



Lucara Diamond Corp.

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NEWS RELEASE

LUCARA REPORTS STRONG FIRST QUARTER RESULTS

MAY 8, 2014 (LUC – TSX, LUC – BSE, LUC – NASDAQ OMX First North) Lucara Diamond Corp. (“Lucara” or the “Company”) today reported proceeds of \$33.5 million from two diamond sales during the period with net earnings of \$5.1 million and cash flows of \$13.1 million generated from operations before working capital adjustments.

HIGHLIGHTS

Safety: Karowe’s Lost Time Injuries Frequency Rate (“LTIFR”) for the quarter was zero as there were no Lost Time Injury (“LTI’s”) and no reportable environmental incidents during the period. LTIFR is defined as the total number of work hours lost per 200,000 work hours.

Cash flows and cash operating margins: The Company achieved proceeds of \$33.5 million (\$312 per carat) from sales of 107,470 carats of diamond during the first quarter of 2014. Proceeds of \$750,000 were received after the quarter and will be accounted for in Q2 revenues. The average price of \$312 per carat compares to \$225 per carat for the first quarter in the prior year. Revenues during the period, which exclude the proceeds received after period end, were \$32.8 million for the period.

At an average operating expense of \$118 per carat, the cash operating margin during the quarter was \$187 per carat.

Net cash position: The Company’s quarter-end cash balance was \$56.8 million compared to a net debt position of \$26.2 million in the previous year and \$49.4 million at the end of 2013. In addition to production costs of \$118 per carat the Company spent \$1.9 million on Karowe’s plant optimization project and paid the December 2013 tender royalty and 2013 employee bonus payments during the quarter.

Karowe operating performance: Karowe performed better than budget in terms ore mined and carats recovered during the period. Waste mining was marginally below budget during the period and plans are in place to meet full year budget volumes. The Company recovered 111,037 carats including 188 special stones (+10.8 carats) during the period.

William Lamb, President and Chief Executive Officer commented “Lucara has had a strong start to the year with continued production performance from the mine team and two successful tenders during the first quarter generating revenue in excess of \$30 million. We have brought forward our second Exceptional Stone Tender to early in the third quarter due to the sustainable recovery of large stones with more than 330 special stones (+10.8 carats) recovered to date. This follows very strong results from our first Exceptional Stone Tender in 2014, which was held in early April for proceeds of \$50 million.”

FINANCIAL HIGHLIGHTS

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended March 31	
	2014	2013
Revenue	\$ 32.8	\$ 32.5
Average price per carat sold (\$/ct)	\$ 305	\$ 225
Operating expenses per carat sold (\$/ct)	118	86
Cash operating margin per carat sold (\$/ct)	187	139
Net income for the period	5.1	6.2
Earnings per share (basic and diluted)	0.01	0.02
Adjusted earnings per share (basic and diluted) ⁽¹⁾	0.03	0.02
Cash on hand	56.8	17.4

⁽¹⁾ Adjusted earnings per share for the period is a non-IFRS measure defined as adjusted net income divided by the number of shares outstanding at the end of the period on both a basic and fully diluted basis. Adjusted net income for the period is a non-IFRS measure defined as earnings before non-cash foreign exchange loss related to intercompany repayment and non-cash deferred income tax expense.

RESULTS OF OPERATIONS

	UNIT	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13
Sales						
Revenues	US\$m	32.8	58.7	42.1	47.2	32.5
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	33.6	47.8	50.9	49.3	32.5
Sales proceeds received during the quarter	US\$m	32.8	58.7	42.1	47.2	32.5
Q1 2014 tender proceeds received post Q1 2014	US\$m	0.8	-	-	-	-
Q3 2013 tender proceeds received post Q3 2013	US\$m	-	(10.9)	10.9	-	-
Q2 2013 tender proceeds received post Q2 2013	US\$m	-	-	(2.1)	2.1	-
Carats sold for proceeds generated during the period	Carats	107,470	110,635	80,918	102,452	144,712
Carats sold for revenues recognized during the period	Carats	107,454	127,804	76,582	89,619	144,712
Average price per carat for proceeds generated during the period	US\$	312	433	625	481	225
Production						
Tonnes mined (ore)	Tonnes	888,888	918,765	898,501	1,157,747	969,330
Tonnes mined (waste)	Tonnes	2,002,322	1,694,134	1,430,105	1,259,479	1,109,727
Tonnes milled	Tonnes	680,730	613,064	647,304	560,910	533,260
Average grade processed	cpht ^(*)	16.3	18.9	17.6	15.6	23.1
Carats recovered	Carats	111,037	116,061	113,882	87,580	123,228
Costs						
Operating costs per carats sold	US\$	118	109	110	102	86
Operating costs per tonne processed	US\$/tonne	18.6	22.7	13.0	16.3	23.3
Capital expenditures	US\$m	1.9	1.5	2.4	1.7	2.2

(*) carats per hundred tonnes

RESULTS OF OPERATIONS

Karowe Mine, Botswana

Operational performance at Karowe was very good for the first quarter of 2014. No lost time injuries or other significant safety incidents were recorded.

Tonnes of ore mined for the quarter performed better than budget and at a higher grade, which contributed to an increase in carats recovered during the period. Waste mined for the push back to open up access to the south lobe progressed well, but was lower than planned due to weather conditions. This shortfall is being addressed and waste mined is forecast to be in line with budget for the year.

Process plant performance performed better than budget during the period. A total of 188 special stones (+10.8 carats) were recovered during the quarter at an average size of 25.03 carats per stone.

REVIEW OF PROJECTS

Mothae Diamond Project, Lesotho

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

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

Karowe, Plant Optimization Project

Karowe's plant optimization project to modify the process plant to treat the harder material at depth and improve the recovery of exceptional diamonds is advancing according to the baseline schedule. Orders have been completed for long lead items, and the project schedule is targeting to be complete by first quarter of 2015.

OUTLOOK

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

Karowe Mine, Botswana

Karowe is forecast to process 2.2-2.4 million tonnes of ore and to produce and sell 400,000 to 420,000 carats of diamond in 2014. Revenue is forecast between \$150 - \$160 million.

Ore mined is forecast between 3.0 – 3.5 million tonnes and waste mined is expected to be between 10.0 – 11.0 million tonnes.

Karowe's operating cash costs (see page 6 Non-IRFS measures) are expected to be between \$31-\$33 per tonne ore treated.

Capital expenditures include between \$45-\$50 million for Karowe's plant optimization to improve large diamond recovery following the occurrence of exceptional stones, and to enable sustainable processing of hard ore in the south lobe. Sustaining capital expenditures is forecast at \$3.5 million.

The Company plans on holding eight diamond tenders and two exceptional stone tenders during the year. The timing of these tenders will be based on Karowe's production profile as well as commercial decisions to maximize diamond revenue.

Karowe's detailed operating performance and capital spend guidance is available on SEDAR at www.sedar.com.

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 achieved.

Forward looking statements are based on the opinions 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. 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. In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine, start-up, exploration and development plans and objectives, production costs, exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rate; expectations regarding the need to raise capital; possible impacts of disputes or litigation and other risks and uncertainties describe under Risks and Uncertainties disclosed in the Company's Annual Information Form.

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 "Risk Factors" in the Company's Annual Information Form dated March 20, 2014 available at <http://www.sedar.com>, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters)

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

On Behalf of the Board,

William Lamb
President and CEO

Lucara's Certified Advisor on NASDAQ OMX First North is Pareto Securities AB.

For further information, please contact:

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Lucara Diamond Corp.

Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2014
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2014

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2014, which are prepared in accordance with International Financial Reporting Standards ("IFRS" as issued by the International Accounting Standards Board ("IASB")). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is May 8, 2014.

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

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

HIGHLIGHTS

Safety: Karowe's Lost Time Injuries Frequency Rate ("LTIFR") for the quarter was zero as there were no Lost Time Injury ("LTI's") and no reportable environmental incidents during the period. LTIFR is defined as the total number of work hours lost per 200,000 work hours.

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FINANCIAL HIGHLIGHTS

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended	
	2014	March 31 2013
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Net income for the period	5.1	6.2
Earnings per share (basic and diluted)	0.01	0.02
Adjusted earnings per share ((see pages 4 and 6 Non-IRFS measures))	0.03	0.02
Cash on hand	56.8	17.4

OUTLOOK

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Karowe's operating cash costs (see page 6 Non-IRFS measures) are expected to be between \$31-\$33 per tonne ore treated.

Capital expenditures include between \$45-\$50 million for Karowe's plant optimization to improve large diamond recovery following the occurrence of exceptional stones, and to enable sustainable processing of hard ore in the south lobe. Sustaining capital expenditures is forecast at \$3.5 million.

The Company plans on holding eight diamond tenders and two exceptional stone tenders during the year. The timing of these tenders will be based on Karowe's production profile as well as commercial decisions to maximize diamond revenue.

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BUSINESS OVERVIEW

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

The following summarizes the Company's current land holdings:

Country	Name	Interest Held	Area (km ²)
Botswana	Karowe Diamond License	100%	15.3
Lesotho	Mothae Diamond Mining Lease	75%	20.0

RESULTS OF OPERATIONS

Karowe Mine, Botswana

	UNIT	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13
Sales						
Revenues	US\$m	32.8	58.7	42.1	47.2	32.5
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	33.6	47.8	50.9	49.3	32.5
Sales proceeds received during the quarter	US\$m	32.8	58.7	42.1	47.2	32.5
Q1 2014 tender proceeds received post Q1 2014	US\$m	0.8	-	-	-	-
Q3 2013 tender proceeds received post Q3 2013	US\$m	-	(10.9)	10.9	-	-
Q2 2013 tender proceeds received post Q2 2013	US\$m	-	-	(2.1)	2.1	-
Carats sold for proceeds generated during the period	Carats	107,470	110,635	80,918	102,452	144,712
Carats sold for revenues recognized during the period	Carats	107,454	127,804	76,582	89,619	144,712
Average price per carat for proceeds generated during the period	US\$	312	433	625	481	225
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Tonnes mined (waste)	Tonnes	2,002,322	1,694,134	1,430,105	1,259,479	1,109,727
Tonnes milled	Tonnes	680,730	613,064	647,304	560,910	533,260
Average grade processed	cpht (*)	16.3	18.9	17.6	15.6	23.1
Carats recovered	Carats	111,037	116,061	113,882	87,580	123,228
Costs						
Operating costs per carats sold (see page 6 Non-IRFS measures)	US\$	118	109	110	102	86
Operating costs per tonne processed	US\$/tonne	18.6	22.7	13.0	16.3	23.3
Capital expenditures	US\$m	1.9	1.5	2.4	1.7	2.2

(*) carats per hundred tonnes

Operational performance at Karowe was very good for the first quarter of 2014. No lost time injuries or other significant safety incidents were recorded.

Tonnes of ore mined for the quarter performed better than budget and at a higher grade, which contributed to an increase in carats recovered during the period. Waste mined for the push back to open up access to the south lobe progressed well, but was lower than planned due to weather conditions. This shortfall is being addressed and waste mined is forecast to be in line with budget for the year.

Process plant performance performed better than budget during the period. A total of 188 special stones (+10.8 carats) were recovered during the quarter at an average size of 25.03 carats per stone.

REVIEW OF PROJECTS

Mothae Diamond Project, Lesotho

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

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

Karowe, Plant Optimization Project

Karowe's plant optimization project to modify the process plant to treat the harder material at depth and improve the recovery of exceptional diamonds is advancing. Orders have been completed for long lead items, and the project schedule is targeting to be complete by early 2015.

SELECT FINANCIAL INFORMATION

	Three months ended	
	2014	March 31 2013
<i>In millions of U.S. dollars unless otherwise noted</i>		
Revenues	\$ 32.8	\$ 32.5
Operating expenses	(12.7)	(12.5)
Royalty expenses	(3.3)	(3.2)
Cash operating earnings ⁽¹⁾	16.8	16.8
Exploration expenditures	(0.5)	(0.2)
Administration	(2.1)	(1.9)
Gain on sale of exploration program diamonds	-	0.6
Sales and marketing	(0.9)	(0.6)
EBITDA ⁽²⁾	13.3	14.7
Depletion, amortization and accretion	(3.7)	(4.4)
Finance expenses	-	(1.0)
Foreign exchange loss	(2.0)	(3.1)
Income tax expense	(2.5)	-
Net income for the period	5.1	6.2
Add back: Foreign exchange loss related to intercompany loan repayment ⁽³⁾	(2.5)	-
Add back: Deferred income tax expense	(2.5)	-
Adjusted net income for the period ⁽⁴⁾	10.1	6.2
Total equity	209.6	152.8
Cash flow from operations (before working capital adjustments)	13.1	15.0
Total assets	254.2	222.0
Cash on hand	56.8	17.4
Earnings per share (basic and diluted)	0.01	0.02
Adjusted earnings per share (basic and diluted) ⁽⁵⁾	0.03	0.02
Per carats sold		
Sales price	\$ 305	\$ 225
Operating expenses	118	86
Average grade (carats per hundred tonnes)	16.0	22.4

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

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

⁽³⁾ Foreign exchange loss related to intercompany loan repayment (see foreign exchange loss on page 6)

⁽⁴⁾ Adjusted net income for the period is a non-IFRS measure defined as earnings before non-cash foreign exchange loss related to intercompany repayment and income tax expense.

⁽⁵⁾ Adjusted earnings per share for the period is a non-IFRS measure defined as adjusted net income⁽⁴⁾ divided by the number of shares outstanding at the end of the period on both a basic and fully diluted basis.

Revenues

During the three months ended March 31, 2014, the Company completed two diamond tenders totalling 107,470 carats. The tenders achieved gross proceeds totalling \$33.6 million or average sales price of \$312 per carat. At March 31, 2014, proceeds of \$0.75 million from the tender of a 16 carat diamond had not yet been collected and therefore have not been recognized as revenues in the Company's condensed interim consolidated statement of operations. These proceeds were subsequently collected in April and will be recognized as revenues in the second quarter of 2014.

Revenues are largely in line with the prior year as a result of a lower volume of carats being sold during the quarter compared to the prior year, which has been offset by higher prices received for the Karowe diamonds during the period. Karowe sold 37,242 fewer carats in the current year due to its mine production profile, which is in line with plan and also due to 18,000 carats of 2012 production being sold during the first quarter of 2013. The average price per carat received during the quarter of \$305 compares to the prior year of \$225 per carat. Large and exceptional diamonds recovered during the fourth quarter of 2013 and the first quarter of 2014 were sold in the Company's exceptional stone tender in April.

Cash operating earnings

Cash operating earnings for the three months ended March 31, 2014 were \$20.1 million resulting in a cash operating margin (before royalties) of 61%. Three months ended March 31, 2014 operating expenses at \$118 per carat resulted in a cash operating margin of \$187 per carat. As anticipated, the cash operating cost in the first quarter of 2014 was \$118 cost per carat which is higher than \$86 per carat in the prior year due to the increase in waste mined.

Cash operating earnings is a non-IFRS measure and is reconciled in the table above.

Exploration and other mining costs

Exploration expenditures and other mining costs relating to the Mothae project were \$0.5 million during the first quarter of 2014 compared to \$0.2 million during the first quarter of 2013. The increase in costs is mainly due to a one-time \$0.3 million write down in VAT receivable at the Mothae project.

Administration expenses

Administration expenses increased \$0.2 million during the quarter when comparing the three month period ended March 31, 2014 to the three month period ended March 31, 2013; this is mostly due to the employee salaries and benefits in 2014.

Income Tax expense

Income tax expense was \$2.5 million during the three month period ended March 31, 2014. This is mainly due to the recognition of a deferred tax liability during the quarter, which resulted in a corresponding non-cash deferred income tax expense of \$2.5 million. The deferred tax liability relates to temporary differences between the accounting and tax base of the Company's property, plant and equipment, restoration provisions and non-capital tax loss pools. The Company has applied a portion of its non-capital losses in Botswana against taxable income during the quarter.

Foreign exchange loss

The Company recorded a foreign exchange loss of \$2.0 million. A loss of \$2.5 million was recognized during the period from an intercompany Pula denominated loan between Corporate and Botswana. Foreign exchange losses following the weakening of the Pula have been previously calculated and reported in the Company's other comprehensive income as this loan has been reported as a net investment in a foreign operation under IAS21. As of January 1, 2014 the Company is no longer reporting this intercompany loan as a net investment in a foreign operation and as a result previous foreign exchange losses reported in other comprehensive income is being reported in the statement of operations as the intercompany loan is repaid.

This reporting of the \$2.5 million foreign exchange losses is entirely due to foreign exchange movements on the Company's intercompany loan between corporate and Botswana and has no impact on the value the Company's net assets or its liquidity.

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

The three months ended March 31, 2014 EBITDA was \$13.3 million compared to \$14.7 million in the three month period ended March 31, 2013. EBITDA is lower than the prior year as revenues were largely in line with the prior year and average operating costs of \$118 per carat during the period were higher than the \$86 per carat reported in the prior year. The increase in operating costs during the quarter is largely due to the additional tonnes of waste mined during the period and inflationary cost increases during the year.

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

Earnings per share

The three months ended March 31, 2014 income per share was \$0.01 compared to \$0.02 in the three month period ended March 31, 2013.

Adjusted earnings per share (see pages 4 and 6 Non-IRFS measures), is \$0.03 per share in the three month period ended March 31, 2014. The purpose of the adjusted earnings per share is to remove the foreign exchange impact on an intercompany loan and a deferred tax adjustment to more accurately report the Company's distributable profit per share.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2014, the Company had cash of \$56.8 million compared to cash of \$17.4 million at March 31, 2013 and \$49.3 million at December 31, 2013.

Cash generated from operating activities before working capital movements for the period ended March 31, 2014 was an inflow of \$13.1 million. These proceeds were partially offset by the Company's acquisition of plant and equipment of \$1.9 million as the Company progresses through its plant optimization project.

Net cash from financing activities for the three months ended March 31, 2014 included a \$0.1 million proceeds from stock option exercise.

The Company has renegotiated its revolving term credit facility with Scotiabank. The new agreement is for a three year \$50 million operating line. The facility is undrawn as at March 31, 2014.

The facility contains financial and non-financial covenants customary for a facility of this size and nature. The applicable interest rate of any loan advances under the facility will be determined by the Company's leverage ratio at that time. The Company has maintained the same level of security on the three year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets. As at March 31, 2014 the full amount under this facility was available.

SUMMARY OF QUARTERLY RESULTS

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

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

Three months ended	Mar-14	Dec-13	Sept-13	Jun-13	Mar-13	Dec-12	Sept-12	Jun-12
A. Revenues	32,780	58,683	42,096	47,224	32,504	29,172	12,658	Nil
B. Exploration (expenditures) recovery	(459)	(167)	(389)	(557)	374	(2,277)	(4,465)	(2,798)
C. Administration expenses	(2,107)	(4,871)	(1,851)	(2,761)	(1,946)	(1,798)	(2,980)	(3,392)
D. Net income (loss)	5,074	21,331	15,043	22,679	6,169	7,664	(3,413)	(7,606)

E. Earnings (loss) per share (basic and diluted)	0.01	0.05	0.04	0.06	0.02	0.02	(0.01)	(0.02)
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NON-IFRS FINANCIAL MEASURES

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

Cash operating earnings (see "Select Annual Financial Information") is the term the Company uses to describe the cash that is generated from sales net of cost of goods sold, excluding depletion, amortization and accretion, and excluding the effect of changes in working capital.

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

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

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

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

RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2014, the Company incurred the following expenses with Namdo Management Services Limited ("Namdo") and Mile High Holdings Ltd. ("Mile High"), companies related by way of directors in common. The Company also incurred professional geological services and laboratory related expenditures from the Mineral Services Group ("MS Group"), the company that is associated with a director of Company. Beginning July 1, 2013, the MS Group is no longer a related party.

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

Description of services	Related Party	March 31, 2014	March 31, 2013
Management fees	Namdo	\$ 113	\$ 125
Exploration related expenditures	MS Group	-	40
Aircraft charter	Mile High	-	50
		\$ 113	\$ 215

FINANCIAL INSTRUMENTS

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

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

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 377,000,749 common shares outstanding and 4,157,000 stock options outstanding under its stock-based incentive plan. As at the same date, the Company had no stock purchase warrants outstanding.

RISKS AND UNCERTAINTIES

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

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the quarter ended June 30, 2014 is expected to be published on August 13, 2014.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2014.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles under which the Company's financial statements are

prepared. An evaluation of the effectiveness of the Company's internal control over financial reporting was conducted as of December 31, 2013 by the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, management has concluded that the Company's internal controls over financial reporting were effective.

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, being the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statements were made, and the Company does

not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law.

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 56,817	\$ 49,364
Investments	134	90
VAT receivables and other	3,337	3,593
Inventories (Note 4)	23,122	21,132
	83,410	74,179
Plant and equipment (Note 5)	99,893	100,886
Mineral properties (Note 6)	70,827	72,061
Other non-current assets	61	62
TOTAL ASSETS	\$ 254,191	\$ 247,188
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 13,047	\$ 15,491
	13,047	15,491
Restoration provisions	14,859	14,515
Future income taxes	16,724	14,258
TOTAL LIABILITIES	44,630	44,264
EQUITY		
Share capital	283,727	283,609
Contributed surplus (Note 7)	5,167	5,108
Cumulative deficit	(40,393)	(45,516)
Accumulated other comprehensive loss	(40,423)	(41,820)
Total equity attributable to shareholders of the Company	208,078	201,381
Non-controlling interests	1,483	1,543
TOTAL EQUITY	209,561	202,924
TOTAL LIABILITIES AND EQUITY	\$ 254,191	\$ 247,188

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

Approved on Behalf of the Board of Directors:

"Paul K. Conibear"
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	
	2014	2013
Revenues	\$ 32,780	\$ 32,504
Cost of goods sold		
Operating expenses	12,656	12,454
Royalty expenses	3,278	3,210
Depletion, amortization and accretion	3,740	4,408
	19,674	20,072
Income from mining operations	13,106	12,432
Other expenses		
Exploration expenditures	459	210
Administration (Note 8)	2,107	1,946
Gain on sale of exploration program diamonds	-	(584)
Sales and marketing	908	578
Finance expenses	82	1,042
Foreign exchange loss	2,005	3,071
	5,561	6,263
Net income before tax	7,545	6,169
Income tax expense		
Deferred income tax	2,471	-
	2,471	-
Net income for the period	\$ 5,074	\$ 6,169
Attributable to:		
Shareholders of the Company	\$ 5,131	\$ 6,118
Non-controlling interests	\$ (57)	\$ 51
Earning per common share		
Basic	\$ 0.01	\$ 0.02
Diluted	\$ 0.01	\$ 0.02
Weighted average common shares outstanding		
Basic	376,909,397	376,292,709
Diluted	379,029,087	376,292,749

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

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

	Three months ended March 31	
	2014	2013
Net income for the period	\$ 5,074	\$ 6,169
Other comprehensive income (loss)		
Change in fair value of available-for-sale securities	48	(4)
Currency translation adjustment	1,338	(10,811)
	<u>1,386</u>	<u>(10,815)</u>
Comprehensive income (loss)	\$ 6,460	\$ (4,646)
Comprehensive income (loss) attributable to:		
Shareholders of the Company	\$ 6,528	\$ (4,538)
Non-controlling interests	(68)	(108)
	<u>\$ 6,460</u>	<u>\$ (4,646)</u>

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	
	2014	2013
Cash flows from (used in):		
Operating Activities		
Net income for the period	\$ 5,074	\$ 6,169
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	3,834	4,496
Foreign exchange loss	1,534	3,292
Stock-based compensation	93	23
Deferred income taxes	2,471	-
Finance costs	66	973
	<hr/> 13,072	<hr/> 14,953
Net changes in working capital items:		
Trade receivables and other current assets	213	815
Inventories	(1,750)	590
Trade payables and accrued liabilities	(2,302)	(1,330)
	<hr/> 9,233	<hr/> 15,028
Financing Activities		
Repayments of debenture	-	(8,333)
Proceeds from exercise of stock options	84	-
	<hr/> 84	<hr/> (8,333)
Investing Activities		
Acquisition of plant and equipment	(1,872)	(2,245)
	<hr/> (1,872)	<hr/> (2,245)
Effect of exchange rate change on cash and cash equivalents	8	(333)
Increase in cash and cash equivalents during the period	7,453	4,117
Cash and cash equivalents, beginning of period	49,364	13,261
Cash and cash equivalents, end of period	\$ 56,817	\$ 17,378
Supplemental Information		
Interest received (paid)	30	(162)
Changes in accounts payable and accrued liabilities related to plant and equipment	(46)	(2,129)

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	Deficit	Accumulated other comprehensive income (loss)	Non- controlling interests	Total
Balance, January 1, 2013	376,292,749	\$ 282,797	\$ 4,874	\$ (110,740)	\$ (21,381)	\$ 1,911	\$ 157,461
Stock-based compensation	-	-	23	-	-	-	23
Effect of foreign currency translation	-	-	-	-	(10,652)	(159)	(10,811)
Unrealized loss on investments	-	-	-	-	(4)	-	(4)
Free-carried non-controlling interests	-	-	-	(49)	-	49	-
Net income for the period	-	-	-	6,118	-	51	6,169
Balance, March 31, 2013	376,292,749	\$ 282,797	\$ 4,897	\$ (104,673)	\$ (32,037)	\$ 1,852	\$ 152,838
Balance, January 1, 2014	376,899,415	\$ 283,609	\$ 5,108	\$ (45,516)	\$ (41,820)	\$ 1,543	\$ 202,924
Exercise of stock options	101,334	118	(34)	-	-	-	84
Stock-based compensation	-	-	93	-	-	-	93
Effect of foreign currency translation	-	-	-	-	1,349	(11)	1,338
Unrealized loss on investments	-	-	-	-	48	-	48
Free-carried non-controlling interests	-	-	-	(8)	-	8	-
Net income for the period	-	-	-	5,131	-	(57)	5,074
Balance, March 31, 2014	377,000,749	\$ 283,727	\$ 5,167	\$ (40,393)	\$ (40,423)	\$ 1,483	\$ 209,561

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 MONTHS ENDED MARCH 31, 2014

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

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company") is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine (previously named AK6 Diamond Project) located in Botswana and a 75% interest in Mothae Diamond Project located in Lesotho.

The Company's common shares are listed on the TSX, NASDAQ OMX 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 2610 - 1066 West Hastings 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, except as described in Note 3. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

These financial statements were approved by the Board of Directors for issue on May 8, 2014.

3. ADOPTION OF NEW IFRS PRONOUNCEMENT

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

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

The adoption of IFRIC 21 did not affect the Company's financial results or disclosures.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

4. INVENTORIES

	March 31, 2014	December 31, 2013
Rough diamonds	\$ 10,720	\$ 9,026
Ore stockpile	6,774	6,674
Parts and supplies	5,628	5,432
	\$ 23,122	\$ 21,132

Inventory expensed during the three months ended March 31, 2014 totaled \$12.7 million (2013 – \$12.5 million).

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2013	\$ -	\$ 126,430	\$ 1,542	\$ 2,361	\$ 130,333
Additions	-	5,212	100	293	5,605
Disposals and other	-	(964)	(36)	334	(666)
Translation differences	-	(14,748)	(187)	(281)	(15,216)
Balance, December 31, 2013	-	115,930	1,419	2,707	120,056
Additions	1,703	33	-	90	1,826
Reclassification	1,370	(1,193)	-	(177)	-
Translation differences	25	(379)	(5)	(15)	(374)
Balance, March 31, 2014	\$ 3,098	\$ 114,391	\$ 1,414	\$ 2,605	\$ 121,508
Accumulated depreciation					
Balance, January 1, 2013	\$ -	\$ 10,752	\$ 598	\$ 588	\$ 11,938
Depletion, amortization and accretion for the year	-	8,515	382	619	9,516
Disposals and other	-	(33)	(35)	12	(56)
Translation differences	-	(2,042)	(90)	(96)	(2,228)
Balance, December 31, 2013	-	17,192	855	1,123	19,170
Depletion, amortization and accretion for the period	-	2,228	113	168	2,509
Translation differences	-	(57)	(1)	(6)	(64)
Balance, March 31, 2014	\$ -	\$ 19,363	\$ 967	\$ 1,285	\$ 21,615
Net book value					
As at December 31, 2013	\$ -	\$ 98,738	\$ 564	\$ 1,584	\$ 100,886
As at March 31, 2014	\$ 3,098	\$ 95,028	\$ 447	\$ 1,320	\$ 99,893

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

6. MINERAL PROPERTIES

Cost	Karowe Mine	Mothae Diamond	Mothae mining license	Total
Balance, January 1, 2013	\$ 65,504	\$ 17,688	\$ 3,177	\$ 86,369
Additions	2,324	-	-	2,324
Disposals and other	(500)	(74)	-	(574)
Translation differences	(7,459)	(1,773)	(609)	(9,841)
Balance, December 31, 2013	59,869	15,841	2,568	78,278
Translation differences	(105)	(55)	(19)	(179)
Balance, March 31, 2014	\$ 59,764	\$ 15,786	\$ 2,549	\$ 78,099

Accumulated depletion

Balance, January 1, 2013	\$ 1,724	\$ -	\$ -	\$ 1,724
Depletion for the year	4,896	-	-	4,896
Translation differences	(403)	-	-	(403)
Balance, December 31, 2013	6,217	-	-	6,217
Depletion for the period	1,059	-	-	1,059
Translation differences	(4)	-	-	(4)
Balance, March 31, 2014	\$ 7,272	\$ -	\$ -	\$ 7,272

Net book value

As at December 31, 2013	\$ 53,652	\$ 15,841	\$ 2,568	\$ 72,061
As at March 31, 2014	\$ 52,492	\$ 15,786	\$ 2,549	\$ 70,827

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. STOCK OPTIONS

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CDN\$)
Balance at December 31, 2012	2,665,000	\$ 0.88
Granted	2,775,000	0.72
Forfeited	(50,000)	1.03
Expired	(575,000)	0.91
Exercised	(606,666)	0.92
Balance at December 31, 2013	4,208,334	0.76
Granted	50,000	1.71
Exercised	(101,334)	0.92
Balance at March 31, 2014	4,157,000	\$ 0.77

Options to acquire common shares have been granted and are outstanding at March 31, 2014 as follows:

Range of exercise prices CDN\$	Outstanding Options			Exercisable Options		
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CDN\$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CDN\$
\$0.61 - \$0.70	2,625,000	2.1507	\$ 0.70	874,909	2.1507	\$ 0.70
\$0.71 - \$0.80	1,000,000	0.6603	0.80	1,000,000	0.6603	0.80
\$0.81 - \$0.90	-	-	-	-	-	-
\$0.91 - \$1.00	432,000	1.1798	0.98	332,000	0.8023	0.98
\$1.01 - \$1.71	100,000	1.9055	1.42	50,000	0.8986	1.13
	4,157,000	1.6854	\$ 0.77	2,256,909	1.2642	\$ 0.80

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. STOCK OPTIONS (continued)

During the three months ended March 31, 2014, an amount of \$93 (2013 – \$23) 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:

	March 31, 2014	December 31, 2013
Assumptions:		
Risk-free interest rate (%)	0.98	1.00
Expected life (years)	3.00	3.00
Expected volatility (%)	51.43	52.85
Expected dividend	\$0.02/share – semiannually	Nil
Results:		
Weighted average fair value of options granted (<i>per option</i>)	\$ 0.60	\$ 0.25

8. ADMINISTRATION

	Three months ended March 31,	
	2014	2013
Salaries and benefits	\$ 823	\$ 678
Professional fees	349	384
Stock exchange, transfer agent, shareholder communication	213	259
Travel	226	237
Office and general	196	152
Management fees	113	125
Depreciation	94	88
Stock based compensation	93	23
	\$ 2,107	\$ 1,946

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

9. RELATED PARTY TRANSACTIONS*a) Related party expenses*

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

Description of services	Related party	Three months ended March 31,	
		2014	2013
Management fees	Namdo	\$ 113	\$ 125
Exploration related expenditures	MS Group	-	40
Aircraft charter	Mile High	-	50
		\$ 113	\$ 215

b) Related party liabilities

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

	March 31, 2014	December 31, 2013
Namdo	\$ 57	\$ -
	\$ 57	\$ -

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,	
	2014	2013
Salaries and wages	\$ 1,338	\$ 349
Short term benefits	23	23
Stock based compensation	66	15
	\$ 1,427	\$ 387

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

10. 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 the Mothae Diamond Project. Corporate overheads are not included within either operating segments.

Three months ended March 31, 2014

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	\$ 32,780	\$ -	\$ -	\$ 32,780
Income (loss) from mining operations	13,168	-	(62)	13,106
Exploration expenditures	-	(459)	-	(459)
Finance income (expenses)	20	-	(102)	(82)
Other expenses	(1,024)	-	(3,996)	(5,020)
Net income (loss) before tax for the period	12,164	(459)	(4,160)	7,545
Capital expenditures	(1,813)	-	(59)	(1,872)
Total assets	\$ 230,023	\$ 19,384	\$ 4,784	\$ 254,191

Three months ended March 31, 2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	\$ 32,504	\$ -	\$ -	\$ 32,504
Income (loss) from mining operations	12,518	-	(87)	12,431
Exploration expenditures	-	(210)	-	(210)
Gain on sale of diamonds	-	584	-	584
Finance income (expenses)	18	-	(1,060)	(1,042)
Other income (expenses)	(391)	34	(5,237)	(5,594)
Net income (loss) for the period	12,145	408	(6,384)	6,169
Capital expenditures	(2,245)	-	-	(2,245)
Total assets	\$ 194,565	\$ 22,186	\$ 5,245	\$ 221,996

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

	Plant and equipment		Mineral properties		Other	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Canada	\$ -	\$ 142	\$ -	\$ -	\$ -	\$ -
Lesotho	483	486	18,334	18,408	61	62
Botswana	99,229	100,258	52,493	53,653	-	-
	\$ 99,893	\$ 100,886	\$ 70,827	\$ 72,061	\$ 61	\$ 62

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

11. FINANCIAL INSTRUMENTS*a) Measurement categories and fair values*

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive 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, 2014	December 31, 2013
ASSETS		
Loans and receivables		
Cash	\$ 56,817	\$ 49,364
Other receivables	82	233
	<hr/> \$ 56,899	<hr/> \$ 49,597
Available for sale		
Investments	\$ 134	\$ 90
	<hr/> \$ 134	<hr/> \$ 90
LIABILITIES		
Amortized cost		
Trade payables	\$ 8,835	\$ 9,169
Accrued liabilities	4,213	6,322
	<hr/> \$ 13,047	<hr/> \$ 15,491

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

11. FINANCIAL INSTRUMENTS (continued)

b) *Fair value hierarchy*

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	March 31, 2014	December 31, 2013
Level 1		
Investments	\$ 134	\$ 90
Level 2 and Level 3 – N/A		

12. SUBSEQUENT EVENT

In May 2014, the Company had renewed its credit facility with the Bank of Nova Scotia. The credit facility was increased to a \$50 million revolving term credit facility with a maturity date of May 5, 2017, which may be extended if both parties agree. Funds drawn under the revolving credit facility are due in full at maturity. The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at March 31, 2014, the Company is in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's leverage ratio.

The Company has provided security on the three year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets.

The Bank of Nova Scotia has first ranking security over the Karowe assets.

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