	\$ 42,139	\$ 1,183	\$ 2,613	\$ 45,935
<b>Net book value</b>					
<b>As at December 31, 2016</b>	\$ 14,766	\$ 114,444	\$ 217	\$ 2,078	\$ 131,505
<b>As at March 31, 2017</b>	\$ 20,369	\$ 115,094	\$ 206	\$ 1,946	\$ 137,615

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**5. MINERAL PROPERTIES**

<b>Cost</b>		<b>Capitalized stripping costs</b>		<b>Karowe Mine</b>		<b>Total</b>
<b>Balance, January 1, 2016</b>	\$	16,254	\$	47,569	\$	63,823
Additions		10,983		1,940		12,923
Revision in estimate of restoration provision		-		(295)		(295)
Translation differences		946		2,270		3,216
<b>Balance, December 31, 2016</b>		28,183		51,484		79,667
Additions		593		467		1,060
Translation differences		824		1,502		2,326
<b>Balance, March 31, 2017</b>	\$	29,600	\$	53,453	\$	83,053
<b>Accumulated depletion</b>						
<b>Balance, January 1, 2016</b>	\$	1,025	\$	11,120	\$	12,145
Depletion for the period		1,724		2,990		4,714
Translation differences		76		574		650
<b>Balance, December 31, 2016</b>		2,825		14,684		17,509
Depletion for the period		434		582		1,016
Translation differences		84		431		515
<b>Balance, March 31, 2017</b>	\$	3,343	\$	15,697	\$	19,040
<b>Net book value</b>						
<b>As at December 31, 2016</b>	\$	25,358	\$	36,800	\$	62,158
<b>As at March 31, 2017</b>	\$	26,257	\$	37,756	\$	64,013

*Karowe Mine*

A royalty of 10% of the sales value of diamonds sold from Karowe is payable to the government of Botswana. During the quarter, the Company had a royalty expense of \$2.6 million. (2016: \$5.1 million)

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**6. SHARE BASED COMPENSATION**

## a. Stock options

The Company's stock option plan (the 'Option Plan') was 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 Option Plan. The Option Plan is 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\$)
<b>Balance at December 31, 2015</b>	<b>3,191,669</b>	<b>\$ 1.63</b>
Granted	2,160,000	2.53
Exercised <sup>(1)</sup>	(2,004,999)	1.33
<b>Balance at December 31, 2016</b>	<b>3,346,670</b>	<b>2.39</b>
Granted	860,000	2.80
Exercised <sup>(1)</sup>	(200,000)	2.25
<b>Balance at March 31, 2017</b>	<b>4,006,670</b>	<b>\$ 2.49</b>

(1) The weighted average share price on the exercise dates for the 2017 stock option exercises was CA\$3.00 (2016: CA\$2.52).

Options to acquire common shares as at March 31, 2017 are 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\$
\$1.01 - \$2.00	33,334	1.39	\$ 1.80	-	-	\$ -
\$2.01 - \$3.00	3,853,336	3.43	2.45	686,675	2.81	2.43
\$3.01 - \$4.00	120,000	3.12	3.94	-	-	-
	<b>4,006,670</b>	<b>3.43</b>	<b>\$ 2.49</b>	<b>686,675</b>	<b>2.81</b>	<b>\$ 2.43</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**6. SHARE BASED COMPENSATION (continued)**

During the period ended March 31, 2017, an amount of \$0.3 million (2016 – \$0.3 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:

	<b>2017</b>	<b>2016</b>
Assumptions:		
Risk-free interest rate (%)	1.02	0.51
Expected life (years)	3.63	3.63
Expected volatility (%)	41.78	48.18
Expected dividend	CA\$0.025/share quarterly	CA\$0.015/share quarterly
Results:		
Weighted average fair value of options granted ( <i>per option</i> )	CA\$ 0.69	CA\$ 0.79

**b. Share units**

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

For the period ended March 31, 2017, the Company recognized a share-based payment charge against income of \$0.1 million (2016: \$0.1 million) for the SUs granted during the period.

	Number of shares issuable pursuant to share units	Weighted average exercise price per share (CA\$)
<b>Balance at December 31, 2015</b>	<b>529,889</b>	<b>\$ 2.07</b>
February 26, 2016 grant	645,000	2.43
March 31, 2016 dividend	6,380	2.76
June 16, 2016 dividend	4,550	3.89
September 15, 2016 dividend	137,847	4.00
Employee termination vesting	(261,589)	2.44
December 15, 2016 dividend	5,416	2.94
<b>Balance at December 31, 2016</b>	<b>1,067,493</b>	<b>2.46</b>
March 8, 2017 grant	283,500	2.75
March 30, 2017 dividend	10,924	3.09
<b>Balance at March 31, 2017</b>	<b>1,361,917</b>	<b>\$ 2.53</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(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>2017</b>	<b>2016</b>
Salaries and benefits	\$ 773	\$ 664
Professional fees	394	191
Office and general	244	306
Marketing	469	237
Stock exchange, transfer agent, shareholder communication	214	135
Travel	201	131
Stock based compensation	366	387
Management fees	100	70
Depreciation	203	89
Donations	61	238
	<b>\$ 3,025</b>	<b>\$ 2,448</b>

**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:

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Salaries and wages	\$ 1,325	\$ 1,666
Short term benefits	75	77
Stock based compensation	280	279
	<b>\$ 1,680</b>	<b>\$ 2,022</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**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.

<b>Three months ended March 31, 2017</b>			
	<b>Karowe Mine</b>	<b>Corporate and other</b>	<b>Total</b>
Revenues	\$ 26,094	\$ -	\$ 26,094
Income (loss) from operations	5,938	(29)	5,909
Exploration expenditures	(989)	-	(989)
Finance income (expenses)	(293)	137	(156)
Foreign exchange	(1,793)	(94)	(1,887)
Other expenses	(1,577)	(1,980)	(3,557)
Taxes	(431)	(420)	(851)
Net income (loss) for the period	855	(2,386)	(1,531)
Capital expenditures	(6,056)	-	(6,056)
Total assets	\$ 289,052	\$ 10,673	\$ 299,725

<b>Three months ended March 31, 2016</b>			
	<b>Karowe Mine</b>	<b>Corporate and other</b>	<b>Total</b>
Revenues	\$ 50,566	\$ -	\$ 50,566
Income (loss) from operations	31,557	(34)	31,523
Exploration expenditures	(874)	-	(874)
Finance expenses	(18)	(128)	(146)
Foreign exchange	(2,860)	(123)	(2,983)
Other expenses	(1,416)	(3,107)	(4,523)
Taxes	(5,856)	-	(5,856)
Net income (loss) for the period	20,533	(3,392)	17,141
Capital expenditures	(3,615)	-	(3,615)
Total assets	\$ 352,654	\$ 6,801	\$ 359,455



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