Lucara Diamond Corp.

Management's Discussion and Analysis
And
Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2016
(Unaudited)

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

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is May 3, 2016.

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

Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

FINANCIAL UPDATE

Cash flows and operating margins: The Company achieved revenue of $50.6 million or $649 per carat yielding a 79% operating margin or $513 per carat during the period. The Company's EBITDA (see page 7 Non-IFRS measures) at the end of March 2016 was $30.7 million (Q1 2015: $11.9 million). Revenue is higher compared to the previous year largely due the sale of a larger volume of higher quality south lobe production compared to north and centre lobe in the prior year

Net cash position: The Company's quarter-end cash balance was $144.3 million ($87.5 million at March 31, 2015 and FY 2015 $134.8 million). The increase in cash during the period is primarily due to operating cash inflows of $16.6 million, which was partially offset by the Company's final 2015 tax payment of $9.4 million, the 2016 quarterly tax instalment of $6.8 million and the payment of $4.4 million of dividends. The Company's $50 million credit facility remains undrawn.

Earnings per share: Earnings per share was $0.05 for the three month period ended March 31, 2016 (Q1 2015: $0.02 earnings per share).

Dividend Paid: In 2016, the Company introduced a progressive dividend with the aim to maintain or increase the Canadian dollar dividends per share paid each year on a quarterly basis. The Company paid its first quarterly dividend of CDN 1.5 cents per share on March 31, 2016.

Subsequent Events: On April 13, 2016 the Company closed its first Exceptional Stone Tender of 2016. A total of 1,525 carats were sold for gross proceeds of $51.3 million or $33,632 per carat.

OPERATIONAL UPDATE

Karowe operating performance: Operational performance at Karowe was generally in line with forecast during the first quarter. Mining has performed well with overall volume mined, ore tonnage mined, and ore grade mined in line with expectations. Waste stripping to access the ore body at depth is progressing in line with forecast. Ore mining remains concentrated in the south and centre lobes. The Company recovered 90,697 carats during the quarter and recovered a total of 165 stones greater than 10.8 carats with an average stone size of 27.91 carats per stone. (2015 Q1 recovery of 153 stones greater than 10.8 carats at an average of 27.65 carats per stone) A total of 8 stones greater than 100 carats were recovered (2015 Q1: 6 stones).

Botswana Prospecting Licenses: In the first quarter of 2016, the Company continued to process the BK02 sample through the bulk sampling plant. Excavation and shipping of the BK02 sample was completed (approximately 5,500 tonnes) and surface sampling of the AK12 was initiated. The results of the BK02 bulk sample are expected in Q2 2016 post the audit and reprocessing work, which is currently being undertaken. Processing of the AK12 sample will commence in next quarter.

Mothae Sale: On March 31, 2016, the Company completed the transfer of its shares of Mothae Diamonds Pty Ltd and the Mothae site bulk sample plant to the Government of Lesotho. As consideration, the Government of Lesotho has released the Company from all liabilities dealing with the rehabilitation of the Mothae Diamond Project.

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars unless otherwise noted		**Three months ended March 31** **2016**		2015
Revenues (*)	$	50.6	$	29.6
Average price per carat sold(**) ($/carat)		649		278
Operating expenses per carat sold(**) ($/carat)		136		108
Operating margin per carat sold(**) ($/carat)		513		170
Net income for the period		17.1		6.0
Earnings per share (basic and diluted)		0.05		0.02
Cash on hand		144.3		87.5

(*) 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 2016. These are "forward-looking statements" and are subject to the cautionary note regarding the risks associated with forward-looking statements.

Karowe Mine, Botswana

Operating guidance:

The Company continues to forecast revenue between $200 million and $220 million for the year ending December 31, 2016. This excludes the anticipated sale of the two high value diamonds, the Lesedi La Rona and the 813 carat stone held in inventory at March 31, 2016.

Karowe's operating cash costs for the year (see pages 5 and 7 Non-IRFS measures) are expected to remain in line with guidance of between $33.50 and $36.50 per tonne of ore treated and the mine is expected to process between 2.2 to 2.4 million tonnes of ore, producing over 350,000 carats of diamonds in 2016.

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

Capital and exploration guidance:

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

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

The USD/Pula outlook foreign exchange rate is 10.

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^2)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014	100%	55.4
Botswana	Prospecting License No. 367/2014	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Sales						
Revenues	US$m	50.6	65.2	90.8	38.1	29.6
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$m	50.6	65.2	89.2	39.7	29.6
Sales proceeds received during the quarter	US$m	50.6	65.2	90.8	38.1	29.6
Q2 2015 tender proceeds received post Q2 2015	US$m	-	-	(1.6)	1.6	-
Carats sold for proceeds generated during the period	Carats	77,990	94,026	76,156	100,177	106,777
Carats sold for revenues recognized during the period	Carats	77,990	94,026	83,960	92,373	106,777
Average price per carat for proceeds generated during the period**	US$	649	693	1,171	396	278
Average price per carat for proceeds received during the period***	US$	649	693	1,081	412	278
Production						
Tonnes mined (ore)	Tonnes	677,766	1,038,901	864,180	722,855	561,287
Tonnes mined (waste)	Tonnes	3,328,365	3,143,168	3,224,971	4,278,605	3,243,372
Tonnes treated	Tonnes	651,909	567,966	560,501	506,538	603,969
Average grade processed	cpht (*)	13.9	15.6	18.0	16.9	14.9
Carats recovered	Carats	90,697	89,247	100,651	85,714	90,077
Costs						
Operating costs per carats sold (see page 7 Non-IRFS measures)	US$	136	137	130	160	108
Capital expenditures (including capitalized waste)						
Plant Optimization	US$m	-	1.6	2.9	2.2	9.4
Sustaining capital	US$m	0.5	0.6	1.2	2.1	1.1
Bulk Sample Plant	US$m	0.1	0.7	1.4	0.2	0.2
Capitalized waste	US$m	3.0	1.0	2.3	4.2	5.1
Total	US$m	3.6	3.9	7.8	8.7	15.8

(*) carats per hundred tonnes

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

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

OPERATIONS: KAROWE MINE

Karowe did not have any lost time injury during the first quarter of 2016 and all Safety, Health, Environment, and Community Relations indices were within target. Karowe was awarded the Environmental & Social Responsibility Award from the 2015 Prospectors and Developers Association of Canada ("PDAC") for the Company's stakeholder initiatives, community engagement and focus on sustainable practices and long-term benefits at the Karowe mine.

Volume mined for the period was in line with expectation. Waste stripping to access the ore body at depth progressed well and in line with forecast.

The process plant performed well during the three months, as the tonnes milled were in excess of forecast and carats recovered were in line with expectation. During the quarter, a total of 165 special stones (+10.8 carats) were recovered including 8 stones over 100 carats (Q1 2015: 6 stones).

The project to increase the top size of diamonds recoverable by the existing Large Diamond Recovery circuit and the new Mega Diamond Recovery circuit to recover large diamonds immediately post the primary crusher are both in detailed engineering design, with procurement of long lead items completed.

EXPLORATION AND MOTHAE

Botswana Prospecting Licenses

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

Bulk sampling activities at BK02 were completed in the first quarter and processing of the surface sample was substantially completed during Q1 2016 with audit work remaining outstanding at the end of the quarter. The BK02 diamond results will be released once processing of the sample is complete which is expected to be in the first half of 2016 post the audit and reprocessing work, which is currently being undertaken.. Bulk sampling activities at AK12 commenced in the first quarter and processing will begin in the second quarter of 2016 followed by trenching at AK11 which is expected to also commence in Q2 2016. Environmental approvals for drilling campaigns on the Prospecting Licenses are still pending with the Republic of Botswana Department of Environment Affairs ("DEA").

Mothae Diamond Project, Lesotho

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

SELECT FINANCIAL INFORMATION

Table 4:

In millions of U.S. dollars unless otherwise noted		Three months ended March 31 2016		2015
Revenues	$	50.6	$	29.6
Operating expenses		(10.6)		(11.5)
Royalty expenses		(5.1)		(3.0)
Operating earnings [1]		**34.9**		**15.1**
Administration		(2.4)		(2.4)
Care and maintenance		(0.1)		(0.1)
Sales and marketing		(0.8)		(0.7)
Exploration expenditures		(0.9)		-
EBITDA [2]		**30.7**		**11.9**
Depletion, amortization and accretion		(3.4)		(3.9)
Finance income (expense)		(0.1)		0.6
Foreign exchange gain (loss)		(3.0)		1.6
Loss from disposition of Mothae		(1.2)		-
Current income tax expense		(11.5)		(0.7)
Deferred income tax recovery (expense)		5.6		(3.5)
Net income for the period		**17.1**		**6.0**
Change in cash during the period		**9.6**		**(13.3)**
Cash on hand		**144.3**		**87.5**
Earnings per share (basic and diluted)		**0.05**		**0.02**
Per carats sold				
Sales price	**$**	**649**	**$**	**278**
Operating expenses		**136**		**108**
Average grade (carats per hundred tonnes)		**13.9**		**14.9**

[1] Operating earnings is a non-IFRS measure defined as sales less operating expenses and royalty expenses.
[2] EBITDA is a non-IFRS measure defined as earnings before interest, taxation, depreciation and amortization.

Table 5: Cash operating cost per tonne ore milled reconciliation: *In millions of U.S. dollars with the exception of tonnes milled and cash operating cost per tonne milled*		**Three months ended March 31 2016**		2015
Operating expenses	$	10.6	$	11.5
Capitalized production stripping costs[1]		3.0		5.1
Net change rough diamond inventory[2]		3.0		(4.7)
Net change ore stockpile inventory[3]		(0.1)		2.1
Total cash operating costs for ore milled		16.5		14.0
Tonnes milled		651,909		603,969
Cash operating cost per tonne ore milled[4]		**25.31**		**23.18**

[1] Capitalized production stripping cost in investing activities in the condensed interim consolidated statements of cash flows.
[2] Net change in rough diamond inventory for the periods ended March 31, 2016 and March 31, 2015.
[3] Net change in ore stockpile inventory for the periods ended March 31, 2016 and March 31, 2015.
[4] 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 for diamond inventories divided by the tonnes ore milled for the period.

Revenues

During the three months ended March 31, 2016, the Company completed one regular diamond tender totalling 78,105 carats. The tender achieved gross proceeds totalling $50.6 million for an average sales price of $649 per carat compared to the prior year of $278 per carat.

Operating earnings

Operating earnings before royalty payments for the three months ended March 31, 2016 were $40.0 million resulting in operating margin (before royalties and depletion, amortization and accretion) of 79%. Operating expenses during the quarter were $136 per carat, which resulted in an operating margin of $513 per carat. As anticipated, the operating expenses at $136 per carat were higher than the $108 per carat in the first quarter of the prior year due to the increase in processing costs as a result of harder material produced from the south lobe.

Income tax expense

Total income tax expense was $5.9 million during the three month period ended March 31, 2015, which includes a current income tax charge of $11.5 million and a deferred income tax recovery of $5.6 million. The current tax expense has been calculated at an annualized tax rate of approximately 34%, which reflects the current year forecast tax rate based on the Company's outlook revenue guidance. The Company is subject to a variable tax rate in Botswana that increases as profit, as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55%.

During the quarter, the Company paid its first 2016 tax instalment of $6.8 million and its final 2015 tax liability of $9.4 million. The Company will revise its 2016 tax instalment estimates after the completion of the anticipated sale of the Lesedi La Rona.

Foreign exchange

The Company recorded a foreign exchange loss of $3.0 million in 2016 compared to a gain of $1.6 million in 2015. The 2016 foreign exchange loss is due to the appreciating value of the pula during the quarter which impacted the USD cash the Company retains in its Botswana subsidiary.

Loss on disposition of Mothae

As a result of the Mothae disposition, the Company recorded a loss of $1.2 million which is primarily composed of a gain from the reversal of the Mothae project's rehabilitation estimate of $2.1 million and the non-cash realized foreign exchange loss from the cumulative translation adjustment of $3.3 million.

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

The three months ended March 31, 2016 EBITDA was $30.7 million compared to $11.9 million in the three month period ended March 31, 2015. The increase in EBITDA as compared to the prior year was due to the increased prices 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.

Cash operating cost per tonne ore milled

The three months ended March 31, 2016 cash operating cost per tonne milled was $25.31 per tonne milled compared to $23.18 per tonne milled in the three month period ended March 31, 2015. The higher cost compared to the prior year is largely due to the higher costs required to process the harder ore in the south lobe which was anticipated in the mine plan.

Cash operating cost per tonne milled 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, 2016, the Company had cash of $144.3 million compared to $87.5 million at March 31, 2015 and $134.8 million at December 31, 2015.

Cash increased by $9.6 million during the quarter. This increase reflects cash operating earnings during period, partially offset the Company's first quarterly dividend to its shareholders of $4.4 million, payment of the Company's current year's first quarter tax instalment of $6.8 million and its 2015 final tax liability of $9.4 million.

Dividends

In 2016, the Company introduced a progressive dividend with the aim to maintain or increase the Canadian dollar dividends per share paid each year on a quarterly basis. The Company paid its first quarterly dividend of CDN 1.5 cents per share on March 31, 2016. Effective today's date, May 3, 2016, the Company is declaring its second quarter dividend of CDN 1.5 cents per share. The dividend is expected to be paid on June 16, 2016 to holders of securities on the record of the Company's common shares at the close of business on June 3, 2016. The Company anticipates that it will declare a further two payments of CDN 1.5 cents per share in 2016 at the end of each quarter for a total yearly dividend of CDN 6 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):

Three months ended	Mar-16	Dec-15	Sept-15	Jun-15	Mar-15	Dec-14	Sept-14	Jun-14
A. Revenues	50,566	65,212	90,878	38,122	29,634	70,499	91,253	70,972
B. Administration expenses	(2,448)	(5,214)	(3,005)	(2,353)	(2,425)	(4,536)	(2,290)	(3,841)
C. Net income (loss)[(1)]	17,141	18,958	44,181	8,625	6,006	(16,819)	41,846	15,639
D.Earnings (loss) per share (basic and diluted)	0.05	0.05	0.12	0.02	0.02	(0.03)	0.11	0.04

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

NON-IFRS FINANCIAL MEASURES

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

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

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

Cash operating cost per tonne ore treated (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne treated on a cash basis. This is calculated as cash operating cost divided by tonnes of ore treated 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, 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.

RELATED PARTY TRANSACTIONS

For the period ended March 31, 2016, the Company donated $0.2 million (2015 – $0.6 million) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.

FINANCIAL INSTRUMENTS

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

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

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 380,834,415 common shares outstanding and 4,376,667 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, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the quarter ended June 30, 2016 is expected to be published on August 4, 2016.

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 three months ended March 31, 2016.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2015, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2015, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning January 1, 2016 and ending March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

		March 31, 2016		December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	$	144,347	$	134,776
VAT receivables and other		1,998		3,188
Inventories (Note 3)		38,369		35,245
		184,714		173,209
Plant and equipment (Note 4)		116,213		115,690
Mineral properties (Note 5)		54,976		51,678
Other non-current assets		3,552		3,593
TOTAL ASSETS	$	359,455	$	344,170
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	16,130	$	12,987
Taxes payable		4,539		9,507
Current portion of restoration provisions		-		2,134
		20,669		24,628
Restoration provisions		14,665		14,024
Deferred income taxes		44,188		48,834
TOTAL LIABILITIES		79,522		87,486
EQUITY				
Share capital		287,334		286,658
Contributed surplus		5,457		5,270
Retained earnings		53,578		40,847
Accumulated other comprehensive loss		(66,436)		(76,103)
Total equity attributable to shareholders of the Company		279,933		256,672
Non-controlling interests		-		12
TOTAL EQUITY		279,933		256,684
TOTAL LIABILITIES AND EQUITY	$	359,455	$	344,170

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"William Lamb"
Director

LUCARA DIAMOND CORP.

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

	Three months ended March 31, 2016	2015
Revenues	$ 50,566	$ 29,634
Cost of goods sold		
Operating expenses	10,552	11,567
Royalty expenses	5,057	2,963
Depletion, amortization and accretion	3,434	3,908
	19,043	18,438
Income from mining operations	31,523	11,196
Other expenses		
Administration (Note 7)	2,448	2,425
Care and maintenance	87	97
Exploration expenditures	874	-
Finance expense (income)	146	(616)
Foreign exchange loss (gain)	2,983	(1,611)
Sales and marketing	792	680
Loss on disposal of Mothae project (Note 5)	1,196	-
	8,526	975
Net income before tax	22,997	10,221
Income tax expense		
Current income tax	11,500	713
Deferred income tax	(5,644)	3,502
	5,856	4,215
Net income for the period	$ 17,141	$ 6,006
Attributable to:		
Shareholders of the Company	$ 17,141	$ 6,021
Non-controlling interests	$ -	$ (15)
Income per common share		
Basic	$ 0.05	$ 0.02
Diluted	$ 0.05	$ 0.02
Weighted average common shares outstanding		
Basic	380,191,461	379,381,187
Diluted	382,049,596	380,451,107

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 March 31, 2016	2015
Net income for the period	$ 17,141	$ 6,006
Other comprehensive income (loss)		
Items that may be subsequently reclassified to net income		
Change in fair value of available-for-sale securities	-	63
Currency translation adjustment	6,357	(8,828)
Item that was reclassified to net income		
Currency translation adjustment - Mothae disposition	3,310	-
	9,667	(8,765)
Comprehensive income (loss)	$ 26,808	$ (2,759)
Comprehensive income (loss) attributable to:		
Shareholders of the Company	26,808	(2,745)
Non-controlling interests	-	(14)
	$ 26,808	$ (2,759)

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 March 31, 2016	2015
Cash flows from (used in):		
Operating Activities		
Net income for the period	$ 17,141	$ 6,006
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	3,523	3,969
Unrealized foreign exchange loss (gain)	2,298	(2,146)
Stock-based compensation	387	51
Deferred income taxes expense (recovery)	(5,644)	3,502
Finance costs	127	96
Loss on disposal of Mothae project (Note 5)	1,196	-
	19,028	11,478
Net changes in working capital items:		
VAT receivables and other current assets	1,253	970
Tax prepayment	-	(6,012)
Inventories	(1,488)	(170)
Trade payables and other current liabilities	2,750	11,292
Taxes payable	(4,920)	(13,475)
	16,623	4,083
Financing Activities		
Dividends paid	(4,396)	-
Proceeds from exercise of stock options	462	9
	(3,934)	9
Investing Activities		
Acquisition of plant and equipment	(603)	(10,615)
Capitalized stripping costs	(3,012)	(5,143)
	(3,615)	(15,758)
Effect of exchange rate change on cash and cash equivalents	497	(1,675)
Increase (decrease) in cash and cash equivalents during the period	9,571	(13,341)
Cash and cash equivalents, beginning of period	134,776	100,839
Cash and cash equivalents, end of period	$ 144,347	$ 87,498
Supplemental Information		
Interest received	84	656
Taxes paid	(16,208)	(20,325)
Changes in trade payable and accrued liabilities related to plant and equipment	(68)	(526)

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
Balance, January 1, 2015	379,369,079	$ 286,138	$ 4,713	$ (25,128)	$ (37,182)	$ 14	$ 228,555
Exercise of stock options	13,333	11	(2)	-	-	-	9
Stock-based compensation	-	-	51	-	-	-	51
Effect of foreign currency translation	-	-	-	-	(8,827)	(1)	(8,828)
Unrealized loss on investments	-	-	-	-	63	-	63
Free-carried non-controlling interests	-	-	-	(11)	-	11	-
Net income (loss) for the period	-	-	-	6,021	-	(15)	6,006
Balance, March 31, 2015	379,382,412	$ 286,149	$ 4,762	$ (19,118)	$ (45,946)	$ 9	$ 225,856
Balance, January 1, 2016	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[(1)]	-	-	14	(4,410)	-	-	(4,396)
Net income for the period	-	-	-	17,141	-	-	17,141
Balance, March 31, 2016	380,834,415	$ 287,334	$ 5,457	$ 53,578	$ (66,436)	$ -	$ 279,933

(1) On March 31, 2016, the Company paid a cash dividend of CA$ 0.015 per share.

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 and three prospecting licenses located in Botswana.

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

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. 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 3, 2016.

3. INVENTORIES

		March 31, 2016		**December 31, 2015**
Rough diamonds	$	13,515	$	10,497
Ore stockpile		16,901		16,977
Parts and supplies		7,953		7,771
	$	38,369	$	35,245

Inventory expensed during the period ended March 31, 2016 totaled $10.6 million (2015 – $11.6 million).

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

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2015	$ 38,681	$ 101,727	$ 1,394	$ 2,735	$ 144,537
Additions	23,440	11	-	57	23,508
Disposals and other	-	-	(28)	(6)	(34)
Reclassification	(56,725)	55,741	6	978	-
Translation differences	(2,466)	(20,864)	(207)	(515)	(24,052)
Balance, December 31, 2015	2,930	136,615	1,165	3,249	143,959
Additions	471	-	-	77	548
Disposals and other	-	(77)	-	(6)	(83)
Translation differences	89	3,557	30	94	3,770
Balance, March 31, 2016	$ 3,490	$ 140,095	$ 1,195	$ 3,414	$ 148,194
Accumulated depreciation					
Balance, January 1, 2015	$ -	$ 19,903	$ 1,066	$ 1,552	$ 22,521
Depletion, amortization and accretion for the period	-	9,507	118	530	10,155
Disposals and other	-	-	(8)	(5)	(13)
Translation differences	-	(3,937)	(171)	(286)	(4,394)
Balance, December 31, 2015	-	25,473	1,005	1,791	28,269
Depletion, amortization and accretion for the period	-	2,707	22	139	2,868
Disposals and other	-	-	-	(6)	(6)
Translation differences	-	765	27	58	850
Balance, March 31, 2016	$ -	$ 28,945	$ 1,054	$ 1,982	$ 31,981
Net book value					
As at December 31, 2015	$ 2,930	$ 111,142	$ 160	$ 1,458	$ 115,690
As at March 31, 2016	$ 3,490	$ 111,150	$ 141	$ 1,432	$ 116,213

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

5. MINERAL PROPERTIES

Cost	Capitalized stripping costs	Karowe Mine	Total
Balance, January 1, 2015	$ 5,792	$ 56,710	$ 62,502
Additions	12,587	-	12,587
Change in restoration asset	-	(718)	(718)
Translation differences	(2,125)	(8,423)	(10,548)
Balance, December 31, 2015	16,254	47,569	63,823
Additions	3,012	-	3,012
Translation differences	505	1,186	1,691
Balance, March 31, 2016	$ 19,771	$ 48,755	$ 68,526
Accumulated depletion			
Balance, January 1, 2015	$ 200	$ 9,573	$ 9,773
Depletion for the period	947	3,313	4,260
Translation differences	(122)	(1,766)	(1,888)
Balance, December 31, 2015	1,025	11,120	12,145
Depletion for the period	335	732	1,067
Translation differences	37	301	338
Balance, March 31, 2016	$ 1,397	$ 12,153	$ 13,550
Net book value			
As at December 31, 2015	$ 15,229	$ 36,449	$ 51,678
As at March 31, 2016	$ 18,374	$ 36,602	$ 54,976

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 $5.1 million. (2015: $3.0 million)

Mothae Diamond Project

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

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

6. SHARE BASED COMPENSATION

a. Stock options

The Company has a new stock option plan (the 'New Plan') approved by the shareholders of the Company on May 13, 2015 which reserves 20,000,000 as the aggregate number of shares issuable upon the exercise of all Options granted under the New Plan. This new plan supersedes the Company's old stock option plan (the 'Old Plan') which was a rolling stock option plan approved by the shareholders of the Company on May 31, 2011, which reserved 10% of the issued and outstanding shares of the Company for issuance upon the exercise of options granted. No further awards shall be granted under the Old Plan. However, any outstanding awards granted under the Old Plan shall continue to be governed by the provisions of such plan. With regard to the New Plan, subject to the Board of Directors discretion, options granted may have a vesting period of up to three years, with 1/3 of the options vesting 12 months from the date of grant; 1/3 of the options vesting 24 months from the date of grant; and the remaining 1/3 vesting 36 months from the date of grant.

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

	Number of shares issuable pursuant to stock options		Weighted average exercise price per share (CA$)
Balance at December 31, 2014	**2,038,670**		**0.92**
Granted	1,770,000		2.14
Cancelled	(6,667)		0.70
Exercised(1)	(610,334)		0.77
Balance at December 31, 2015	**3,191,669**	**$**	**1.63**
Granted	2,040,000		2.45
Exercised(1)	(855,002)		0.72
Balance at March 31, 2016	**4,376,667**	**$**	**2.19**

(1) The weighted average share price on the exercise dates for the 2015 stock option exercises was CA$2.52.

Options to acquire common shares as at March 31, 2016 are as follows:

	Outstanding Options				**Exercisable Options**			
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price CA$	Number of options exercisable	Weighted average remaining contractual life (years)		Weighted average exercise price CA$
\$0.70 - \$1.00	300,000	0.1950	$	0.75	300,000	0.1950	$	0.75
\$1.01 - \$2.00	116,667	1.5738		1.78	50,000	0.9096		1.71
\$2.01 - \$3.00	3,960,000	3.9462		2.31	133,333	1.1918		2.25
	4,376,667	3.6258	$	2.19	483,333	0.5439	$	1.26

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

6. SHARE BASED COMPENSATION (continued)

During the period ended March 31, 2016, an amount of $0.3 million (2015 – $0.1 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

		2016
Assumptions:		
Risk-free interest rate *(%)*		0.51
Expected life *(years)*		4.53
Expected volatility *(%)*		48.18
Expected dividend		CA$0.015/share quarterly
Results:		
Weighted average fair value of options granted *(per option)*	CA$	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, 2016, the Company recognized a share-based payment charge against income of $0.1 million (2015: $nil) for the SUs granted during the year.

	Number of shares issuable pursuant to share units		Weighted average exercise price per share (CA$)
Balance at December 31, 2014	**-**	**$**	**-**
May 14, 2015 grant	520,000		2.07
June 18, 2015 dividend	5,304		1.96
December 17, 2015 dividend	4,585		2.29
Balance at December 31, 2015	**529,889**		**2.07**
February 26, 2016 grant	645,000		2.43
March 31, 2016 dividend	6,380		2.76
Balance at March 31, 2016	**1,181,269**	**$**	**2.27**

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

7. ADMINISTRATION

	Three months ended March 31, 2016	2015
Salaries and benefits	$ 664	$ 903
Professional fees	191	144
Office and general	412	212
Stock exchange, transfer agent, shareholder communication	266	179
Travel	131	173
Stock based compensation	387	51
Management fees	70	102
Depreciation	89	61
Donations	238	600
	$ 2,448	$ 2,425

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:

	Three months ended March 31, 2016	2015
Salaries and wages	$ 1,666	$ 1,647
Short term benefits	28	21
Stock based compensation	279	38
	$ 1,973	$ 1,706

b) Other related parties

For the period ended March 31, 2016, the Company donated $0.2 million (2015 – $0.6 million) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company in Botswana.

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

9. SEGMENT INFORMATION

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

Three months ended March 31, 2016

	Karowe Mine	Corporate and other	Total
Revenues	$ 50,566	$ -	$ 50,566
Income (loss) from operations	31,557	(34)	31,523
Exploration expenditures	(874)	-	(874)
Finance income (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

Three months ended March 31, 2015

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

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

10. FINANCIAL INSTRUMENTS

Measurement categories and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive 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 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:

		March 31, 2016		December 31, 2015
ASSETS				
Loans and receivables				
Cash and cash equivalents	$	144,347	$	134,776
Other receivables		22		4
	$	144,369	$	134,780
LIABILITIES				
Amortized cost				
Trade payables and accrued liabilities	$	16,130	$	12,987
	$	16,130	$	12,987

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