Lucara Diamond Corp.

Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2014
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014

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 nine months ended September 30, 2014, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is November 10, 2014.

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.

HIGHLIGHTS

Cash flows and operating margins: The Company achieved revenue of $91.3 million during the period, including $24.8 million of proceeds from its June tender.

Total revenue to September 30, 2014 was $195.0 million or $634 per carat achieving an 81% operating margin of $511 per carat. The Company's EBITDA at the end of September was $125.8 million compared to the previous year of $70.2 million.

Subsequent to the end of the third quarter, the Company concluded its third exceptional stone tender in October for proceeds of $46.4 million or $30,129 per carat. Following this sale the Company's full year-to-date proceeds were $241.4 million achieving an average sales price of $780.5 per carat.

Net cash position: The Company's quarter-end cash balance was $133.1 million compared to a cash balance of $33.6 million in September 30, 2013 and $49.4 million of cash at the end of 2013. The Company's Scotiabank $50 million credit facility remains undrawn.

Karowe operating performance: Karowe's performance was better than forecast during the period in terms of ore and waste mined and carats recovered. The plant optimization program is advancing to plan and the Company has achieved a critical milestone in commissioning the large diamond recovery circuit during the third quarter.

Adjusted Earnings per share: Adjusted earnings per share (see pages 5 and 7 Non-IRFS measures) is $0.11 per share for the three month period ended September 30, 2014 (2013: earnings per share $0.04) and $0.19 per share for year to date September 30, 2014 (2013 earnings per share $0.11). The adjusted earnings per share removes the non-cash foreign exchange impact on an intercompany loan between Corporate and Karowe in order to present the current cash distributable on an earnings per share basis (see select financial information for further detail).

Dividends: The Company has announced a special dividend of CA$ 0.04 per share to be paid on December 18, 2014 along with its CA$ 0.02 per share year-end dividend. The total dividend to be paid by the Company in 2014 is CA$ 0.08 per share (Total semi-annual dividend of CA$ 0.04 and special dividend of CA$ 0.04 per share) is equivalent to a dividend yield of 3.3% based on the TSX closing price on November 7, 2014.

Botswana Prospecting Licenses: The Company was awarded two precious stone prospecting licenses within the Orapa Kimberlite field in close proximity to the Karowe Diamond mine during the period. The Company has ordered a bulk sampling plant and will commence work programs on the two prospecting licenses during 2015.

FINANCIAL HIGHLIGHTS

In millions of U.S. dollars unless otherwise noted	Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
Revenues (*)	$ 91.3	$ 42.1	$ 195.0	$ 121.8
Average price per carat sold ($/carat)	791	550	634	392
Operating expenses per carat sold ($/carat)	122	110	123	96
Operating margin per carat sold ($/carat)	669	440	511	296
Net income for the period	41.8	15.0	62.5	43.9
Earnings per share (basic and diluted)	0.11	0.04	0.17	0.12
Adjusted earnings per share (see pages 5 and 7 Non-IRFS measures)	0.11	0.04	0.19	0.12
Cash on hand	133.1	33.6	133.1	33.6

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

OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2014. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

Karowe Mine, Botswana

The Company is forecasting revenues to exceed the top end of its June 30th revenue guidance of $240 - $250 million. This forecast is based on current earnings of $241.4 million but also in consideration of its first entirely Gaborone based tender in November and a softening diamond market.

The Company expects to sell between 400,000 to 420,000 carats in 2014 from the Karowe mine. Karowe's operating cash costs (see page 7 Non-IRFS measures) are expected to remain between $31 - $33 per tonne ore treated.

Karowe is still forecast to process between 2.2 - 2.4 million tonnes. Forecast for ore mined remains at between 3.0 – 3.5 million tonnes and waste mined between 10.0 –11.0 million tonnes.

The Company maintains it forecast total cost for the plant optimization project at $55 million and has revised its stay in business capital expenditures to $5.0 million for the year. Additional capital is being spent on the Karowe slimes dam following a revised design plan during the year to increase overall capacity and decrease long-term costs.

The Company has also forecast an exploration capital expenditure of $3.5 million, of which $1.4 million is forecast to be spent in 2014 for the purchase of a bulk sample plant for work on its two Botswana prospecting licenses.

The Company held its third and final large stone tender for the year in October achieving proceeds of $46.4 million from the sale of 14 diamonds with a combined weight of 1,539 carats. The Company plans on holding a further two diamond tenders during the fourth quarter of the year.

BUSINESS OVERVIEW

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

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

The following summarizes the Company's current land holdings:

Country	Name	Interest Held	Area (km^2)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014	100%	55.4
Botswana	Prospecting License No. 367/2014	100%	1.1
Lesotho	Mothae Diamond Mining Lease	75%	20.0

RESULTS OF OPERATIONS

Karowe Mine, Botswana

	UNIT	Nine months ended Sept-14	Q3-14	Q2-14	Q1-14	Q4-13	Q3-13
Sales							
Revenues	US$m	195.0	91.3	71.0	32.7	58.7	42.1
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$m	195.0	66.5	95.0	33.5	47.8	50.9
Sales proceeds received during the quarter	US$m	195.0	91.3	71.0	32.7	58.7	42.1
Q2 2014 tender proceeds received post Q2 2014	US$m	-	(24.8)	24.8	-	-	-
Q1 2014 tender proceeds received post Q1 2014	US$m	-	-	(0.8)	0.8	-	-
Q3 2013 tender proceeds received post Q3 2013	US$m	-	-	-	-	(10.9)	10.9
Q2 2013 tender proceeds received post Q2 2013	US$m	-	-	-	-	-	(2.1)
Carats sold for proceeds generated during the period	Carats	307,731	88,364	111,900	107,467	110,635	80,918
Carats sold for revenues recognized during the period	Carats	307,731	115,362	84,915	107,454	127,804	76,582
Average price per carat for proceeds generated during the period	US$	634	753	849	312	433	625
Production							
Tonnes mined (ore)	Tonnes	2,570,082	1,003,312	677,882	888,888	918,765	898,501
Tonnes mined (waste)	Tonnes	7,793,033	2,624,067	3,166,644	2,002,322	1,694,134	1,430,105
Tonnes milled	Tonnes	1,854,825	509,283	664,812	680,730	613,064	647,304
Average grade processed	cpht (*)	17.1	20.8	14.9	16.3	18.9	17.6
Carats recovered	Carats	316,341	106,162	99,142	111,037	116,061	113,882
Costs							
Operating costs per carats sold (see page 8 Non-IRFS measures)	US$	123	122	132	118	109	110
Capital expenditures	US$m	25.7	14.1	9.7	1.9	1.5	2.4

(*) carats per hundred tonnes

Karowe had one lost time injury reported in the mining area in July resulting in a year to date LTIFR of 0.29 for the year.

The mine performed well during the third quarter with tonnes of ore mined exceeding the mine plan during the period. Waste mined for the push back to open up access to the south lobe continues as planned. Ore mined for the period was ahead of forecast with higher than expected grades processed compared to the previous quarter.

Mill throughput and carats recovered were in line with forecast. A total of 126 special stones (+10.8 carats) were recovered during the quarter at an average size of 30.71 carats. The frequency is lower compared to the previous quarter as the Company processed a larger volume of ore from the North lobe during the period, which has a known finer diamond size distribution and historically has produced a lower number of special stones. Year to date the weight percent of recovered specials at 4.96% is a positive outcome compared to the resource model value of 3.73 weight percentage for the South Lobe.

REVIEW OF PROJECTS

Mothae Diamond Project, Lesotho

The Mothae project is located in northeast Lesotho and is a large low grade kimberlite containing a population of large, high value Type IIa diamonds.

The Company is currently reviewing a number of options for Mothae.

Karowe, Plant Optimization Project

The Plant Optimization project progressed well during the period. The Company has spent approximately $21.2 million of the forecasted $55 million. Industrial action by the National Union of Metalworkers of South African ended during the third quarter resulting in a 6-week project delay. The plant optimization project is forecast to be complete during the second quarter of 2015.

SELECT FINANCIAL INFORMATION

In millions of U.S. dollars unless otherwise noted		Three months ended September 30 **2014**		2013		Nine months ended September 30 **2014**		2013
Revenues	$	91.3	$	42.1	$	195.0	$	121.8
Operating expenses		(14.1)		(8.4)		(37.9)		(30.0)
Royalty expenses		(9.1)		(4.2)		(19.5)		(12.2)
Operating earnings [1]		**68.1**		**29.5**		**137.6**		**79.6**
Exploration expenditures		(0.3)		(0.4)		(0.9)		(1.2)
Administration		(2.3)		(1.9)		(8.2)		(6.4)
Gain on sale of exploration program diamonds		-		-		-		0.6
Sales and marketing		(0.8)		(0.8)		(2.7)		(2.4)
EBITDA [2]		**64.7**		**26.4**		**125.8**		**70.2**
Depletion, amortization and accretion		(4.1)		(2.6)		(10.9)		(10.3)
Finance income (expenses)		0.1		(0.7)		-		(2.6)
Foreign exchange gain (loss)		4.4		-		(6.2)		(5.3)
Current income tax expense		(20.1)		-		(25.6)		-
Deferred income tax expense		(3.2)		(8.1)		(20.6)		(8.1)
Net income for the period		**41.8**		**15.0**		**62.5**		**43.9**
Add back: Foreign exchange loss related to intercompany loan repayment [3]		0.1		-		10.3		-
Adjusted net income for the period [4]		41.9		15.0		72.8		43.9
Change in cash during the period		**51.0**		**5.0**		**83.8**		**20.3**
Cash on hand		**133.1**		**33.6**		**133.1**		**33.6**
Earnings per share (basic and diluted)		**0.11**		**0.04**		**0.17**		**0.12**
Adjusted earnings per share (basic and diluted) [5]		**0.11**		**0.04**		**0.19**		**0.12**
Per carats sold								
Sales price	**$**	**791**	**$**	**550**	**$**	**634**	**$**	**392**
Operating expenses		**122**		**110**		**123**		**96**
Average grade (carats per hundred tonnes)		**20.8**		**17.6**		**17.1**		**18.6**

[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.
[3] Foreign exchange loss related to an intercompany loan repayment between Corporate and Karowe (see foreign exchange loss on page 6)
[4] Adjusted net income for the period is a non-IFRS measure defined as earnings before non-cash foreign exchange loss related to an intercompany loan repayment.
[5] Adjusted earnings per share for the period is a non-IFRS measure defined as adjusted net income[4] divided by the number of shares outstanding at the end of the period on both a basic and fully diluted basis.

Cash operating cost per tonne ore milled: *In millions of U.S. dollars with the exception of tonnes milled and cash operating cost per tonne milled*		Nine months ended September 30 **2014**		2013
Operating expenses	$	37.9	$	30.0
Capitalized production stripping costs[6]		4.5		-
Net change in working capital items: Inventories[7]		7.0		5.4
Total cash operating costs for ore milled		49.4		35.4
Tonnes milled		1,854,825		1,741,474
Cash operating cost per tonne ore milled[8]		**26.63**		**20.33**

[6] Capitalized production stripping cost in investing activities in the Condensed interim consolidated statements of cash flows.
[7] Net change in working capital items: Inventories in operating activities in the Condensed interim consolidated statements of cash flows.
[8] Cash operating cost per tonne milled for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in working capital items: Inventories divided by the tonnes ore milled for the period.

Revenues

During the three months ended September 30, 2014, the Company completed one regular diamond tender and one exceptional stone tender totalling 88,364 carats. The tenders achieved gross proceeds totalling $66.5 million excluding proceeds of $24.8 million from the June 26, 2014 regular diamond tender, which were received during the third quarter.

The increase in revenue for the quarter of $49.2 million compared to the prior year is due to higher prices received for the Karowe diamonds and a larger number of carats being sold during the period. The Company sold its diamonds for $791 per carat during the quarter compared to $550 per carat in previous year's third quarter. This increase reflects the strong results from the exceptional stone tender during the quarter and also higher prices for the scheduled sales tenders compared to the prior year.

Operating earnings

Operating earnings before royalty payments for the three months ended September 30, 2014 were $77.2 million resulting in an operating margin (before royalties and depletion, amortization and accretion) of 85%. The margin was significantly impacted by the Company's exceptional stone tender held during the quarter. Operating expenses during the quarter were $122 per carat, which resulted in an operating margin of $669 per carat. As anticipated, operating expenses in the third quarter were higher than the $110 per carat in the prior year due to the increase in waste mined.

Exploration expenditures

Exploration expenditures relating to the Mothae project were $0.3 million during the third quarter of 2014 compared to $0.4 million during the third quarter of 2013. The decrease in costs is due to Mothae being on care and maintenance during the quarter compared to the previous year when the Company was working on the project's PEA study.

Income Tax expense

Total income tax expense was $23.2 million during the three month period ended September 30, 2014. The Company incurred a current income tax charge of $20.1 million and a deferred income tax charge of $3.2 million during the quarter. The year to date taxes payable reflects the Company's current level of profitability. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases. The current tax expense has been calculated at a rate of approximately 33.7%, which reflects the forecast current year tax rate based on the Company's outlook revenue guidance. The Company has not paid its current year tax accrual of $24.6 million as at the end of September, which is due in Q4 and early 2015.

Foreign exchange gain

The Company recorded a foreign exchange gain of $4.4 million in the three months ended September 30, 2014. The gain was mostly resulted from the appreciation of the US dollar holdings by the Company's Botswana subsidiary.

A foreign exchange charge of $0.1 million was recognized during the three months from an intercompany Pula denominated loan between Corporate and Boteti. Foreign exchange losses following the weakening of the Botswana Pula have been previously calculated and reported in the Company's other comprehensive income as this loan has been reported as a net investment in a foreign operation under IAS21. As of January 1, 2014 the Company is no longer reporting this intercompany loan as a net investment in a foreign operation and as a result previous foreign exchange losses reported in other comprehensive income is being reported in the statement of operations as the intercompany loan is repaid.

For the nine months ending September 30, 2014, the Company has recognized $10.3 million foreign exchange loss is entirely due to non-cash foreign exchange movements on the Company's intercompany loan between Corporate and Boteti and has no impact on the value the Company's net assets nor does it result in a cash outflow to the business in the current or future periods.

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

The three months ended September 30, 2014 EBITDA was $64.7 million compared to $26.4 million in the three month period ended September 30, 2013. The EBITDA is higher than the prior year as higher prices were received for the Karowe diamonds during the period, which were partially offset by higher costs to reflect increased waste stripping during the period.

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

Cash operating cost per tonne ore milled

The nine months ended September 30, 2014 cash operating cost per tonne milled was $26.6 per tonne milled compared to $20.3 per tonne milled in the nine month period ended September 30, 2013. The higher cost compared to the same period in the prior year is largely due to higher waste mining in the current year as anticipated in the mine plan.

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

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2014, the Company had cash of $133.1 million compared to $33.6 million at September 30, 2013 and $49.4 million at December 31, 2013.

Cash increased during the quarter by $51.0 million. This increase reflects cash from operating activities of $68.6 million offset primarily by the Company's acquisition of plant and equipment, largely for the plant optimization project of $13.7 million. The Company has not paid its current year tax accrual of $24.6 million as at the end of September, which is due in Q4 2014 and early 2015.

The Company has renegotiated its revolving term credit facility with Scotiabank. The new agreement is for a three year $50.0 million operating line.

The facility contains financial and non-financial covenants customary for a facility of this size and nature. The applicable interest rate of any loan advances under the facility will be determined by the Company's leverage ratio at that time. The Company has maintained the same level of security on the three year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets. As at September 30, 2014 the full amount under this facility was available.

As part of the Company's environmental obligation related to the Karowe Mine, the Government of Botswana required a reclamation bond for the Mine. On July 1, 2014, Standard Chartered Bank Botswana Limited has provided Boteti Mining (Pty) Ltd, a wholly owned subsidiary with a reclamation bond of Botswana Pula 100.0 million ($10.8 million) with respect to the Karowe Mine. Consequently, the Company has provided a guarantee for a maximum amount of Botswana Pula 80.0 million ($8.6 million) with Standard Chartered Bank Botswana Limited, in addition the Company has deposited Botswana Pula 20.0 million ($2.2 million) with Standard Chartered Bank Botswana Limited accounted in non-current other assets.

SUMMARY OF QUARTERLY RESULTS

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

The Company's financial statements are reported under IFRS issued by the IASB. The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters (unaudited):

Three months ended	Sept-14	Jun-14	Mar-14	Dec-13	Sept-13	Jun-13	Mar-13	Dec-12
A. Revenues	91,253	70,972	32,780	58,683	42,096	47,224	32,504	29,172
B. Exploration (expenditures) recovery	(258)	(135)	(459)	(167)	(389)	(557)	374	(2,277)
C. Administration expenses	(2,290)	(3,841)	(2,107)	(4,871)	(1,851)	(2,761)	(1,946)	(1,798)
D. Net income	41,846	15,639	5,074	21,331	15,043	22,679	6,169	7,664
E. Earnings per share (basic and diluted)	0.11	0.04	0.01	0.05	0.04	0.06	0.02	0.02

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2014, the Company incurred the following expenses with Namdo Management Services Limited ("Namdo"), a company related by way of directors in common and paid a donation to the Lundin Foundation. In 2013, the Company had also incurred aircraft charter services and professional geological services & laboratory related expenditures from Mile High Holdings Ltd. ("Mile High") and the Mineral Services Group ("MS Group") respectively, the companies are associated with a director of Company. Beginning July 1, 2013, the MS Group is no longer a related party.

(All amounts expressed in thousands of U.S. dollars)

Description of services	Related Party	September 30, 2014	September 30, 2013
Management fees	Namdo	$ 347	$ 369
Donations	Lundin Foundation	229	-
Exploration related expenditures	MS Group	-	84
Aircraft charter	Mile High	-	49
		$ 576	$ 502

FINANCIAL INSTRUMENTS

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

The fair value of the Company's available for sale financial instruments is derived from quoted prices in active markets for identical assets. The fair value of the Company's long-term debt approximates their carrying amounts due to the fact that there have been no significant changes in the Company's own credit risk. The fair value of all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these instruments.

In the normal course of business, the Company is inherently exposed to currency and commodity price risk.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 378,984,414 common shares outstanding and 2,423,335 stock options outstanding under its stock-based incentive plan. As at the same date, the Company had no stock purchase warrants outstanding.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the year ended December 31, 2014 is expected to be published on February 19, 2015.

MANAGEMENT'S RESPONSIBILTY 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 nine months ended September 30, 2014.

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, 2013, 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, 2013, 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 July 1, 2014 and ending September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made and contained herein in the MD&A and elsewhere constitute forward-looking statements as defined in applicable securities laws. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved.

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's Annual Information Form dated March 20, 2014 available at http://www.sedar.com (the "AIF").

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

There can be no assurance that such statements will prove to be accurate, as the Company's results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading "Risks and Uncertainties" in the Company's AIF, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters)

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law.

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

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 133,133	$ 49,364
Investments	66	90
VAT receivables and other	4,231	3,593
Inventories (Note 4)	26,430	21,132
	163,860	74,179
Plant and equipment (Note 5)	108,799	100,886
Mineral properties (Note 6)	69,861	72,061
Other non-current assets	2,475	62
TOTAL ASSETS	$ 344,995	$ 247,188
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 14,470	$ 15,491
Taxes payable	24,639	-
	39,109	15,491
Restoration provisions	14,792	14,515
Deferred income taxes (Note 9)	33,186	14,258
TOTAL LIABILITIES	87,087	44,264
EQUITY		
Share capital	285,784	283,609
Contributed surplus (Note 7)	4,757	5,108
Retained earnings/(deficit)	10,172	(45,516)
Accumulated other comprehensive loss	(44,193)	(41,820)
Total equity attributable to shareholders of the Company	256,520	201,381
Non-controlling interests	1,388	1,543
TOTAL EQUITY	257,908	202,924
TOTAL LIABILITIES AND EQUITY	$ 344,995	$ 247,188

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues	$ 91,253	$ 42,096	$ 195,005	$ 121,824
Cost of goods sold				
Operating expenses	14,050	8,387	37,886	29,966
Royalty expenses	9,125	4,209	19,500	12,182
Depletion, amortization and accretion	4,104	2,564	10,935	10,289
	27,279	15,160	68,321	52,437
Income from mining operations	63,974	26,936	126,684	69,387
Other expenses				
Exploration expenditures	258	389	852	1,156
Administration (Note 8)	2,290	1,851	8,238	6,558
Gain on sale of exploration program diamonds	-	-	-	(584)
Sales and marketing	823	839	2,665	2,380
Finance (income)/expenses	(56)	717	(31)	2,618
Foreign exchange (gain)/loss	(4,421)	(14)	6,228	5,257
	(1,106)	3,782	17,952	17,385
Net income before tax	65,080	23,154	108,732	52,002
Income tax expense (Note 9)				
Current income tax	20,054	-	25,609	-
Deferred income tax	3,180	8,111	20,564	8,111
	23,234	8,111	46,173	8,111
Net income for the period	$ 41,846	$ 15,043	$ 62,559	$ 43,891
Attributable to:				
Shareholders of the Company	$ 41,878	$ 15,091	$ 62,665	$ 43,956
Non-controlling interests	$ (32)	$ (48)	$ (106)	$ (65)
Earnings per common share				
Basic	$ 0.11	$ 0.04	$ 0.17	$ 0.12
Diluted	$ 0.11	$ 0.04	$ 0.16	$ 0.12
Weighted average common shares outstanding				
Basic	378,958,828	376,367,709	377,839,557	376,318,533
Diluted	380,477,152	376,744,653	379,856,118	376,318,533

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 September 30,				Nine months ended September 30,		
		2014		**2013**		**2014**		**2013**
Net income for the period	$	41,846	$	15,043	$	62,559	$	43,891
Other comprehensive income								
Items that may be subsequently reclassified to net income								
Change in fair value of available-for-sale securities		(11)		16		(22)		(6)
Currency translation adjustment		(12,158)		499		(2,454)		(17,094)
		(12,169)		515		(2,476)		(17,100)
Comprehensive income	$	29,677	$	15,558	$	60,083	$	26,791
Comprehensive income attributable to:								
Shareholders of the Company		29,801		15,636		60,292		27,159
Non-controlling interests		(124)		(78)		(209)		(368)
	$	29,677	$	15,558	$	60,083	$	26,791

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows from (used in):				
Operating Activities				
Net income for the period	$ 41,846	$ 15,043	$ 62,559	$ 43,891
Items not involving cash and cash equivalents:				
Depletion, amortization and accretion	4,200	2,575	11,221	10,537
Foreign exchange loss (gain)	147	(5,206)	10,317	189
Stock-based compensation	64	118	276	423
Deferred income taxes	3,224	8,111	20,564	8,111
Finance costs	72	684	138	2,485
	49,553	21,325	105,075	65,636
Net changes in working capital items:				
VAT receivables and other current assets	5,930	1,561	(1,161)	3,019
Inventories	(3,170)	(2,462)	(6,967)	(5,438)
Trade payables and other current liabilities	(1,615)	3,795	(1,485)	1,564
Taxes payable	17,925	-	23,480	-
	68,623	24,219	118,942	64,781
Financing Activities				
Repayments of debt	-	(16,666)	-	(37,832)
Proceeds from exercise of stock options	307	-	1,548	58
Dividends paid	-	-	(6,923)	-
Other	(2,162)	-	(2,495)	-
	(1,855)	(16,666)	(7,870)	(37,774)
Investing Activities				
Acquisition of plant and equipment	(13,747)	(2,437)	(21,240)	(6,348)
Capitalized production stripping costs	(424)	-	(4,455)	-
	(14,171)	(2,437)	(25,695)	(6,348)
Effect of exchange rate change on cash and cash equivalents	(1,562)	(101)	(1,608)	(369)
Increase in cash and cash equivalents during the period	51,035	5,015	83,769	20,290
Cash and cash equivalents, beginning of period	82,098	28,536	49,364	13,261
Cash and cash equivalents, end of period	$ 133,133	$ 33,551	$ 133,133	$ 33,551
Supplemental Information				
Interest received (paid)	120	27	296	(126)
Changes in accounts payable and accrued liabilities related to plant and equipment	(32)	(571)	(304)	(2,818)

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	Retained earnings (Deficit)	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, January 1, 2013	376,292,749	$ 282,796	$ 4,874	$ (110,740)	$ (21,381)	$ 1,911	$ 157,460
Exercise of stock options	75,000	90	(32)	-	-	-	58
Stock-based compensation	-	-	423	-	-	-	423
Unrealized loss on investments	-	-	-	-	(6)	-	(6)
Effect of foreign currency translation	-	-	-	-	(16,791)	(303)	(17,094)
Free-carried non-controlling interests	-	-	-	(44)	-	44	-
Net income for the period	-	-	-	43,956	-	(65)	43,891
Balance, September 30, 2013	376,367,749	$ 282,886	$ 5,265	$ (66,828)	$ (38,178)	$ 1,587	$ 184,732
Balance, January 1, 2014	376,899,415	$ 283,609	$ 5,108	$ (45,516)	$ (41,820)	$ 1,543	$ 202,924
Exercise of stock options	2,084,999	2,175	(627)	-	-	-	1,548
Stock-based compensation	-	-	276	-	-	-	276
Unrealized loss on investments	-	-	-	-	(22)	-	(22)
Effect of foreign currency translation	-	-	-	-	(2,351)	(103)	(2,454)
Free-carried non-controlling interests	-	-	-	(54)	-	54	-
Dividends paid[1]	-	-	-	(6,923)	-	-	(6,923)
Net income for the period	-	-	-	62,665	-	(106)	62,559
Balance, September 30, 2014	378,984,414	$ 285,784	$ 4,757	$ 10,172	$ (44,193)	$ 1,388	$ 257,908

(1) On June 19, 2014, the Company paid a cash dividend of CA$ 0.02 per share. On November 10, 2014, the Board of Directors of the Company declared a special dividend of CA$ 0.04 per share to be paid on December 18, 2014 along with its CA$ 0.02 per share year –end dividend.

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

(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 and a 75% interest in Mothae Diamond Project located in Lesotho.

The Company's common shares are listed on the TSX, NASDAQ OMX in Sweden 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 December 31, 2013 annual audited financial statements, except as described in Note 3. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

These financial statements were approved by the Board of Directors for issue on November 10, 2014.

3. ADOPTION OF NEW IFRS PRONOUNCEMENT

The Company adopted IFRIC 21, Levies on January 1, 2014 with retrospective application. IFRIC 21 provides accounting guidance for an obligation to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes. The interpretation addresses the diversity in practice of when the liability to pay a levy is recognized.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate. The adoption of IFRIC 21 did not affect the Company's financial results or disclosures.

4. INVENTORIES

		September 30, 2014		December 31, 2013
Rough diamond	$	10,335	$	9,026
Ore stockpile		9,821		6,674
Parts and supplies		6,274		5,432
	$	26,430	$	21,132

Inventory expensed during the nine months ended September 30, 2014 totaled $37.9 million (2013 – $30.0 million).

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

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2013	$ -	$ 126,430	$ 1,542	$ 2,361	$ 130,333
Additions	-	5,212	100	293	5,605
Disposals and other	-	(964)	(36)	334	(666)
Translation differences	-	(14,748)	(187)	(281)	(15,216)
Balance, December 31, 2013	-	115,930	1,419	2,707	120,056
Additions	20,563	33	199	141	20,936
Disposal	-	-	(19)		(19)
Reclassification	1,368	(1,191)	-	(177)	-
Translation differences	(750)	(6,170)	(85)	(138)	(7,144)
Balance, September 30, 2014	$ 21,181	$ 108,602	$ 1,514	$ 2,533	$ 133,830
Accumulated depreciation					
Balance, January 1, 2013	$ -	$ 10,752	$ 598	$ 588	$ 11,938
Depletion, amortization and accretion for the year	-	8,515	382	619	9,516
Disposals and other	-	(33)	(35)	12	(56)
Translation differences	-	(2,042)	(90)	(96)	(2,228)
Balance, December 31, 2013	-	17,192	855	1,123	19,170
Depreciation, depletion for the period	-	6,481	316	470	7,267
Disposals and other	-	-	(13)	-	(13)
Translation differences	-	(1,255)	(59)	(79)	(1,393)
Balance, September 30, 2014	$ -	$ 22,418	$ 1,099	$ 1,514	$ 25,031
Net book value					
As at December 31, 2013	$ -	$ 98,738	$ 564	$ 1,584	$ 100,886
As at September 30, 2014	$ 21,181	$ 86,184	$ 415	$ 1,019	$ 108,799

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

6. MINERAL PROPERTIES

Cost		Capitalized Production stripping asset		Karowe Mine		Mothae Diamond		Mothae mining license		Total
Balance, January 1, 2013	$	-	$	65,504	$	17,688	$	3,177	$	86,369
Additions		-		2,324		-		-		2,324
Disposals and other		-		(500)		(74)		-		(574)
Translation differences		-		(7,459)		(1,773)		(609)		(9,841)
Balance, December 31, 2013		-		59,869		15,841		2,568		78,278
Addition		4,455		-		-		-		4,455
Translation differences		(189)		(3,197)		(508)		(175)		(4,069)
Balance, September 30, 2014	$	4,266	$	56,672	$	15,333	$	2,393	$	78,664

Accumulated depletion										
Balance, January 1, 2013	$	-	$	1,724	$	-	$	-	$	1,724
Depletion for the year		-		4,896		-		-		4,896
Translation differences		-		(403)		-		-		(403)
Balance, December 31, 2013		-		6,217		-		-		6,217
Depletion for the period		-		3,048		-		-		3,048
Translation differences		-		(462)		-		-		(462)
Balance, September 30, 2014	$	-	$	8,803	$	-	$	-	$	8,803

Net book value										
As at December 31, 2013	$	-	$	53,652	$	15,841	$	2,568	$	72,061
As at September 30, 2014	$	4,266	$	47,869	$	15,333	$	2,393	$	69,861

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

7. STOCK OPTIONS

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CDN$)
Balance at December 31, 2012	**2,665,000**	**$ 0.88**
Granted	2,775,000	0.72
Forfeited	(50,000)	1.03
Expired	(575,000)	0.91
Exercised	(606,666)	0.92
Balance at December 31, 2013	**4,208,334**	**0.76**
Granted	300,000	2.11
Exercised	(2,084,999)	0.81
Balance at September 30, 2014	**2,423,335**	**$ 0.89**

Options to acquire common shares have been granted and are outstanding at September 30, 2014 as follows:

	Outstanding Options			**Exercisable Options**		
Range of exercise prices CDN$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CDN$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CDN$
$0.61 - $0.70	1,875,335	1.65	$ 0.70	1,000,301	1.65	$ 0.70
$0.71 - $0.90	148,000	0.16	0.80	148,000	0.16	0.80
$0.91 - $1.25	100,000	1.93	0.99	50,000	1.93	0.99
$1.25 - $2.25	300,000	2.63	2.11	83,332	2.63	2.14
	2,423,335	1.69	$ 0.89	1,281,633	1.55	$ 0.82

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

7. STOCK OPTIONS (continued)

During the nine months ended September 30, 2014, an amount of $0.3 million (2013 – $0.4 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:

	September 30, 2014	December 31, 2013
Assumptions:		
Risk-free interest rate *(%)*	1.03	1.00
Expected life *(years)*	3.00	3.00
Expected volatility *(%)*	51.00	52.85
Expected dividend	CA$0.02/share – semiannually	Nil
Results:		
Weighted average fair value of options granted *(per option)*	$ 0.68	$ 0.25

8. ADMINISTRATION

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Salaries and benefits	$ 786	$ 557	$ 3,403	$ 2,536
Office and general	405	306	1,227	894
Stock-based compensation (Note 7)	64	118	276	423
Stock exchange, transfer agent, shareholder communication	134	181	492	626
Travel	250	216	701	606
Depreciation	97	11	286	248
Professional fees	210	341	1,277	856
Management fees	115	121	347	369
Donation	229	-	229	-
	$ 2,290	$ 1,851	$ 8,238	$ 6,558

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

9. INCOME TAXES

	Nine months ended September 30, 2014	2013
Current	$ 25,609	$ -
Deferred	20,564	8,111
Income tax expense	$ 46,173	$ 8,111

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	Nine months ended September 30, 2014	2013
Income tax expense at Statutory Rate 26% (2013 - 25.75%)	$ 28,287	$ 13,390
Differences between Canadian and foreign tax rates	5,202	(2,435)
Non-deductible expenses and other permanent differences	561	646
Benefits from previously unrecognized tax benefits	-	(7,301)
Increase in future expected variable tax rate	8,396	-
Change in deferred tax benefits not recognized	1,646	3,216
Exchange rate differences	2,179	595
Other	(98)	-
Income tax expense	$ 46,173	$ 8,111

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

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

	September 30, 2014	December 31, 2013
Balance, beginning of the period	$ 14,258	$ -
Deferred income tax expense	20,564	14,895
Foreign currency translation adjustment	(1,636)	(637)
Balance, end of the period	$ 33,186	$ 14,258

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

10. RELATED PARTY TRANSACTIONS

a) Related party expenses

The Company incurred the following expenses with Namdo Management Services Limited ("Namdo") and Mile High Holdings Ltd. ("Mile High"), companies related by way of directors in common and paid a donation to the Lundin Foundation. The Company also incurred professional geological services and laboratory related expenditures from the Mineral Services Group ("MS Group"), a company that is associated with a director of Company. Beginning July 1, 2013, the MS Group is no longer a related party.

		Nine months ended September 30,	
Description of services	**Related party**	**2014**	**2013**
Management fees	Namdo	$ 347	$ 369
Donations	Lundin Foundation	229	-
Exploration related expenditures	MS Group	-	84
Aircraft charter	Mile High	-	49
		$ 576	$ 502

b) Related party liabilities

The liabilities of the Company include the following amounts due to related parties:

	September 30, 2014	December 31, 2013
Namdo	$ 12	$ -
	$ 12	$ -

c) 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:

	Nine months ended September 30,	
	2014	**2013**
Salaries and wages	$ 2,113	$ 1,690
Short term benefits	54	40
Stock-based compensation	200	329
	$ 2,367	$ 2,059

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

11. SEGMENT INFORMATION

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

Three months ended September 30, 2014

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 91,253	$ -	$ -	$ 91,253
Income (loss) from operations	64,038	-	(64)	63,974
Exploration expenditures	-	(258)	-	(258)
Finance income (expenses)	175	-	(119)	56
Other income (expenses)	2,924	(4)	(1,612)	1,308
Tax expenses	(23,234)	-	-	(23,234)
Net income (loss) for the period	43,902	(262)	(1,795)	41,846
Capital expenditures	$ 14,118	$ 22	$ -	$ 14,140

Three months ended September 30, 2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 42,096	$ -	$ -	$ 42,096
Income (loss) from operations	26,980	-	(44)	26,936
Exploration expenditures	-	(389)	-	(389)
Finance income (expenses)	20	-	(737)	(717)
Other income (expenses)	(2,129)	4	(551)	(2,676)
Tax expenses	(8,111)	-	-	(8,111)
Net income (loss) for the period	16,760	(385)	(1,332)	15,036
Capital expenditures	$ 2,394	$ -	$ 43	$ 2,437

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

11. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2014

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 195,005	$ -	$ -	$ 195,005
Income (loss) from operations	126,856	-	(172)	126,684
Exploration expenditures	-	(852)	-	(852)
Finance income (expenses)	358	-	(327)	31
Other expenses	(1,687)	(13)	(15,431)	(17,131)
Tax expenses	(46,173)	-	-	(46,173)
Net income (loss) for the period	79,354	(865)	(15,930)	62,559
Capital expenditures	25,310	22	60	25,392
Total assets	$ 321,051	$ 18,688	$ 5,256	$ 344,995

Nine months ended September 30, 2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 121,824	$ -	$ -	$ 121,824
Income (loss) from operations	69,570	-	(183)	69,387
Exploration expenditures	-	(1,156)	-	(1,156)
Gain on sale of diamonds	-	584	-	584
Finance income (expenses)	64	-	(2,682)	(2,618)
Other income (expenses)	(4,052)	49	(10,192)	(14,195)
Tax expenses	(8,111)	-	-	(8,111)
Net income (loss) for the period	54,471	(523)	(13,057)	43,891
Capital expenditures	6,305	-	43	6,348
Total assets	$ 208,806	$ 20,083	$ 5,481	$ 234,370

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

	Plant and equipment		Mineral properties		Other	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Canada	$ 149	$ 142	$ -	$ -	$ 255	$ -
Lesotho	474	486	17,725	18,408	58	62
Botswana	108,177	100,258	52,136	53,653	2,162	-
	$ 108,799	$ 100,886	$ 69,861	$ 72,061	$ 2,475	$ 62

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

12. FINANCIAL INSTRUMENTS

a) *Measurement categories and fair values*

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

The fair value of the Company's available for sale financial instruments is derived from quoted prices in active markets for identical assets. The fair value of the Company's long-term debt approximates their carrying amounts due to the fact that there have been no significant changes in the Company's own credit risk. The fair value of all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these instruments.

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

		September 30, 2014		December 31, 2013
ASSETS				
Loans and receivables				
Cash	$	133,133	$	49,364
Other receivables		34		233
	$	133,167	$	49,597
Available for sale				
Investments		66		90
	$	66	$	90
LIABILITIES				
Amortized cost				
Trade payables and accrued liabilities	$	14,470	$	15,491
	$	14,470	$	15,491

b) *Fair value hierarchy*

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

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

		September 30, 2014		December 31, 2013
Level 1				
Investments	$	66	$	90
Level 2 and Level 3 – N/A				

13. GUARANTEE

As part of the Company's environmental obligation related to the Karowe Mine, the Government of Botswana required a reclamation bond for the Mine. On July 1, 2014, Standard Chartered Bank Botswana Limited has provided Boteti Mining (Pty) Ltd, a wholly owned subsidiary with a reclamation bond of Botswana Pula 100.0 million ($10.8 million) with respect to the Karowe Mine. Consequently, the Company has provided a guarantee for a maximum amount of Botswana Pula 80.0 million ($8.6 million) with Standard Chartered Bank Botswana Limited, in addition the Company has deposited Botswana Pula 20.0 million ($2.2 million) with Standard Chartered Bank Botswana Limited accounted in non-current other assets.

Lucara Diamond Corp.

Vancouver Corporate Office:
Suite 2000
885 West Georgia Street
Vancouver, BC
Canada V6C 3E8

T: 604 689 7842
F: 604 689 4250
E: sophias@namdo.com
Contact: Sophia Shane, Investor Relations

Lucara Diamond Corp.