



Lucara Diamond
Corp.

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

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 and unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is November 8, 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 \$38.1 million (Q3 2015: \$90.9 million) or \$332 per carat yielding a 55% operating margin (see page 8 Non-IFRS measures). This revenue includes \$8.3 million of proceeds received from the Company's June tender. Revenue in Q3 is lower than the prior year as revenue reported in Q3 2015 included two sales including an exceptional stone tender compared to a single regular tender during the current quarter. For the nine months ended September 30, 2016 ('year to date') revenue is \$229 million (2015: \$159 million) with operating margins of 83% (2015: 77%).

Net income: The Company reported a net loss of \$3.8 million in Q3 compared to net income of \$44.2 million in the prior year. This is due to the Company having two sales in the prior year including an exceptional stone tender compared to a single sale in the current year. The Company also reported a foreign exchange loss in Q3 compared to a foreign exchange gain on translation of its US dollar cash in the prior year as the Pula has appreciated in the current year.

Karowe's operating cash cost update: Karowe's operating, year to date, cash cost (see page 8 Non-IFRS measures) is \$25.0 per tonne processed (2015: \$29.0 per tonne processed). Costs remain well controlled. Karowe's operating cash costs guidance has been decreased for the year from between \$29.0 to \$31.0 per tonne of ore processed to \$25.0 to \$28.0 per tonne ore processed. The reduction in cost guidance is due to power and general cost savings and an increase in tonnes processed. The Company's processed tonnes continue to exceed forecast and this level of productivity has resulted in more ore processed across the Company's operating cost base.

Net cash position: The Company's Q3 cash balance was \$49.7 million (Q3 2015: \$122.7 million and FY 2015 \$134.8 million). The decrease in cash during the period is primarily due to the Company's special and regular dividend payment to its shareholders of \$136.6 million. The Company's \$50 million credit facility remains undrawn

Earnings per share: The Company recorded a \$0.01 loss per share during the quarter (Q3 2015: \$0.12 earnings per share) and \$0.16 earnings per share year to date. The loss during the period is largely due to the cyclical nature of the Company's sales and a foreign exchange loss during the quarter. The Company had one sale this quarter which will be followed by two sales in Q4 including the Company's second exceptional stone sale in 2016. Based on the company's full year forecast revenue and profitability the Company has maintained its full year tax rate of 42% and applied this to the Q3 earnings. A non-cash foreign exchange loss of \$7.6 million is reported in Q3 on the translation of the Company's US dollar cash balance due to the impact of the appreciating Pula during the year compared to year end 2015 USD/Pula of 11.2. See page 7 Foreign Exchange loss for further detail.

Dividend: During the quarter, the Company paid \$136.6 million in dividends comprising a special dividend of CA\$0.45 per share and its regular quarterly dividend of CA\$0.015 cents per share on September 15, 2016. Following the payment of this special dividend the Company has paid \$185 million in dividends back to its shareholders, equivalent to approximately 20% of total revenues generated, since the commencement of its dividend policy in 2014. Effective today's date, November 8, 2016, the Company is declaring its fourth quarter dividend of CA\$0.015 per share. The dividend is expected to be paid on December 15, 2016 to holders of securities on the record of the Company's common shares at the close of business on December 2, 2016.

OPERATIONAL UPDATE

Karowe operating performance: Ore mined in Q3 2016 was 0.7 million tonnes and waste was 3.1 million tonnes. The process plant has performed well during Q3 with tonnes processed being 19.5% ahead of forecast for the quarter and 17% for the year to date. During Q3 2016 a mine audit survey resulted in previously reported mined ore and waste volumes being reduced. The decrease in mined volumes do not impact future mine production. The Company has updated table 3: quarterly production tonnages for the ore and waste mined to reflect the Q3 2016 survey results.

Botswana Prospecting Licenses: In Q3 2016, the Company completed sampling of an additional 5000 tonnes of kimberlite from the BK02 kimberlite. Processing of the second BK02 sample was 28% at the end of Q3 2016. The results will be announced when processing is complete. A drill programme was initiated and completed during Q3 2016 on the AK11 kimberlite. Drilling will progress to the BK02, AK13, and AK14 kimberlites during Q4 2016.

FINANCIAL HIGHLIGHTS

Table 1:	Three months ended		Nine months ended	
	September 30		September 30	
<i>In millions of U.S. dollars unless otherwise noted</i>	2016	2015	2016	2015
Revenues *	\$ 38.1	\$ 90.9	\$ 229.4	\$ 158.6
Average price per carat sold (\$/carat)**	332	1,081	850	560
Operating expenses per carat sold (\$/carat)**	149	130	143	131
Operating margin per carat sold (\$/carat)**	183	951	707	429
Net income (loss) for the period	(3.8)	44.2	59.5	58.8
Earnings (Loss) per share (basic and diluted)	(0.01)	0.12	0.16	0.15
Cash on hand	49.7	122.7	49.7	122.7

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

(**) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 3: results of operations for reconciliations and page 8 for Non-IFRS measures.

OUTLOOK

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

Karowe Mine, Botswana

Operating guidance:

The Company continues to forecast revenue (regular and exceptional tenders) between \$200 million and \$220 million for the year ending December 31, 2016, excluding the sale of the 813 carat Constellation diamond, which sold for \$63.1 million. The Company continues to hold the 1,109 carat Lesedi La Rona in inventory as at September 30, 2016 and is currently considering options for its sale.

Karowe's operating cash costs guidance was been decreased for the year (see pages 5 and 7 Non-IFRS measures) from between \$29.0 to \$31.0 per tonne of ore processed to \$25.0 to \$28.0 per tonne

ore processed. The reduction in cost guidance is to power and general cost savings and an increase in tonnes processed. The mine is forecast to exceed previous guidance of 2.2 to 2.4 million tonnes of ore processed, The Company forecasts producing over 350,000 carats of diamonds in 2016.

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

Capital and exploration guidance:

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

During Q3, the Company approved a sub-middles XRT project which targets the recovery of diamonds sized between 4mm and 8mm using XRT technology. Detail design has commenced and the project is on track for completion in Q4 2017. This \$30 million project will further address processing of the very dense high quality South lobe ore at depth and will result in the most efficient and cost effective processing methodology for processing this ore.

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

The USD/Pula guidance foreign exchange rate is 10. The USD/Pula foreign exchange rate for the nine months was 10.95

BUSINESS OVERVIEW

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

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

Table 2: Company's current land holdings:

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

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	YTD-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15
Sales							
Revenues	US\$m	229.4	38.1	140.8	50.5	65.2	90.8
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	229.4	29.8	149.1	50.5	65.2	89.2
Sales proceeds received during the quarter	US\$m	229.4	38.1	140.8	50.5	65.2	90.8
Q2 2016 tender proceeds received post Q2 2016	US\$m	-	(8.3)	8.3	-	-	-
Q2 2015 tender proceeds received post Q2 2015	US\$m	-	-	-	-	-	(1.6)
Carats sold for proceeds generated during the period	Carats	269,849	84,059	107,801	77,990	94,026	76,156
Carats sold for revenues recognized during the period	Carats	269,849	114,659	77,200	77,990	94,026	83,960
Average price per carat for proceeds generated during the period**	US\$	850	355	1,383	649	693	1,171
Average price per carat for proceeds received during the period***	US\$	850	332	1,824	649	693	1,081
Production							
Tonnes mined (ore) (****)	Tonnes	2,140,207	650,290	884,212	605,705	672,110	613,660
Tonnes mined (waste)(****)	Tonnes	8,329,126	3,092,110	2,868,798	2,368,218	2,631,224	2,722,047
Tonnes processed	Tonnes	1,982,745	650,646	680,190	651,909	567,966	560,501
Average grade processed	cpht ^(*)	13.7	12.5	14.6	13.9	15.6	18.0
Carats recovered	Carats	271,702	81,423	99,582	90,697	89,247	100,651
Costs							
Operating costs per carats sold (see page 8 Non-IRFS measures)	US\$	143	149	141	136	137	130
Capital expenditures (including capitalized waste)							
Plant Optimization	US\$m	-	-	-	-	1.6	2.9
LDR and MDR circuit	US\$m	5.2	2.3	2.9	-	-	-
Sustaining capital	US\$m	8.0	5.8	1.7	0.5	0.6	1.2
Bulk Sample Plant	US\$m	0.1	-	-	0.1	0.7	1.4
Capitalized waste	US\$m	6.9	2.6	1.3	3.0	1.0	2.3
Total	US\$m	20.2	10.7	5.9	3.6	3.9	7.8

(*) 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

(****) restated following Q3 survey

OPERATIONS: KAROWE MINE

Safety performance was excellent with zero LTIs reported, and all other safety health environmental and corporate responsibility "SHECR" indices within target.

Ore mined in Q3 2016 was 0.7 million tonnes and waste was 3.1 million tonnes. The process plant has performed well during Q3 with tonnes processed being 19.5% ahead of forecast for the quarter and 17% for the year.

As greater volumes of south lobe ore are processed the recovered grade has decreased in-line with the resource model. The south lobe contains high value diamonds resulting in higher revenue per tonne ore processed compared to the centre and north lobes.

The project to increase the top size of diamonds recoverable by the existing Large Diamond Recovery was successfully implemented in early September 2016 on time and on budget. The Mega Diamond Recovery project is on schedule and currently with detailed design stage at 80% complete. The related civil work has commenced at site and fabrication is on schedule and forecast to be complete in Q2, 2017.

During Q3 2016 a mine survey resulted in mined ore and waste volumes being reduced from those originally calculated. The decrease in volumes previously mined does not impact future mine production. Additional procedures have been put in place to monitor mined volumes going forward.

EXPLORATION

Botswana Prospecting Licenses

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe Diamond mine. Ground geophysical surveys were conducted over the known kimberlite occurrences within the prospecting licenses during Q4 2014, Q1 2015 and Q2 2016. The geophysical results confirmed the kimberlite localities and have provided information that has been used to plan our core drilling and surface sampling programs.

At BK02 at the end of Q2 the company had completed a bulk sample with a total of 274.33 carats being recovered from the processing of 5,916 tonnes, for a sample grade of 4.6 cpht (carats per hundred tonne). The largest diamond recovered was a 5.48 carat brownish octahedron. In addition a total of 24 stones were recovered greater than 1 carat in weight, including 3 diamonds in excess of 2 carats in weight. In Q3 2016, the Company completed sampling of an additional 5000 tonnes of kimberlite from the BK02 kimberlite in order to recover a parcel of diamonds large enough for basic valuation purposes. Processing of the second BK02 sample was 28% complete at the end of Q3 2016.

During Q3 a drill programme was initiated and completed at AK11 with a total of 10 core holes (1570 metres of drilling). This programme constituted the first ever drilling on AK11. Nine holes were drilled at AK11 and all intersected kimberlite, the tenth hole which did not intersect kimberlite tested a geophysical anomaly to the west of AK11. Preliminary core logging indicates that AK11 has two distinct pipe infill sequences, a well preserved crater infill (graded bedding, re-sediment kimberlite) and a more magmatic/pyroclastic kimberlite phase. Drilling confirmed the size of AK11 at approximately 2.5 hectares. Logging and sampling of the drill core is underway and results will be released when the programme is complete. Drilling will progress to BK02, AK13, and AK14 during Q4 2016.

Karowe Resource Upgrade Drilling

Drilling commenced on a planned 10,000 metre deep drill programme designed to test the AK06 kimberlite at depths below 400m with the a target to bring inferred mineral resources into the indicated category in support of underground mining studies. At the end of Q3 2016 the drilling component of the programme was 55% complete. The drilling portion of the programme will be complete by Q4 2016.

SELECT FINANCIAL INFORMATION

Table 4:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
<i>In millions of U.S. dollars unless otherwise noted</i>				
Revenues	\$ 38.1	\$ 90.9	\$ 229.4	\$ 158.6
Operating expenses	(17.1)	(10.9)	(38.6)	(37.2)
Operating earnings ⁽¹⁾	21.0	80.0	190.8	121.5
Royalty expenses	(3.8)	(9.1)	(22.9)	(15.9)
Administration	(3.2)	(3.0)	(8.3)	(7.6)
Care and maintenance	-	(0.3)	(0.1)	(0.5)
Sales and marketing	(0.4)	(0.7)	(3.7)	(1.9)
Exploration expenditures	(1.2)	(0.1)	(2.9)	(0.2)
EBITDA ⁽²⁾	12.4	66.8	152.9	95.3
Depletion, amortization and accretion	(5.6)	(3.4)	(12.7)	(10.8)
Finance income	-	-	(0.1)	1.1
Foreign exchange gain (loss)	(7.6)	6.2	(10.7)	8.5
Loss on disposal of Mothae	-	-	(1.2)	-
Current income tax expense	(9.3)	(21.4)	(72.8)	(25.4)
Deferred income tax recovery (expense)	6.3	(4.0)	4.1	(9.8)
Net income (loss) for the period	(3.8)	44.2	59.5	58.9
Change in cash during the period	(161.2)	48.6	(85.1)	21.8
Cash on hand	49.7	122.7	49.7	122.7
Earnings (Loss) per share (basic and diluted)	(0.01)	0.12	0.16	0.15
Per carats sold				
Sales price	\$ 332	\$ 1,081	\$ 850	\$ 560
Operating expenses	149	130	143	131
Average grade (carats per hundred tonnes)	12.5	18.0	13.7	16.5

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

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

Table 5: Cash operating cost per tonne ore processed reconciliation:

	Nine months ended September 30,	
	2016	2015
<i>In millions of U.S. dollars with the exception of tonnes processed and cash operating cost per tonne processed</i>		
Operating expenses	\$ 38.6	\$ 37.2
Capitalized production stripping costs ⁽¹⁾	6.9	11.6
Net change rough diamond inventory ⁽²⁾	2.2	(0.5)
Net change ore stockpile inventory ⁽³⁾	1.9	0.9
Total cash operating costs for ore processed	49.6	49.2
Tonnes processed	1,982,746	1,671,008
Cash operating cost per tonne ore processed⁽⁴⁾	25.00	29.44

⁽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 9 month period ended September 30, 2016 and September 30, 2015.

⁽³⁾ Net change in ore stockpile inventory for the 9 month period ended September 30, 2016 and September 30, 2015.

⁽⁴⁾ Cash operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in working capital items for diamond inventories divided by the tonnes ore processed for the period.

Revenues

During Q3, the Company completed one regular stone tender, totalling 84,059 carats. Revenue was \$38.1 million including proceeds of \$8.3 million from the June 2016 regular diamond tender.

Operating earnings

Operating earnings before royalty payments for Q3 were \$21.0 million resulting in operating margin (before royalties and depletion, amortization and accretion) of 55%. The year to date operating margin is 83% compared to prior year of 77%. Operating expenses during Q3 were \$149 per carat, which resulted in an operating margin of \$206 per carat.

Income tax expense

Total income tax expense was \$3.0 million during Q3 2016, which includes a current income tax charge of \$9.3 million and a deferred income tax recovery of \$6.2 million. The current tax expense has been calculated at an annualized tax rate of approximately 42%, which reflects the current year forecast tax rate based on the Company's revenue guidance including the sale of the Constellation. The 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 third 2016 tax instalment of \$16.2 million bringing the total taxes paid in 2016 to \$72.8 million.

Foreign exchange loss

The Company recorded a foreign exchange charge of \$7.6 million in Q3 2016 compared with a foreign exchange gain \$6.2 million charge in Q3 2015. During Q3 a non-cash foreign exchange loss of \$7.6 million has been reported due to the Company's Botswana subsidiary's functional currency being Pula. The functional currency is the currency used in the primary economic environment where an entity operates. Under international accounting standards the Company's US dollar cash balance is translated to Pula in its Botswana operating entity and then reconverted to US dollar for reporting purposes. Due to the strengthening of the Pula during the year this has resulted in a foreign exchange loss.

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

Q3 2016 EBITDA was \$12.4 million compared to \$66.8 million in Q3 2015. The decrease in EBITDA as compared to the prior year was due to a single sale in Q3 compared to the previous year which had two sales including an exceptional stone tender.

Net Income

The Company reported a net loss of \$3.8 million in Q3 compared to net income of \$44.2 million in the prior year. This is due to the Company having two sales in the prior year including an exceptional stone tender compared to a single sale in the current year. The Company also reported a foreign exchange loss in Q3 compared to a foreign exchange gain on translation of its US dollar cash in the prior year as the Pula has appreciated in the current year.

Cash operating cost per tonne ore processed

The nine months ended September 30, 2016 cash operating cost per tonne processed was \$25.0 per tonne processed compared to \$29.80 per tonne processed in 2015. The lower cost compared to the guidance is largely due to the increase volume of ore processed and general savings including lower power consumption costs during the period compared to 2015.

Liquidity and Capital Resources

As at September 30, 2016, the Company had cash of \$49.7 million compared to \$122.7 million at September 30, 2015 and \$134.8 million at December 31, 2015.

Cash decreased by \$161.2 million during Q3. This decrease is mainly due to the Company's special dividend and regular quarter dividend payment to its shareholders of \$136.6 million. Also during the quarter, the Company incurred capital expenditure of \$10.7 million and paid its Q3 tax installment of \$16.2 million.

SUMMARY OF QUARTERLY RESULTS

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

Table 6: The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters (unaudited):

Three months ended	Sept-16	Jun-16	Mar-16	Dec-15	Sept-15	Jun-15	Mar-15	Dec-14
A. Revenues	38,098	140,785	50,566	65,212	90,878	38,122	29,634	70,499
B. Administration expenses	(3,226)	(2,678)	(2,448)	(5,214)	(3,005)	(2,353)	(2,425)	(4,536)
C. Net income (loss) ⁽¹⁾	(3,804)	46,116	17,141	18,958	44,181	8,625	6,006	(16,819)
D. Earnings (loss) per share (basic and diluted)	(0.01)	0.12	0.05	0.05	0.12	0.02	0.02	(0.03)

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2016, the Company donated \$0.2 million (2015 – \$0.6 million) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.

FINANCIAL INSTRUMENTS

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

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

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 381,751,078 common shares outstanding and 3,380,004 stock options outstanding and 1,323,666 share units outstanding under its stock-based incentive plan.

RISKS AND UNCERTAINTIES

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

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the quarter ended December 31, 2016 is expected to be published on February 16, 2017.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2016.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of

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

Internal controls over financial reporting

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

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

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

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

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning July 1, 2016 and ending September 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 49,678	\$ 134,776
VAT receivables and other	6,980	3,188
Inventories (Note 3)	41,029	35,245
	97,687	173,209
Plant and equipment (Note 4)	127,620	115,690
Mineral properties (Note 5)	60,251	51,678
Other non-current assets	3,627	3,593
TOTAL ASSETS	\$ 289,185	\$ 344,170
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 13,444	\$ 12,987
Taxes payable	18,963	9,507
Current portion of restoration provisions	-	2,134
	32,407	24,628
Restoration provisions	15,871	14,024
Deferred income taxes	47,685	48,834
TOTAL LIABILITIES	95,963	87,486
EQUITY		
Share capital	288,925	286,658
Contributed surplus	6,381	5,270
Retained earnings (Deficit)	(45,520)	40,847
Accumulated other comprehensive loss	(56,564)	(76,103)
Total equity attributable to shareholders of the Company	193,222	256,672
Non-controlling interests	-	12
TOTAL EQUITY	193,222	256,684
TOTAL LIABILITIES AND EQUITY	\$ 289,185	\$ 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues	\$ 38,098	\$ 90,878	\$ 229,449	\$ 158,634
Cost of goods sold				
Operating expenses	17,119	10,872	38,582	37,228
Royalty expenses	3,810	9,087	22,945	15,863
Depletion, amortization and accretion	5,578	3,440	12,664	10,773
	26,507	23,399	74,191	63,864
Income from mining operations	11,591	67,479	155,258	94,770
Other expenses				
Administration (Note 7)	3,226	3,005	8,352	7,783
Care and maintenance	-	291	87	531
Exploration expenditures	1,167	158	2,931	206
Finance (income) expenses	39	(22)	85	(1,080)
Foreign exchange (gain) loss	7,604	(6,216)	10,659	(8,519)
Sales and marketing	353	714	3,689	1,928
Loss on disposition of Mothae	-	-	1,196	-
	12,389	(2,070)	26,999	849
Net (loss) income before tax	(798)	69,549	128,259	93,921
Income tax expense				
Current income tax	9,283	21,364	72,880	25,357
Deferred income tax	(6,277)	4,004	(4,074)	9,752
	3,006	25,368	68,806	35,109
Net income (loss) for the period	\$ (3,804)	\$ 44,181	\$ 59,453	\$ 58,812
Attributable to:				
Shareholders of the Company	\$ (3,804)	\$ 44,217	\$ 59,453	\$ 58,878
Non-controlling interests	\$ -	\$ (36)	\$ -	\$ (66)
Earnings (loss) per common share				
Basic	\$ (0.01)	\$ 0.12	\$ 0.16	\$ 0.15
Diluted	\$ (0.01)	\$ 0.12	\$ 0.16	\$ 0.15
Weighted average common shares outstanding				
Basic	381,729,698	379,539,539	381,044,155	379,453,388
Diluted	383,998,319	380,474,383	382,862,552	380,472,653

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,	
	2016	2015	2016	2015
Net income (loss) for the period	\$ (3,804)	\$ 44,181	\$ 59,453	\$ 58,812
Other comprehensive income				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities	-	(26)	-	18
Currency translation adjustment	10,463	(14,473)	16,229	(25,212)
Item that was reclassified to net income				
Currency translation adjustment – Mothae disposition	-	-	3,310	-
	10,463	(14,499)	19,539	(25,194)
Comprehensive income	\$ 6,659	\$ 29,682	\$ 78,992	\$ 33,618
Comprehensive income attributable to:				
Shareholders of the Company	6,659	29,714	78,992	33,682
Non-controlling interests	-	(32)	-	(64)
	\$ 6,659	\$ 29,682	\$ 78,992	\$ 33,618

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,		Nine months ended September 30,	
	2016	2015	2016	2015
Cash flows from (used in):				
Operating Activities				
Net income (loss) for the period	\$ (3,804)	\$ 44,181	\$ 59,453	\$ 58,812
Items not involving cash and cash equivalents:				
Depletion, amortization and accretion	5,674	3,569	12,944	11,117
Foreign exchange (gain) loss	6,252	(4,903)	8,867	(8,119)
Stock-based compensation	445	237	1,299	468
Deferred income taxes	(6,277)	4,004	(4,074)	9,752
Finance costs	(20)	41	198	119
Loss on disposition of Mothae	-	-	1,196	-
	2,270	47,129	79,883	72,149
Net changes in working capital items:				
VAT receivables and other current assets	(3,085)	1,112	(3,849)	1,676
Tax prepayment	-	9,587	-	-
Inventories	(279)	(4,494)	(7,382)	(4,899)
Trade payables and other current liabilities	(203)	(504)	529	2,230
Taxes payable	(12,973)	5,222	9,282	(7,888)
	(14,270)	58,052	78,463	63,268
Financing Activities				
Proceeds from exercise of stock options	56	31	1,628	120
Dividends paid	(136,550)	-	(145,369)	(6,102)
	(136,494)	31	(143,741)	(5,982)
Investing Activities				
Acquisition of plant and equipment	(8,103)	(5,586)	(13,278)	(20,739)
Capitalized production stripping costs	(2,576)	(2,230)	(6,920)	(11,575)
	(10,679)	(7,816)	(20,198)	(32,314)
Effect of exchange rate change on cash and cash equivalents				
	287	(1,630)	378	(3,161)
Increase (decrease) in cash and cash equivalents during the period	(161,156)	48,637	(85,098)	21,811
Cash and cash equivalents, beginning of period	210,834	74,013	134,776	100,839
Cash and cash equivalents, end of period	\$ 49,678	\$ 122,650	\$ 49,678	\$ 122,650
Supplemental Information				
Interest received	189	518	399	1,809
Taxes paid	(24,286)	(6,175)	(64,683)	(33,230)
Changes in accounts payable and accrued liabilities related to plant and equipment	(117)	319	(186)	(194)

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

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

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

(Unaudited)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive loss	Non- controlling interests	Total
Balance, January 1, 2015	379,369,079	\$ 286,138	\$ 4,713	\$ (25,128)	\$ (37,182)	\$ 14	\$ 228,555
Exercise of stock options	213,667	172	(52)	-	-	-	120
Stock-based compensation	-	-	468	-	-	-	468
Unrealized loss on investments	-	-	-	-	18	-	18
Effect of foreign currency translation	-	-	-	-	(25,214)	2	(25,212)
Free-carried non-controlling interests	-	-	-	(73)	-	73	-
Dividends paid ⁽¹⁾	-	-	8	(6,110)	-	-	(6,102)
Net income for the period	-	-	-	58,878	-	(66)	58,812
Balance, September 30, 2015	379,582,746	\$ 286,310	\$ 5,137	\$ 27,567	\$ (62,378)	\$ 23	\$ 256,659
Balance, January 1, 2016	379,979,413	\$ 286,658	\$ 5,270	\$ 40,847	\$ (76,103)	\$ 12	\$ 256,684
Exercise of stock options	1,771,665	2,267	(639)	-	-	-	1,628
Stock-based compensation	-	-	1,299	-	-	-	1,299
Effect of foreign currency translation	-	-	-	-	19,539	-	19,539
Free-carried non-controlling interests	-	-	-	-	-	(12)	(12)
Dividends paid ⁽²⁾	-	-	451	(145,820)	-	-	(145,369)
Net income for the period	-	-	-	59,453	-	-	59,453
Balance, September 30, 2016	381,751,078	\$ 288,925	\$ 6,381	\$ (45,520)	\$ (56,564)	\$ -	\$ 193,222

⁽¹⁾ On June 18, 2015, the Company paid a dividend of CA\$0.02 per share.⁽²⁾ On March 31, 2016, the Company paid a cash dividend of CA\$ 0.015 per share. On June 18, 2016, the Company paid a dividend of CA\$0.015 per share. On September 15, 2016, the Company paid a Special dividend of CA\$0.45 per share and a regular dividend of CA\$0.015 per share.

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

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

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company") is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine (previously named AK6 Diamond Project) located in Botswana.

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

2. BASIS OF PRESENTATION

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

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

Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. We also evaluate the deferred tax liability based on repatriation of retained earnings dependent on management's estimates of future production and sales volumes, commodity prices, reserves and resources, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. Judgment is also required on the application of income tax legislation. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit.

These financial statements were approved by the Board of Directors for issue on November 08, 2016.

3. INVENTORIES

	September 30, 2016	December 31, 2015
Rough diamonds	\$ 12,705	\$ 10,497
Ore stockpile	18,904	16,977
Parts and supplies	9,420	7,771
	<u>\$ 41,029</u>	<u>\$ 35,245</u>

Inventory expensed during the nine months ended September 30, 2016 totaled \$38.6 million (2015 – \$37.2 million).

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

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2015	\$ 38,681	\$ 101,727	\$ 1,394	\$ 2,735	\$ 144,537
Additions	23,440	11	-	57	23,508
Disposals and other	-	-	(28)	(6)	(34)
Reclassification	(56,725)	55,741	6	978	-
Translation differences	(2,466)	(20,864)	(207)	(515)	(24,052)
Balance, December 31, 2015	2,930	136,615	1,165	3,249	143,959
Additions	12,989	-	-	116	13,105
Disposals and other	-	-	-	(6)	(6)
Reclassification	(500)	777	98	(375)	-
Translation differences	702	9,056	81	202	10,041
Balance, September 30, 2016	\$ 16,121	\$ 146,448	\$ 1,344	\$ 3,186	\$ 167,099
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	-	8,597	57	341	8,995
Disposals and other	-	-	-	(6)	(6)
Translation differences	-	2,023	69	129	2,221
Balance, September 30, 2016	\$ -	\$ 36,093	\$ 1,131	\$ 2,255	\$ 39,479
Net book value					
As at December 31, 2015	\$ 2,930	\$ 111,142	\$ 160	\$ 1,458	\$ 115,690
As at September 30, 2016	\$ 16,121	\$ 110,355	\$ 213	\$ 931	\$ 127,620

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

5. MINERAL PROPERTIES

Cost	Capitalized Production stripping asset	Karowe Mine	Total
Balance, January 1, 2015	\$ 5,792	\$ 56,710	\$ 62,502
Additions	12,587	-	12,587
Change in restoration asset	-	(718)	(718)
Translation differences	(2,125)	(8,423)	(10,548)
Balance, December 31, 2015	16,254	47,569	63,823
Additions	8,456	-	8,456
Translation differences	1,422	3,155	4,577
Balance, September 30, 2016	\$ 26,132	\$ 50,724	\$ 76,856
Accumulated depletion			
Balance, January 1, 2015	\$ 200	\$ 9,573	\$ 9,773
Depletion	947	3,313	4,260
Translation differences	(122)	(1,766)	(1,888)
Balance, December 31, 2015	1,025	11,120	12,145
Depletion	1,234	2,278	3,512
Translation differences	118	830	948
Balance, September 30, 2016	\$ 2,377	\$ 14,228	\$ 16,605
Net book value			
As at December 31, 2015	\$ 15,229	\$ 36,449	\$ 51,678
As at September 30, 2016	\$ 23,755	\$ 36,496	\$ 60,251

Karowe Mine

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

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

6. SHARE BASED COMPENSATION

(i) Stock options

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
Balance at December 31, 2014	2,038,670	0.92
Granted	1,770,000	2.14
Exercised ⁽¹⁾	(610,334)	0.77
Forfeited	(6,667)	0.70
Balance at December 31, 2015	3,191,669	\$ 1.63
Granted	2,160,000	2.53
Exercised ⁽²⁾	(1,771,665)	1.19
Balance at September 30, 2016	3,580,004	\$ 2.38

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

(2) The weighted average share price on the exercise date for the 2016 stock option exercises was CA\$3.32

Options to acquire common shares have been granted and are outstanding and exercisable at September 30, 2016 as follows:

Range of exercise prices CA\$	Number of options outstanding	Outstanding Options		Exercisable Options		
		Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$
\$1.00 - \$2.00	33,334	1.89	\$ 1.80	-	-	\$ -
\$2.01 - \$3.00	3,426,670	3.57	2.33	240,000	1.01	2.23
\$3.01 - \$4.00	120,000	4.62	3.94	-	-	-
	3,580,004	3.59	\$ 2.38	240,000	1.01	\$ 2.23

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

6. SHARE BASED COMPENSATION (continued)

During the nine months ended September 30, 2016, an amount of \$0.6 million (2015 – \$0.5 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, 2016	December 31, 2015
Assumptions:		
Risk-free interest rate (%)	0.80	0.80
Expected life (years)	3.68	3.63
Expected volatility (%)	47.46	47.48
Expected dividend	CA\$0.02/share – semiannually	CA\$0.02/share – semiannually
Results:		
Weighted average fair value of options granted (<i>per option</i>)	\$ 0.78	\$ 0.68

(ii) Share units

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

For the period ended September 30, 2016, the Company recognized a share-based payment charge against income of \$0.45 million (2015: \$0.2 million) for the SUs granted during the period.

	Number of shares issuable pursuant to share units	Weighted average fair value at date of grant per share (CA\$)
Balance at January 1, 2015	-	\$ -
May 14, 2015 grant	520,000	2.07
June 18, 2015 dividend	5,304	1.96
December 17, 2015 dividend	4,585	2.29
Balance at December 31, 2015	529,889	2.07
February 26, 2016 grant	645,000	2.43
March 31, 2016 dividend	6,380	2.76
June 16, 2016 dividend	4,550	3.89
September 15, 2016 dividend	137,847	4.00
Balance at September 30, 2016	1,323,666	\$ 2.46

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

7. ADMINISTRATION

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Salaries and benefits	\$ 769	\$ 722	\$ 2,526	\$ 2,566
Office and general	873	651	1,409	1,204
Professional fees	108	443	408	731
Marketing	183	539	623	745
Stock-based compensation (Note 6)	445	237	1,299	468
Stock exchange, transfer agent, shareholder communication	61	50	270	233
Travel	457	160	723	589
Depreciation	95	129	279	344
Donation (Note 8b)	113	-	468	632
Management fees	122	74	347	271
	\$ 3,226	\$ 3,005	\$ 8,352	\$ 7,783

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:

	Nine months ended September 30,	
	2016	2015
Salaries and wages	\$ 2,845	\$ 2,643
Short term benefits	80	50
Stock-based compensation	1,008	197
	\$ 3,931	\$ 2,890

b) Other related parties

For the nine months ended September 30, 2016, the Company donated \$0.2 million (2015 – 0.6 million) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.

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

9. SEGMENT INFORMATION

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

Three months ended September 30, 2016

	Karowe Mine	Corporate and other	Total
Revenues	\$ 38,098	\$ -	\$ 38,098
Income from mining operations	11,644	(53)	11,591
Exploration expenditures	(1,167)	-	(1,167)
Finance income (expenses)	70	(109)	(39)
Foreign exchange	(5,285)	(2,319)	(7,604)
Other expenses	(2,019)	(1,561)	(3,579)
Tax expenses	(3,006)	-	(3,006)
Net income (loss) for the period	237	(4,042)	(3,804)
Capital expenditures	\$ 10,679	\$ -	\$ 10,679

Three months ended September 30, 2015

	Karowe Mine	Corporate and other	Total
Revenues	\$ 90,878	\$ -	\$ 90,878
Income from mining operations	67,476	3	67,479
Exploration expenditures	(158)	-	(158)
Finance income (expenses)	159	(137)	22
Foreign exchange	6,053	163	6,216
Other expenses	(1,718)	(2,292)	(4,010)
Tax expenses	(24,532)	(836)	(25,368)
Net income (loss) for the period	47,280	(3,099)	44,181
Capital expenditures	\$ 7,816	\$ -	\$ 7,816

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

9. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2016			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 229,449	\$ -	\$ 229,449
Income from mining operations	155,381	(123)	155,258
Exploration expenditures	(2,931)	-	(2,931)
Finance income (expenses)	278	(363)	(85)
Foreign exchange	(8,050)	(2,609)	(10,659)
Other expenses	(5,936)	(7,388)	(13,324)
Tax expenses	(59,830)	(8,976)	(68,806)
Net income (loss) for the period	78,912	(19,459)	59,453
Capital expenditures	20,198	-	20,198
Total assets	\$ 271,272	\$ 17,913	\$ 289,185

Nine months ended September 30, 2015			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 158,634	\$ -	\$ 158,634
Income from mining operations	94,864	(94)	94,770
Exploration expenditures	(206)	-	(206)
Finance income (expenses)	1,485	(405)	1,080
Foreign exchange	7,902	617	8,519
Other expenses	(4,490)	(5,752)	(10,242)
Tax expenses	(34,273)	(836)	(35,109)
Net income (loss) for the period	65,282	(6,470)	58,812
Capital expenditures	32,314	-	32,314
Total assets	\$ 335,714	\$ 5,262	\$ 340,976

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

10. FINANCIAL INSTRUMENTS*Measurement categories and fair values*

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

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



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